



# INFORMATION MEMORANDUM

**FOR AN APPLICATION FOR ADMISSION TO THE OFFICIAL LIST  
OF THE BENDIGO STOCK EXCHANGE ("BSX")**

**ARSN 088 775 375 ARSN 088 775 259**

Neither the Manager, the Custodian, nor their associates or directors guarantee the success of an Investment in the Fund (being either or both of the Trust or the Syndicate), the repayment of capital or any particular rate of capital or income return.

The Custodian and Bendigo Stock Exchange are not the issuers of this Information Memorandum and have not prepared this Information Memorandum. The Custodian and Bendigo Stock Exchange make no representation and take no responsibility for the accuracy or truth of any statement in or omission from this Information Memorandum. The fact that Bendigo Stock Exchange may admit the Trust to the official list is not to be taken in any way as an indication of the merits of the Trust. The fact that Bendigo Stock Exchange may admit the Syndicate to the official list is not to be taken in any way as an indication of the merits of the Syndicate.

This Information Memorandum is dated 7 March 2003. It contains important information and should be read carefully and in its entirety. Professional advice should be sought before investing in the Fund. Any statements or information contained in this Information Memorandum are made as at and are current only as at its date of issue. The statements and information are constantly subject to change.

Any questions should be directed to the Manager on Freecall 1800 687 170, a stockbroker or professional investment adviser.

**INVESTOR ENQUIRIES  
FREECALL 1800 687 170**

7 March, 2003



Dear Investor,

The Capital Collection – Diverse Sector Fund was established for the purposes of the acquisition of Post Office Square, Brisbane and the Homeworld Centre, Tuggeranong, Canberra. The Syndicate acquired the properties on 30 December, 1999 and all Lots in the Syndicate and Units in the Trust were issued to Investors on that date.

I encourage you to read this Information Memorandum closely so that you understand the nature of the Syndicate and the Trust, and the interests in each..

We, as Manager, will lodge this Information Memorandum with the Bendigo Stock Exchange in connection with the Manager's application for listing and quotation of Lots in the Syndicate and Units in the Trust on that exchange. This application has been made in order to facilitate a secondary market for the trade of both the Lots in the Syndicate and the Units in the Trust.

Our decision to proceed with this application is based on the Manager's belief that the trading of Lots in the Syndicate and Units in the Trust should take place in a formal and efficient environment and within an open and transparent market. If this can occur then we believe it is in the best interests of Investors.

It should also be understood that the Manager does not believe that there will be significant liquidity or transaction volume created by the listing and quotation of the Interests on the Bendigo Stock Exchange. Such liquidity is influenced by a number of factors including the size and number of parcels and investors and the nature of the underlying assets. If you wish to buy or sell Lots or Units on the Bendigo Stock Exchange, you should consult a BSX broker, details of which are available on the BSX website at [www.bsx.com.au](http://www.bsx.com.au).

My fellow Directors and I are pleased to be associated with the Fund and this application for listing of the Syndicate and of the Trust. We look forward to the proposed listings benefiting the Investors and those who wish to utilise the Bendigo Stock Exchange's services.

Yours sincerely,  
**Chris Morton**

Managing Director  
**PROPERTY FUNDS AUSTRALIA LIMITED**

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## DIRECTORY

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## 1. INTRODUCTION

### 1.1 INTRODUCTION

Under the Bendigo Stock Exchange ('BSX') Listing Rules, each company or entity applying for listing and quotation of its shares or units must either issue a prospectus or it must provide to BSX a listing memorandum containing the information required by the BSX Listing Rules.

This Information Memorandum is dated 7 March 2003, and has been prepared by Property Funds Australia Limited ('the Manager') in connection with the application for listing and quotation of Lots in The Capital Collection – Diverse Sector Fund Syndicate No 1 ('the Syndicate') and Units in The Capital Collection Trust No. 1 ('the Trust') on the Bendigo Stock Exchange. This document is not a prospectus and it will not be lodged with the Australian Securities and Investments Commission under the Corporations Act. It does not constitute or contain any offer of Lots/Units for subscription or purchase or any invitation to subscribe for or buy Lots/Units.

The distribution of this Information Memorandum in jurisdictions outside Australia may be restricted by law and persons who come into possession of this Information Memorandum should seek advice and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws. The Information Memorandum is not intended to and does not constitute an offer of securities in any place which, or to any person to whom, the making of such offer would not be lawful under the laws of any jurisdiction outside Australia.

### 1.2 LISTING ON THE BENDIGO STOCK EXCHANGE

Application will be made for listing of the Syndicate and the Trust and quotation of the Lots and the Units on the Bendigo Stock Exchange. Please see Section 21 of this Information Memorandum for a discussion of the risk factors relevant to quotation of and purchase of Lots and Units and Section 22.11 for a discussion of the waivers the Manager requires on behalf of the Investment from the Bendigo Stock Exchange. Admission to listing of the Syndicate and the Trust, quotation of the Lots and Units and granting of the necessary waivers sought is at the absolute discretion of the Bendigo Stock Exchange, and so there is no guarantee that that will occur.

### 1.3 PROSPECTUS

A copy of the Prospectuses pursuant to which most current Investors obtained their Interests is available for inspection. You may either contact the Manager or peruse the BSX website at [www.bsx.com.au](http://www.bsx.com.au).

The Initial Prospectus raised \$36,750,000 and closed on 23 December 1999. Under the Second Prospectus some Lots and Units previously issued under the Initial Prospectus were transferred to some Investors.

The Prospectuses and the forecasts within the Prospectuses are based on information and assumptions relevant and current only as at the date of the issue of each of the Prospectuses. That information and the reasonableness of the assumptions can change after the date of issue of the Prospectus. Forecasts within the Prospectuses are also based on best estimate assumptions. The Manager has not published any forecasts since it prepared the second Prospectus.

*This Information Memorandum is dated 7 March 2003. This document is current, and should be carefully perused. The Prospectuses provide historical information only. The historical information in the Initial Prospectus was current as at 22 September, 1999. The historical information in the Second Prospectus was current as at 25 February 2000.*

The Manager, as a matter of its own practice, generally advises Investors as to its expected distribution rate for the Syndicate and the Trust for any forthcoming financial year. That information is available and is contained in this Information Memorandum.

### 1.4 SUPPLEMENTARY INFORMATION MEMORANDUM

A Supplementary Information Memorandum will be issued if, between the date of issue of this Information Memorandum and the date the Lots and Units are listed on the BSX, the Manager becomes aware that:-

- ▲ a material statement in this Information Memorandum is false or misleading;
- ▲ there is a material omission from this Information Memorandum;
- ▲ there has been a significant change affecting a matter included in this Information

Memorandum; or

- ▲ a significant new matter has arisen and it would have been required to be included in this Information Memorandum.

## 2. DEFINED TERMS

**ASIC** Australian Securities and Investments Commission.

**BSX** the Bendigo Stock Exchange.

**CBD** Central Business District.

**CGT** Capital Gains Tax.

**Completion** the date of settlement of the first of the Properties which was 30 December 1999.

**Constitutions** the Syndicate Constitution and the Trust Constitution.

**Corporations Act** the Corporations Act 2001 (Commonwealth).

**Custodian** Trust Company of Australia Limited ACN 004 027 749.

**Debt Facilities** means the total debt funding arranged by the Manager for the Owners from time to time. Currently the total debt arranged against the security of the assets of the Syndicate is \$50,577,000.

**Financiers** that bank, financial institution or fund which lends to the Investors a principal loan facility with enables the acquisition and ownership of the Properties. The Financiers are currently Colonial First State Funds Management Limited and ING Funds Management Limited.

**Fund or Direct Property Investment** the managed investment schemes which comprise the Syndicate and the Trust.

**GST** Goods and Services Tax.

**Homeworld Centre or Homeworld** the property described in *section 9*.

**Information Memorandum** this information memorandum.

**Initial Prospectus** the prospectus dated 22 September 1999 pursuant to which subscriptions for Lots/Units were made.

**Initial Public Offering** the offering of Lots in the Syndicate and Units in the Trust made through the Initial Prospectus.

**Interest** a Lot or a Unitholding as the context requires.

**Investment** the ownership of Units in the Trust or of Lots in the Syndicate.

**Investor** an investor in the Syndicate or the Trust whether through initial subscription or by purchase through the secondary market.

**Lot** a lot for the purposes of this Information Memorandum is the interest that an Owner has in the Syndicate represented by \$1.00 units.

**Manager** Property Funds Australia Limited ACN 078 199 569 which is the licensed responsible entity in relation to the Syndicate and the Trust.

**Owner** a holder of Lots.

**Post Office Square** the property described in *section 8*.

**Properties** the properties which form the key assets of the Fund namely:-

- ▲ Post Office Square; and
- ▲ Homeworld Centre.

**Prospectuses** the Initial Prospectus and the Second Prospectus.

**Second Prospectus** the prospectus dated 25 February 2000 pursuant to which \$17,490,000 of Lots/Units in aggregate were transferred to some Investors.

**Subscriptions** the total amount subscribed for and allotted to initial Investors.

**Syndicate** the Syndicate as constituted by the Syndicate Constitution.

**Syndicate Constitution** the deed poll by the Manager dated 21 July 1999 creating The Capital Collection - Diverse Sector Fund Syndicate No. 1 and registered with ASIC as ARSN 088 775 375.

**Tax Sheltered** Tax free and/or tax deferred. For further explanation see *section 18*.

**Trust** the trust constituted by the Trust Constitution.

**Trust Constitution** the deed poll by the Manager dated 21 July 1999 creating The Capital Collection - Diverse Sector Fund Trust No. 1 and registered with ASIC as ARSN 088 775 259.

**Unit** a unit in the Trust.

**Unitholder** a holder of Units in the Trust.

**Unitholding** the unitholding of a Unitholder in the Trust.

**us** the Manager.

**we** the Manager.

**you** the Investors or potential purchasers.

### 3. OVERVIEW

#### 3.1 CAPITAL STRUCTURE

There are currently 19,321,000 \$1 Lots on issue in the Syndicate and 17,429,000 \$1 Units on issue in the Trust. These were all issued on 23 December 1999 pursuant to the Initial Prospectus. 9,650,000 \$1 Lots and 7,840,000 \$1 Units were transferred to Investors pursuant to the Second Prospectus. This did not alter the total number of Lots and Units which were issued under the Initial Prospectus.

As at the date of this Information Memorandum, the Syndicate has 767 Owners and the Trust has 652 Unitholders. No funds are being raised under this Information Memorandum.

**The Owners hold all Lots in the Syndicate. Each Owner therefore holds a proportion of the assets and liabilities of the Syndicate (including the Debt Facilities) which corresponds to the number of Lots they hold divided by the total number of Lots issued. The Trust is also an Owner of Lots in the Syndicate. Investors in the Trust hold Units in the Trust, which is an Owner in its own right. Investors in the Trust therefore invest in the Syndicate via the Trust.**

A break up of Interests follows:-

##### Syndicate

<b>1 – 1,000</b>	<b>1</b>
<b>1,001 – 5,000</b>	<b>6</b>
<b>5,001 – 10,000</b>	<b>266</b>
<b>10,001 – 100,000</b>	<b>488</b>
<b>100,001 and over</b>	<b>6</b>

##### Trust

<b>1 – 1,000</b>	<b>Nil</b>
<b>1,001 – 5,000</b>	<b>1</b>
<b>5,001 – 10,000</b>	<b>169</b>
<b>10,001 – 100,000</b>	<b>480</b>
<b>100,001 and over</b>	<b>2</b>

Each Owner/Unitholder has one vote for each Lot/Unit held in the Syndicate/Trust. The Constitution prohibits an Owner/Unitholder and/or their associate from owning or controlling more than 15% of the Lots/Units without the consent of the Manager.

Rights and obligations associated with the Lots are discussed in section 22.7.

Neither the Syndicate nor the Trust has raised any capital for the three months before the date of this Information Memorandum and does not need to raise any capital for three months after the date of this Information Memorandum.

The Syndicate and the Trust currently have enough working capital to carry out any of the objectives expressly stated in this Information Memorandum.

## 4. KEY FEATURES

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### Attractive and Tax Effective Distributions

The investment is expected to continue to provide attractive and tax effective distributions.

In the period to 30 June, 2003, the distributions per annum are forecast to be 8.0 cents per Lot and 8.0 cents per Unit with a significant component of that distribution being Tax Sheltered.

A history of the distributions to Owners and to Unitholders is contained in Section 17.

### Diversity

Investors' income is derived from two Properties with exposure to four property sectors located in two capital cities.

### Security

Over 65% of the Properties' income is secured by leases to, or guarantees from, listed public companies, government related entities and national or chain retailers.

### Monthly Payments

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

### What You See is What You Get

You are investing in Post Office Square and the Homeworld Centre only. This is not an investment vehicle which changes its investments without reference to you.

### Super Fund Suitability

Superannuation funds which are unable to borrow in their own right can invest via the Trust which in turn invests in the Syndicate. The Trust borrows so gearing benefits are obtained (*see section 15*).

### Experienced Management and Custodian

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

Trust Company of Australia Limited is the Custodian. It has been established for 118 years. The role and duties of the Custodian are detailed in Section 20.

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



## 5. ANSWERS TO FREQUENTLY ASKED QUESTIONS

### Q1. IN WHAT PROPERTIES AM I INVESTING?

**Two Properties** covering four different property sectors. The Properties are:-

- ▲ **Post Office Square** – a **landmark** property located in the heart of the **Brisbane CBD** consisting of a retail centre dominated by a central food court together with six levels of underground public car park;
- ▲ **Homeworld Centre** – a **mixed use** property comprising a bulky goods and **convenience** style retail centre with an office component that is fully leased to the ACT government until 2009.

### Q2. WHAT ARE MY EXPECTED RETURNS?

Current distributions for the period up to 30 June 2003 are expected to be 8.0 cents per Lot/Unit with those distributions expected to be significantly Tax Sheltered.

### Q3. WHEN DO I RECEIVE MY RETURNS

Distributions are made monthly. You will also share in any capital gains, depending upon the price achieved upon sale of the Properties.

### Q4. ARE THERE ANY TAX ADVANTAGES IN THIS INVESTMENT?

Yes. As an Investor you could expect a significant component of your distributions to 30 June 2003 to be Tax Sheltered.

### Q5. WHO ARE THE MANAGER AND THE CUSTODIAN?

The Manager is **Property Funds Australia Limited**, a Brisbane based public company with approaching \$200 million in property under management.

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

The Custodian is **Trust Company of Australia Limited** which has over 118 years of history as a trustee company. The Custodian's role and duties are detailed in Section 20.

### Q6. HOW LONG ARE MY FUNDS COMMITTED?

The Manager expects the Properties to be sold between 30 December 2003 and 30 December 2005. The Properties however may not be held for longer than 30 December 2007 unless every Investor who wishes to exit their Investment can do so (*see sections 13.6 and 14.4*).

As the Properties are unlikely to be sold together, on the sale of the each property, there is likely to be a progressive return to Investors of part of their initial subscription.

Provided the Syndicate and the Trust are able to be listed on the Bendigo Stock Exchange, Investors may exit their Investment earlier than on the sale of the Properties via a sale to another investor. Even if listed, there is no guarantee that Lots or Units can be sold prior to the sale of the Properties. Investors should plan to hold their investment for its duration as there is no guarantee that Lots or Units can be sold prior to the sale of the Properties.

### Q7. WHAT ARE THE BORROWING ARRANGEMENTS?

As at the date of this Information Memorandum, the Manager has arranged for a total of \$50,577,000 loan funds to be lent to Owners (including the Trust) to supplement their subscriptions, in proportion to their Lot holding. A total of \$46,477,000 in loan funds were lent to Owners to enable the purchase price and other acquisition costs of the Properties to be met at Completion. Borrowings were undertaken by the Trust as with all other Owners. A further \$1M borrowing facility was arranged to meet future expenditures and to assist in more even monthly distributions.

Since Completion, a further \$2.1M loan facility has been advanced with a further \$1M currently subject to application. Both of these loans have been required to fund refurbishment at the Homeworld property which has subsequently resulted in strong asset revaluation.

### Q8. WHAT IS MY LIABILITY AS AN INVESTOR TO THE FINANCIERS?

**You have no personal liability to any financier.** The basis of the borrowing arrangements is that

the liability of the Lot Holders is limited to the amount of their holding of Lots. The liability of Unitholders is limited to the amount of their subscription i.e. You do not have any additional liability to the Financiers.

The Financiers have rights against the Properties and the Properties' rental income. The financiers have **no recourse to Investors** (see section 15).

**Q9. HOW DO I BUY OR SELL INTERESTS IN THE FUND?**

If you wish to buy or sell Lots in the Syndicate or

Units in the Trust you should consult a BSX Broker, details of which are available on the BSX website at [www.bsx.com.au](http://www.bsx.com.au). If you require administrative assistance in relation to existing Interests, you should contact the Manager or Freecall 1800 687 170.

*These two pages contain a summary of the main features of an investment. To make an informed assessment you must read the whole Information Memorandum.*

*Post Office Square entry from Queen Street*



## 6. INVESTMENT STRUCTURE

### 6.1 ADVANTAGES

Some of the benefits of this Direct Property Investment are:-

- ▲ You know exactly in which Properties you have invested. **No other properties can be purchased.**
- ▲ You benefit from the thorough **research, investigation and analysis** that has been conducted on the Properties, to ensure as much as is possible, that your Investment is sound.
- ▲ You benefit from the **skills** of the Manager, an organisation that has the expertise and broad professional skills which are important in delivering property performance.
- ▲ You are investing in a product which is aligned to **direct property investment**. Its performance is significantly governed by movements in the property market. If the Fund is listed on the Bendigo Stock Exchange, its performance may also be affected by stock market movements to a degree.
- ▲ Under current tax laws, your **distributions are untaxed** before you receive them and will then only be subject to tax at your individual rate.

- ▲ You are able to participate in the **higher returns** available from two Properties, the quality of which is not usually able to be accessed by smaller investment amounts.

### 6.2 RIGHTS OF INVESTORS

The rights of Investors are set out in the Constitutions. Further rights are provided by the Corporations Act. Briefly your rights include:-

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

*Homeworld Centre*



## 7. THE PROPERTIES

### 7.1 TWO QUALITY PROPERTIES

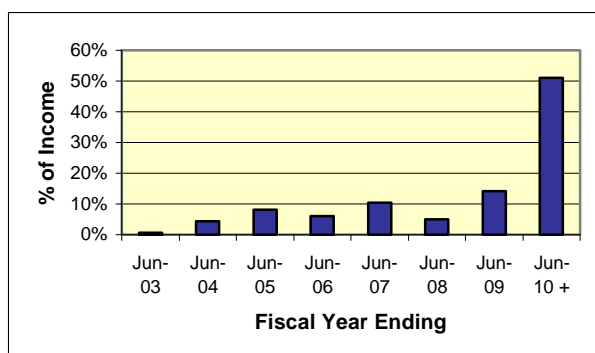
The Properties that comprise the Fund are:-

- ▲ **Post Office Square, Brisbane** - a landmark retail and car park property located in the heart of the Brisbane CBD; and
- ▲ **The Homeworld Centre, Canberra** - a bulky goods style of retail property located in Tuggeranong, Canberra which is complemented by an office component.

The Properties were initially selected having regard to the calibre of tenant, length of lease term, location, diversity of risk and capital gain potential.

### 7.2 GOOD LEASE EXPIRY PROFILE

Over 50% of the Properties' income does not expire until 2010 or thereafter.

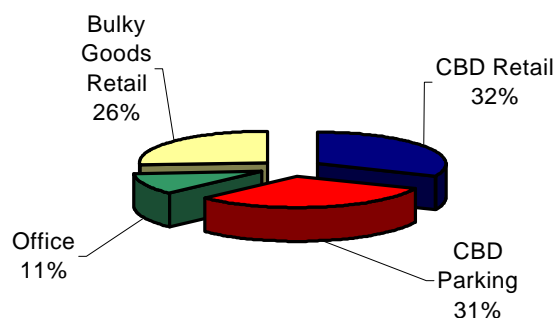


This beneficial lease expiry profile is assisted by:-

- ▲ a ten year car park lease in Post Office Square to Brisbane's dominant car park operator, Kings Parking to 2009;
- ▲ an ACT Government office lease in the Homeworld Centre expiring in 2009;
- ▲ a 15 year retail lease in the Homeworld Centre to Aldi Foods Pty Limited to 2017;
- ▲ a 15 year lease in the Homeworld Centre to Woolworths Limited trading as Dan Murphy's to 2017;
- ▲ a minimum average weighted lease expiry of approximately 4.6 years in the retail areas of Post Office Square.
- ▲ a minimum average weighted lease expiry of approximately 6.4 years in the Homeworld Centre.

### 7.3 DIVERSITY

We believe that diversity is fundamental to a prudent property investment strategy. This Direct Property Investment offers exposure to four different property sectors plus the geographical diversity of two capital cities. The accompanying graph shows the exposure to the various property



sectors provided by the Properties.

The Properties also provide exposure to a wide range of industries including government, electronics, service industries, bulky goods and food and liquor retailing. This broad industry exposure helps to diversify risk.

### 7.4 LOW VACANCIES

As at the date of this Information Memorandum, the actual total vacant and unlet area of the Properties is 2.3% of their total net lettable area.

### 7.5 QUALITY TENANT PROFILE

The Manager believes the quality of the tenants is a key feature of this Direct Property Investment. The benefit of the covenants of the tenants such as the ACT Government, **ALDI Foods, Kings Parking, Woolworths Limited (Trading as Dan Murphy's) and Angus & Robertson's Bookworld** represent a significant part of the Properties' income. Greater detail and tenant profiles are provided in the individual property descriptions (*see sections 8 and 9*).

## 8. POST OFFICE SQUARE

### 8.1 KEY FEATURES OF THE PROPERTY

<b>Purchase Price</b>	\$49,562,173
<b>Location</b>	The property has frontage to Queen and Adelaide Streets, in the Brisbane CBD.
<b>Zoning</b>	Particular development - Civic Square, Car Park and Shopping Centre.
<b>Nature of Title</b>	Freehold – subject to the provisions of the Anzac Square Development Project Act 1982.
<b>Net Lettable Area</b>	1,765 m <sup>2</sup> retail (approximately).
<b>Car Spaces</b>	316 bays.
<b>Date of Construction</b>	1983
<b>Principal Use</b>	Public car park and CBD retail – food court and service retail.

### 8.2 NATURE OF THE PROPERTY

The property consists of a CBD retail centre and a six level underground car park. The complex was completed in 1983. Its retail component comprises 25 retail shops over a single level.

There is a central food court dominated by a water feature, a focal point of the centre. Immediately above the retail component of the complex is a grassed open civic square which provides seating and relaxation areas for shoppers and tourists. The Brisbane City Council has a 'peppercorn'/nominal lease over the civic square until 2059 and maintains it.

The property's tenure is freehold. However, ownership transfers to the Brisbane City Council at no cost to it in April 2059. (*see section 22.6*)

### 8.3 LOCATION

The property is located, as the name implies, directly opposite the Brisbane GPO in the heart of the CBD. The property is situated between Queen

Street (Brisbane's main street) and Adelaide Street midway between Edward and Creek Streets.

The property is linked by pedestrian bridges and an underground tunnel across Adelaide Street to the Anzac Square Park, which in turn provides convenient access to and from the Brisbane Central railway station. This location between the GPO and the railway station provides commuters with an easy access through the Property to the centre of the CBD and the premium office precinct known as "The Golden Triangle". The Property therefore enjoys high pedestrian traffic in the mornings and evenings along with a busy lunch time trade generated by the food court.

The property is approximately 100 metres north of the Queen Street Mall and is now almost opposite the recently completed MacArthur Central retail development which contains Woolworths and Big W. The property is located on the same city block that houses the state corporate headquarters for the National Australia Bank, Westpac and Commonwealth Bank along with three other significant office buildings.

These six buildings may be considered to form the primary catchment area for both the food court and retail tenancies and provide demand for the car park. Approximately 6,500 workers are accommodated within these buildings. Additionally, the retail centre has direct links into the retail and office areas of the adjoining buildings.

Many commuters pass through the property on their way to and from work.

### 8.4 CURRENT STATUS

The property's income is divided relatively evenly between its two uses with 50% being derived from the retail component and the balance from the car park.

Currently, there are two shops within the property which are not permanently leased although one of these is occupied on a casual tenancy. Historically, the property has had a reasonably low vacancy factor.

The retail section of the property was extensively refurbished and released in 1999.



The retail component of the property has a minimum weighted average lease expiry profile of approximately 4.6 years. A high proportion of leases have fixed rental increases of at least 4% per annum.

## 8.5 THE TENANTS

**Kings Parking Corporate Pty Ltd** (whose ultimate holding company is Ariadne Australia Limited) has leased the car park for ten years from 1 December 1999. Ariadne guarantees the obligations of the tenant. Ariadne is a listed public company.

Kings Parking is the dominant operator in the Brisbane car park market.

National or chain retailers within this centre include **Angus & Robertson Bookworld, Flight Centre, Muffin Break, Mr Minit, Kodak Express, Perrotts Florists, Coffee Club, Subway, and Torts.**

Additionally, the food court contains a number of existing proven traders.

## 8.6 VALUATION

For the purposes of the Prospectuses, the Property was valued by an experienced well regarded valuation firm. This valuer assessed the market value and subject to the existing tenancies as at 1 November 1999 to be \$49.6M.

A copy of a summary of the valuation report is contained in the Prospectuses. The valuation is only current as at the date of the valuation. No further valuation of the property has been carried out since the date of the Prospectuses.

*Post Office Square food court eating area*



## 9. HOMEWORLD CENTRE

### 9.1 KEY FEATURES OF THE PROPERTY

<b>Purchase Price</b>	\$23,778,136
<b>Location</b>	An entire block bounded by Anketell, Reed, Scollay Streets and Soward Way, Tuggeranong Town Centre, Canberra ACT
<b>Zoning</b>	Commercial “B”
<b>Nature of Title</b>	Crown Leasehold
<b>Principal Use</b>	Bulky goods, convenience retail and office.
<b>Net Lettable Area (approx.)</b>	Retail: 8,518 m <sup>2</sup> Office: 3,836 m <sup>2</sup> Total: 12,354 m <sup>2</sup>
<b>Site Area</b>	2.2 hectares (approximately)
<b>Car Spaces</b>	314 bays
<b>Date of Construction</b>	1988

### 9.2 NATURE OF PROPERTY

This property is a landmark in the Tuggeranong Town Centre, principally due to the Homeworld Tower that identifies it from great distance. It is a mixed use complex that has bulky goods and convenience retail, as well as service industry tenancies. In addition, it has a first level office area that looks over a courtyard with seating areas. The ground level retail component comprises 33 tenancies.

The improvements are constructed around the street frontage of the site with two main car park entries. Most tenancies face onto a large central car park. A small number front onto surrounding streets.

### 9.3 LOCATION

Tuggeranong is approximately 17 kilometres south-west of the centre of Canberra. It houses

approximately one third of the total ACT population.

Tuggeranong Town Centre is one of the three major town centres within the ACT. It has excellent road access to the Canberra CBD (Civic) and is serviced by an extensive bus service.

The property is situated in the commercial and retail core of the Tuggeranong Town Centre. It is adjacent to the Tuggeranong regional shopping centre - the Hyperdome. That centre's major traders are Grace Bros, K Mart, Coles and Woolworths.

The Tuggeranong Town Centre is an important satellite commercial centre in the ACT with approximately over 60,000m<sup>2</sup> of office accommodation. The majority of this office space is occupied by various government departments.

### 9.4 TENANCY PROFILE

The property has a strong lease profile with a number of long term tenants occupying significant areas of space.

The **ACT Government** occupies the entire office space component of the property under a lease that represents just over 30% of the property's gross income and which expires in 2009. This tenant also leases a ground floor retail shop for use as a customer service centre.

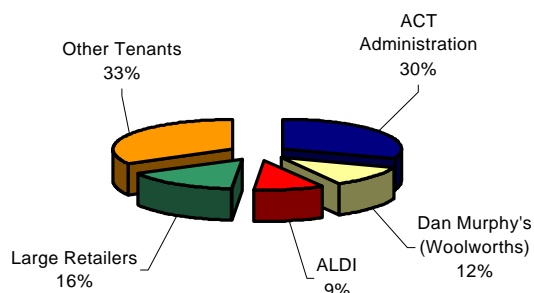
In 2002 **Woolworths Limited trading as a Dan Murphy's** liquor outlet opened in the retail space vacated by BBC Hardware following the expiry of their lease. This 1,272m<sup>2</sup> retail space was relet on a 15 year term to 2017. Dan Murphy's is one of Woolworths liquor brands.

Following the relocation of a few existing tenants and considerable works, **ALDI Foods Pty Ltd** opened at Homeworld in 2002. This retail lease for 1,260m<sup>2</sup> until 2017 has added a new dimension to the centre. ALDI are one of the world's leading grocery retailers, with over 5,000 stores throughout Europe, the US, UK and now Australia.

Other larger retailers include **Sportsman's Warehouse, WC Penfolds and Dick Smith Electronics, PJ O'Reilly's, National Capital Diagnostics Imaging and GE Capital**. The accompanying pie chart shows an appropriate

break up of the major tenants and sources of income from the Homeworld Centre.

The property also contains convenience and leisure orientated retailers such as Civic Video, take-away food (Pizza, Thai, Indian, and Japanese foods) and a bakery.



## 9.5 RETAIL ANALYSIS

Tuggeranong was one of Australia's fastest growing regions at the last Australian census. Government forecasts indicate that Tuggeranong's population is expected to grow from 90,000 to 95,000 by 2006.

Homeworld represents 20% of Tuggeranong's retail space of a similar nature.

Tuggeranong's demographic profile is characterised by a predominance of younger families and has a higher than average ACT household income. These are positive factors for the future of retailing in the Tuggeranong area.

## 9.6 VALUATION

The property was valued prior to acquisition by an experienced well regarded valuation firm.

This valuation firm assessed the market value exclusive of GST and subject to the existing tenancies as at 22 September, 1999 to be \$23.7M

A copy of a summary of the acquisition valuation report is contained in the Prospectuses. The valuation is only current as at the date of the valuation.

The property has also been revalued twice since that time by another experienced and well respected valuer and firm. This firm assessed the value as \$26.6 million at 1 March 2002 and \$28.9 million at 1 March 2003.



## 10. GENERAL STRATEGY

### 10.1 OUR GENERAL STRATEGY

After detailed consideration of the strengths, weaknesses, opportunities and threats of the Properties, various strategies for each of them were developed.

### 10.2 HOMEWORLD

In developing our strategies for this property, we commissioned a specialist retail analysis that provided detailed investigation into the demographics, shopper behaviour and overall retail space needs and trends of the catchment area of the property.

Examples of our overall strategies include:-

- ▲ The reinforcement of Homeworld's position in its market, focusing on the strengths of the centre identified in the retail analysis;
- ▲ A general upgrade and modernisation of the centre's aesthetics and general ambience including signage and car parking. An upgrade of the forecourt area is currently proposed but is proposed to be tenant driven.
- ▲ As opportunities become available, reposition the centre away from some of its current mature or unfashionable products or uses and develop a program which provides the centre with a stronger identity in the marketplace.
- ▲ Focusing on the continued expansion of leisure and food orientated tenancies. Specifically by providing an improved external seating environment for the established take-away food area.
- ▲ Maintaining and increasing the services component.

### 10.3 POST OFFICE SQUARE

Post Office Square was selected because of its prime location and the attractiveness of a property that has undergone a refurbishment and re-leasing program that enables it to have a predictable long-term cash flow.

We carefully considered the timing of acquisition of this asset and were particularly attracted to the yield at which it was acquired compared with the yields for this sector that prevailed when the

Brisbane CBD retail property market was at its peak.

We are of the view that the extension of trading hours to take advantage of high volume pedestrian traffic, rather than just focusing on midday trade may provide significant benefit to the property. The recent opening of the MacArthur Central retail development has increased pedestrian traffic in the region of this property on weekends which over time may assist in expanding trading hours.

### 10.4 SALE STRATEGY AND TIMING

Whilst the possibility exists to sell the Properties at the one time, we consider this unlikely to produce the best return for Investors. The timing of the sale of each property is dependent on the cycle of the market in which each property is situated, as well as the prevailing tenancy profile of the relevant property. Currently, we expect the following sale program will maximise Investment returns:-

- ▲ Post Office Square to be sold around 2005 so that the majority of the retail space will have been reset at lease expiry. The car park lease will then have five years of its initial term to run.
- ▲ Homeworld Centre to be sold around mid to late 2004 so that:-
  - there are five years to expiry of the ACT Government office lease;
  - there has been sufficient time to give effect to our strategies for the property;
  - lease areas with tenancies that expire in 2003 and 2004 can be re-leased.

On the sale of the first property there is likely to be a partial return of capital to Investors.

In addition to effecting the above strategies, we consider there is potential for the firming of yields for property generally over the medium term thereby enhancing capital gain potential.

## 11. A S.W.O.T. ANALYSIS ON THE PROPERTIES?

### POST OFFICE SQUARE

Strengths	Weaknesses	Opportunities	Threats
<p>1 The diversity offered by the property providing CBD retail and car park sector exposure.</p> <p>2 A well established retail history with a good level of tenancy renewal and low historical rental arrears.</p> <p>3 A prime central location with high pedestrian traffic to and from Brisbane Central Railway Station.</p> <p>4 A strong retail identity in the Brisbane CBD.</p> <p>5 A long term car park lease (representing almost half of the property's income) guaranteed by a major listed public company.</p> <p>6 Car parking income under the stewardship of the most dominant Brisbane car park operator.</p> <p>7 A refurbished and updated retail component with focused food court mix.</p> <p>8 A high average lease duration in the retail component.</p> <p>9 Almost all leases subject to fixed rent increases of 4% per annum or greater.</p> <p>10 A multitude of pedestrian links from the retail component to adjoining properties.</p> <p>11 Good natural light and openings provides for a pleasant and airy food court.</p>	<p>1 The property's titling arrangements require transfer of title to the Brisbane City Council on 4 April 2059, free of cost to the Council. The council lease of the civic square on top of the building restricts development.</p> <p><i>The purchase price and valuation allowed for these factors. Discounted cashflow valuation methodologies generally show minimal differentiation between unrestricted estates and restricted estates where the termination of the interest in the land is more than 30 years into the future.</i></p> <p><i>The civic square enhances the food court's trading performance.</i></p> <p>2 The seating capacity of the food court.</p> <p><i>The food court's focus is more on the takeaway customer. The civic square provides an additional eating area.</i></p> <p>3 Reliance upon steps and escalators for entry from Queen Street.</p> <p><i>The building's design has addressed this inherent difficulty. Signage at the Queen Street entrance has enhanced entrance appeal and visibility. Good visible street level entry exists at Adelaide Street.</i></p>	<p>1 Increased trading and consequent rents might be achieved by encouraging more tenants to increase effective trading hours.</p> <p><i>The recent opening of the MacArthur Central retail development will aid the expansion opportunity for longer trading hours.</i></p> <p>2 Potential to enter into negotiation with Brisbane City Council to allow small related commercial or promotional uses of the civic square.</p> <p><i>Discussion with Brisbane City Council about upgrades of the Civic Square have occurred.</i></p>	<p>1 The usual threat of possible competition for retail properties. For example, further food court elements are present in the MacArthur Central retail development and one contemplated in the Queen Plaza redevelopment proposal nearby to this property.</p> <p><i>The Queen Plaza redevelopment may have some minor impact on this property's primary catchment by attracting office workers from the Commonwealth Bank and 215 Adelaide Street office buildings. However, the development may advantage the Post Office Square car park component. The mooted food court's components appear to have an upmarket or sit-down customer focus which is different from the less expensive takeaway focus of the Post Office Square Food Court.</i></p> <p>2 The intermittently proposed concept of car park levies to restrict traffic into the Brisbane CBD.</p> <p><i>The current State Government stance is not supportive of the introduction of carpark levies.</i></p> <p><i>The cost of this levy would most likely be passed on to the car park tenant under enacting legislation.</i></p>

## **HOMEWORLD CENTRE**

<b>Strengths</b>	<b>Weaknesses</b>	<b>Opportunities</b>	<b>Threats</b>
<p>1 The diversity of sectors provided by an office and retail component as well as diversity of categories of tenants within the retail component itself.</p> <p>2 Prominent central location in the Tuggeranong Town Centre immediately adjacent to the regional shopping mall.</p> <p>3 An established retail history.</p> <p>4 Located in a large established population centre which has historically experienced good population growth with prospects for further residential growth inside the primary retail catchment area.</p> <p>5 Tuggeranong has a higher average household income than the ACT generally. This population is also characterised by younger families.</p> <p>6 ACT government lease representing almost one third of the property's income is guaranteed by the ACT Government until 2009 when the lease expires.</p> <p>7 A high percentage of the property's income is represented by government, national and chain retail tenants.</p> <p>8 Good car parking access to shops and good internal car parking layout.</p> <p>9 ACT town planning controls through lease purpose clauses are generally regarded as giving greater property owner protection.</p>	<p>1 The leasehold nature of all ACT real estate. <i>There is an automatic renewal provision for all such leases.</i></p> <p>2 There is no ratchet mechanism in the market rent review provision of the ACT government office lease to underpin its rent past July 2004.</p> <p>3 There are some maturing retail uses within the centre (i.e. retail products or methods which are becoming outdated). <i>The Manager has progressively been repositioning and refocusing the centre away from such uses.</i></p>	<p>1 Further release and development of residential land within the primary trade catchment area of this centre.</p> <p>2 A re-positioning and refocussing of the centre so that it has a clear identity in the Canberra market.</p> <p>3 The retail policy by the ACT government is intended to discourage further expansion of shopping malls such as the adjacent Hyperdome and provides for increased flexibility for properties adjacent to malls such as Homeworld. This may provide the centre with opportunities to expand its retail focus.</p> <p>4 There are a number of significant retailers in other parts of Canberra who could have shops in Tuggeranong.</p> <p>5 Average rentals are substantially below rentals achieved in the adjacent regional mall catering for some similar tenancies.</p>	<p>1 The ACT government's introduced retail policy provides a flexible retail hierarchy concept providing wider use opportunities for all retail properties outside of the Hyperdome. <i>The retail policy also restricts shopping mall growth such as the adjacent Hyperdome.</i></p> <p>2 The usual threat of possible competition for retail properties. More specifically, the variation of the Territory plan for the Hyperdome's related Tuggeranong market to enable it to broaden its retail use beyond its currently restricted produce market intent. <i>The proposed uses may not directly compete with Homeworld. Any new or changed use may work beneficially for Homeworld by consolidating the Tuggeranong Town Centre against other town centres such as Woden.</i></p> <p>3 The apparent current proposal by the owners of the nearby Hyperdome to convert their market development into a more bulky goods style of development.</p>

## 12. TWO DIFFERENT INVESTMENT METHODS

### 12.1 INVESTMENT METHODS

There are two investment methods available to Investors wanting to acquire an Interest in the Properties:-

- ▲ as an Owner who invests directly in the Syndicate and therefore the Properties; or
- ▲ as a Unitholder who invests in the Trust. The Trust is an Owner. It has invested in, and holds Lots in the Syndicate and the Properties and has borrowed as an Owner.

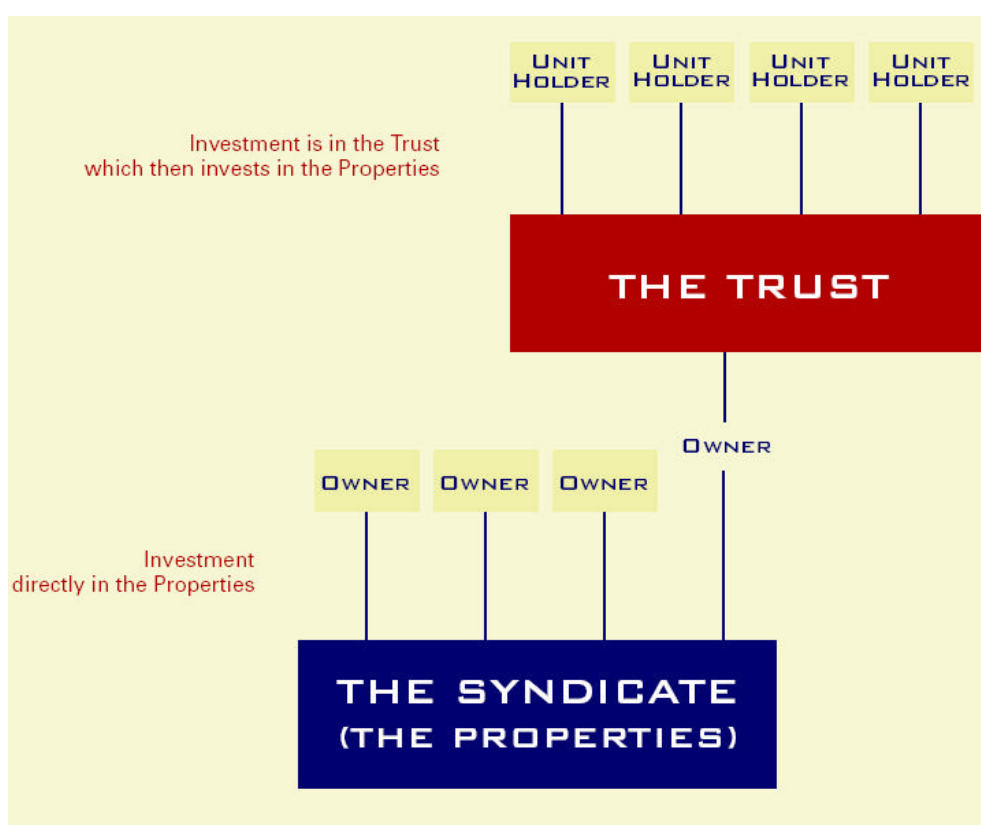
### 12.2 WHY THE DIFFERENT INVESTMENT METHODS?

Owners in the Syndicate have authorised the Manager to borrow monies on their behalf to enable them to acquire their Lots. When the Owners completed Application Forms they

acknowledged in a limited power of attorney that forms part of that application that they were also authorising the Manager to borrow money on their behalf.

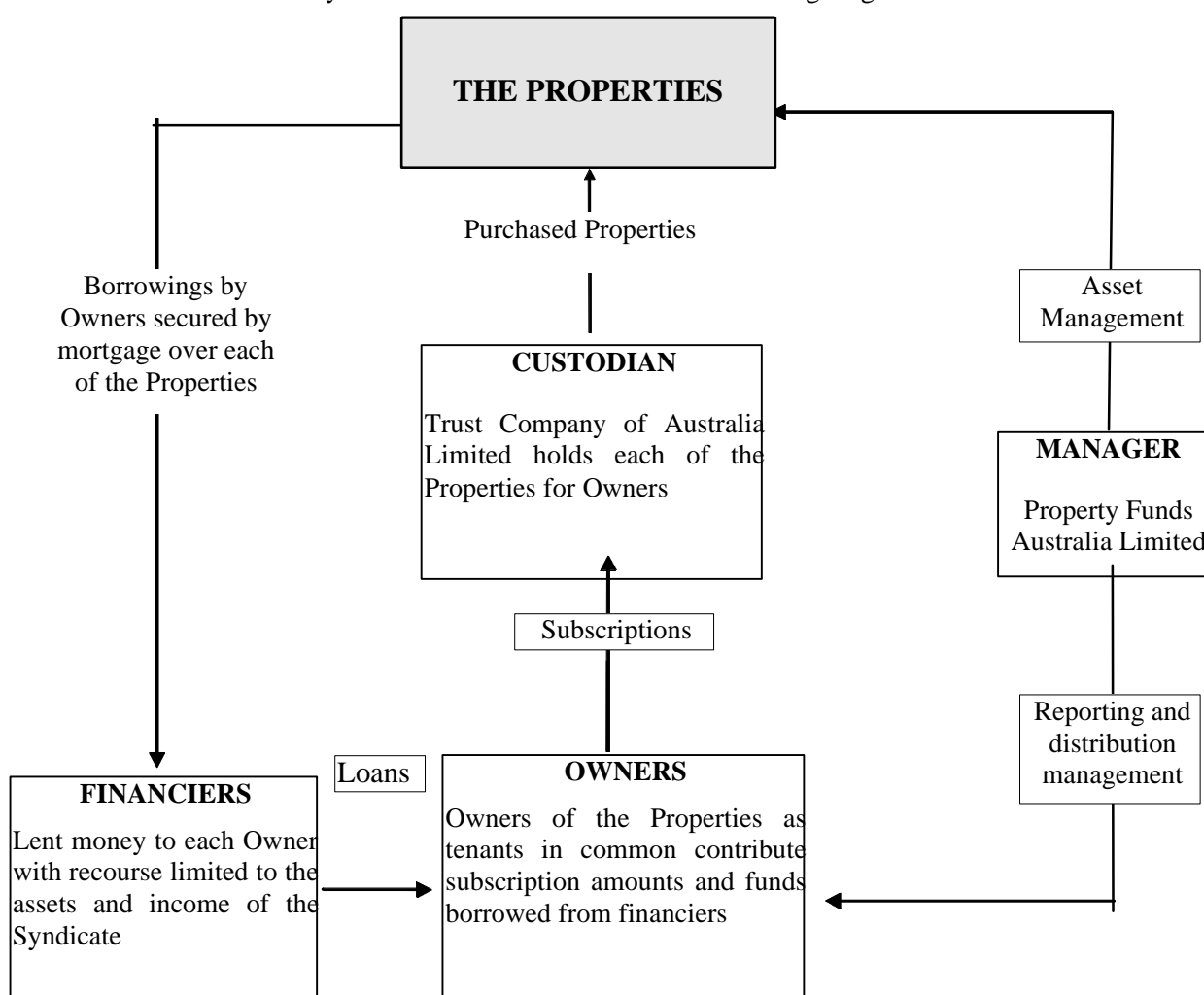
Certain categories of investors are, however, unable to, or do not want to, borrow in their own right (for example, complying superannuation funds). For this purpose, the Trust was established to facilitate the opportunity of this category of investor to invest in the Properties. In this case, the Trust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

The accompanying diagram shows the relationship between the Syndicate and the Trust.



## 13. SYNDICATE STRUCTURE

The basic framework of the Syndicate structure is set out in the following diagram.



### 13.1 SYNDICATE CONSTITUTION

The Syndicate Constitution is the document that governs the relationship between the Manager and the Owners. A summary of the key terms of the Syndicate Constitution is set out in Section 22.7.

### 13.2 OWNERS

The Syndicate Investors are the Owners. Each Owner owns the Properties and has a direct interest in the liabilities of the Syndicate in the proportion their Lot bears to the total of all Lots issued.

### 13.3 CUSTODIAN

Because it is impractical to have all Owners registered on each of the titles, Trust Company of Australia Limited (the Custodian) holds each of the Properties for the Owners as the Owners' nominee

pursuant to the terms of the Custody Agreement (see section 22.10).

### 13.4 FINANCIERS

Financiers have provided acquisition loans to supplement an Owner's original subscription. The Owners (including the Trust) are the borrowers. Their liability is limited to their interest in and entitlements from each of the Properties. The Financiers have no recourse to an Investor's other assets. Each of the Properties is mortgaged and a charge over the income from the Properties is provided to the Financiers by the Custodian on behalf of the Owners.

### 13.5 THE MANAGER

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

### **13.6 TIME FRAME OF THE FUND**

This Direct Property Investment is expected to continue until around late 2005/early 2006. The Manager expects that the Properties will be separately sold.

Under the terms of the Constitutions, the Properties cannot be held for more than eight years from Completion (i.e. 30 December, 2007) unless both:-

- ▲ the Manager considers that it is in the interest of the Owners that a Property or the Properties not be sold at that time; and
- ▲ each Owner who wants to exit their Investment (in whole or part) is able to do so at a value which is fair, transparent and independently established and reflects a sale, at market, of the Properties.

In other words, if the Properties have not been sold prior to 30 December, 2007 you then have an absolute right to be bought out at fair value. If this cannot be achieved, then the Properties must be sold.

As a consequence of this structure, long term Investors will have the advantage that:-

- ▲ if the Manager deems it to be in the interest of Investors one or both of the Properties can continue to be owned;
- ▲ each Investor who has sought to dispose of their Interest has been accommodated in the manner described above;
- ▲ ownership of that Property can continue for Investors who do not want to dispose of their Interest without triggering a potential capital gains tax liability or incurring additional stamp duties by subsequently buying other property.

Should the Manager sell your Interests in circumstances set out above the market and BSX will be kept fully informed of the progress of such sales, regardless of whether the sales take place on BSX.

The sale of Property prior to 30 December, 2007 may occur if the Owners approve of it by a special resolution or where at least the Owners' full Subscription is returned by the sale or where the Manager believes the sale is in the best interests of the Owners.

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

The summary of key terms of the Constitutions are set out in Section 22.7 and Section 22.8.

### **13.7 SECONDARY TRADING/REDEMPTION**

Even if listed on the BSX, there is unlikely to be a significant volume of trading on the secondary market. Furthermore, no Investor has the right to redeem their Investment.

### **13.8 INTEREST IN THE PROPERTIES AND OTHER FUND ASSETS**

An individual Owner's proportional interest in the Properties and the liabilities of the Syndicate is determined by dividing the Owner's subscription by the total of all Subscriptions (i.e. \$36.75M).

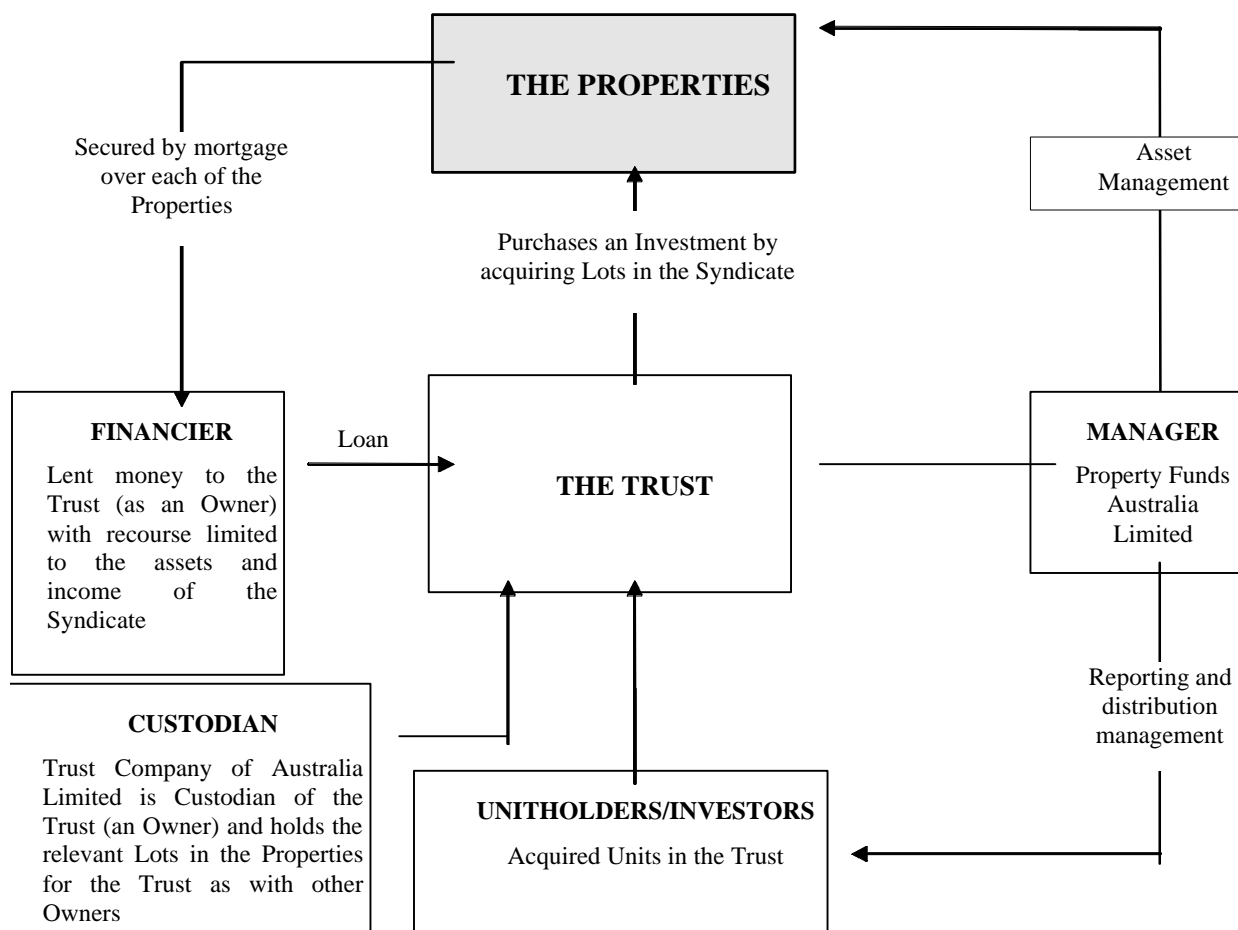
A Unitholder's interest is via their unitholding in the Trust, which is, in turn, an Owner in the Syndicate.

## 14. TRUST STRUCTURE

*(This section is principally of interest to Investors such as superannuation funds that are unable to or do not want to directly borrow money.)*

The Trust was established for Investors that were unable, or who did not want, to borrow in their own right to invest in the Properties (eg. complying superannuation funds) by acquiring Units in the Trust. The Trust then invested as an Owner in the Properties by acquiring Lots in the Syndicate.

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



### 14.1 THE TRUST STRUCTURE

The Trust owns Lots in the Syndicate on the same terms as other Investors in the Syndicate. This means that the Trust, rather than the individual Investors in the Trust borrowed money under the limited recourse loans arranged by the Manager (*see section 15*). Investors in the Trust have no personal liability for any borrowings undertaken by the Trust.

### 14.2 TRUST CONSTITUTION

The Trust Constitution is the document which governs the Trust and the relationship between the Manager and the Unitholders. A summary of the

key terms of the Trust Constitution are set out in Section 22.8.

### 14.3 CUSTODIAN AND MANAGER

The Custodian and Manager of the Syndicate are also the Custodian and Manager of the Trust. Neither the Manager nor the Custodian propose to charge any fee for the services they provide in those roles with the Trust whilst they have the same roles for the Syndicate (*see section 13.6*).

#### 14.4 TIME FRAME OF THE TRUST

The term of the Trust is the same term as the Syndicate with the same earlier termination and extension provisions.

As a consequence of this structure, long term Investors will have the advantage that:-

- ▲ if the Manager deems it to be in the interest of Investors one or both of the Properties can continue to be owned;
- ▲ each Investor who has sought to dispose of their Interest has been accommodated in the manner described in Section 13.6;
- ▲ ownership of that Property can continue for Investors who do not want to dispose of their Interest without triggering a potential capital gains tax liability or incurring additional stamp duties by subsequently buying other property.

Should the Manager sell the Units in circumstances set out above, the market and BSX will be kept fully informed of the progress of such sales, regardless of whether the sales take place on BSX.

A summary of key terms of the Trust Constitution is set out in Section 22.8.

#### 14.5 SECONDARY TRADING/REDEMPTION

Even if the Trust is listed on the BSX, there is unlikely to be a significant volume of trading on the secondary market of Units. Furthermore, no Investor has the right to redeem their Investment.

*Office component of Homeworld*





## 15. BORROWINGS

Borrowing arrangements are an important and integral part of this Direct Property Investment.

### 15.1 REASON FOR BORROWING

The main reason for using borrowings to partly fund this Direct Property Investment was to improve the return on the equity invested by Investors. Improved returns are achieved in two ways:-

- ▲ Firstly, interest rates are at historically low levels. It is currently possible to borrow at a rate below the yields generated by quality investment property. The positive difference between the interest rate payable and the yield generated by such Properties results in an increased return on funds invested;
- ▲ Secondly, if there is an increase in the value of the Properties, the debt level remains unchanged so that the full amount of the increase in value is applicable to the equity invested. Of course, the opposite applies if the Properties decrease in value.

### 15.2 BORROWINGS BY OWNERS (IE. SYNDICATE INVESTORS)

Owners in the Syndicate authorised the Manager to borrow monies on their behalf to complete their acquisition of Lots. Original applicants when completing their application forms acknowledged in a limited power of attorney that formed part of that application that they were authorising the Manager to act for them in arranging any further borrowings on the terms outlined in *Section 15.8*. By becoming an Owner you are also assuming a liability for the existing borrowings and the unamortised portion of the associated borrowing expenses. This assumption of liability is only to the extent of the proportion that your Lot bears to the total Syndicate subscriptions (i.e. currently \$36.75M).

Borrowings are in the name of the Owners and in proportion to their interest in the Properties (i.e. their Lot percentage). The original subscriptions of Owners were added to their borrowings by that Owner (as arranged by the Manager) to make up the total contribution of funds to create each Owners Lot.

In the Initial Public Offering, the reason for combining both amounts and arranging funding in

this way was to enable the CGT cost base to be calculated for CPI indexation purposes on the dollar value of the Owner's Lot (i.e. its total interest in the Properties) rather than just the Owner's Subscription. Under tax law applicable at the date of the Initial Public Offering, this resulted in a more favourable capital gains tax outcome for Owners when the Properties were sold.

However, under subsequent changes to tax law, the cost base of a Lot for Owners pursuant to this Prospectus are no longer able to be indexed for CGT purposes thereby making this structure of no particular advantage or disadvantage.

Although the Owners are the borrowers, for practical purposes the loans are arranged and managed by the Manager. All documentation is executed by the Manager on behalf of the Owners under the limited power attorney on the original Application Form and any transfer form.

### 15.3 BORROWINGS FOR TRUST INVESTORS (EG. SUPERANNUATION FUNDS)

Investors who are unable to, or choose, because of their nature (eg. complying superannuation funds), not to borrow in their own name still gain some of the benefits of borrowing as the Manager on behalf of the Trust borrows an amount that provides Unitholders with the same level of gearing as Owners. This provides similarly improved returns as a consequence of borrowing.

No power of attorney is given in favour of the Manager to effect the borrowing in the case of Investors in the Trust.

Unitholders are not involved in any borrowing as the Manager, on behalf of the Trust as an Owner, undertakes the borrowing.

### 15.4 LIMITED RECOURSE BORROWINGS

The Financiers' security is limited to the assets and income of the Syndicate. In the event of a default, **the Financiers are not entitled to make a claim against an Investor's other assets.**

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

## **15.5 THE EXISTING LOANS**

The acquisition loans were \$46,477,000 which equated to 56.0% of the total purchase price and acquisition costs of the Properties.

The loans are currently as described below:-

- ▲ A loan from Colonial First State Investments Limited comprising a five year variable facility (maturing December, 2004) of \$15,457,000 secured by a first registered mortgage over the Homeworld Centre. A second mortgage over the property is held by ING Funds Management Limited. Interest on the loan is payable monthly in arrears. Due to interest rate swaps (discussed later) the effective interest rate of this facility is 8.42% p.a..
- ▲ A loan from ING Funds Management Limited comprising a five year facility (maturing December, 2004) of \$31,020,000 fixed for three years secured by a first registered mortgage over Post Office Square. A second mortgage over the property is held by Colonial First State Investments Limited. Interest on the loan is payable quarterly in arrears. Due to interest rate swaps (discussed later) the effective interest rate of this facility is 8.20% p.a..
- ▲ A further facility of \$2.1M has been advanced by Colonial First State Investments Limited against the Homeworld Centre. This loan matures 31 December 2004 and is a variable rate. The current rate of interest as at the date of this Information Memorandum including margin is 6.5%. A further advance of \$1M is currently the subject of an application to the same Financier. This further advance will also be variable and would also expire on 31 December 2004. Both of these loans have been required to fund refurbishment at the properties which has subsequently resulted in appropriate asset revaluation. Please see section 9.6.

The aforementioned loans are subject to:-

### **Interest Rate Swaps**

- ▲ Interest rate swap transactions entered into by the Manager on behalf of the Owners exchange variable and fixed interest payment obligations to protect long term borrowings from the risk of increasing interest rates. The Owners have both

variable and fixed interest rate debt exposure and have entered into swap contracts which enable the relevant Banks to receive the benefit of interest at both variable and fixed rates and for the Owners to effectively pay interest at fixed rates.

The notional principal amounts for swap contracts approximates the Owners borrowing facility. The settlement dates of the swap contracts correspond with interest payment dates of the borrowings. The swap contracts require settlement of the net interest receivable or payable and are brought to account as interest costs.

At the date of this Information Memorandum, the details of interest rate swaps are:-

- ▲ A swap for a fixed interest rate of 8.42% on a principal amount of \$15,457,000 until 04 January 2005;
- ▲ A swap for a fixed interest rate of 8.20% on a principal amount of \$31,020,000 from 2 January 2003 until 4 January 2005.

## **15.6 INTEREST COVER**

Gearing is currently 56.5% of Total Assets. The forecast net rental income of the Properties up to 30 June 2004 shows a minimum interest cover of around 1.85 times should be able to be maintained.

## **15.7 OVERDRAFT FACILITY**

To ensure some flexibility during the life of the Fund, and in particular to meet unanticipated expenditures and to assist in smoothing the Fund's monthly income distribution payments a revolving variable rate facility of \$1,000,000 was arranged by the Manager with National Australia Bank Limited.

## **15.8 FURTHER LOANS**

The Manager has the power to increase borrowings by the Owners for the purposes of improving, refurbishing and maintaining the Properties. The total amount of any borrowings effected by the Manager may not result in the total of all loans exceeding 75% of the Properties' value.

At present, the Manager is not intending that there should be any increase in the borrowings but believes some flexibility in a long term investment

is desirable and prudent as a means of protecting and enhancing the value of the Properties.

### 15.9 REPLACEMENT LOANS

During the term of the Fund, it may be necessary to roll over, renew or replace loans. The limited

power of attorney contained on transfer forms authorises the Manager to arrange those replacement loans and any interest rate management products that the Manager considers the Fund should acquire.

*Post Office Square*



## 16. ACCOUNTS, DISTRIBUTIONS AND REPORTING

Cash **distributions** are made on a **monthly** basis. This is not common in property trust investments. The distributions are made by electronic transfer to the account nominated by an Investor.

The Manager is responsible for deciding the amount of any distribution. In making this decision, the Manager has regard to the future cash requirements and the overall position of the Fund. It is the Manager's intention to equalise monthly distributions as much as is reasonably possible within a financial year and in some cases, between financial years.

A **six monthly update report** is sent to Investors advising of the issues relating to their Investment including the investment performance of the Properties.

Any **enquiries** (telephone or written) by Investors on the performance of the Investment are **answered** by the Manager's Investor relations personnel.

An **annual report** and **audited accounts** for the Syndicate are sent to Owners within 90 days of the end of each financial year unless you request in writing that you do not wish to receive them. In addition Unitholders will receive an annual report and audited accounts for the Trust. A **distribution summary** of each Investor's distributions over the previous financial year will also be forwarded around this time. Audited accounts are also available on a half yearly basis if specifically requested by you.

To facilitate the completion of Investor's tax returns, the Manager arranges for the preparation and lodgement of tax returns for the Fund. The Manager then sends each Investor a statement showing the details needed to complete their tax returns and any other interim returns (as required). **Investors should not lodge their tax returns until this information is received.**

*Aldi Food Store Entry at the Homeworld Centre*



## 17. FINANCIAL INFORMATION

### 17.1 INTRODUCTION

This section is a summary only of information relating to the financial performance or position of the Investment. This historical financial information relating to past performance or position is not necessarily an indicator of future performance or position. No assurance or representation is given in relation to the future performance of the Fund.

Set out below are unaudited statements of the financial position of the Syndicate and the Trust as

at 31 December, 2002. Audited accounts for the Syndicate and Trust (including a statement of financial position) for the period up to 31 December, 2002 will be available no later than 15 March, 2003. A complete copy of those audited accounts will be available free of charge by contacting the Manager at 1800 687 170 or via the BSX website [www.bsx.com.au](http://www.bsx.com.au).

The Fund's activities currently generate revenues. The Fund is likely to continue to generate revenue from its ordinary activities.

### 17.2 SYNDICATE FINANCIAL INFORMATION

#### The Capital Collection – Diverse Sector Fund Syndicate No 1 Statement of Financial Position

	31 December 2002*	30 June 2002	30 June 2001
	\$	\$	\$
<b>CURRENT ASSETS</b>			
Cash assets	609,635	825,832	951,313
Receivables	387,565	265,922	160,129
Other	80,992	65,241	59,499
<b>TOTAL CURRENT ASSETS</b>	<u>1,078,192</u>	<u>1,156,995</u>	<u>1,170,941</u>
<b>NON-CURRENT ASSETS</b>			
Cash Assets	-	-	370,203
Investment - Property	78,788,837	76,252,976	71,794,233
Other	5,858,401	6,756,561	6,870,619
<b>TOTAL NON-CURRENT ASSETS</b>	<u>84,647,238</u>	<u>83,009,537</u>	<u>79,035,055</u>
<b>TOTAL ASSETS</b>	<u>85,725,430</u>	<u>84,166,532</u>	<u>80,205,996</u>
<b>CURRENT LIABILITIES</b>			
Payables	1,773,798	552,135	608,297
Interest bearing liabilities	450,231	300,413	-
<b>TOTAL CURRENT LIABILITIES</b>	<u>2,224,029</u>	<u>852,548</u>	<u>608,297</u>
<b>NON-CURRENT LIABILITIES</b>			
Interest bearing liabilities	48,577,000	48,577,000	46,477,000
<b>TOTAL NON-CURRENT LIABILITIES</b>	<u>48,577,000</u>	<u>48,577,000</u>	<u>46,477,000</u>
<b>TOTAL LIABILITIES</b>	<u>50,801,029</u>	<u>49,429,548</u>	<u>47,085,297</u>
<b>NET ASSETS</b>	<u>34,924,401</u>	<u>34,736,984</u>	<u>33,120,699</u>
<b>EQUITY</b>			
Syndicate members' equity	29,807,946	30,791,856	33,120,699
Reserves	5,116,455	3,945,128	-
<b>TOTAL EQUITY</b>	<u>34,924,401</u>	<u>34,736,984</u>	<u>33,120,699</u>

\*Unaudited

**The Capital Collection – Diverse Sector Fund Syndicate No 1**  
**Statement of Financial Performance**

	<b>Six Months to 31 December 2002*</b>	<b>Year Ended 30 June, 2002</b>	<b>Year Ended 30 June, 2001</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenue from ordinary activities	4,352,077	8,212,176	8,441,706
Expenses from ordinary activities			
Property expenses	(894,468)	(1,747,860)	(1,473,811)
Fund expenses			
Direct Expenses	(332,408)	(639,064)	(457,741)
Amortisation/depreciation	(560,643)	(932,476)	(1,014,109)
	(893,051)	(1,571,540)	(1,471,850)
Borrowing costs			
Interest	(1,886,267)	(3,611,357)	(3,525,263)
Amortisation	(118,701)	(229,415)	(226,753)
	(2,004,968)	(3,840,772)	(3,752,016)
<b>Profit/(loss) from ordinary activities before income tax expense</b>	559,590	1,052,004	1,744,029
Income tax expense relating to ordinary activities	-	-	-
<b>Profit/(loss) after income tax expense attributable to Syndicate members</b>	559,590	1,052,004	1,744,029
Increase in asset revaluation reserve	1,171,326	3,945,128	-
<b>Total changes in Syndicate equity other than those resulting from transactions with Syndicate members as Syndicate members</b>	1,730,916	4,997,132	1,744,029

\* Unaudited

**17.3 TRUST FINANCIAL INFORMATION**

**The Capital Collection – Diverse Sector Fund Trust No. 1  
Statement of Financial Position**

	<b>31 December 2002*</b> \$	<b>30 June 2002</b> \$	<b>30 June 2001</b> \$
<b>CURRENT ASSETS</b>			
Cash Assets	11,182	20,902	22,068
<b>TOTAL CURRENT ASSETS</b>	<u>11,182</u>	<u>20,902</u>	<u>22,068</u>
<b>NON-CURRENT ASSETS</b>			
Equity Investment	16,574,047	16,485,265	15,719,093
<b>TOTAL NON-CURRENT ASSETS</b>	<u>16,574,047</u>	<u>16,485,265</u>	<u>15,719,093</u>
<b>TOTAL ASSETS</b>	<u>16,585,229</u>	<u>16,506,167</u>	<u>15,741,161</u>
<b>CURRENT LIABILITIES</b>			
Payables	757	10,938	10,960
<b>TOTAL CURRENT LIABILITIES</b>	<u>757</u>	<u>10,938</u>	<u>10,960</u>
<b>TOTAL LIABILITIES</b>	<u>757</u>	<u>10,938</u>	<u>10,960</u>
<b>NET ASSETS</b>	<u>16,584,472</u>	<u>16,495,229</u>	<u>15,730,201</u>
<b>EQUITY</b>			
Unitholders' capital	14,158,249	14,624,449	15,730,201
Reserves	2,426,223	1,870,780	-
<b>TOTAL EQUITY</b>	<u>16,584,472</u>	<u>16,495,229</u>	<u>15,730,201</u>

\* Unaudited



**The Capital Collection – Diverse Sector Fund Trust No. 1**  
**Statement of Financial Performance**

	<b>Six Months to 31 December 2002*</b>	<b>Year Ended 30 June 2002</b>	<b>Year Ended 30 June 2001</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenue from ordinary activities			
Distributions received	732,019	1,603,468	1,600,563
Interest received	274	722	1,049
	<u>732,293</u>	<u>1,604,190</u>	<u>1,601,612</u>
Expenses from ordinary activities			
Administration expenses	(301)	(639)	(606)
Increment / (diminution) in investment	(466,660)	(1,104,608)	(773,544)
	<u>(466,961)</u>	<u>(1,105,247)</u>	<u>(774,150)</u>
<b>Profit/(loss) from ordinary activities before income tax expense</b>	265,332	498,943	827,462
Income tax expense relating to ordinary activities	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
<b>Profit/(loss) from ordinary activities after income tax expense</b>	265,332	498,943	827,462
Increase in asset revaluation reserve	555,443	1,870,780	-
<b>Total changes in Trust Funds other than those resulting from transactions with unitholders as unitholders</b>	<u>820,775</u>	<u>2,369,723</u>	<u>827,462</u>

\* Unaudited

**17.4 DISTRIBUTION PERFORMANCE AS COMPARED TO PROSPECTUS FORECASTS**

<b>Period</b>	<b>Year to 30 June, 2001</b>	<b>Year to 30 June, 2002</b>	<b>Six months to 31 December, 2002</b>
<b>Forecast</b> Distribution Percentage~	9.2	9.4	9.6
<b>Actual</b> Distribution Percentage~	9.2	9.2	8.0*
<b>Forecast</b> Tax Sheltered Component of Distribution - Syndicate	42%	44%	42%
<b>Actual</b> Tax Sheltered Component of Distribution - Syndicate	59.37%**	81.17%	Not Available
<b>Forecast</b> Tax Sheltered Component of Distribution – Trust	42%	44%	42%
<b>Actual</b> Tax Sheltered Component of Distribution - Trust	100%	100%	Not Available

~ Expressed on a cents per Lot/Unit per annum

\* Paid from August 2002 to 31 December 2002

\*\* Tax Sheltered Component for full year of Ownership



## 18. TAXATION ANALYSIS

### 18.1 SEEK YOUR OWN TAXATION ADVICE

The following is intended only as a general summary and does not purport to be a complete statement of all tax consequences that may be relevant to the ownership or acquisition of Lots or Units.

**Investors should note that Australian tax laws are complex and are constantly subject to change. The views and forecasts in this Information Memorandum are based on law current at the date of this Information Memorandum.**

**The taxation comments in this section are general in nature by necessity. They do not, for example, apply to non-residents or those who carry on a business in trading in Lots or Units.**

**Tax liabilities are the responsibility of each Investor and the Manager is not responsible for taxation or penalties incurred by Investors. Investors should consult their taxation advisers on the tax implications of their own Investment.**

### 18.2 SYNDICATE

For Owners, the Syndicate structure is tax effective. The Syndicate is currently classified as a partnership for tax purposes only. An Owner only includes as assessable income their proportionate share of the Syndicate's taxable income as determined by the accounts of the Syndicate at the end of each financial year. This may mean that only part of any cash distribution is assessable income.

With this type of property syndicate, a significant part of the cash distribution is expected to be Tax Sheltered. These taxation benefits are a consequence of the offset against the income of tax deductions attributable to building allowance and depreciation of the Properties', plant and equipment and certain stamp duties. In addition, Owners will obtain the benefit of amortisation (i.e. writing off) of some of the borrowing costs and other costs associated with establishing the Syndicate.

### 18.3 TRUST

Under current law, an investment trust such as the Trust is not taxed on its income. The taxable income flows to Unitholders in proportion to their

Unitholding in the Trust. Accordingly, a Unitholder is assessable only on their proportionate share of taxable income of the Trust, which may differ to the cash amount received by that Unitholder each year.

A significant component of the cash distributions made by the Trust are expected to be Tax Sheltered. These taxation benefits are a consequence of the offset against the income of tax deductions attributable to building allowance, depreciation of the Property's plant and equipment, and amortisation of establishment and borrowing costs.

Under tax legislation current at the date of this Information Memorandum, unit trusts cannot pass through to Unitholders more than 100% of the tax benefit that is received in a year. The benefit is not lost but is claimed later in the term of the Trust when the return is less than 100% Tax Sheltered.

### 18.4 CAPITAL GAINS TAX

A different capital gains tax treatment applies to an Investor's interest dependant upon whether that interest is in the Syndicate or the Trust. Upon the disposal by an Investor of a Lot or Unit, CGT may apply. The application of CGT is also affected by whether an Investor holds their Interest as an investor (as distinct from a trader).

#### 18.4.1 Syndicate Owners

The Syndicate is currently categorized as a partnership for taxation purposes only. A Syndicate Owner has a direct proportionate interest in the Properties and other Syndicate assets. For CGT purposes the Syndicate Owner is treated as having an interest in each asset of the Syndicate.

If the Investor has become an Owner through the Prospectus, then the initial cost base of an Owners' Lot will be the cost of that Lot being the Owner's Subscription plus the Owners' loan portion. Where an initial Owner holds their Lots as an investor, as distinct from a trader, the cost base of the Lot (expressed in dollar terms) will be \$2.20 for each \$1 subscribed.

If an Owner has become an Owner through the acquisition of a Lot rather than from the Prospectuses, then their relevant cost base is the

amount paid for the acquisition of the Lot.

As the acquisition of an Owner's Lot is an investment made after 21 September 1999, the initial cost base of the investment cannot be increased by the Consumer Price Index in determining CGT.

As compensation for the loss of the CPI indexation benefit which existed under previous tax law, the current tax legislation provided for reductions in the amount assessable for capital gains in the case of individuals, trusts (50%) and complying superannuation funds (33%) where the Lot has been held for more than 12 months.

#### **18.4.2 Trust**

Upon the disposal of any property held by the Trust for more than 12 months, the capital gain is reduced by a 50% CGT discount in determining the Trust's net income.

If the disposal generates a loss, the loss is quarantined in the Trust and available for offset against any future CGT gain made by the Trust.

The distribution of the gain to the Investor has special tax implications. The Investor must gross up the distribution by doubling the discounted capital gain before applying any capital losses. Investors, other than companies, then apply the applicable CGT discount to the grossed up amount to determine the Investor's net capital gain.

#### **18.4.3 Unitholders**

Upon the disposal by an Investor of a Unit in the Trust, CGT may apply. The application of CGT is also affected by whether an Investor holds their Units as an investor (as distinct from a trader).

The initial cost base of a Unit for capital gains tax purposes was \$1.00 per Unit (i.e. the amount subscribed only) for an original Investor (i.e. an Investor pursuant to the Prospectuses). In the case of a Unitholder who acquired their Units through purchase, then the initial cost base for them would be the purchase price paid to acquire the relevant Units. The initial cost base is no longer increased by the consumer price index (CPI) in determining CGT cost base.

To compensate for the loss of the CPI indexation benefit which existed under previous tax law, the current tax legislation provides for reductions in the amount assessable for capital gains in the case of individuals, trusts (50%) and complying superannuation funds (33.3%), where the Unit has

been held for more than 12 months.

#### **18.4.4 Reduction of Cost Base of Interests**

For both forms of Interests (i.e. Units and Lots), the cost base for CGT calculation will be reduced by distributions that relate to building allowances. In respect of unitholders their cost base will also be reduced for distributions which relate to non-assessable distributions (including the difference – if any – between the depreciation expense for taxation and trust law purposes).

Legislation affecting the cost base of Units applies in the following way:-

- ▲ distributions that relate to building allowances reduce the cost base for the purposes of calculating the Investor's capital gain.
- ▲ distributions of the non-taxed component of the capital gain made by the Trust on the sale of a Trust asset, do **not** reduce the cost base of the Unit.

#### **18.5 GOODS AND SERVICES TAX**

GST will apply to taxable supplies. This tax applies to certain rents, outgoing contributions and other receipts of the Fund.

There are special transitional provisions which defer the application of GST on certain supplies, depending on such factors as when leases were entered into, the timing of market rent reviews, the presence of a GST review clause, and whether the recipient is entitled to an input tax credit.

Certain leases become subject to GST from 1 July, 2005 notwithstanding that there is no provision in the lease for the recovery of the GST from the tenant and no opportunity to review or change the rental or other considerations payable pursuant to the relevant lease. On 3 May, 2000 the Treasurer announced that the Government would introduce legislation to address this situation so as to ensure that no disadvantage to a party (such as a landlord) would occur for long term non-reviewable contracts (such as leases). Suppliers (e.g. landlords) would be able to adjust their prices (e.g. rents) to recover the net impact of the GST from the purchaser (e.g. tenant). The necessary legislation has not yet been introduced to Parliament.

The Syndicate's ability to recover or be compensated for the cost of the effect of the GST is dependent on the provisions of the Property's leases and the valuation process.

To assist in making GST fundamentally cash flow neutral, any expenditure that the Fund incurs which includes a GST component will entitle the Fund to an input tax credit.

The Manager has been advised by the Fund's taxation advisers that assuming the Government passes the legislation discussed above, GST should not materially impact on the distributions of the Trust.

The Manager is responsible for the registration and lodgement of the GST returns of the Fund.

The taxation advisers to the Fund have advised that GST is not payable on the consideration paid for an Interest in the Fund as it is a 'financial supply' and therefore input taxed.

## **18.6 TRUST TAXATION REFORM PROPOSALS**

The Federal Government in 1998 and 1999 announced its intention to effect significant tax reform changes, a number of which have now been legislated.

In respect of the entity tax reform proposals contained within those proposed reforms, the Government has announced that it does not intend to continue with the proposed method for the taxing of trusts as provided for in the draft New Business Taxation System (Entity Taxation) Bill 2000. The Government stated that the taxing of trusts would be further reviewed. The Board of Taxation has issued to the Government an issues paper in November 2002, that outlines the Board's recommendations for the future treatment of trusts. Those recommendations include continuing with the current treatment of trust income. The Treasurer has acknowledged the recommendations made by the Board of Taxation and the Treasurer's comments would seem to facilitate the belief that there are no current proposals to change the current entity taxation approach of either the Syndicate or the Trust.

## **18.7 CHANGE OF TRUST OWNERSHIP**

Current Australian taxation law precludes trusts from carrying forward unclaimed tax losses from one tax period to another in certain cases where there has been a change of ownership over certain relevant time periods of more than fifty percent of the units in a trust. It is possible that, in a relevant period to 30 June 2001, that more than fifty percent of the relevant Units may have a change of

ownership. If this was the case then the Trust would not be able to utilise the unclaimed tax losses that are expected to accrue to the Trust in periods up to 30 June 2001 and therefore the percentage of distributions to Unitholders that is Tax Sheltered for the year to 30 June 2001 will be the same as that which applies to the Syndicate (refer section 18.2).

Current taxation reform proposals include the introduction of a secondary trust loss test, the 'same business test'. This test will allow a trust to carry forwards losses incurred in a prior year notwithstanding a change in ownership if the trust has carried on the same business at all times. The proposal to introduce the 'same business test' may mitigate against the consequences referred to in the previous paragraph.

Any changes of ownership of Lots in the Syndicate does not affect the tax status of distributions to Owners.

## **18.8 RE-IMBURSEMENT OF BORROWING COSTS**

Owners in signing a transfer form assume the liability for the existing acquisition loans and other borrowings and impliedly reimburse the former Owners for the unamortised portion of all associated borrowing costs. This assumption of liability and reimbursement is only to the extent of the proportion that an Owner's Lot bears to the total Syndicate Subscriptions. It is arguable that for taxation purposes, the initial cost of borrowing was an expense incurred directly by the initial Owners (i.e. those who subscribed under the Initial Public Offering) and that unamortised portions would not be available as a tax deduction for subsequent Owners via transfers as they did not directly incur the original expenses. However, the taxation advisers to the Fund have advised the Manager that it is equally arguable that as the Owners via transfers have assumed the liability for the borrowings and impliedly reimbursed for those all associated borrowing expenses that the re-imbursement can be claimed on a continued amortised basis as a tax deduction by the Owners via transfer.

There is a possibility that the approach adopted may not be correct. Denying the approach adopted is the more beneficial course of action for the Australian Taxation Office.

## 19. THE MANAGER

### 19.1 PROPERTY FUNDS AUSTRALIA

Property Funds Australia Limited is the responsible entity, the trustee and manages the Properties on behalf of the Fund. The Manager holds an Australian Financial Services Licence No. 224106 issued by ASIC which permits it to be a responsible entity and therefore manage property syndicates and trusts of this nature.

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

### 19.2 THE MANAGER'S ROLE

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

In addition to supervising the management of the Properties and the collection of the income, the Manager also arranges and manages:-

- ▲ the borrowings of the Owners;
- ▲ the maintenance of accounting and taxation records;
- ▲ Fund income distributions;
- ▲ the preparation of reports to Investors;
- ▲ the maintenance of registers;
- ▲ the general business affairs of the Fund.

### 19.3 THE MANAGER'S REMUNERATION

The Manager received an initial fee of 5% of the purchase price of the Properties at Completion from which the Manager paid commissions in relation to the Subscriptions. The Manager is also entitled to an annual management fee that has a significant performance emphasis. It is made up of 0.25% of the gross value of assets under management and 3.5% of the net income (as defined in the Syndicate Constitution).

If upon sale of each of the Properties, the sale price (after deduction of agents' commission, legal fees, advertising and sale expenses) exceeds the purchase price of that property, the Manager is entitled to a fee equal to 2% of the sale price. This fee is to compensate the Manager for additional workloads during the sale phase.

As an incentive to enhance the Properties' performance, if, upon the sale of the last of the Properties, the Properties have been sold at a price which, after the deduction of agent's fees, management fees and expenses on the sales results in a premium on subscriptions by Owners of more than 30% of their subscription, then the Manager shall be entitled to an additional fee of 1.5% of the sale prices of the Properties. However, if the premium is more than 50% of subscriptions, then this additional fee is 2.5% of the sale prices of the Properties.

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

The Manager may carry out functions and roles that may be initially contemplated to be carried out by external parties (e.g. property management, accounting, registry, development management). If this occurs, the Manager is entitled to charge fees in respect of the work at the rate normally charged in respect of such work.

Where any fee received by the Manager is subject to GST, then the Manager is entitled to recover additional amounts on account of GST.

### 19.4 PROPERTY MANAGEMENT

Day to day physical property management and rent collection duties are currently carried out by property managers external to the Manager although the Manager may carry out those duties itself in due course for similar fees.

The current external property managers are Knight Frank who are the principal property managers for all properties under the Manager's funds management.

### 19.5 CHANGE IN THE MANAGER

If unsatisfied with the performance of the Manager, the Owners may require the Manager to retire if the Owners of 50% or more of the value of

interests in the Syndicate resolve at a meeting that the Manager should be removed. The Manager may also retire by giving six months notice to the Custodian. The procedures for calling the meeting and voting are set out in the Syndicate Constitution.

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

## **19.6 MANAGER'S INSURANCE**

The Manager has professional indemnity insurance cover effected with a reputable insurer.

## **19.7 COMPLIANCE COMMITTEE**

The Manager has established and registered a compliance plan for the Fund. A summary of the key features of the compliance plan is set out in section 22.9.

Compliance issues are monitored and managed by the compliance committee which currently consists of Bede King (Chairman), Chris Morton (the Manager's Managing Director) and Ray Kellerman. Bede King is a senior legal practitioner practising in corporate and property areas of the law. He is a partner of the legal firm Tobin King Lateef. Ray Kellerman is a former National Manager – Compliance of Perpetual Trustees Limited and now personally specialises in the provision of compliance services as a compliance committee member on a number of significant managed investment schemes.

Bede King and Ray Kellerman are 'external members' of the compliance committee as required by the Corporations Act.

The compliance committee reports to the board of the Manager in relation to compliance issues.

## **19.8 MANAGER'S ETHICAL CONSIDERATIONS**

The Manager makes every reasonable effort to conduct its affairs and to deal with Investors and their Investment in an ethical manner and to comply with all relevant legal requirements and mandatory planning and environmental standards and codes. The Manager does not claim to give additional weight to labour standards, environmental, social or ethical considerations when purchasing, improving, selling or leasing Property.

## **19.9 DIRECTORS OF THE MANAGER**

### **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 21 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 (Qld Division). He is also the immediate Past President of the Australian Direct Property Investment Association ("ADPIA").

### **Archibald Norman Douglas**

#### *Non-Executive Director*

Archibald Douglas is a licensed real estate agent who is a director and co-founder of PRD Realty, a major national real estate agency which now includes the Nationwide Realty Group. He is also a director of PRD Consulting Services (a real estate consulting organisation offering broad property and research advice) and Investment Management Australia Limited (a development funds manager).

Archie Douglas and his brother Gordon have been actively involved in developing a real estate practice that includes offices throughout Australia and South East Asia with in excess of 150 offices. In addition, he adds property development experience as well as having been actively involved in the development of an apartment business that managed in excess of 2,000 apartments and hotel rooms.

He has been a member of the board of directors of the Real Estate Institute of Queensland and is a member of the Australian Institute of Company Directors.

The Manager utilises this experience to enhance the timing of its decisions and to ensure an up to date understanding of the property market.

**Elizabeth Ann Pidgeon**

*Non-Executive Director*

Liz has been involved in the property industry for 16 years culminating in her gaining industry recognition as President of the Property Council of Australia (Queensland Division), the industry's peak body.

She holds a Bachelor of Business – Management Degree and is a licensed real estate agent.

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 & 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 shareholder and director of Cornerstone Properties Limited, a development company.

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.

Liz brings to the Manager property development experience and broad industry contacts.

**David John Conquest**

*Executive Director*

David has been involved in the property and financial services industry for over 26 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 to the Manager an innate understanding of the needs of the users of investment products and their advisers' requirements.

**Matthew Madsen**

*Executive Director*

Matthew is the director in charge of funds management for the Manager's portfolio. His role encompasses asset acquisition and subsequent asset and funds management.

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.

Prior to joining the Manager, Matthew held positions with 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.

Matthew's background and core expertise are focussed on property analysis, acquisitions, asset management and property finance.



*The Directors of the Manager  
(left to right) Archibald  
Douglas, David Conquest,  
Elizabeth Pidgeon, Matthew  
Madsen and Christopher  
Morton (Managing Director)*

## 20. THE CUSTODIAN

### 20.1 TRUST COMPANY OF AUSTRALIA

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

It is one of the oldest independent statutory trustee companies in Australia, having been incorporated in 1885. It operates on the eastern seaboard of Australia with offices in Melbourne, Sydney, Brisbane and Townsville. Its head office is located in Sydney. The total number of staff throughout the company is approximately 430.

### 20.2 THE CUSTODIAN'S ROLE

The Custodian holds the title to the Properties on behalf of the Investors. It also receives all Fund income on their behalf and undertakes other duties as nominee. Specific duties of the Custodian are detailed in section 22.10.

### 20.3 THE CUSTODIAN'S REMUNERATION

The Custodian currently receives an annual fee of \$18,360 p.a. (indexed to CPI annually and

adjusted for GST). It is entitled to be reimbursed for legal fees or any other costs and expenses it incurs on behalf of the Fund. The Custodian has waived its entitlement to any fee in respect of the Trust whilst it remains custodian of the Syndicate.

### 20.4 CHANGING THE CUSTODIAN

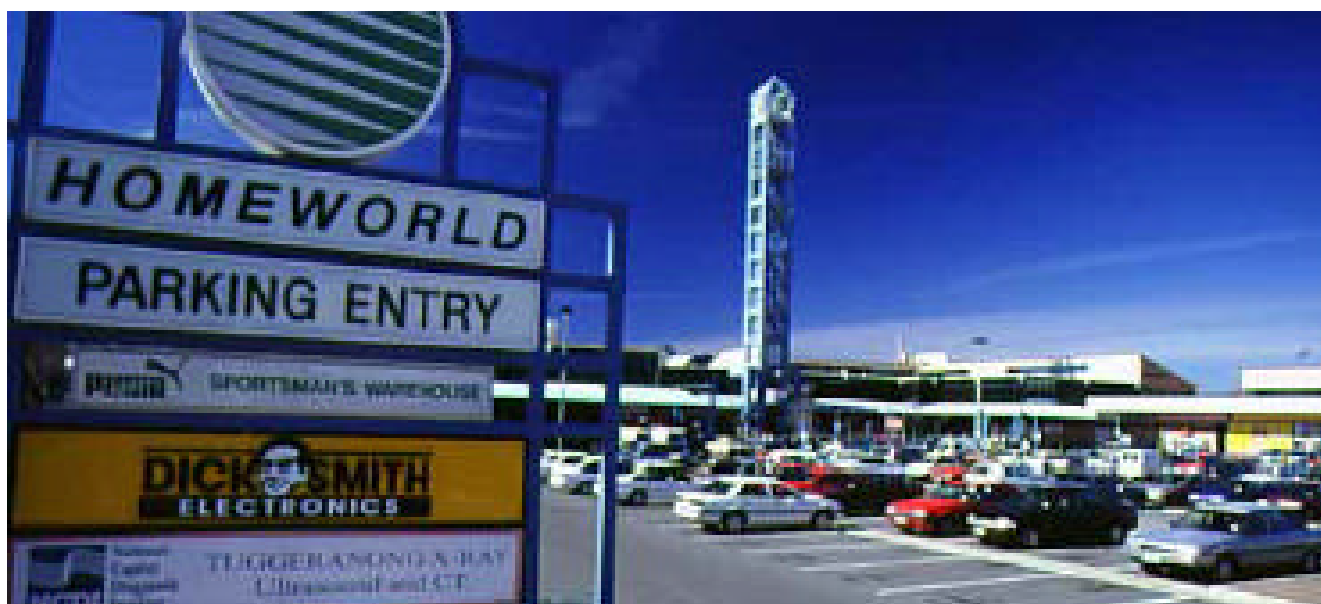
The Manager may require the Custodian to retire upon giving three months notice.

### 20.5 OTHER COMMENTS

The Custodian has not been involved in the preparation of this Information Memorandum other than in relation to those parts that specifically refer to the Custodian or the Custody Agreement. Although referred to in the Prospectus, the Custodian has not authorised the issue of the Prospectus.

Specifically, the Custodian does not guarantee the repayment of Investors capital, the receipt of income or the performance of the Investment.

*The Homeworld Centre Car Park*



## 21. INVESTMENT RISKS

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

### 21.1 PROPERTY

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

The Fund comprises two properties and will be affected by the risk of fluctuating property value due to such factors as:-

- ▲ a general downturn in the property market;
- ▲ a downturn in the general Australian or the South East Queensland and ACT economies;
- ▲ a failure of tenants in the Properties to meet their financial obligations;
- ▲ a future tenancy vacancy being longer than projected;
- ▲ interest rate fluctuations.

Investments in real estate ought to be viewed as long term investments and are likely to be illiquid. Often it may be difficult to sell a property or obtain the price (even though it may be fair value) at the time one wants to sell.

### 21.2 LIQUIDITY AND SECONDARY MARKETS

While the Manager intends to apply for listing, and quotation for the Lots and Units, on the Bendigo Stock Exchange, granting of these applications (and of the waivers required by the Company, as discussed in section 22.11) is at the discretion of the Bendigo Stock Exchange. They may either not be granted at all or alternatively may be granted subject to conditions that are not satisfactory to the Manager. In either case, listing and quotation may not proceed. Further, as listing and quotation impose additional obligations and costs on the Fund, it is possible that in the future, the Manager will form the view that listing and quotation is no longer in the best interests of the Fund.

Even if listing and quotation occur, it is possible

that an active market for trading of the Lots and Units will not immediately develop. It is possible that the market price of the Lots and Units may not reflect the true underlying value of the assets of the Fund.

The trading of interests in property trusts on stock exchanges are influenced by a number of factors many of which are unrelated to the market value of the underlying assets of the relevant Fund. These factors can include economic data, general market sentiment, debt and bond market movements, and market movement of property trusts on other exchanges. These factors can cause interests in property trusts to trade at a premium or a discount to the value of the underlying assets of the relevant Fund.

### 21.3 TERM

The term of the Syndicate and Trust are both a fixed term of eight years unless terminated earlier by the Manager or by special resolution of the Investors. The term may, however, be extended in certain circumstances which provide for an Investor to be able to exit their interest on a fair value basis (*refer sections 13.6 and 14.4*).

### 21.4 BORROWINGS

The Syndicate may continue for a longer period than the terms of the initial loan facilities. There is no guarantee that the Manager will be able to refinance those facilities. Further, if the loans are refinanced the interest rate payable may be higher than current interest rates.

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

Finance arrangements include the provisions of a variable rate facility which carries the risk of adverse interest rate movements during the term of the facility. Whilst the Manager has purchased an interest rate management product to minimise some of this risk, it may not necessarily be used or be entirely effective in dealing with all adverse interest rate movements.

Borrowings have been used to partly fund the purchase of the Properties. This is referred to as 'gearing' or 'leveraging' and enhances the



potential for capital gain for Owners if the Properties increase in value. However, it may also increase any capital loss in the event that the value of the Properties falls compared to a property investment which has no borrowings.

### 21.5 LEGAL

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

### 21.6 SPECIFIC RISKS

The Manager believes that opportunities will arise for the restructuring of tenancies in some of the Properties around the end of 2004. These restructurings and lease negotiations will create the opportunity to preserve or increase the value of the Properties. If however this restructuring was not able to occur, then there is a risk to the value of the Properties.

### 21.7 SYNDICATE STRUCTURE

The Manager has covenanted in the Syndicate Constitution that the Owners will not be liable to them or any creditors of the Syndicate in excess of the amounts subscribed. Whilst this is capable of control in the finance arrangements and some other contractual arrangements, it is not so clear or certain where non-contractual liabilities may arise. The question of responsibility for non-contractual liabilities in structures such as these has not however been finalised in law.

A significant proportion of these non-contractual liabilities are capable of being insured against. The Manager affects insurance on behalf of the Syndicate.

### 21.8 TAXATION LAW

Taxation law is currently in a state of flux with a considerable government focus on taxation reform and a constant review of GST. In respect of GST, certain assumptions have been made as to the valuation profession's approach to market rent reviews relating to whether GST is payable under a taxable supply under the lease is recoverable or non-recoverable from a tenant under the terms of a particular lease.

There is also a range of tax reform proposals being considered by the Government particularly in

relation to entity taxation. These reform proposals are constantly changing and could impact upon Investors.

### 21.9 INSURANCE RISK

While the Manager has arranged insurance for the normal risks associated with ownership of the Property, there is no certainty that such insurance will continue to be available or that premiums will not rise and this may affect any forecast income from the Property.

### 21.10 FINANCIAL SECTOR REFORM ACT

The Financial Sector Reform Act was passed by the Senate on 23 August 2001 and came into operation on 11 March 2002.

There are a range of provisions within the Financial Sector Reform Act which may over time impact upon the legislative framework in which the Fund operates.

The Manager will undertake whatever steps are necessary to ensure compliance with this legislation as it applies to the Fund.

### 21.11 CONCLUSION

**This Investment, as with any property investment, is by its nature a speculative investment. No guarantee is or can be given that there will be a capital gain arising out of an Investment or that any of the Properties will not decrease in value or that distributions to you will be similar to those forecast in the Prospectus.**



*Post Office Square*

## 22. ADDITIONAL INFORMATION

### 22.1 DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal office hours at the office of the Manager:-

- ▲ the documents summarised in this section.
- ▲ the consents to the issue of this Information Memorandum.
- ▲ the full valuation of each of the Properties as referred to in the Prospectuses.

### 22.2 CONSENTS

Each of the directors of Property Funds Australia Limited has consented to the lodgement of this Information Memorandum with the BSX.

McCullough Robertson has given its written consent to being named in this Information Memorandum as corporate lawyers to the Manager.

BDO Kendalls has given its written consent to being named in this Information Memorandum as auditor.

Trust Company of Australia Limited has given its written consent to being named as the Custodian.

Each of the persons or corporations named in this section 22.2 have given their consent and not withdrawn their consent before lodgement of this Information Memorandum with the BSX.

### 22.3 DISCLOSURE OF INTERESTS

#### Manager and Directors of the Manager

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

- ▲ Entities associated with Christopher Morton own shares in the Manager.
- ▲ Property Funds Australia Limited holds Lots in the Syndicate.

- ▲ Property Funds Australia Limited holds Units in the Trust.

- ▲ David Conquest holds Units in the Trust.

### Custodian and Directors of the Custodian

At the date of this Information Memorandum and throughout the preceding two year period neither the Custodian nor any directors of the Custodian has or had any interest in the promotion of the Fund in the Investment other than the remuneration to which it is entitled as Custodian.

### 22.4 COMMISSIONS

The Manager paid from its own monies commissions to intermediaries in respect of Subscriptions. Commissions were paid as a percentage of relevant Subscriptions. Flat rate commissions did not exceed 5% of all Subscription monies.

### 22.5 AUDITOR

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

### 22.6 POST OFFICE SQUARE TITLING ARRANGEMENTS

Post Office Square (including, the vehicular and pedestrian tunnels linked to it under Adelaide Street and the pedestrian bridges from Post Office Square over Adelaide Street linking it with Anzac Square and Ann Street), was constructed pursuant to an agreement dated 30 June 1982 ("the Agreement") and detailed in the Anzac Square Development Project Act 1982 ("the Act"). Pursuant to the Act, the Agreement has the force of law. The Agreement, amongst other things, made provision for:-

- ▲ A lease ("the BCC lease") over the civic square and park (on the upper level of the property) to the Brisbane City Council for a term which terminates on 4 April 2059.
- ▲ An easement for vehicular access through the car park and the basement of Post Office Square in favour of Westpac Properties Limited ("the Bank").
- ▲ An easement in favour of the Bank protecting an ornamental plaque and certain

architectural features on the Bank's building which project over Post Office Square.

- ▲ An easement for light and air in favour of the Bank over part of Post Office Square.
- ▲ A pedestrian right of way easement in favour of the Bank through the retail level of Post Office Square.
- ▲ An easement in favour of the Brisbane City Council for pedestrian right of way to Adelaide Street.
- ▲ An easement from the Crown in favour of Post Office Square over the tunnels giving vehicular access to and from the car park in Post Office Square.
- ▲ An easement from the Crown in favour of Post Office Square for access through the pedestrian tunnel under Adelaide Street.
- ▲ The grant to the Bank of certain parking rights in the Post Office Square car park.

Upon expiration of the BCC lease, namely 4 April 2059, or sooner determination of the BCC lease, the proprietor at that time of Post Office Square is to transfer the land to the Brisbane City Council free of cost to it. The proprietor's obligations in that regard are enforced by a charge registered on the title of Post Office Square pursuant to the provisions of the Act. Post Office Square is purchased subject to that charge, the obligations under the Act and the Agreement.

Other agreements and arrangements (both of a benefit and burden nature) are assigned to the Custodian as a result of the purchase of Post Office Square. These are agreements and arrangements with the owners of the Brisbane Club building in Adelaide Street and the Hong Kong Bank building at 300 Queen Street. These agreements and arrangements, amongst other things, grant:-

- ▲ to Post Office Square, vehicular access (ingress only) through the tunnel which has been constructed from Adelaide Street at a point adjacent to the National Australia Bank on the corner of Creek and Adelaide Streets to the car park in Post Office Square.
- ▲ to Post Office Square, vehicular access over the lands above that tunnel from Adelaide Street to Courier Lane.

- ▲ to the Hong Kong Bank building at 300 Queen Street, certain parking rights in the Post Office Square car park.
- ▲ to the Brisbane Club, access to Post Office Square at the civic square and park level.

All of the above arrangements will terminate (if not previously terminated) on 4 April 2059.

In addition, agreements with the owners of 215 Adelaide Street, are effectively assigned to the purchaser. These agreements amongst other things grant:-

- ▲ to 215 Adelaide Street, vehicular access from the Post Office Square car park to the car park in the basement of the 215 Adelaide Street building. These rights have been granted until 1 January 2014.
- ▲ access rights between the retail components of Post Office Square and 215 Adelaide Street.

## **22.7 SYNDICATE CONSTITUTION**

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

### **Manager**

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

Information about the Manager, its role and remuneration is summarised in section 19.

### **Remuneration of Manager**

The Manager is entitled to receive the fees as set out in section 19.3. The Manager is also entitled to be reimbursed and paid out of the Syndicate for all costs, charges and expenses properly incurred in connection with the establishment and administration of the Syndicate.

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

The principle duties and obligations of the Manager are:-

- ▲ to ensure the distribution of the income of the Syndicate to the Owners;

- ▲ collect and receive all incoming capital receipts arising from the Properties;
- ▲ to repair and maintain the Properties;
- ▲ to negotiate and enter into deeds and agreements including guarantees and mortgages for the financing of the acquisition of each of the Properties;
- ▲ to sell or dispose of any part or all of the Properties;
- ▲ to employ any necessary personnel or engage contractors or sub-contractors;
- ▲ to make all necessary payments required for the proper management of the Syndicate;
- ▲ to keep records relating to all financial transactions and prepare the necessary income tax and other returns and reports as required;
- ▲ to insure and keep insured the Properties for their full insurable value;
- ▲ to maintain a current register of Owners;
- ▲ to conduct the business of the Syndicate;
- ▲ to act in good faith and in the best interests of the Owners;
- ▲ comply with both the Syndicate Constitution and compliance plan;
- ▲ ensure the Properties are valued at regular intervals appropriate with the nature of the property;
- ▲ report any breaches of the Law to ASIC;
- ▲ to treat Owners equally and fairly; and
- ▲ to act diligently and honestly.

### **Retirement of the Manager**

In addition to the Corporations Act requirements, the Manager will retire as responsible entity of the Syndicate:-

- ▲ if the Manager is placed in liquidation or ceases to carry on business or a receiver or manager is appointed;
- ▲ if Owners of 50% or more of the value of Interests resolve by a meeting to remove the Manager.

The Manager may only retire after providing the Owners with an opportunity to meet and choose a new responsible entity.

Where the Manager is removed as responsible entity of the Syndicate pursuant to the Syndicate Constitution, the new responsible entity will cause the Properties to be valued forthwith by an approved valuer. The Manager will be entitled to receive 2% of such value within 7 days of the sale of the final property.

### **Owners**

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

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

The Constitution also provides that the Manager may at its complete discretion limit the maximum relevant interest any person may hold in the Investment at 15%. Where a person acquires a relevant interest in more than 15% of the Lots in the Syndicate or Units of the Trust without the Manager's prior approval, the Manager may (at its discretion) force that person to sell part of their Units.

### **Register of Owners**

The Manager must maintain an up-to-date register of Owners and their Lots. The register is available for inspection at the registered office of the Manager, without fee to Owners.

The Manager may provide administrative assistance to Owners wishing to transfer their Lots. The Manager may charge transferring Owners an administrative fee of up to 1% of the value of the Lots being sold, transferred, transmitted or assigned.

### **Meetings of Owners**

The Manager may call a meeting at any time and Owners with at least 5% of the Lots by value or 100 Owners may requisition the Manager to call a meeting of Owners.

### **Quorum**

The quorum for an ordinary resolution shall be at least 2 persons holding or representing by proxy or

attorney at least 10% of the Lots by both number and value.

The quorum for a special resolution shall be at least 4 persons holding or representing by proxy or attorney at least 20% of the Lots by both number and value.

The quorum for an extraordinary resolution shall be at least 4 persons holding or representing by proxy or attorney at least 75% of the Lots by value.

### **Voting**

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

### **Borrowings**

Owner's Lots and the Properties are charged or mortgaged as security. All loans are on a limited recourse basis and the Financiers will for security purposes only have access to the Properties and other assets of the Syndicate. The Financiers do not have access to other assets of the Owners.

Each person applying for transfer of Lots in the Syndicate authorises the Manager on its behalf under a limited power of attorney to borrow on behalf of the Applicant in proportion to that Applicant's eventual Lots in the Syndicate.

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

### **Distribution of Income**

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

The Syndicate Constitution provides that the Manager in consultation with the Syndicate auditor has complete discretion in determining whether an item for distribution will be income or capital. Distributions of income are made on or about the twenty-first day of each month to Investors who are the registered owners of Lots in the Syndicate or Units in the Trust on the last business day of the previous month.

Where an individual Property is sold, the Manager is empowered to withhold some distribution of the capital to Owners in order to meet ongoing finance requirements of the Syndicate.

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

### **Further Interests**

Further Interests may be created subject to the prior approval of Owners passed by an ordinary resolution of Owners.

These Interests may be the same class or of a different class and will be offered to Owners on a pro rata basis before being offered to any person who is not an Owner.

### **Sale of Property**

The Manager may sell one or both of the Properties:-

- ▲ upon termination of the Syndicate;
- ▲ with the prior approval of Owners by a special resolution;
- ▲ where the Manager believes it is in the best interests of Owners; or
- ▲ where the Manager considers it is desirable to do so at a price which after discharge of all liabilities of the Syndicate including costs of sale, payment of the Manager's fees the proceeds of sale are sufficient to provide Owners with a sum equal to or greater than 100% of the Owners original investment.

Following the sale of a single Property (but in any event not less than two months after settlement) the proceeds of sale must be in the following manner:-

- ▲ to the discharge of all monies due and payable by the Owners on any mortgages or encumbrances affecting the property;
- ▲ to the payment of outstanding outgoings;

- ▲ to the payment of costs of sale including any outstanding Managers fees;
- ▲ then, subject to the Manager not being required by a Financier to withhold money, paid to the Owners in proportion to their Lot holdings.

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

The Syndicate will terminate eight years after the date the purchase of the first property is completed. The Syndicate Constitution provides that the Syndicate may be terminated earlier:-

- ▲ upon sale of all of the Properties; or
- ▲ if the Owners resolve by an extraordinary resolution to wind up the Syndicate; or
- ▲ if the office of the Manager becomes vacant and a replacement responsible entity is not appointed at a meeting of Owners.

Where the Syndicate is terminated, the Manager will realise all authorised investments and other assets including the Properties and after deducting all debts and borrowings of the Syndicate, outstanding outgoings, costs of sale, Managers fees etc will distribute the net proceeds of the realisation of the authorised investments and other assets (including the Properties) amongst Owners in proportion to their Lots provided that:-

- ▲ the Manager is entitled to retain its costs, charges and expenses including remuneration and will be entitled to retain for as long as it thinks fit such amount which in its opinion may be required to meet all claims, demands and expenses incurred or expected to be incurred by the Syndicate on determination of the Syndicate;
- ▲ distribution will be made only against delivery to the Manager of such evidence as the Manager may require of the Owner's entitlement and against delivery to the Manager of such form of receipt and discharge as may reasonably be required by the Manager.

The Manager is required to distribute all proceeds as soon as possible after the sale of the last of the Properties.

The Manager may where it considers it is in the interests of Owners seek to extend the term of the Syndicate. In such circumstances the Manager will notify each Owner not less than six months before due date for termination of the Syndicate

and advise Owners whether they wish to extend the term of the Syndicate for not more than 10 years ('Extension Notice'). If the Owner does not notify the Manager in writing within two months of the date of the Extension Notice that they wish to exit the Syndicate the Owner will be taken to be in favour of the extension of the term of the Syndicate.

Those Owners who have notified the Manager they wish to exit the Syndicate ('Exiting Owners') will be taken to have irrevocably appointed the Manager as their agent to sell such of their Lots (at a value determined by an approved valuer) as the Manager deems appropriate. The Manager may borrow further funds on behalf of the remaining Owners to purchase the Lots of the Exiting Owners provided the borrowings do not exceed 75% of the value of the Syndicate. If the Manager is unable to sell all exiting Owners Lots within a reasonable time the Manager shall sell the Properties.

### **Complaints**

The Constitution establishes a procedure for the directors to receive, consider, investigate and respond to complaints by Owners dissatisfied with the management or administration of the Syndicate. Complaints should be addressed to:-

The Dispute Resolution Officer  
Property Funds Australia Limited  
PO Box 10398  
Brisbane Adelaide Street QLD 4000

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

### **22.8 PROPERTY TRUST CONSTITUTION**

The Trust Constitution has been prepared so that for the most part its provisions mirror the Syndicate Constitution, and unless otherwise provided in this summary should be considered materially the same. The Trust was established for those Investors who are unable to or do not want to borrow in their own right (eg. superannuation funds).

The Manager as trustee of the Trust holds the interest in the Properties and the funds of the Trust on behalf of Unitholders.

The property held by the Manager (and through it the Custodian) on behalf of the Trust comprises the assets of the Trust and Lots in the Syndicate

corresponding to the Unitholders investment in the Trust. The Trust is an Owner in the Syndicate with Lots equivalent to the money subscribed into the Trust.

### **Duties and Obligations**

The Manager has similar duties and obligations under the terms of the Trust Constitution as under the Syndicate Constitution.

### **Remuneration**

The Manager has waived any entitlement to remuneration for its role in the Trust whilst it is also responsible entity of the Syndicate.

The Manager is entitled to be reimbursed for all expenses, obligations, costs and charges and to be indemnified out of the assets of the Trust in the Syndicate.

### **Retirement**

The provisions dealing with retirement of the Manager as responsible entity of the Trust are the same as those contained in the Syndicate Constitution.

### **Voting**

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

The Manager will represent the interests of the Unitholder at meetings of the Syndicate and in accordance with the indicative directions and voting entitlement of those Unitholders present in person or by proxy at the meeting of Unitholders.

### **Trust Borrowings**

The Manager may only borrow in accordance with the Trust Constitution. As trustee of the Trust the Manager will borrow on its behalf.

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

The Trust Constitution provides termination provisions that are the same as those contained in the Syndicate Constitution.

### **Constitutional Restrictions on Investors**

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

The Constitutions also provide that the Manager may at its complete discretion limit the maximum relevant interest any person may hold in the Syndicate or Trust at 15%. Where a person acquires a relevant interest in more than 15% of either the Syndicate or Trust without the Manager's prior approval, the Manager may (at its discretion) force that person to sell part of their Lots or Units.

## **22.9 COMPLIANCE PLAN**

The Manager has established compliance plans for the Syndicate and the Trust which is monitored by the directors of the Manager and its compliance committee. The compliance plans outline the principles and procedures the Manager will adopt to ensure it complies with the provisions of the Corporations Act, ASIC Policy and the Constitutions. The compliance plan's focus on the adequacy of the Manager's systems to ensure the competent management of the Fund. The compliance plans are dated 21 July 1999 and have been lodged with ASIC. The compliance plan may be amended from time to time by the Manager.

Matters covered by the compliance plan include procedures for complaints handling, the processing of applications, transfers and distributions: the monitoring of and resolution of suspected breaches of the Corporations Law, accounts and record keeping, valuations, registry systems, audits, fee calculations, related party transactions, conflicts of interest and disclosure and reporting requirements.

## **22.10 CUSTODY AGREEMENT**

The Manager (on behalf of the Investors) and the Custodian have entered into Custodian Agreements under which the Custodian acts as the Manager's and the Owners' Custodian in respect of the assets of the Trust and the Syndicate.

The assets are held in the Custodian's name.

Its duties include:-

- ▲ entering into the contracts to purchase the Properties;



- ▲ holding the assets;
- ▲ maintaining bank accounts to hold application moneys, rents and other income and issuing cheques;
- ▲ entering into leases of the Properties.

The assets are held in the Custodian's name.

The Custodian must not effect any transactions involving assets unless it has received proper instructions from the Manager.

The Custodian must keep accurate and detailed accounts of all receipts, disbursements and transactions.

The Custodian may only withdraw money from the relevant bank accounts in accordance with the agreement.

The Custodian agrees to exercise all due care and diligence in carrying out its duties. The Custodian's liability is limited in certain circumstances, including if it acts in accordance with the proper instructions of the Manager, in good faith and without negligence.

The Custodian is entitled to be paid fees and be reimbursed for expenses as outlined in section 20.

The Agreements continue until terminated. Either party can terminate on 90 days notice or, immediately upon material default or insolvency events.

The Manager indemnifies the Custodian in respect of costs and expenses incurred relating to the assets.

## **22.11 BSX WAIVERS**

In connection with the proposal for the listing of the Syndicate and the Trust, and the quotation of the Lots/Units on the BSX, it is anticipated that the Manager on behalf of the Syndicate and Trust will require a number of waivers from the BSX. These are in addition to the other requirements for listing and quotation that must be satisfied.

The Manager has had discussions of a preliminary nature with the BSX about the waivers required. However, the granting of these waivers is at the absolute discretion of the BSX and, if given, may be subject to conditions.

You should peruse the BSX Register relating to the Syndicate and the Trust or contact the Manager to provide you with a copy of any of the waivers that are sought and granted.

*Tuggeranong town centre with Homeworld indicated*





## 23. PRIVACY STATEMENT

We take pride in the quality of reporting and service we provide to Investors. This includes protecting your privacy.

In our capacity as responsible entity and manager of managed investment schemes including this Trust, we collect personal information. From 21 December 2001, we are bound by the new privacy provisions contained in the amended Privacy Act 1988 (Cth).

Outlined in this section is the information that the Privacy Act requires we communicate to all Investors.

### How the Manager collects your personal information

We collect personal information in a number of ways including:-

- ▲ directly from you, when you provide information in documents including transfer related forms or when you amend your personal information;
- ▲ from third parties including your authorised representative, professional financial planner or accountant.

### Personal information that we hold

The types of personal information we typically hold is that information required to administer distributions and Investor holdings, and effect proper management of the Investments.

Such information includes Investor holding balances, name and address details, email addresses, bank account details, tax file numbers and banking instructions.

This information is generally provided to us directly by Investors, financial advisers and authorised representatives.

### Use of your personal information

Your personal information may be used for the following purposes:-

- ▲ maintenance of registers of Investors, which we are obliged to maintain under the Corporations Act 2001;
- ▲ facilitation of distribution payments and corporate communications including financial results of the Trust, annual reports,

newsletters and other information that we may wish to communicate to Investors

- ▲ formal notices to Investors required to be given under the Corporations Act, constitutions and similar deeds of establishment.

In relation to your tax file number, the Manager abides by the Tax File Number Guidelines as issued by the Australian Taxation Office and the Office of the Federal Privacy Commissioner from time to time.

Your personal information may be also used to contact you about other services or products, which we consider may be of interest to you. If you do not wish us to contact you regarding other services please contact our privacy officer.

### Disclosure of your personal information

For the purposes outlined above, we may disclose your personal information to organisations or individuals outside of the Manager. These include:-

- ▲ your authorised representatives;
- ▲ your authorised administration managers;
- ▲ those external organisations who maintain our registers of Investors;
- ▲ your professional financial planner or accountant;
- ▲ government and regulatory authorities as required or authorised by law;
- ▲ those parties who provide us, from time to time, with IT support, print and mail services for distribution and management of Investor information;
- ▲ those parties involved in the payments system including financial institutions;
- ▲ those parties involved in a transfer of all or part of the assets or shareholding of our business.

### Storage and security of your personal information

Your personal information is mainly stored in secured electronic databases. All Investor details for the Trust that are necessary to facilitate distributions and maintain registers of Investors are intended to be maintained by the Manager or

external registry organisations.

Personal information that is stored at our offices is protected by appropriate security measures.

### **Legal requirements to collect certain personal information**

When providing certain products or services to you we are obliged by law to collect certain personal information from you. The laws governing these requirements include:-

- ▲ The Financial Transactions Reports Act (1988) (Cth);
- ▲ Australian taxation laws;
- ▲ The Corporations Act;
- ▲ Financial services laws.

### **Access to your personal information**

You have a right to access your personal information, subject to some exceptions allowed by law. If you would like to do so, please contact us. You may be required to put your request in writing for security reasons. We may require the payment of a fee for searching for and providing access to your information.

### **Our Privacy Officer**

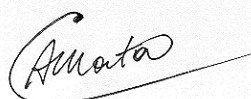
If during the course of your Investment you would like any further information or have some concerns that you may wish to communicate to us in relation to the privacy of any of your personal information that we hold, please contact our Privacy Officer.

## 24. DIRECTORS' STATEMENT

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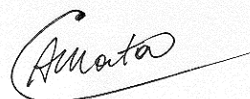
Each Director of the Manager has consented to the lodgement of this Information Memorandum with the Bendigo Stock Exchange Limited.

Signed for and on behalf of the Manager by each Director.



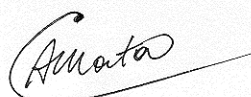
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Christopher Arthur Morton



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Elizabeth Ann Pidgeon  
(by her authorised representative Christopher  
Arthur Morton)



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Archibald Norman Douglas  
(by his authorised representative Christopher  
Arthur Morton)



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David John Conquest



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Matthew Bradley Madsen