PROPERTY FUNDS AUSTRALIA LIMITED
ACN 078 199 569

THE CAPITAL COLLECTION

The CAPITAL Collection

DIVERSE SECTOR FUND

PROSPECTUS

A Direct Property Investment

ARSN 088 775 375
ARSN 088 775 259

PROPERTY FUNDS AUSTRALIA LIMITED
ACN 078 199 569

Investor Enquiries FREECALL 1800 687 170

This Prospectus is dated 25 February 2000 and was lodged with the Australian Securities and Investments Commission ('ASIC') on 25 February 2000. ASIC takes no responsibility for the contents of this Prospectus or the merits of the Investment to which this Prospectus relates. No Interests will be transferred or sold on the basis of this Prospectus later than 12 months after the date of the issue of this Prospectus.

Neither the Manager, the Custodian, nor their associates or directors guarantee the success of this Investment, the repayment of capital or any particular rate of capital or income return.

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

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

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PROPERTY FUNDS AUSTRALIA LIMITED
A.C.N. 078 199 569
Property Fund Managers
MANAGER

Trust Company of Australia Limited
A.C.N. 004 027 749
CUSTODIAN

Post Office Square

Homeworld Centre

Applicant	a person or entity who submits an Application Form.
Application Form	an application form attached to this Prospectus.
ASIC	Australian Securities and Investments Commission.
Austock Property Market	means the market operated by Austock Management Ltd on which Interests may be traded.
CBD	Central Business District.
CGT	Capital Gains Tax.
Constitutions	the Trust Constitution and the Syndicate Constitution.
Corporations Law	the Corporations Law of Queensland.
Custodian	Trust Company of Australia Limited ACN 004 027 749.
Financiers	the lenders or providers of finance facilities to the Owners as detailed in section 10.
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 4.
Initial Public Offering	the offering of Interests in the Fund made through the prospectus issued by the Manager and dated and lodged with ASIC 22 September 1999.
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.
Lot	the percentage share of an Owner in the Syndicate.
Manager	Property Funds Australia Limited ACN 078 199 569 which is the licensed responsible entity in relation to the Syndicate and the Trust.
Offered Investment	the Interests which the Manager holds or has options to or entitlements to acquire, which Interests are the subject of this Prospectus.
Owners	Investors in the Syndicate.
Post Office Square	the property described in section 3.
Properties	the properties which form the key assets of the Syndicate namely: • Post Office Square; and • Homeworld Centre.
Prospectus	this prospectus
Subscription	the amount as entered on an Application Form, paid by an Applicant and accepted by the Manager.
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 12 (12.1 note 15) and (12.2 note 8).
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.

DIRECTORY

MANAGER

Property Funds Australia Limited
ACN 078 199 569
Office
Level 14 127 Creek Street
BRISBANE QLD 4000
Phone: (07) 3221 7170
Fax: (07) 3221 6729
Postal Address
PO Box 10398
Brisbane Adelaide Street QLD 4000

DIRECTORS OF THE MANAGER

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

VALUERS

Chesterton Valuations (Qld) Pty Ltd trading as
Chesterton Corporate Property Advisers
Level 5 300 Adelaide Street
BRISBANE QLD 4000

CB Richard Ellis
255 George Street
SYDNEY NSW 2000

AUDITOR AND REGISTRY

BDO Kendalls
Level 18 300 Queen Street
BRISBANE QLD 4000

CUSTODIAN

Trust Company of Australia Limited
ACN 004 027 749
213 St Pauls Terrace
BRISBANE QLD 4000

TAXATION ADVISER

BDO Kendalls
Level 18 300 Queen Street
BRISBANE QLD 4000

FINANCIAL ADVISER

BDO Kendalls Securities Limited
Level 18 300 Queen Street
BRISBANE QLD 4000

SOLICITORS FOR THE MANAGER

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

ACCOUNTANTS TO THE INVESTMENT

Hacketts
Chartered Accountants
220 Boundary Street
SPRING HILL QLD 4000

"We introduce through this Prospectus the opportunity for you to share in the benefits of owning two quality properties offering:

- **participation in four different property sectors in two capital cities**
- **an attractive income return**
- **security**
- **tax effectiveness**
- **potential capital growth."**

RODNEY M KEOWN,
Chairman
Property Funds Australia Limited

Attractive and Tax Effective Distributions

Forecast distributions are as follows:

Year To **	Distributed Return on Equity	% Tax Sheltered *
30 June 2001	9.2% p.a.	42%
30 June 2002	9.4% p.a.	44%
30 June 2003	9.6% p.a.	42%
30 June 2004	9.8% p.a.	36%

* *These percentages are applicable to the Syndicate only. For the Trust percentages see section 13. These percentages will vary upwards where an Interest is registered at a time after the commencement of the period to which the percentage relates.*

***** The distributed return on equity forecast for the period to 30 June, 2000 is 9% p.a. Registered applications for the Syndicate in April, May and June are forecast to have Tax Sheltered percentages of 270%, 405% and 809% respectively applicable to the relevant returns for the applicable periods to 30 June 2000.***

Diversity

Investor's income is derived from two properties with exposure to four property sectors located in two capital cities.

Security

Over 70% of the Properties' initial income is secured by leases to, or guarantees from, listed public companies, government related entities and national or chain retailers.

Monthly Payments

Distributions will be 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.

Less Volatile Value

Investments of this nature generally have significantly lower fluctuations in value than investments in listed shares or property trusts.

Choice of Investment Method

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

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 10).

Experienced Management & Custodian

Your Investment will be 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 which was established in 1885 is the Custodian. The role and duties of the Custodian are detailed in section 17.

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

Left: Office component of Homeworld

Your Investment should be viewed as long term. Investors have no right to require their Investment to be bought by the Manager or any other person, or to have their Investment redeemed.

Above: Queen Street entrance to Post Office Square

Q1 WHAT IS THE MINIMUM INVESTMENT?

The minimum investment is $10,000.

Q2 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.

The purchase price of the Properties paid at 30 December, 1999 totalled $73,340,309 (see section 20).

Q3 WHAT ARE MY FORECAST RETURNS? WHEN DO I RECEIVE THEM?

You will receive **monthly** distributions (estimated to be 9.2% pa on your investment in the 1st full financial year rising to 9.8% in the 4th year (see section 12). Your first monthly distribution will occur on or about the 21st day of the month immediately following the month that your Interest is registered. You will also share in any capital gains, depending upon the prices achieved upon the sale of the Properties.

Q4 ARE THERE ANY TAX ADVANTAGES IN THIS INVESTMENT?

Yes. For example an Owner at 30 April 2000 could expect 270% of the last three months return to 30 June 2000 to be Tax Sheltered. Thereafter approximately 42%, 44%, 42% and 36% of distributions are expected to be Tax Sheltered in the 1st, 2nd, 3rd and 4th full years respectively (see section 12).

Q5 WHO ARE THE MANAGER AND THE CUSTODIAN?

The Manager is **Property Funds Australia Limited**, a Brisbane based public company substantially owned by one of Australia's large real estate agency groups. The Manager is the vendor of the Offered Investment. Details of the Manager are contained in section 16.

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 115 years of history as a trustee company (see section 17). The Custodian holds the title to the Properties on your behalf and on behalf of the other Owners.

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 later than 30 December 2007 unless every Investor who wishes to exit their Investment can do so (see section 8.6).

Whilst the Manager intends that Investors may be able to exit their Investment before the Properties are sold via a formal secondary market (such as the Austock Property Market) (see section 8.7) you should plan to hold your investment for its duration as there is no guarantee that your Interest can be sold prior to the sale of the Properties.

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

Q7 WHAT ARE THE BORROWING ARRANGEMENTS?

Investors subscribed $36,750,000 in Interests at the Initial Public Offering. The Manager arranged for Financiers to provide **loan** funds to Owners to **supplement** their **Subscriptions**. A total of $46,477,000 in loan funds was lent to Owners to enable the purchase price and other acquisition costs to be met. A further $1,000,000 borrowing facility was arranged by the Manager to meet possible future expenditures and to assist in smoothing monthly distributions. Borrowings were undertaken by the Trust as with all other Owners. The initial loan funds together with the $36,750,000 in subscription monies provided sufficient funds to cover the purchase price of the Properties, acquisition, establishment and borrowing costs and fees.

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

The basis of the borrowing arrangements is that the liability of Owners is limited to the amount of their Subscription. ie 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** further **recourse to Investors** (see section 10).

Q9 HOW DO I INVEST IN THE PROPERTIES?

You have a choice of **two methods** which is why there are **two different Application Forms** at the back of this Prospectus.

Firstly, you may invest as an Owner in the **Syndicate** with all Owners having **a direct interest in the Properties**.

Alternatively, you can invest in the **Trust**. The Trust is an Owner in the Syndicate.

There is a choice so that you can choose the style of investment that suits your circumstances. It is anticipated that **superannuation funds**, will prefer to invest in the **Trust**.

Q10 IS STAMP DUTY OR GST PAYABLE ON THE APPLICATION?

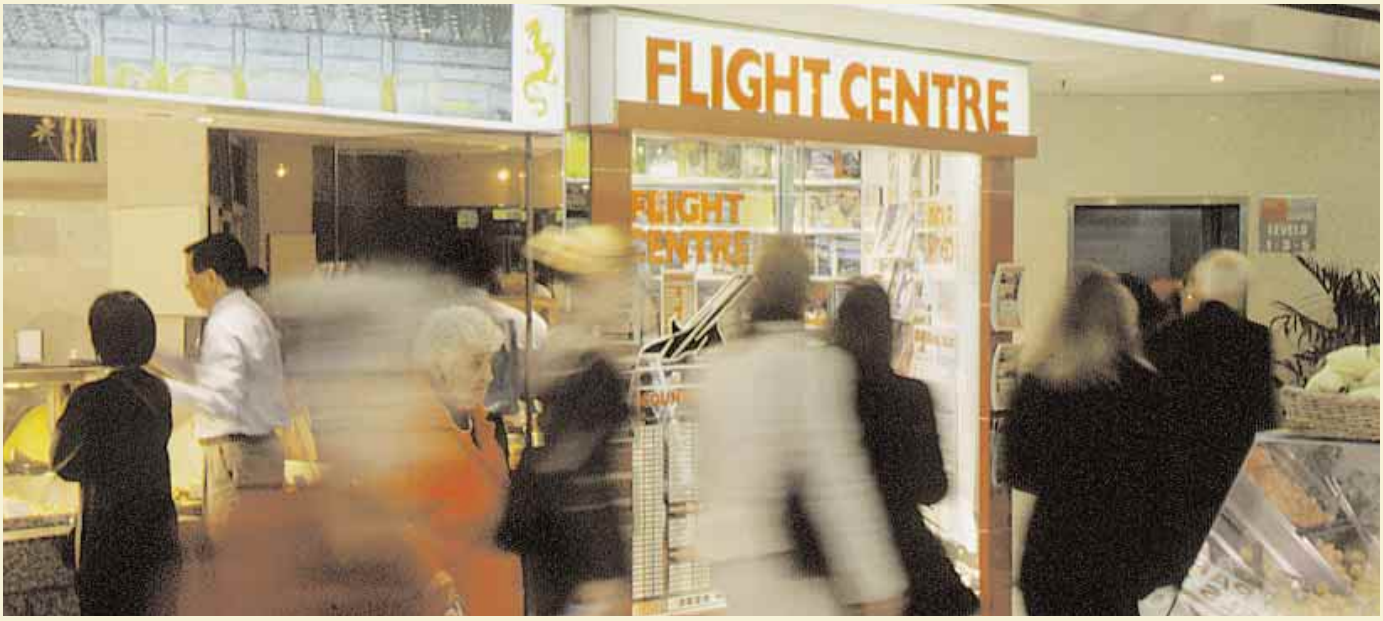
The Manager pays any stamp duty that may be assessed on the Application Form.

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

These two pages contain a summary of the main features of this Investment. To make an informed assessment of the Investment you must read the whole Prospectus.

Right: View of Homeworld Tower from office entry

1 INVESTMENT STRUCTURE



Above: Post Office Square retail corridor

1.1 ADVANTAGES

Some of the benefits of this Direct Property Investment are:

- You have a choice of **two investment options** tailored to suit your needs (eg. to meet superannuation fund requirements).
- 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 - not by any other market like the stock market which affects the performance of other property based investments such as listed property trusts.
- Under existing tax legislation at the date of this Prospectus 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 private investors.

1.2 RIGHTS OF INVESTORS

The rights of Investors are set out in the Constitutions. Further rights are provided by the Corporations Law. 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.

2.1 TWO QUALITY PROPERTIES

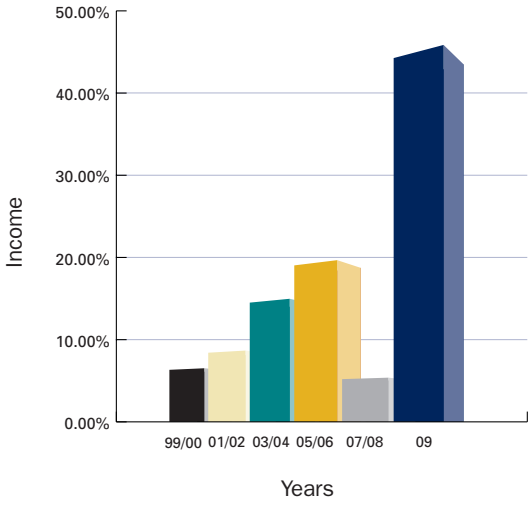
The Properties that comprise the Fund are:

- **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 selected having regard to the calibre of tenant, length of lease term, location, diversity of risk and capital gain potential.

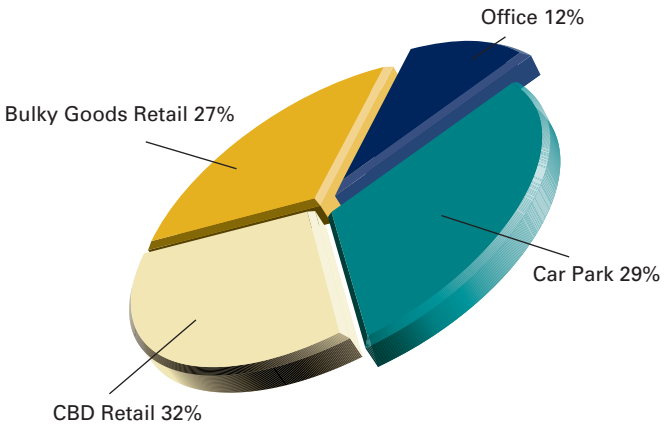
2.2 GOOD LEASE EXPIRY PROFILE

Over 40% of the Properties' income does not expire until 2009.



This beneficial lease expiry profile is achieved by:

- a ten year car park lease in Post Office Square to Brisbane's dominant car park operator, Kings Parking;
- an ACT Government office lease in the Homeworld Centre expiring in 2009;
- a minimum average weighted lease expiry of approximately 4.5 years in the retail areas of Post Office Square.



2.3 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 banking, government, hardware, electronics, service industries and food retailing. This broad industry exposure helps to diversify risk.

2.4 LOW VACANCIES

The entire net lettable area of the Properties is let or income producing. A security supported rent guarantee for three years and two years respectively for the Post Office Square and Homeworld Properties was provided by the vendors of the Properties in respect of any vacant areas or short term tenancies. The actual total vacant and unlet area of the Properties is less than 2% of their total net lettable area.

2.5 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, Suncorp Metway, Kings Parking, Westpac, BBC Hardware and Bookworld represent a significant part of the Properties' income. Greater detail and tenant profiles are provided in the individual property descriptions. (see sections 3 and 4)

Post Office Square food court eating area

3.1 KEY FEATURES OF THE PROPERTY

Purchase Price	$49,562,174
Location	The property has frontage to Queen and Adelaide Streets, in the Brisbane CBD.
Zoning	Particular development – Civic Square, Car Park and Shopping Centre.
Nature of Title	Freehold – subject to the provisions of the Anzac Square Development Project Act 1982.
Net Lettable Area	1,765 m² retail (approximately).
Car Spaces	316 bays.
Date of Construction	1983
Principal Use	Public car park and CBD retail – food court and service retail.

3.2 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 lease over the 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 20.8)

3.3 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. (*see outlined area on the inside front cover*).

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 located within a city block that houses the state corporate headquarters for the National Australia Bank, Westpac and Commonwealth Banks 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. Additionally, the retail centre has direct links into the retail and office areas of the adjoining buildings.

3.4 CURRENT STATUS

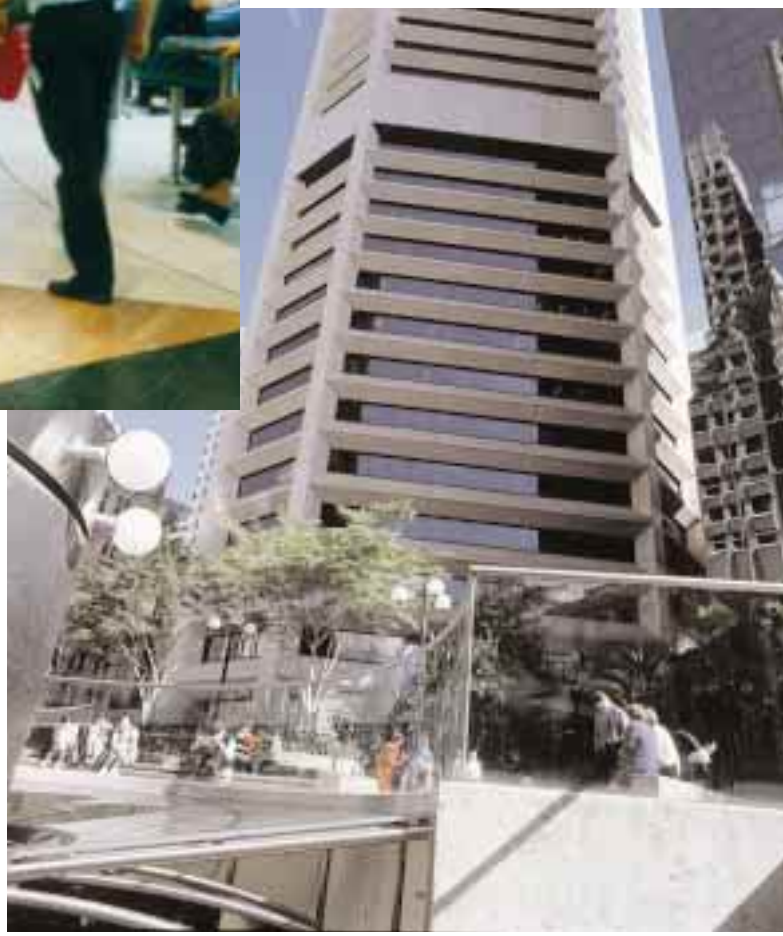
The property's income is divided relatively evenly between it's two uses with 54% being derived from the retail component and the balance from the car park.

Currently, (other than one small shop) there are no areas of the Property which are vacant and unlet. There is currently one periodic tenancy out of the total of 25. These two (the periodic tenancy and the vacant shop) are the subject of the vendor's rental guarantee mentioned below. Historically, the Property has had a negligible vacancy factor.

The retail section of the property was extensively refurbished and re-leased in 1999.

As a consequence of the refurbishment and re-leasing program, the rents and terms of a significant portion of the retail tenancies were improved. The retail component of the property has a minimum weighted average lease expiry profile of approximately 4.5 years. A high proportion of leases have fixed rental increases of at least 4% per annum. As at the date of this Prospectus, 95% of the Property's forecast income from its retail component is subject to executed leases. The Manager has letters of intent from prospective tenants to enter into formal leases relating to the balance of the retail area.

The vendor has guaranteed rent from any areas that were vacant at settlement and any periodic tenancies until the end of 2002 and has provided cash security for that guarantee.



From left to right: Food Court area, Parkland above Post Office Square, Bookworld tenancy at Adelaide Street entry, one of the carpark

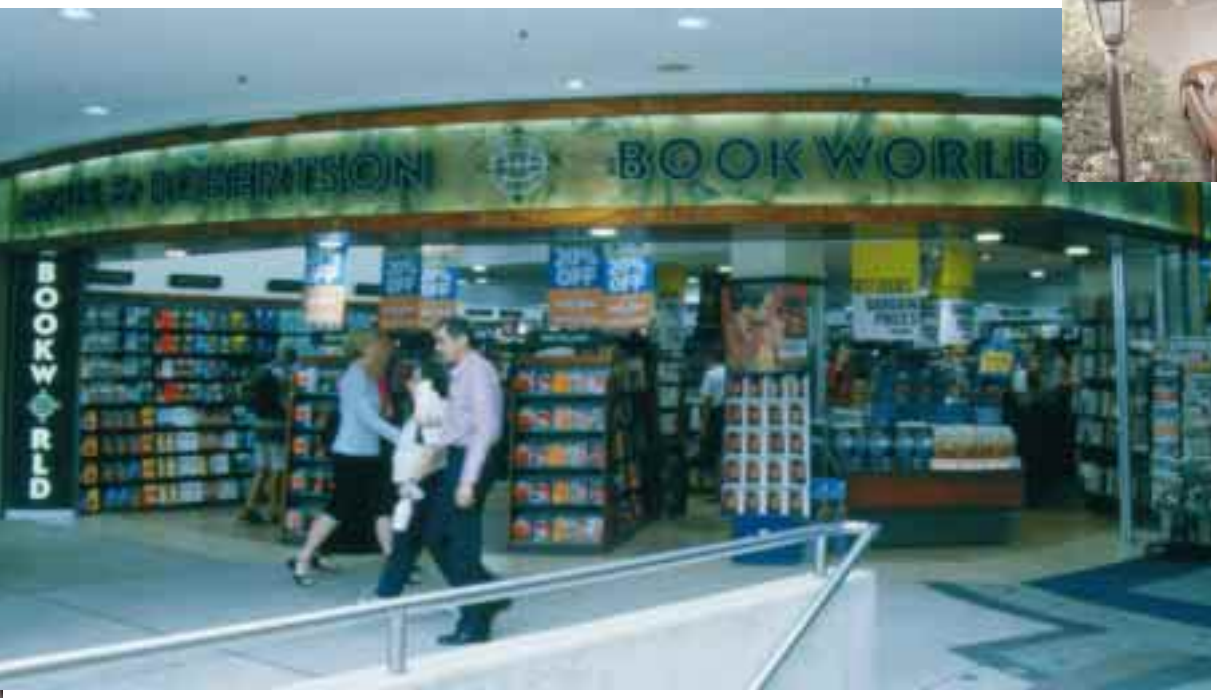
3.5 THE TENANTS

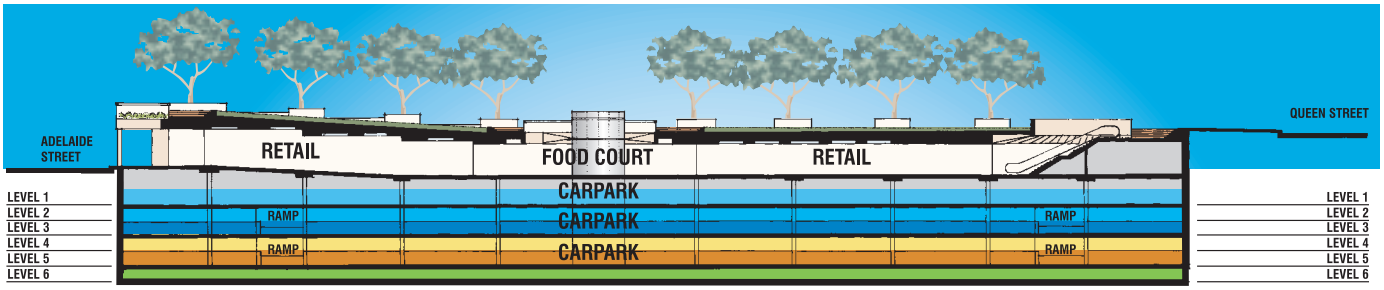
Kings Parking Corporate Pty Ltd, (a wholly owned subsidiary of Ariadne Australia Limited) has leased the car park for ten years from 1 December 1999. Ariadne guarantees the obligations of the tenant. Ariadne is a listed public company which at 19 February 2000 had a market capitalisation of over $120 million.

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

National retailers within this centre include **Angus & Robertson Bookworld, Flight Centre, Suncorp Finance Ltd (Suncorp Metway Bank), Muffin Break, Mr Minit, Kodak Express and Vodafone.**

Additionally, the food court contains a number of existing proven traders complemented by the introduction of some new experienced food operators.





entrances, elevation of property showing carpark below

3.6 PROPERTY & RETAIL ANALYSIS

Many commuters pass through the property on their way to and from work. The property is reported to have an average of over 22,000 visitors per trading day.

Within the same city block, office space in which approximately 6,500 workers are accommodated drive the demand for the property's retail and car park components.

Brisbane CBD employment figures show continued growth with a total CBD workforce of over 62,300 people, up from 45,500 in 1991.

CBD retail rents have risen by 5% per annum over the past five years. The refurbishment of Post Office Square and the associated re-leasing of the retail space has provided the best evidence of the market's belief of future rental growth, with all new leases having minimum rent increases of 4% per annum.

HOMEWORLD

4.1 KEY FEATURES OF THE PROPERTY

Purchase Price	$23,778,136	
Location	An entire block bounded by Anketell, Reed, Scollay Streets and Soward Way, Tuggeranong Town Centre, Canberra ACT	
Zoning	Commercial "B"	
Nature of Title	Crown Leasehold	
Principal Use	Bulky goods, convenience retail and office.	
Net Lettable Area (approx.)	Retail:	8,518 square metres
	Office:	3,836 square metres
	Total:	12,354 square metres
Site Area	2.2 hectares (approximately)	
Car Spaces	338 bays	
Date of Construction	1988	

4.2 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 and a playground. The ground level retail component comprises 42 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.

4.3 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, Fosseys and Woolworths.

The Tuggeranong Town Centre is an important satellite commercial centre in the ACT with approximately 66,400 m² of office accommodation. The majority of this office space is occupied by various government departments.

Above: Entry from Anketell Street

Above: Tuggeranong town centre with Homeworld outlined

4.4 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.

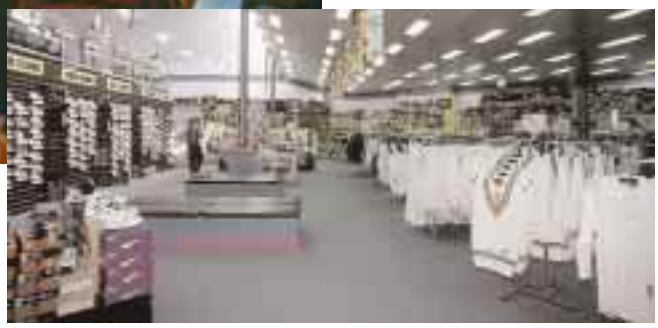
BBC Hardware is also a long-standing tenant at the property with its lease representing approximately 7% of the property's gross income. This tenant is a wholly owned subsidiary of Howard Smith Ltd which operates over 130 BBC Hardware stores in Australia and is one of the longest established businesses in Australia, being founded in 1854.

Other larger retailers include **Sportsman's Warehouse, WC Penfolds and Dick Smiths Electronics (a Woolworth's Ltd subsidiary)**. These tenants represent a further 9.7% of the property's gross income.

Westpac Banking Corporation is one of the property's larger service tenancies, which along with **The ACT Government Service Centre, & AVCO Finance** provide users of the property with ready access to a range of government and financial services. Service tenancies contribute approximately 11.8% of the property's gross income.

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

A recent addition to the centre is P J O'Reillys, an Irish themed restaurant and bar. This established Canberra trader has entered into a new ten year lease for 543 square metres of space.



4.5 RETAIL ANALYSIS

Tuggeranong was one of Australia's fastest growing regions at the last Australian census. Government forecasts indicate that Tuggeranong population is expected to grow from its current 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.

Tuggeranong also has a higher than average ACT household income. These are positive factors for the future of retailing in the Tuggeranong area.

From top to bottom: Homeworld carpark looking to Soward Way entry, Tuggeranong's main street with Hyperdome regional centre in foreground, interior (prior to opening) of P.J.O'Reillys Irish Pub, Sportsman's Warehouse interior, entry to A.C.T. Government tenancy

5 MARKET ANALYSIS

5.1 THE PROPERTIES

The Properties provide Investors with exposure to four separate property sectors located in two different geographical areas, Queensland and the ACT.

5.2 QUEENSLAND

The Queensland economy enjoyed strong growth during 1998-1999 as shown by the following statistics:

- The gross state product increased by 1.2% to March 1999.
- A population increase of 1.7% to the December quarter 1998.
- Average employment growth of 2.7%. This employment growth compared favourably to the rest of Australia, which had employment growth of 1.8%.
- Retail sales in Queensland were 5.7% higher than during the previous year.

5.3 ACT

The ACT economy remains one of the fastest growing in Australia and has continued to perform strongly over recent years as evidenced by:

- The ACT economy growing by 6.4% for the year to March 1999, well above the average national increase of 4.2%.
- An average population increase of 1.3% per annum as recorded in the last census.
- Unemployment rates below the national average.

This economy is made up of a balanced mix of public service and private sector, with 55% of the ACT workforce employed in the private sector by over 13,000 businesses. Thirty one percent of the workforce is employed by the Federal Public Service and Defence Departments.

Right: Brisbane C.B.D. with Post Office Square lower centre

Above: Tuggeranong town centre viewed from Lake Tuggeranong

5.4 RETAIL COMMENT

The Properties provide exposure to two retail sub-sectors, CBD retail and bulky goods. The performance of retail property markets is strongly driven by the level of retail turnover. This turnover is directly influenced by economic factors such as population and employment growth and growth in average weekly earnings.

These indicators are very positive in Queensland and the ACT thereby providing a good base for strong retail sales growth.

5.5 CBD RETAIL

Australian CBD retail property has experienced major investor interest over the year to March 1999, with over half a billion dollars transacted nationally. The Manager considers that investor interest in this sector and market stability will continue into the future.

The Post Office Square property was purchased on a yield of 8.5%. Brisbane CBD retail property yields were as low as 5.75% in 1988 and as high as 10.0% in 1992. The current economic and investment environment provides sound fundamentals, which should see the yields of CBD property remain at current levels and possibly tighten over the forecast period.

5.6 BULKY GOODS RETAIL

Bulky goods retail generally refers to homemaker style centres, comprising larger retail warehouse buildings with low rental rates. Over the past two years, bulky goods retail property has outperformed other retail categories due to the success of national bulky goods chains such as Harvey Norman. Also known as "Homemaker" centres, they are a phenomenon of the late 1980's and 1990's. They were borne out of a combination of high shopping centre rents, consumer demand for better lifestyles and easy access to (and comparison shopping for) bulky goods.

This resulted in the rapid growth of retail category that did not readily fit into conventional shopping centres.

The single level design and configuration of bulky goods retail centres means that the costs of operation and maintenance are comparably lower than traditional shopping centres.

Continued strong growth in this sector by major tenants and increasing market share is expected to result in further strong growth in the value of properties in this sector of the market during the next decade.

5.7 CAR PARKING - BRISBANE CBD

Car park operators have enjoyed significant growth in parking fees in the Brisbane CBD over the last decade. Accordingly rentals paid by operators have also risen strongly over the period.

The Brisbane City Council's policy of restricting the further development of car parking stations in the city in order that the growth rate of the number of cars in the CBD reduces, has created a market with restricted future supply.

Brisbane CBD casual car parking fees grew by 7.8% per annum over the 10 years to 1998. Permanent car parking fees grew by 5.1% per annum over the same period. There is a high casual parking emphasis in the car park component of Post Office Square.

This sector has attracted investors' interest in recent times with a number of large transactions occurring over the past year at tightening yields. The underlying cash flow strength of the industry and the lack of new supply should ensure continued high revenue growth prospects and investor interest in this sector.

Although the Post Office Square car park principally caters for casual and daily car parking, it also caters for the CBD workforce requirement and their permanent parking needs. Accordingly the increasing workforce numbers in the Brisbane CBD, up 37% over the five years to 62,300, is an important fundamental when analysing the investment performance of the property's car park operation.

Additionally there are two mooted development projects in close proximity to the property that may provide an increased demand for the already limited car parking available in this part of the Brisbane CBD.

5.8 CANBERRA AND TUGGERANONG OFFICE MARKET

The Canberra office market generally has felt the impact of the prolonged public service rationalisation and had an overall vacancy level of 8.6% for the period to January 1999. However in Australia, Canberra's vacancy level is only bettered by the Sydney CBD. The Tuggeranong office market has been relatively insulated from Canberra's higher overall vacancy level and has a current vacancy factor of less than 1%.

Rental levels have fallen across all office grades in the Canberra office market. With higher levels of vacancy in other markets and further impending vacancy in those areas tenants not secured on long term leases in the Tuggeranong market may be attracted to other competing town centres such as Woden, Belconnen or Civic.

Prior to the purchase of the Properties, we reviewed and assessed an extensive number of properties with the objective of identifying 2 substantial assets situated in different markets that had secure income streams and the potential for future income growth and capital gain.

This section outlines some of the fundamental issues that we have considered in forming our view about the investment qualities of each of the Properties.

The key reasons are:

- **Post Office Square –** because of its **prime location, security** and **diversity** of income;
- **Homeworld –** provides an opportunity to access the **favoured bulky goods** retail sector in a **value** market, coupled with a **long term government** office **lease**;

In essence, ***diversity of income, security, location and potential capital growth*** - the hallmarks of quality property.

6.1 OUR GENERAL STRATEGY

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

6.2 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;
- 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;
- Pursuing potentially significant reductions in the operating expenses of the property that have been identified.

6.3 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 the 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 the high volume pedestrian traffic, rather than just focusing on the midday trade may provide significant benefit to the property.

6.4 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 is 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 to Investors of their initial Subscription.

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.

POST OFFICE SQUARE

STRENGTHS

1 The diversity offered by the property providing CBD retail and car park sector exposure.

2 A well established retail history with a high level of tenancy renewal and low historical rental arrears.

3 A prime central location with high pedestrian traffic to and from Brisbane Central Railway Station.

4 A strong retail identity in the Brisbane CBD.

5 A ten year car park lease (representing almost half of the property's income) guaranteed by a major listed public company.

6 Car parking income under the stewardship of the most dominant Brisbane car park operator.

7 A refurbished and updated retail component with focused food court mix.

8 A high average lease duration in the retail component, particularly the food court leases.

9 Almost all leases subject to fixed rent increases of 4% per annum or greater.

10 A multitude of pedestrian links from the retail component to adjoining properties.

11 Good natural light and openings provides for a pleasant and airy food court.

WEAKNESSES

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.

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.

The civic square enhances the food court's trading performance.

2 The seating capacity of the food court.

This was increased by more than a third during the 1999 refurbishment. The food court's focus is more on the takeaway customer. The civic square provides an additional eating area.

3 Reliance upon steps and escalators for entry from Queen Street.

The building's design has addressed this inherent difficulty. Newly refurbished signage has enhanced entrance appeal and visibility. Good visible street level entry exists at Adelaide Street.

OPPORTUNITIES

1 Increased trading and consequent rents might be achieved by encouraging more tenants to increase effective trading hours.

2 Potential to enter into negotiation with Council to allow small related commercial or promotional uses of the civic square.

THREATS

1 The usual threat of possible competition for retail properties. For example, food court elements are mooted in the Macarthur Centre and Queen Street Central redevelopment proposals nearby to this property.

There is no certainty that these redevelopments and their food courts will proceed. Neither redevelopment is likely to impact materially on this property's primary catchment in adjoining buildings. The mooted redevelopments are likely to 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 takeaway focus of the Post Office Square Food Court.

2 The intermittently proposed concept of car park levies to restrict traffic into the Brisbane CBD.

The cost of this levy is passed on to the car park tenant under the car park lease.

HOMEWORLD CENTRE

Strengths

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.

2 Prominent central location in the Tuggeranong Town Centre immediately adjacent to the regional shopping mall.

3 An established retail history with a high percentage of tenancy renewal.

4 Located in a large established population centre which has experienced strong population growth with prospects for further residential growth inside the primary retail catchment area.

5 Tuggeranong has a higher average household income than the ACT generally. This population is characterised by younger families.

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.

7 A high percentage of the property's income is represented by government, national and chain retail tenants.

8 Current low vacancy rates of 1% in the Tuggeranong office market.

9 Good car parking access to shops and good internal car parking layout.

10 ACT town planning controls through lease purpose clauses are generally regarded as giving greater property owner protection.

Weaknesses

1 The leasehold nature of all ACT real estate.

There is an automatic renewal provision for all such leases.

2 There is no ratchet mechanism in the market rent review provision of the ACT government office lease to underpin its existing rent.

An underpinning of the existing rental payable under this lease is provided by the vendor up to 30 June 2004.

3 There are some maturing retail uses within the centre (ie. retail products or methods which are becoming outdated).

The Manager proposes over time to reposition and refocus the centre away from such uses.

4 Outdated signage at the centre's entrances.

Allowance has been made in the forecast for capital expenditure to improve signage.

5 Tenancies fronting Anketell Street (Tuggeranong Town Centre's main street) and Soward Way did not have street parking.

The vendor has recently constructed as part of contractual arrangements car parking bays on Soward Way. This should now increase ongoing lettability of these tenancies.

Opportunities

1 Further release and development of residential land within the primary trade catchment area of this centre.

2 A re-positioning and refocussing of the centre so that it has a clear identity in the Canberra market.

3 The PJ O'Reilly's Irish Pub which has recently opened with a 10 year lease is likely to generate more pedestrian traffic and demand for space in the centre.

4 The proposed Very Fast Train between Sydney and Canberra may provide increased opportunities for the ACT generally and therefore Tuggeranong.

5 A recently introduced 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. It may provide the centre with opportunities to expand its retail focus.

6 There are a number of significant retailers in other parts of Canberra who could have shops in Tuggeranong.

7 Average rentals are substantially below rentals achieved in the adjacent regional mall catering for some similar tenancies.

Threats

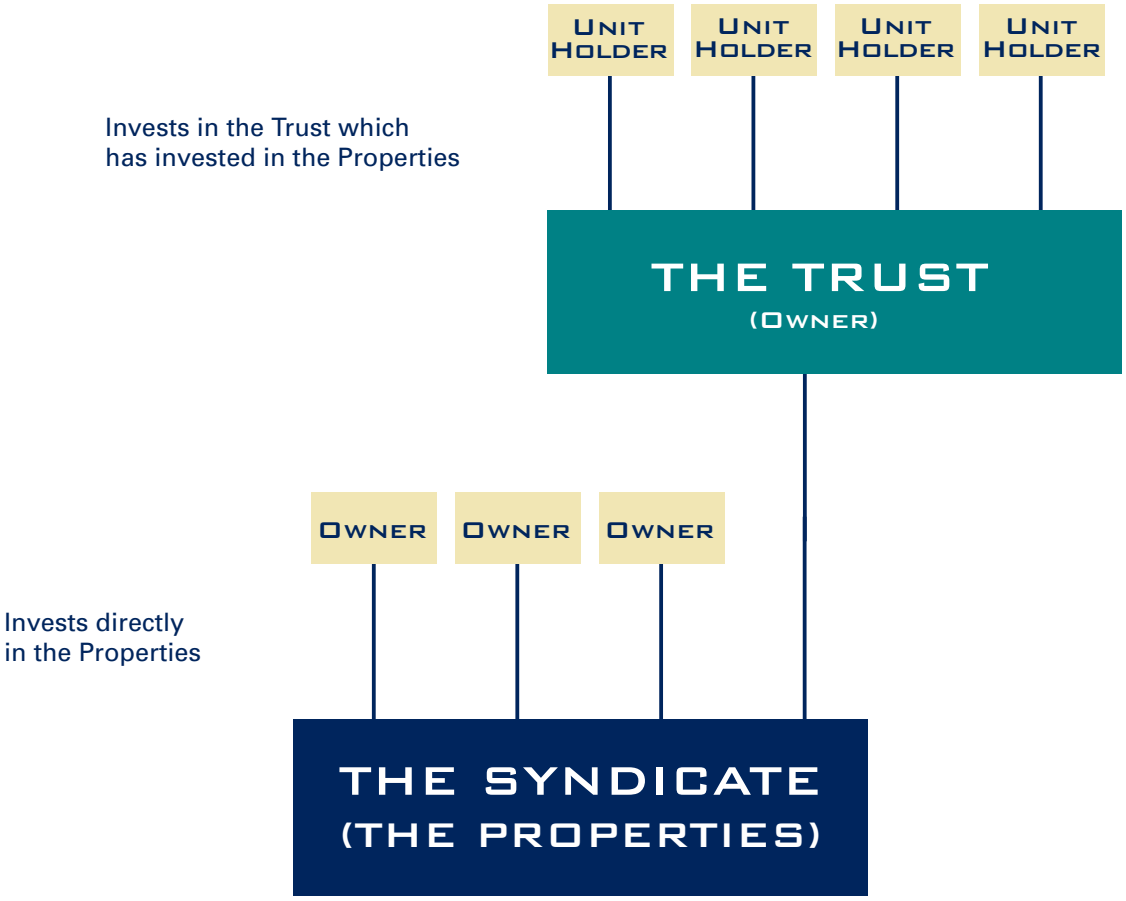
1 The ACT government's recently introduced retail policy provides a flexible retail hierarchy concept providing wider use opportunities for all retail properties outside of the Hyperdome.

The retail policy also restricts shopping mall growth such as the adjacent Hyperdome.

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 it's currently restricted produce market intent.

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.

7 TWO DIFFERENT INVESTMENT METHODS – TWO DIFFERENT APPLICATION FORMS



7.1 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 has invested in the Syndicate and the Properties and has borrowed as an Owner.

7.2 WHY THE DIFFERENT INVESTMENT METHODS?

Owners in the Syndicate have authorised the Manager to borrow monies on their behalf to enable them to complete their acquisition of Lots. Applicants completing Application Forms acknowledge in the limited power of attorney that forms part of that application that they are also authorising the Manager to borrow money on their behalf (see section 10 and the Syndicate Application Form).

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 has been established to facilitate the opportunity of this category of investor to invest in the Properties. In this case, the Trust as an Owner has borrowed money that would otherwise be borrowed directly by the Investor thereby providing an Investor in the Trust with leverage or gearing.

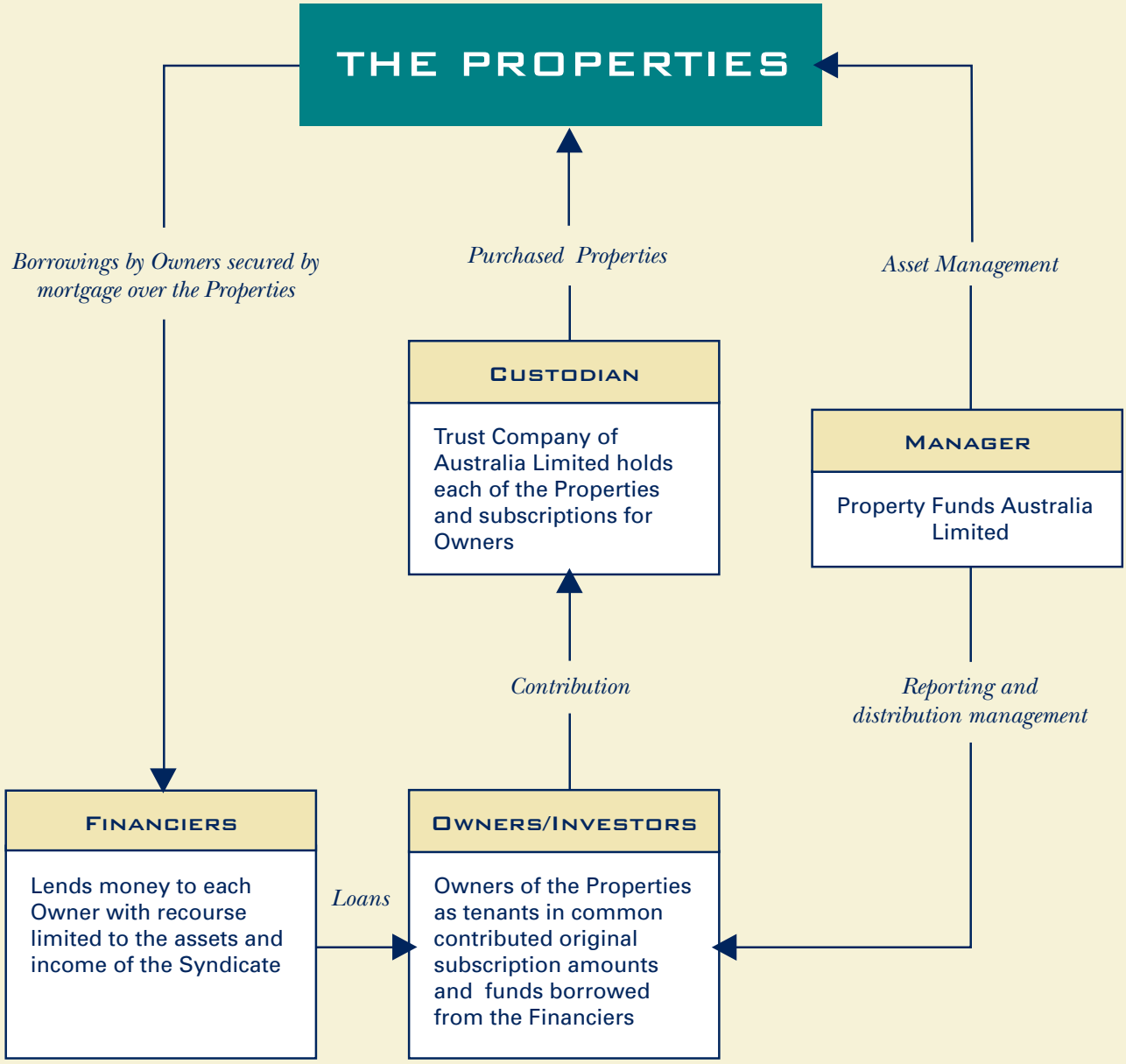
The accompanying diagram shows the relationship between the Syndicate and the Trust.

7.3 TWO DIFFERENT APPLICATION FORMS

Investors wanting to invest directly into the Properties via the Syndicate complete the cream Application Form at the back of the Prospectus.

Investors such as superannuation funds that do not want to, or cannot, borrow in their own right should invest via the Trust and complete the blue Application Form at the back of the Prospectus. Trust Investors should read section 9 for more detailed information.

The Syndicate structure is as follows:



8.1 SYNDICATE CONSTITUTION

The Syndicate Constitution is the document that governs the relationship between the Manager and the Owners.

8.2 OWNERS

The Syndicate Investors are the Owners. Each owns the Properties in the proportion that their subscriptions bear to the total Subscriptions.

8.3 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 20.12).

8.4 FINANCIERS

Financiers provided acquisition loans to supplement each 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 are mortgaged and a charge over the income from the Properties is provided to the Financiers by the Custodian on behalf of the Owners.

8.5 MANAGER

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

8.6 TIME FRAME OF THE FUND

This Direct Property Investment is expected to have a timeframe of around six years from 30 December, 1999 as the Manager expects that the Properties will be separately sold between years four and six.

Under the terms of the Constitution, the Properties cannot be held for more than eight years 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 Investor 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.

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.

8.7 SECONDARY TRADING

The Manager has made application to Austock Management Limited for approval to conduct a market in Interests with the intent that Interests be traded on the Austock Property Market.

If ASIC grants the necessary approvals this market will provide an opportunity for Investors wanting to exit (or add to) their Investment, to do so without having to wait until either or both of the Properties are sold.

It is expected that if approved the market will be operative towards the end of 2000. There are currently proposals for the establishment of an approved stock exchange specifically for the trading of interests of this nature. The Manager may arrange for listing the Interests on that exchange (if it is established) instead of the Austock Property Market.

8.8 APPLICATIONS

The minimum amount each Investor may subscribe for is $10,000. Applications in excess of $10,000 are to be in increments of $5,000. Subject to the availability of Interests there is no pre-determined maximum amount an Investor may invest. The Manager however may reject any individual Application in full or part.

In such a case, any surplus or rejected application monies will be returned to the Applicant as soon as possible.

The Manager is responsible for the payment of any stamp duty assessed on accepted Application Forms.

8.9 APPLICANTS' INTEREST IN THE PROPERTIES AND OTHER FUND ASSETS

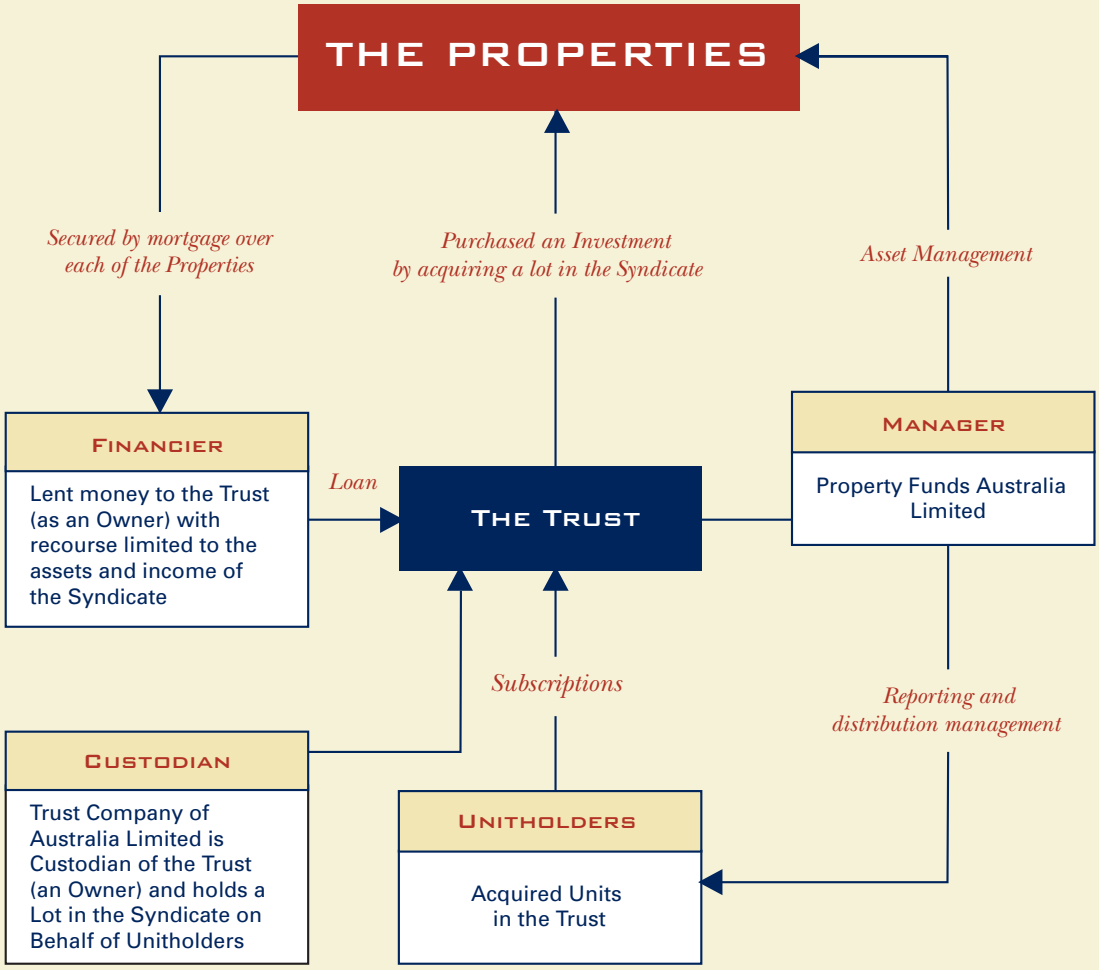
An individual Owner's proportional interest in the Properties is determined by dividing the Applicant's Subscription by the total of all subscriptions (ie. $36.75M).

9 TRUST STRUCTURE

(This section is principally of interest to Investors such as superannuation funds that are unable 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 a Lot in the Syndicate.

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



9.1 THE TRUST OFFER

The Unit price is $1 per Unit payable in full by Investors when submitting their Application Form. The Trust owns a Lot 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 10). Investors in the Trust have no liability for any borrowings undertaken by the Trust.

9.2 APPLICATIONS

The provisions of this Prospectus relating to applications for Lots in the Syndicate apply to applications for Units in the Trust. (see section 8.8)

9.3 TRUST CONSTITUTION

The Trust Constitution is the document which governs the Trust and the relationship between the Manager and the Unitholders. (see section 20.10)

9.4 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.

9.5 TIME FRAME OF THE TRUST

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

9.6 SECONDARY TRADING

The Manager intends to provide the same secondary trading opportunity as that proposed for Lots in the Syndicate (refer section 8.7).

10 BORROWINGS

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

10.1 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.

10.2 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. Applicants completing Application Forms acknowledge in the limited power of attorney that forms part of that application that they are authorising the Manager to act for them in arranging any further borrowings on the terms outlined in Section 10.7. 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 (ie. $36.75M).

Borrowings are in the name of the Owners and in proportion to their interest in the Properties (ie. 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 (ie. 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 the recent changes to tax law, the cost base of a Lot for Owners pursuant to this Prospectus will no longer be 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 reverse side of the Application Form.

10.3 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 will 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. Because of the nature of the structure the more favourable capital gains tax outcome which may apply (under tax law applicable at the date of this Prospectus) for Owners (ie. the higher cost base) does not apply to Unitholders. In the case of complying superannuation funds, this is a product of the restriction on those funds' ability to borrow.

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

10.4 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.

10.5 THE ACQUISITION LOANS

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

The initial Financiers are ANZ Mortgage Trust and Colonial First State Bricks and Mortar Fund.

The material terms of the Fund's acquisition loans are as follows:

- interest only facilities;
- five year loan terms after which time any outstanding balance will be required to be repaid, rolled over or renewed;
- a fixed rate at 7.3% per annum for approximately 2/3 of the acquisition loans until 30 December 2002;
- a variable rate for approximately 1/3 of the acquisition loans. The Manager has set aside $800,000 for the acquisition of an interest rate hedging instrument if considered appropriate.

10.6 GEARING LEVEL

The gearing level of the Fund after acquisition of the Properties is 56% of the total purchase prices and acquisition costs of the Properties. The forecast net rental income of the Properties represents a minimum interest cover of at least two times during the forecast period. The Manager considers this to be an appropriate level of borrowing that will enhance returns to Owners without creating a high level of risk.

10.7 FURTHER LOANS

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.

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.

Replacement Loans

During the term of the Fund, it may be necessary to roll over, renew or replace loans and the limited power of attorney on the reverse side of the Application Form authorises the Manager to arrange those replacement loans and any interest rate management products that the Manager considers the Fund should acquire.

11 ACCOUNTS, DISTRIBUTIONS AND REPORTING

Cash **distributions** are made on a **monthly** basis. The distributions are made by electronic transfer to the accounts nominated by you on your Application Form.

The Manager is responsible for deciding the amount of distributions. 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.

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 will be sent to Owners within 90 days of the end of each financial year. In addition Unitholders will receive an annual report and audited accounts for the Trust. A distribution summary of each Investors distributions over the past year will also be forwarded at around this time.

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

Below: Post Office Square entry from Queen Street

12.1 FORECAST - SYNDICATE

The Syndicate's forecast cash flows are set out below. Forecast net property income from the Properties is shown adjacent to Note 1. Forecast expenses are deducted from net property income to arrive at the amount of cash available for distribution. The assumptions on which the forecasts are based are set out in the Notes. No forecasts are made beyond 30 June 2004 as beyond that date the progressive sale of the Properties is anticipated to occur, the financing arrangements will require renewal and the re-leasing of a portion of the tenancies will be taking/have taken place, thereby making accurate financial forecasting difficult.

	Note *	Year To 30 June 2001 $	Year To 30 June 2002 $	Year To 30 June 2003 $	Year To 30 June 2004 $
REVENUE - Net Property Income	1	7,265,672	7,345,823	7,626,828	7,801,844
EXPENSES					
Interest to Financiers	2	3,347,655	3,422,247	3,468,692	3,506,710
Management fees	3	254,299	364,058	450,290	456,415
Valuation fees	4	-	-	50,000	-
Custodian and compliance costs	5	34,505	35,540	36,606	37,705
Registry costs	6	7,210	7,426	7,649	7,879
Audit and accountancy	7	29.363	30,244	31,150	32,085
Sundry expenses	8	10,025	10,300	10,609	10,927
Secondary market costs	9	16,150	15,450	21,218	21,854
Provision for unanticipated expenses	10	51,890	53,443	54,972	56,714
TOTAL EXPENSES		3,751,097	3,938,708	4,131,186	4,130,289
CASH AVAILABLE FOR DISTRIBUTION	11	3,514,575	3,407,115	3,495,642	3,671,555
DISTRIBUTION EQUALISATION FUND	12	133,575	(47,385)	(32,358)	70,055
PROPOSED DISTRIBUTION	13	3,381,000	3,454,500	3,528,000	3,601,500
DISTRIBUTION AS A PERCENTAGE OF SUBSCRIPTIONS	14	9.2% p.a.	9.4% p.a.	9.6% p.a.	9.8% p.a.
TAX SHELTERED COMPONENT OF DISTRIBUTION	15	42%	44%	42%	36%

** The forecast distribution for the period to 30 June 2000 is 9%p.a. The Tax Sheltered component will be higher the closer to 30 June 2000 an Applicant Owner subscribes. For example, registered applications in April, May and June 2000 are forecast to have Tax Sheltered component percentages of 270%, 405% and 809% respectively applicable to the relevant returns for the applicable periods to 30 June 2000.*

NOTES ON CASH FLOW FORECAST

Note 1 Net Property Income

Net property income is the gross income received from the Properties less outgoings payable in respect of them. The net property income is based on the following assumptions:

- Individual leases have been reviewed in line with the lease terms.
- Assumptions are made as to prospects of lease renewal upon expiry, consequent vacancy, incentives and letting up costs to achieve reletting.
- Where any rents are considered inconsistent with underlying market rents, the income has been adjusted up or down to a market rent at the expiry of the relevant lease term.
- Upon market rent reviews valuers will take into consideration the recovery or non recovery of GST under a lease and adjust accordingly.
- Forecast CPI increases are as per Access Economics forecasts from June 1999.
- Outgoings on all properties are forecast to increase in accordance with the above CPI forecasts.

Note 2 Interest to Financier

Based on the acquisition loans outlined in section 10, an interest rate of 7.3% per annum has been fixed for the fixed rate component representing approximately 2/3 of the acquisition loans. The balance 1/3 is on a variable facility with the interest rate forecast to increase from 7.0% to 7.5% over the term. An average interest rate over the forecast period of 8.5% per annum has been adopted for the revolving variable rate facility of $1,000,000.

Note 3 Management Fees

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

The Manager has waived the asset value based portion of these fees until 30 December 2001.

Note 4 Valuation Fees

An allowance for a full valuation of the Properties every two years has been made after the initial revaluation at the end of the third year. The Syndicate Constitution requires revaluation every three years.

Note 5 Custodian and Compliance Costs

The Custodian fees are $17,000 per annum (indexed by CPI and GST exclusive) (see section 17.3). An allowance has been made for the remuneration and expenses of the external members of the compliance committee, the compliance plan audit and other compliance costs.

Note 6 Registry Costs

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

Note 7 Audit and Accountancy

Audit and accounting fees have been based on estimates provided by BDO Kendalls and Hacketts Chartered Accountants respectively.

Note 8 Sundry Expenses

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

Note 9 Secondary Market Costs

An allowance for costs associated with a listing of the Investment upon a formal secondary market such as an approved property exchange or the Austock Property Market has been made (see section 8.7).

Note 10 Provision for Unanticipated Expenses

A general annual allowance of $50,000 per annum (indexed to CPI) for unanticipated Fund expenses. Separate allowances have been made in the Net Property Income forecasts for unanticipated repairs and maintenance expenses.

Note 11 Cash Available for Distribution

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

Note 12 Distribution Equalisation Fund

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

Note 13 Proposed Distribution

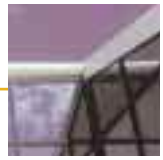
This is the amount forecast to be distributed to Owners.

Note 14 Distribution as a Percentage of Subscriptions

This is the forecast distribution expressed as a percentage of $36,750,000, which was the total Initial Public Offering.

Note 15 Tax Sheltered Component of Distribution

The Tax Sheltered component of the cash available for distribution to Owners, which is that part of any non-taxable distribution attributable to such deductions as building allowances, the depreciation of plant and equipment and other special taxation allowances such as borrowing costs and certain stamp duties relating to the acquisition of the Properties. Due to the crown leasehold nature of Homeworld the stamp duty that is payable upon transfer is able to be claimed as a tax deduction from the Syndicate's assessable income in the first year. Note the Tax Sheltered components may affect the cost base of the investment for tax purposes. (Refer to section 14 for details on tax matters). These tax deductions are available to those persons or entities who are Owners at the end of each financial year.



12.2 TAXATION ANALYSIS - SYNDICATE

For Owners, the Syndicate structure is tax effective. The Syndicate is 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. (see note 8). 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 (ie writing off) of some of the borrowing costs and other costs associated with establishing the Syndicate. The assumptions and other details on which the calculations are based are set out in the Notes.

	Note *	Year To 30 June 2001 $	Year To 30 June 2002 $	Year To 30 June 2003 $	Year To 30 June 2004 $
CASH AVAILABLE FOR DISTRIBUTION	1	3,514,575	3,407,115	3,495,642	3,621,555
Less Deductions					
Borrowing costs	2	464,993	464,993	464,993	464,993
Depreciation of plant	3	664,200	599,700	543,000	492,600
Building allowance	4	423,400	423,400	423,400	423,400
Stamp duty - Homeworld	5				
Total deductions		1,552,593	1,488,093	1,431,393	1,380,993
Taxable income	6	1,961,982	1,919,022	2,064,248	2,290,562
Proposed distribution to owners	7	3,381,000	3,454,500	3,528,000	3,601,500
Tax Sheltered component of return	8	42%	44%	42%	36%

**** This Tax Sheltered component will be higher the closer to 30 June 2000 an Applicant Owner subscribes. For example, registered applications in April, May or June 2000 are forecast to have Tax Sheltered component percentages of 270%, 405% and 809% respectively applicable to the relevant returns for the applicable periods to 30 June 2000.***

NOTES ON TAX CALCULATIONS

Note 1 Cash Available for Distribution

This amount is the cash forecast to be available for distribution as shown in the cash flow forecast in section 12.1.

Note 2 Borrowing Costs

Borrowing costs including stamp duty on the borrowings, loan establishment fees, the estimated cost of an interest rate management product, valuation and legal fees are $2,324,964. The estimated cost of an interest rate management product of $800,000 may not be expended. These borrowing costs are claimed progressively over the term of the loans.

The unamortised borrowing costs are impliedly being reimbursed by the Applicant Owners under this Prospectus (see section 14.5).

Note 3 Depreciation of Plant

A tax deduction is allowed for depreciation of plant, equipment and other items such as air conditioning plant, electrical, machinery and equipment, carpets, lifts, etc. The amount to be claimed has been independently assessed by a specialist depreciation consultant. The diminishing value method has been used to determine annual deductions. Calculations are based on the recently amended taxation laws requiring depreciation rates to be determined by effective life.

Note 4 Building Allowance

An allowance of 2.5% per annum on qualifying capital expenditure incurred in the construction of certain components of the buildings that comprise the Properties is available as a tax deduction.

Note 5 Stamp Duty - Homeworld

Due to the crown leasehold nature of Homeworld the stamp duty that is payable upon transfer is able to be claimed as a tax deduction from the Syndicate's assessable income in the first year.

Note 6 Taxable Income

This is the forecast aggregate taxable income of Owners (refer to section 11 for information about Owners' tax returns).

Note 7 Proposed Distribution to Owners

This amount is the forecast distribution as shown in the cash flow forecast in section 12.1.

Note 8 Tax Sheltered Component of Return

This is the estimated percentage of cash distributed to Owners that is tax deferred or tax-free in the year received.

The tax-free component of distributions arises from building depreciation allowances. Currently this component is not assessable for income tax purposes.

Tax deferred distributions arise from tax deductions that relate to plant and equipment depreciation and other tax related expenditure such as borrowing expenses. Tax deferred amounts reduce the cost base of an Owner's investment in the Syndicate.

These tax deductions are available to those persons or entities who are Owners as at the end of each financial year.

12.3 ACQUISITION COSTS AND SOURCES OF FUNDS

The acquisition and establishment costs of the Fund were:

Cost	**$**
Acquisition price of Properties	73,340,309
Stamp duty and registration fees on:	
- purchase and option	3,246,851
- mortgage	193,622
Legal fees - acquisition and prospectus	244,490
Due diligence consultants' fees	235,830
Acquisition fee	3,667,016
Prospectus issue and promotion expenses	88,072
Borrowing costs	1,241,028
Interest rate risk management reserve	800,000
Custody establishment costs	15,520
Contingency	8,707
Initial capital expenditure program	145,555
Total acquisition and establishment costs	$83,227,000
The source of funds for the acquisition and establishment of the Fund were:	
Subscriptions from Investors (44.0%)	$36,750,000
Loans from Financiers (56.0%)	$46,477,000
Total funds	$83,227,000
The net tangible assets of the Fund are:	
Net Tangible Assets	
Total tangible assets	$81,563,398
Less	
Loans from Financiers	$46,477,000
Net tangible assets	$35,086,398
Net tangible assets per $1.00 of Subscription	
Net tangible assets	$35,086,398
divided by	
Subscriptions from Owners	$36,750,000
Net Tangible Assets per $1.00 of Subscription	$0.955

This net tangible asset calculation is based on the carrying value of the Properties in the accounts of the Syndicate upon settlement of the Properties. The carrying value includes the purchase price and capitalised acquisition costs such as stamp duty, due diligence and acquisition fees (as disclosed above in the Acquisition Costs and Sources of Funds table).

FINANCIAL INFORMATION – ONLY APPLICABLE TO TRUST INVESTORS (EG. COMPLYING SUPERANNUATION FUNDS)

13

13.1 FORECAST DISTRIBUTION FOR TRUST INVESTORS

Costs specifically associated with the operation of the Trust (eg. audit, accounts and tax return preparation) are borne by the Syndicate. Therefore, the forecast distribution yield to Unitholders is the same as that forecast for Owners in the Syndicate (see section 12.1).

13.2 TAXATION ANALYSIS

Presently 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 component of cash distributions made by the Trust may be Tax Sheltered.

13.3 FORECAST TAX SHELTERED COMPONENT OF RETURN FOR TRUST INVESTORS

Under tax legislation current at the date of this Prospectus, unit trusts cannot have more than 100% of the tax benefit that is received in a year passed on to them. The benefit is not lost but is claimed later in the term of the Trust when the portion of return is less than 100%. The table below sets out the forecast Tax Sheltered component of the distribution (under tax law current at the date of this Prospectus) as it applies to Unitholders.

13.4 TAX REFORM PROPOSALS

Prior to the date of this Prospectus the Federal Government had announced significant taxation reform proposals, some of which have not been finalised and legislated which relate to the taxation treatment of trusts (refer section 14.3).

13.5 NET TANGIBLE ASSETS

The net tangible asset backing for each $1 Unit subscribed in the Trust is approximately $0.95. This net tangible asset calculation is based on the carrying value of the Properties in the accounts of the Syndicate when the acquisition of the Properties was settled (ie. 30 December 1999) (see section 12.3).

	Period to 30 June 2000	Year to 30 June 2001	Year to 30 June 2002	Year to 30 June 2003	Year to 30 June 2004
Annual Distribution %	9%	9.2%	9.4%	9.6%	9.8%
Tax Sheltered component of distribution for Trust Investor	100%	81%*	42%	44%	36%

** This particular tax percentage could vary if significant changes of ownership of Units occurs (see section 14.4).*

14 TAXATION ISSUES

14.1 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).

Syndicate Owners

The Syndicate is a partnership for taxation purposes only. A Syndicate Owner has a direct proportionate interest in the Properties and other Syndicate assets.

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 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.

Due to recent tax legislation, 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 recent tax legislation provided for reductions in the amount assessable for capital gains in the case of individuals and complying superannuation funds.

Unitholders

The initial cost base of the Unit for capital gains tax purposes will be $1.00 per Unit (ie. the amount subscribed only). Due to recent tax legislation, as the acquisition of a Unit is an investment made after 21 September 1999, the initial cost base 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 recent tax legislation provided for reductions in the amount assessable for capital gains in the case of individuals and complying superannuation funds.

Reduction of Cost Base of Interests

For both forms of Interests (ie. Units and Lots), the cost base for CGT calculation will be reduced by the sum of any non-assessable distributions made, which relate to the depreciation of plant and equipment or other tax deductible expenditure. Distributions that relate to building allowances will also reduce the cost base, but only where there is a capital loss on the disposal.

Upon sale Owners who have received a distribution representing a 'claw back' of building allowances previously claimed by the Syndicate, may be required to treat that proportion of the 'claw-back' as a capital gain for tax purposes. The 'claw-back' will occur where the sale proceeds of a property exceed the property's unclaimed building allowances.

14.2 GOODS AND SERVICES TAX

GST will apply to taxable supplies made on or after 1 July 2000. This tax will progressively apply to certain rents, outgoings contributions and other receipts of the Syndicate.

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.

As part of the due diligence on the Properties, the Manager's legal and tax advisers have considered the provisions of the current leases and the application of GST to those lease transactions. The Manager's advisers have determined that the GST impact should be minimal.

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 Properties' leases and the valuation process.

To assist in making GST fundamentally cash flow neutral, any expenditure that the Syndicate incurs which includes a GST component will entitle the Syndicate to an input tax credit. For this reason, we are advised by the Syndicate's taxation advisers that the introduction of the GST should not significantly impact on the distributions of the Fund.

The Manager will be responsible for the registration and lodgement of 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.

14.3 TAX REFORM PROPOSALS

The Federal Government in 1998 and 1999 announced its intention to effect significant tax reform changes. In September, 1999, it released the final Ralph Committee Report and its response to the recommendations made in that report.

Subsequently, certain aspects of that report and the government response (such as those aspects relating to capital gains tax and accelerated depreciation changes) have been given effect to by the passing of legislation. Other aspects such as entity tax reform proposals are still outstanding and have not been finalised or legislated.

Under the entity tax reform proposals, certain investment trusts may be taxed as companies.

However, the taxation advisers to the Fund (having considered the taxation reform proposals current at the date of this Prospectus) consider that the Trust will be a collective investment vehicle based on the expected number of Unitholders at the time that this element of the taxation proposals is proposed to take effect (ie. 1 July, 2001). If the Trust is a collective investment vehicle, it will not be taxed as a company. As the Syndicate is a partnership for tax purposes only, the taxation advisers to the Fund consider that the taxation reform proposals should not change the non-taxed status of the Syndicate.

14.4 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 Shelterred for the year to 30 June 2001 will be the same as that which applies to the Syndicate (refer sections 12.2).

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.

14.5 RE-IMBURSEMENT OF BORROWING COSTS

Applicant Owners under this Prospectus in signing the Application 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 your 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 (ie. those who subscribed under the Initial Public Offering and that unamortised portions would not be available as a tax deduction for Owner Applicants under this Prospectus 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 Owner Applicants 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 Owner Applicants under this Prospectus. There is a possibility that the approach adopted may not be correct. However, that approach is that which is the more beneficial for the Australian Taxation Office.

14.6 CHANGING TAXATION LAWS

Investors should note that Australian tax laws are constantly subject to change. The views and forecasts in this Prospectus are based on law current at the date of this Prospectus. The ultimate interpretation of the law rests with the Courts. Tax liabilities are the responsibility of each Investor and neither the Manager or the Custodian is responsible for taxation or penalties incurred by Investors. Investors should consult their taxation advisers on the tax implications of their own Investment.

BDO Kendalls Securities Limited

25 February 2000

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

Dear Sirs

INDEPENDENT REVIEW FORECASTS

Scope

We have reviewed the forecasts of the Capital Collection - Diverse Sector Fund Syndicate No. 1 ("the Syndicate") and Trust No. 1 ("the Trust") for the period ending 30 June 2000 and for the financial years ending 30 June 2001 to 2004 as set out in section 12.1 of the Prospectus. The directors of Property Funds Australia Limited are responsible for the preparation and presentation of the forecasts and the information contained therein, including the assumptions on which the forecasts are based as set out in section 12.1 of the Prospectus.

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

The forecasts have been prepared for inclusion in the Prospectus dated 25 February 2000. We disclaim any assumption of responsibility for any reliance on this review report or on the forecasts to which it relates to any person other than to the Owners of the Syndicate or for any purpose other than that for which it was prepared. As the Trust will be an Owner in the Syndicate, Trust Investors are entitled to rely on this report. In addition, the forecasts have been prepared using assumptions about future events and management's actions that may not necessarily occur as projected. Consequently, readers are cautioned that these forecasts may not be appropriate for purposes other than that described above.

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

A review is substantially less in scope than audit examination conducted in accordance with Australian Auditing Standards. In addition, because assumptions relate to future events and management actions which may not necessarily occur as projected, and variations may be material we are not in a position to, and do not express an opinion on whether the results for the period ending 30 June 2000, and for the financial years ending 30 June 2001 to 2004 will approximate these forecasts.

Statement

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

(a) the assumptions as set out in section 12.1 of the prospectus do not provide a reasonable basis for the preparation of the forecasts.

(b) the forecasts are not properly prepared on the basis of the assumptions as set out in section 13.1 of the Prospectus.

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

Yours sincerely

BDO Kendalls Securities Limited

Paul Gallagher
Proper Authority

16 THE MANAGER

16.1 PROPERTY FUNDS AUSTRALIA

Property Funds Australia Limited (which with over $130 million of property under management) is one of Australia's larger managers of syndicated property investments. It is the responsible entity and Manager of the Fund and manages the Properties on the Owners' behalf.

The Manager holds a security dealers licence No. 171414 issued by ASIC which permits it to be a responsible entity and manage property syndicates and property trusts. To obtain such a licence, the Manager has demonstrated to ASIC that it is capable of undertaking the role of the responsible entity of managed investment schemes such as this Fund.

The Manager's directors and officers have a wide variety of background skills and experience in areas critical to the successful identification, acquisition, management and sale of the Properties 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.

16.2 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 Law. 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.

16.3 THE MANAGER'S REMUNERATION

The Manager is 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 is entitled to recover additional amounts on account of GST. Based on advice from the Manager's tax advisers, the Manager is of the view that the net effect of GST (applicable to its fees and expenses) on Investors as a consequence of inputs tax credits will be minimal.

16.4 PROPERTY MANAGEMENT

Day to day physical property management and rent collection duties are currently carried out by property managers external to the Manager. Fees payable to these property managers are in accordance with normal market rates payable to licensed real estate agents performing this type of service.

16.5 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.

Other properties managed by

PROPERTY FUNDS AUSTRALIA LIMITED

Left: Anzac Square
Below: The Cooparoo Property
Below Left: The MacGregor Property
Bottom: Garden Square

16.6 MANAGER'S INSURANCE

The Manager has professional indemnity insurance cover effected with a reputable insurer to assist in protecting Investors against the unlikely event of negligent management of the Fund.

16.7 COMPLIANCE COMMITTEE

The Manager has established and registered compliance plans for the Syndicate and the Trust. A summary of the key features of the compliance plans is set out in section 20.11. Compliance issues are monitored and managed by the compliance committee.

To assist in independence and objectivity, the majority of the compliance committee members are 'external members' as required by the Corporations Law.

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

The Directors of the Manager *(left to right)* Christopher Morton (Managing Director), Clive Schultz, Archibald Douglas, Rodney Keown (Chairman).

16.8 DIRECTORS OF THE MANAGER

Rodney Michael Keown

Chairman

Rod Keown is the Chairman of the Manager. He is a Fellow of the Australian Property Institute.

He has been involved in the property investment, agency and the property funds management industries for the past 28 years. He was one of the pioneers of the property trust industry in particular as one of the early appointees to Growth Equities Mutual Limited, which became one of Australia's larger property trust managers. He retired from that organisation as the executive director in charge of listed property trusts with a property portfolio of almost $1 billion under his supervision.

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

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

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

Christopher Arthur Morton

Managing Director

Chris Morton holds the degrees of Bachelor of Commerce and Bachelor of Laws from the University of Queensland and a Master of Laws from Cambridge University (United Kingdom). He has been admitted as a solicitor for over 18 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 also in his career held an accounting position and was an Associate to a Supreme Court Judge.

He has managed the successful syndication, redevelopment and sale of significant CBD office buildings. Chris is currently a committee member of a Property Council of Australia committee and the Australian Direct Property Investment Association.

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

Archibald Norman Douglas

Director

Archibald Douglas is a licensed real estate agent who is the joint managing director and co-founder of PRD Realty a major national real estate agency 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.

Archie Douglas with 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 will utilise this experience to enhance the timing of its decisions and up to date understanding of the property market.

Clive Douglas Schultz

Director

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

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

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

17 THE CUSTODIAN

17.1 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 Melbourne. The total number of staff throughout the company is approximately 130.

17.2 THE CUSTODIAN'S ROLE

The impracticality of having the names of all Owners on title and/or leases, accounts and applications, means the Custodian acquires 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 20.12.

17.3 THE CUSTODIAN'S REMUNERATION

The Custodian receives an annual fee of $17,000 p.a. (indexed to CPI annually and adjusted for GST). The Custodian received a one off establishment fee of $7,500 at the time of settlement of the Properties. 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.

17.4 CHANGING THE CUSTODIAN

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

17.5 OTHER COMMENTS

The Custodian has not been involved in the preparation of this Prospectus 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.

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.

18.1 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.

18.2 LIQUIDITY AND SECONDARY MARKETS

Whilst there are proposals for Lots and Units to be able to be traded on a formal secondary market (see section 8.7) there is no certainty that the relevant approvals necessary for the Manager to conduct that market will be given or that there will be sufficient liquidity in that market to enable an Investor to dispose of their Interests within a timeframe and terms acceptable to them. No Investor has the right to redeem their Investment. The Manager is not permitted to buy back an Investor's Interest.

18.3 FIXED 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 8.6 and 20.9).

18.4 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 allowed in the Syndicate's forecast cash arrangements for the purchase of interest rate management products to minimise 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.

18.5 LEGAL

Adverse consequences to investments can occur because of amendments to statutes and regulations affecting them. Taxation analysis of forecast income and Tax Sheltered portions of income are based on tax law current at the date of this Prospectus and its interpretation by the taxation advisers to the Fund. The law or taxation reform proposals current at the date of this Prospectus may be changed during the term of the investment or new decisions or determinations may alter the way the law is generally interpreted.

18.6 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.

18.7 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.

18.8 TAXATION LAW

Taxation law is currently in a considerable state of flux, principally relating to the introduction of GST and taxation reform proposals. (see section 14). In respect of GST, certain assumptions have been made as to the valuation profession's approach to valuer determinations upon market rent reviews relating to whether GST payable under a taxable supply under a lease is recoverable or non-recoverable from a tenant under the terms of a particular lease. As at the date of this Prospectus, no established practice has emerged to provide greater certainty.

Some regulations relating to the practical application of GST are yet to be issued. These regulations may significantly affect the approach that is being taken by the Manager's taxation and legal advisers.

18.9 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.

Above: Seating and playground area at Homeworld

Top Right: View of Post Office Square from Adelaide Street

Chesterton

22 September 1999

The Directors

Property Funds Australia Limited

PO Box 10398

BRISBANE ADELAIDE STREET QLD 4000

CORPORATE PROPERTY ADVISORS

Level 14
Commonwealth Bank Building
240 Queen Street, Brisbane QLD 4000
GPO Box 2533 Brisbane QLD 4001
Fax (07) 3229 0446
Telephone (07) 3229 7350

Dear Sirs

PROPERTY VALUATION SUMMARY – POST OFFICE SQUARE - BRISBANE

We refer to your instructions requesting us to prepare a valuation subject to existing tenancies of the above property. Our valuation is based upon information available in respect of the property and reflects market conditions currently prevailing.

SYNOPSIS

Post Office Square as the name implies is located directly opposite the Brisbane GPO in the heart of the Brisbane CBD in the Brisbane City Council area.

The carpark is leased to Kings Parking Corporate Pty Ltd which is a wholly owned subsidiary of a public company. The covenant provided by the tenants in the retail is also strong with national brands such as Bookworld, Suncorp, Flight Centres and Advance Bank.

The carpark lease is for a ten year term with a five year option and although nominating a component of rental as outgoings is effectively a gross lease. Reviews are annual 4% increases, on both the rental and outgoings components.

The retail component of the property being acquired is undergoing a changed tenancy mix which incorporates many new tenancies, albeit with many of the same tenants. The tenancy envelopes however are not being altered. At the date of this report agreement had been reached with 19 tenants. Agreement was yet to be reached on 5 tenancies including two sitting tenants. The terms of the 19 agreed leases are:-

5 years	9 tenants
6 years	3 tenants
7 years	4 tenants
9 years	1 tenants
10 years	2 tenants

We believe a similar pattern will emerge for the remaining leases. Eleven of the agreed leases have just been negotiated and eight are pre-existing. None of the leases include option provisions.

EFFECTIVE DATE OF VALUATION

The property was inspected on numerous occasions between 1 July 1999 and 31 August 1999 and the date of valuation is 1st November, 1999.

VALUATION ASSUMPTIONS

Assumptions made in our full report of the property are summarised as follows:-

Title

We have relied upon comprehensive title search information provided by the Manager's solicitors. We also assume that registered mortgages over the property would be discharged prior to settlement as the contract documentation requires.

Contamination

For the purposes of this report we have assumed that the site is not contaminated. An Environmental report by Coffey raises no matter of concern and concludes that the "Post Office Square site has a low potential for contamination." A search of the Environmental Management and Contaminated Land Register states that the property is not included.

Easements/Encroachments

The property has been satisfactorily identified by inspection and comparison with Registered Plan No. 127671. There are numerous easements involving the subject and adjoining land both affecting and benefiting the Post Office Square.

Basis of Valuation

This valuation is determined on the basis that the property, the title thereto and its use is not affected by any other matter than that mentioned in the report. Specifically, we have assumed that the property is not affected by financial liens of any nature.

Material Relied Upon

The following reports and documents have been specifically relied upon in the preparation of this valuation.

- Letter of Instruction of the Manager
- Deed of Put and Call Option to Purchase Post Office Square, including contract of sale, guaranteed tenancy schedule, standard retail lease, carpark lease
- Title documentation, relevant plans and Anzac Square Development Project Agreement
- Executed leases and letters of intent
- Legal due diligence - McCullough Robertson and technical due diligence by various consultants
- Town planning certificate
- Management report for June 1999 and audited outgoings 1996/97 and 1997/98

VALUATION APPROACH

In assessing the current market value of the subject property we have relied jointly upon the capitalisation of the net market income fully leased and adjusted for current leases in conjunction with discounted cash flow analysis.

The property has two different income streams being the carpark and the retail. We have completed our analysis adopting a different risk weighting to each component which in our opinion provides the preferred understanding of the investment.

The subject property is unique and therefore we are unable to identify any sale that could be said to be directly comparable even to a part of the subject. We have therefore had regard to a broad range of sales, each of which has added to our understanding of the market sentiment to the subject property. The four sales which contributed most to our analysis sold at the following capitalisation rates

Broadway on the Mall	8.06%
McWhirters Fortitude Valley	7.96%
172 Flinders St, Melbourne	8.34%
Herald & Weekly Times, Melbourne	8.80%

We adopted a capitalisation rate of 8.1% which includes an upward adjustment of 0.1% to reflect the terminating tenure in April 2059. We perceive there is a greater risk in the projected cash flow for the carpark than the retail and have adopted Internal Rates of Return of 11.25% and 10.5% respectively. The two approaches show the following results:-

Capitalisation approach	$49,600,000
Discounted Cash Flow approach	$49,800,000

VALUATION

We estimate the market value of Post Office Square 280 Queen Street Brisbane as at 1st November, 1999 and subject to details referred to in the body of this report, at:-

FORTY NINE MILLION, SIX HUNDRED THOUSAND DOLLARS
$49,600,000

Disclaimer

We confirm that this summary may be used in the Prospectus.

In accordance with instructions, we advise we do not have a pecuniary or other interest that would conflict with the proper valuation of the property.

Allen J Crawford of Chesterton Corporate Property Advisors, Brisbane, has prepared this summary. Allen J Crawford was involved only in the preparation of the summary and the valuation referred herein and specifically disclaims liability to any person in the event of any omission from false or misleading statements included in the Prospectus, other than in respect of the valuation report and this summary.

Chesterton Valuations (Qld) Pty Ltd trading as Chesterton Corporate Property Advisors were involved in the preparation of the valuation report and this summary and the valuation referred to therein only to the extent of the involvement of Allen J Crawford, and specifically disclaims liability to any person in the event of omission from, or false or misleading statement included in the prospectus, other than in respect of the valuation and summary.

Yours faithfully

CHESTERTON CORPORATE PROPERTY ADVISORS

ALLEN J CRAWFORD F.A.P.I.

Certified Practising Valuer

The Valuers Registration Board of Qld.
Registered Valuer No. 1604
Executive Director

CB Richard Ellis

CB Richard Ellis (NZ) Pty Ltd
ACN 002 309 337
255 George Street
Sydney 2000 Australia
Tel 61 2 9251 3333
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DX 10262
www.cbrichardellis.com

22 September 1999

The Directors

Property Funds Australia Limited

Level 14, Indus House

127 Creek Street

Brisbane QLD 4000

Dear Sirs

Homeworld Centre, Tuggeranong Town Centre, Canberra, ACT

1 Instructions

We refer to your written instructions requesting a formal valuation report and a valuation summary in respect of a mixed retail and commercial development known as Homeworld Centre, Tuggeranong, Australian Capital Territory. We have specifically been instructed to provide our opinion of market value of the crown leasehold interest in the property, subject to existing leases and occupancy arrangements and the terms of a rental support deed, as at 22 September 1999.

We have prepared a comprehensive formal valuation report (the Report) in accordance with the provisions of Corporations Law. However, for the specific purposes of this Prospectus, we provide a summary of the report outlining key factors which have been considered in arriving at our opinion of Market Value. For further information to that contained herein, we recommend that reference be made to the Report, a copy of which is held by you as the Manager.

2 Brief Description

The Homeworld Centre comprises a mixed retail and commercial development originally dating 1988, being located within the Tuggeranong Town Centre, being one of 3 planned non-metropolitan town centres within the ACT. The property comprises a range of seven separate buildings arranged around a central on grade car parking area with space for some 338 vehicles. Two of the buildings are arranged over 2 levels, comprising ground floor retail space with commercial office accommodation above. The remaining five buildings consist solely of single level structures containing ground level retail accommodation fronting directly onto the central parking area.

The property presently extends to a Gross Lettable Area (G.L.A.) of approximately 12,361.29 square metres and comprise improvements which are of brick, concrete block and concrete frame construction.

The improvements are situated on a rectangular shaped site of some 21,940 square metres.

3 Tenancy Details

The property incorporates ground level retail accommodation extending in total to 41 outlets, together with upper level commercial office space.

At the date of valuation the property incorporated 37 occupied specialty outlets, 29 of which are held by way of executed formal lease agreements, with a further 7 shops occupied by way of Agreements to Lease or draft leases and 1 outlet occupied on a monthly licence basis. There are 4 shops presently vacant and non income producing, extending to a combined G.L.A. of 309.74.square metres.

The retail leases, which vary from 3 to 6 years duration provide for the payment of Base Rent, generally being reviewed annually in accordance with either percentage rental uplifts Consumer Price Index (C.P.I.) adjustments. The rental income from the overall property is underpinned by a 12 year lease to the ACT Administration effective from 1 July 1997, at a commencing rental of $970,432 per annum. The rental is fixed for the initial 3 years of the term, but is thereafter subject to a review to 'Fair Market Rent' on 30 June 2000 and 2 yearly thereafter. It is our opinion that the passing rent is in excess of prevailing market rental levels and our approach to valuation assumes a reduction in rent effective from 1 July 2000.

We understand the property is however being purchased with the benefit of a rental support deed. The rental support deed principally provides rental support for any vacant areas, a monthly tenant and tenants who are in the midst of finalising legal documentation for renewals of their existing leases. Significant cash security is provided by the vendor. The rental support deed also effectively guarantees the current level of rental income from the ACT Administration office space over a period of two future market rent reviews, namely until 30 June 2004. The cash flow implications of the agreed rental support deed have been reflected in our valuation computations.

4 *Market Commentary*

The investor market for convenience, neighbourhood, bulky goods and sub-regional shopping centres remains particularly buoyant at present, with a diverse range of potential purchasers seeking the limited available stock. The tightly held ownership of the majority of existing retail assets has resulted in limited transaction activity during the recent past. However, of those sales that have occurred in the overall New South Wales market, we consider the most relevant to the subject to include the following:

- *HunterMall, Maitland* - a sub-regional centre of 14,560 square metres, anchored by a combined Coles/K mart tenancy with lease security until 2010, together with a range of specialties. The property was acquired during April 1999 at a reported price of $22.05 million. On our analysis, the transaction indicated an equated yield at approximately 11.00%.
- *Lennox Shopping Centre, Emu Plains* - an enclosed sub-regional centre of 9,384 square metres acquired during April 1999 for a price of $20.00 million. This Woolworths and Franklins anchored centre incorporates a total of 34 specialty outlets, together with an external BBC Hardware outlet. Our analysis of this deal also indicates an equated yield at 11.00%.

5 *Valuation Rationale*

Our opinion of Market Value has been determined using both a capitalisation approach to valuation and a discounted cashflow analysis. In the former, the net income derivable from Homeworld has been estimated having regard to the estimated income receivable from the property at the date of valuation, as adjusted to reflect the benefits of the agreed Rental Support Deed. From our estimate of total income, which incorporates limited outgoing recoveries from the office tenant, we have deducted both recoverable and non-recoverable outgoings expenditure, together with an ongoing vacancy allowance at 1.50% of retail annual gross income.

We have capitalised our resultant estimate of net income on an effectively fully let basis (due to the Rental Support Deed) at a yield of 11.50%. This has been deduced having regard to our analysis of comparable evidence. We have thereafter made a number of capital adjustments to the valuation. These include an addition of $200,000 in lieu of income guarantee available in respect of the vacant accommodation. This offsets the rental void and leasing allowances for currently vacant space as incorporated in the valuation. An allowance of $832,225 has also been included to reflect our estimate of the negative capitalised reversionary value ascribable to the ACT Administration office space, albeit deferred until the Rental Support Deed ceases on 30 June 2004. Finally, a capital expenditure allowance of $100,000 has also been incorporated to facilitate remedial upgrading works to enhance the property over the course of the short to medium term. On the basis of the above, our analysis indicates a Market Value for the property, as at the date of valuation, in the order $23.60 million.

In addition to the above, we have also undertaken a discounted cashflow analysis, which utilises projected future income streams. Such an analysis is based upon a range of specific assumptions, including:

- a 10 year investment horizon commencing 22 September 1999 and reflecting a terminal capitalisation rate of 13.00%.
- the adoption of a pre-selected range of internal rates of return of between 12.50% and 13.30%, as deduced by the analysis of comparable sales..

CB Richard Ellis

Our analysis on the basis of the aforementioned parameters indicates a range in value of between $23.60 million and $24.3 million and a corresponding mid-point value of $23.7 million on the basis of an internal rate of return in the order of 12.50% to 13.50%. Taking into consideration the merits of the alternative approaches to valuation, for the purposes of the valuation we have adopted an opinion that the fair Market Value for the property, with the benefit of the rental support deed at $23.70 million.

6 Valuation Summary

We are of the opinion that the Market Value of the Crown leasehold interest in the property, subject to existing leases and occupancy arrangements, the specific terms of a Rental Support Deed and subject to the content of the Report, as at **22 September 1999** is:-

$23,700,000

(Twenty Three Million, Seven Hundred Thousand Dollars).

7 Acquisition Price

We understand that the property is being acquired for consideration at $23,778,136 a figure only marginally in excess of the adopted opinion of Market Value. For practical real estate purchases, given prevailing strong investment market conditions, we are of the opinion that a purchase price in this order is both fair and reasonable.

8 Disclaimer

Messrs Proudlove, CB Richard Ellis (N2) Pty Ltd and W. Van Balen, CB Richard Ellis (A) Pty Ltd have prepared the Summary which appears in this Prospectus. Messrs Proudlove and Van Balen were involved only in the preparation of this Summary and the Report referred to herein and specifically disclaim liability to any person in the event of any omission from or false or misleading statement included in the prospectus, other than in respect of the Report and this Summary valuation.

CB Richard Ellis (N2) Pty Ltd and CB Richard Ellis (A) Pty Ltd was involved in the preparation of the information and Summary which appears in this Prospectus only to the extent of the involvement of Messrs Proudlove and Van Balen and specifically disclaim liability to any person in the event of any omission from, or false or misleading statement included in the Prospectus, other than in respect of the information provided within the Report and Summary herein.

Yours sincerely,

CB RICHARD ELLIS (N2) PTY LTD
Neil F. Proudlove ARICS AAPI

Registered Valuer No. 3828
Director – Professional Services

CB RICHARD ELLIS (A) PTY LTD
Wayne Van Balen AAPI

Registered Valuer No. 2791
Associate Director – Professional Services

"We will continue to bring to you many property investment opportunities of this quality in the future.

We hope that you will take up these opportunities over the long term so as to minimise risk through further diversification.

This, we believe, is a prudent property investment strategy."

CHRISTOPHER MORTON
Managing Director
Property Funds Australia Limited

20 ADDITIONAL INFORMATION

20.1 DOCUMENTS AVAILABLE FOR INSPECTION

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

- the documents summarised in this section.
- the consents to the issue of this Prospectus.
- the full valuation of each of the Properties.

20.2 CONSENTS

McCullough Robertson has given its written consent to being named in this Prospectus as legal adviser to the Manager.

BDO Kendalls Securities Limited has given its written consent to the issue of this Prospectus with its Independent Review dated 25 February 2000 in section 15.

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

Hacketts has given its written consent to being named in this Prospectus as accountant.

Chesterton Valuations (Qld) Pty Ltd has given its written consent to the issue of this Prospectus with its valuation summary report dated 22 September 1999 in section 19.

CB Richard Ellis (A) Pty Ltd has given its written consent to the issue of this Prospectus with its valuation summary report dated 22 September 1999 in section 19.

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

Trust Company of Australia Limited is not the issuer of this Prospectus and has not prepared this Prospectus. Trust Company of Australia Limited makes no representation and takes no responsibility for the accuracy or truth of any statement or omission from any part of this Prospectus.

Each of the experts named in this section 20.2 have given their consent and not withdrawn their consent before registration of this Prospectus with ASIC.

20.3 INTEREST OF EXPERTS

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

- McCullough Robertson undertook a significant amount of the legal work required for the Initial Public Offering. McCullough Robertson also undertook legal work in respect of the preparation of this Prospectus and an amount of $7,500 has been paid or is agreed to be paid by the Manager out of its own funds for these services.
- BDO Kendalls Securities Limited and BDO Kendalls undertook accountancy and taxation work required for the Initial Public Offering. BDO Kendalls Securities Limited has provided accounting and taxation advice in respect of this Prospectus and the Independent Review in section 15, an amount of $8,000 has been paid or is agreed to be paid by the Manager out of its own funds for these services.M
- Chesterton Valuations (Qld) Pty Ltd undertook the valuation and prepared the valuation summary report in section 19. An amount of $50,000 was paid in respect of these and other services for the Initial Public Offering.
- CB Richard Ellis (No.2) Pty Ltd undertook the valuation and prepared the valuation summary report in section 19. An amount of $15,000 has been paid or is agreed to be paid in respect of these and other services for the Initial Public Offering.

The experts named in this section do not make or purport to make, any statement in this Prospectus other than in relation to their respective reports (if any) included in this Prospectus and are not responsible for any other statement. The experts have not authorised or caused the issue of this Prospectus.

20.4 DISCLOSURE OF INTERESTS

Manager and Directors of the Manager

Other than as set out below or elsewhere in the Prospectus, no director of the Manager has an interest in the promotion of the 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 or the Offered Investment.

- Entities associated with Christopher Morton and Archibald Douglas own shares in the Manager.
- PRD Realty Pty Ltd may provide property management services to manage either of the Properties.
- Archibald Douglas has an interest in PRD Consulting Services Pty. Ltd. and PRD Realty.

- Persons associated with PRD Realty received fees associated with the raising of Subscriptions in the Initial Public Offering. These fees were paid by the Manager from its own fund.
- The Manager has an interest in the promotion of this Investment in that it is the vendor of the extent of the outstanding Offered Investment. The Offered Investment is subject to reduction throughout the term of this Prospectus and can be up to $9,650,000 in Lots and $7,840,000 in Units.

Custodian and Directors of the Custodian

At the date of this Prospectus 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 Offered Investment other than the remuneration to which it is entitled as Custodian.

20.5 UNDERWRITING

The Offered Investment is not underwritten.

20.6 AUDITOR

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

20.7 PROPERTY ACQUISITION CONTRACTS

The Properties were acquired on 30 December 1999. The principal terms of the purchase contracts were as follows:

POST OFFICE SQUARE

Parties:

Vendor: Seymour CBD Pty Ltd

Purchaser: Trust Company of Australia Limited as nominee for the Owners

Property: Post Office Square

Bounded by Queen Street, Isles Lane and Adelaide Street

Being lot 1 on RP 127671 County of Stanley Parish of North Brisbane

The property is benefited by a number of easements over adjoining properties and subject to easements granted in favour of adjoining properties

Purchase Price: $49,562,173

Special Conditions:

The vendor was required to refurbish the property in accordance with agreed plans and specifications by 30 November 1999.

The vendor was required to diligently use its reasonable endeavours to secure execution of leases in respect of any areas that prior to settlement were subject to periodic tenancies or which were vacant. The cost of procuring those leases was to the vendors cost. Any leases entered into were required to comply with certain minimum lease provisions including:

- initial terms of not less than 5 years;
- not less than the agreed base rent for each tenancy contained in a schedule to the contract;
- minimum base rent increases of at least 4% per annum;
- not granting any incentives;
- any tenant to be respectable, responsible and solvent and have a reasonable business background and ability.

In the event that there was at settlement, any vacant or periodic tenancies the vendor is to pay rent support to the purchaser with respect to that tenancy area for 3 years (and in some cases 5 years). The amount of that rent support for each tenancy is in accordance with an agreed schedule to the contract.

The vendor paid at settlement an amount that equates to the aggregate of the rent support payable in respect of any rent supported tenancies to an escrow agent as security for the vendor's rental support obligation. The vendor's liability is capped at the amount of that security.

In the event that any supply by the purchaser to the vendor is subject to GST and the vendor receives an input tax credit for the payment for that supply, the vendor is required to reimburse the purchaser for the GST payable on that supply.

The vendor was at its own cost required to remediate anything which was not Year 2000 compliant.

The vendor paid $300,000 into a bank account to underwrite non-recoverable outgoings of the property for a period of three years from settlement.

The vendor delivered at settlement a ten year car park lease in favour of Kings Parking Corporate Pty Ltd guaranteed by Ariadne Australia Limited in accordance with agreed rents and terms.

PURCHASE CONTRACT - HOMEWORLD

Parties:

Vendor: Dosto Pty Limited

Purchaser: Trust Company of Australia Limited as nominee for the Owners

Property: The Homeworld Centre, Tuggeranong. Being block 1322 and 1323 in district/division of Tuggeranong, Australian Capital Territory.

Purchase Price: $23,778,136

Special Conditions:

The vendor and the purchaser were required to sign a rental support deed at settlement.

The vendor was required to provide rental support for certain tenancies and areas including:

- certain current and prospective tenants that were in the final stages of the legal negotiation of their new leases (ie. should lease documentation not be finalised by settlement);
- a monthly tenant;
- one tenant which the Manager considered may have difficulty in meeting its future lease obligations;
- the ACT Government office tenancy.

The rental support extends for a maximum period of 2 years after settlement with exception of the ACT Government office lease where the support extends to 30 June, 2004. The amount of rental support is at rental rates contained in a schedule to the rental support deed, which in the case of ACT Government lease is at its current rental rate. Should the rental upon the next two market rent reviews on the ACT Government office lease be achieved above the rental supported rate, then any excess will be to the benefit of the vendor. The vendor's obligation in respect to the ACT Government lease is capped at $203,292 per annum or $223,621 (depending on GST recovery position of the lease) until 30 June 2004.

The vendor was required to indemnify the purchaser for any incentives offered to tenants prior to settlement or subject to rental support.

The vendor was required to pay $880,000 into an escrow agent as the initial rental support security. This security is not the total recourse of the purchaser to the vendor for rental support. In addition the vendor was required to deposit $200,000 into an account as a maximum obligation in respect of certain current vacant areas. Any leases entered into in respect of rental support premises were required to be in accordance with agreed minimum tenancy provisions.

The vendor was required to ensure that any equipment identified as not being Year 2000 compliant was compliant prior to settlement.

The vendor was required to undertake certain new car parking works and recarpeting at its cost and complete them in accordance with the agreed plans and specifications prior to settlement.

20.8 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 was purchased subject to that charge, the obligations under the Act and the Agreement.

Other agreements and arrangements (both of a benefit and burden nature) were 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, were 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.

20.9 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 Law.

Information about the Manager, its role and remuneration is summarised in section 16.

Remuneration of Manager

The Manager is entitled to receive the fees as set out in section 16. 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 Law 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.

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.

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 (refer to back of the Application Form) 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 Lotholdings.

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.

20.10 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.

20.11 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 Law, 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.

20.12 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.

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 17.

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

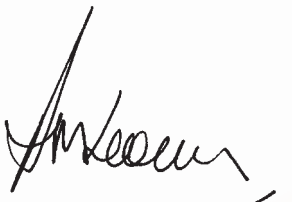
The Manager indemnifies the Custodian in respect of costs and expenses incurred relating to the assets.

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

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

Signed by each Director of the Manager

25 February 2000



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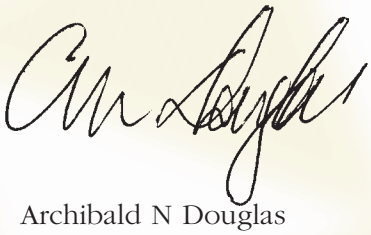
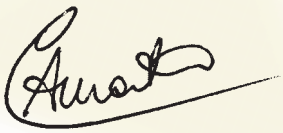


Archibald N Douglas



Christopher A Morton

Clive D Schultz

Instructions to Applicants Investing in the Syndicate

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

The Manager has the right to close the issue at any time. The Manager has the right to accept or reject any Application in whole or in part.

Minimum Subscription

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

Cheques

Cheques must be made payable to **'Property Funds Australia Limited'.** Please pin your cheque to the Application Form. Your cheque must be drawn in Australian currency. Receipts will not be issued.

Tax File Numbers

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

Distribution Bank Account Details

Monthly income distributions will be paid by electronic transfer to your bank account. Please ensure that your bank account details are correct. Your BSB Number is a six digit number which identifies your bank and branch. If unsure, please contact your bank to confirm the correct number.

Signing the Application Form

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

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

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

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

Witnessing & Dating

Your signed application form must be dated and witnessed.

Application forms which have not been witnessed may be considered incomplete and returned for your completion. **It is not necessary for the witness to be a J.P., Commissioner of Declaration or other similar person.**

Correspondence

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

Lodgement of Application Forms

Completed Application Forms and cheques must be sent to:

Property Funds Australia Limited
PO Box 10398
BRISBANE ADELAIDE STREET QLD 4000

Enquiries

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

Your signed Application Form must be dated.

Correct Forms of Registrable Names

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

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

Dealer/Advisor's Stamp

NOTE: THIS FORM IS TO BE COMPLETED BY THOSE INVESTORS
WHO ARE INVESTING IN THE SYNDICATE.

1. COMPLETE FULL NAME DETAILS (PLEASE PRINT)

Mr/Mrs/Miss/Ms | Surname/Company Name (including ACN) | Applicant Given Names (after surname)

Joint Applicant # 2

Joint Applicant # 3

2. POSTAL ADDRESS

Street No. | Street (or PO box details)

Suburb | State | Post Code

Country (if not Australia)

3. TELEPHONE NUMBERS

Area Code & Home Phone No. | Area Code & Work Phone No.

Area Code & Fax No. | Contact Person (if different to Applicant)

4. TAX FILE NUMBERS

Tax File No for App. #1 | Tax File No. For App. #2

Tax File No. For App. #3

5. I APPLY FOR LOTS IN THE CAPITAL COLLECTION – DIVERSE SECTOR FUND SYNDICATE No.1 FROM THE MANAGER IN THE AMOUNT OF: $

6. DISTRIBUTIONS

Insert Name of Account which is to be credited

Bank | Branch

BSB Number | Account Number

7. I acknowledge, agree and understand that:

- I have read and understood the Prospectus to which this application is attached;
- I agree to be bound by, accept and assume the loans and all associated unamortised borrowing costs relating to the Lot I acquire;
- the Manager may accept or reject this application in whole or in part;
- if my application is accepted, I agree to be bound by the Syndicate Constitution and any successor document or constitution; and
- by acquiring a Lot I am not contravening clause 38 of that Constitution.

Limited Power of Attorney

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

- to sign all documents necessary to arrange and complete loan facilities, on terms not materially more onerous than those set out in the Initial Public Offering on my behalf in proportion to my Subscription ('the Loans') including to execute agreements for the Loans in such form and substance as the Manager in its absolute discretion approves;
- to mortgage or charge my Interest in the Syndicate (including the Properties, their income and any authorised investments) to the financier of loans and to enter into hedging contracts or other interest rate management product agreements;
- if any loan falls due prior to the sale of the Properties, to roll it over or discharge it and enter into new Loans;
- sign all documents necessary to arrange and complete further Loan facilities as provided for in the Syndicate Constitution, the Corporations Law or contemplated by this Prospectus ('Further Loans') including to execute an agreement for the Further Loans in such form and substance as the Manager approves; and
- to make such amendments to a Loan as the Manager in its absolute discretion approves, whether or not involving changes to the parties;
- generally do all other acts or things on my behalf which the Manager may consider advisable, desirable or necessary in connection with or in relation to a Loan and any of the other finance transactions contemplated in the Prospectus as the case may be.

The Manager has no authority to put me at risk for more than my Subscription.

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

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

EXECUTED as a deed

Applicant

Joint Applicant #2

Joint Applicant #3

DATE: / /

Witness
Any other person
(Note: J.P. Commissioner of Declaration NOT REQUIRED)

Common Seal

Director

Director/Secretary

HOW TO APPLY

1. Fill out the Application Form on the opposite page.
2. Draw a cheque payable to 'Property Funds Australia Limited' and cross it 'Not Negotiable'.
3. Return the completed Application Form with the cheque to Property Funds Australia Limited, PO Box 10398, Brisbane Adelaide Street Q 4000.

OFFICE USE ONLY

Received / /

Dealer/Advisor's Stamp

NOTE: THIS FORM IS TO BE COMPLETED BY THOSE INVESTORS
WHO ARE INVESTING IN THE SYNDICATE.

1. COMPLETE FULL NAME DETAILS (PLEASE PRINT)

Mr/Mrs/Miss/Ms | Surname/Company Name (including ACN) | Applicant Given Names (after surname)

Joint Applicant # 2

Joint Applicant # 3

2. POSTAL ADDRESS

Street No. | Street (or PO box details)

Suburb | State | Post Code

Country (if not Australia)

3. TELEPHONE NUMBERS

Area Code & Home Phone No. | Area Code & Work Phone No.

Area Code & Fax No. | Contact Person (if different to Applicant)

4. TAX FILE NUMBERS

Tax File No for App. #1 | Tax File No. For App. #2

Tax File No. For App. #3

5. I APPLY FOR LOTS IN THE CAPITAL COLLECTION – DIVERSE SECTOR FUND SYNDICATE No.1 FROM THE MANAGER IN THE AMOUNT OF: $

6. DISTRIBUTIONS

Insert Name of Account which is to be credited

Bank | Branch

BSB Number | Account Number

7. I acknowledge, agree and understand that:

- I have read and understood the Prospectus to which this application is attached;
- I agree to be bound by, accept and assume the loans and all associated unamortised borrowing costs relating to the Lot I acquire;
- the Manager may accept or reject this application in whole or in part;
- if my application is accepted, I agree to be bound by the Syndicate Constitution and any successor document or constitution; and
- by acquiring a Lot I am not contravening clause 38 of that Constitution.

Limited Power of Attorney

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

- to sign all documents necessary to arrange and complete loan facilities, on terms not materially more onerous than those set out in the Initial Public Offering on my behalf in proportion to my Subscription ('the Loans') including to execute agreements for the Loans in such form and substance as the Manager in its absolute discretion approves;
- to mortgage or charge my Interest in the Syndicate (including the Properties, their income and any authorised investments) to the financier of loans and to enter into hedging contracts or other interest rate management product agreements;
- if any loan falls due prior to the sale of the Properties, to roll it over or discharge it and enter into new Loans;
- sign all documents necessary to arrange and complete further Loan facilities as provided for in the Syndicate Constitution, the Corporations Law or contemplated by this Prospectus ('Further Loans') including to execute an agreement for the Further Loans in such form and substance as the Manager approves; and
- to make such amendments to a Loan as the Manager in its absolute discretion approves, whether or not involving changes to the parties;
- generally do all other acts or things on my behalf which the Manager may consider advisable, desirable or necessary in connection with or in relation to a Loan and any of the other finance transactions contemplated in the Prospectus as the case may be.

The Manager has no authority to put me at risk for more than my Subscription.

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

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

EXECUTED as a deed

DATE: / /

Applicant

Joint Applicant #2

Witness
Any other person
(Note: J.P. Commissioner of Declaration NOT REQUIRED)

Joint Applicant #3

HOW TO APPLY

1. Fill out the Application Form on the opposite page.
2. Draw a cheque payable to 'Property Funds Australia Limited' and cross it 'Not Negotiable'.
3. Return the completed Application Form with the cheque to Property Funds Australia Limited, PO Box 10398, Brisbane Adelaide Street Q 4000.

Common Seal

Director

Director/Secretary

OFFICE USE ONLY

Received / /

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

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

The Manager has the right to close the issue at any time. The Manager has the right to accept or reject any Application in whole or in part.

Minimum Subscription

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

Cheques

Cheques must be made payable to **'Property Funds Australia Limited'.** Please pin your cheque to the Application Form. Your cheque must be in Australian currency. Receipts will not be issued.

Tax File Numbers

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

Distribution Bank Account Details

Monthly income distributions will be paid by electronic transfer to your bank account. Please ensure that your bank account details are correct. Your BSB Number is a six digit number which identifies your bank and branch. If unsure, please contact your bank to confirm the correct number.

Signing the Application Form

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

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

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

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

Correspondence

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

Lodgement of Application Forms

Completed Application Forms and cheques must be sent to:

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BRISBANE ADELAIDE STREET QLD 4000

Enquiries

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

Your signed Application Form must be dated.

Correct forms of registrable names

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

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

Application Form
TRUST

Dealer/Advisor's Stamp

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

1. COMPLETE FULL NAME DETAILS (PLEASE PRINT)

Mr/Mrs/Miss/Ms | Surname/Company Name (including A.C.N.) | Applicant Given Names (after surname)

Mr/Mrs/Miss/Ms | Joint Applicant # 2

Mr/Mrs/Miss/Ms | Joint Applicant #3

Reference No.

2. POSTAL ADDRESS

Street No. | Street (or PO box details)

Suburb | State | Post Code

Country (if not Australia)

3. TELEPHONE NUMBERS

Area Code & Home Phone No. | Area Code & Work Phone No.

Area Code & Fax No. | Contact Person (if different to Applicant)

4. TAX FILE NUMBERS

Tax File No for App. #1 | Tax File No. For App. #2

Tax File No. For App. #3

5. I/WE APPLY FOR

UNITS OF $1 PER UNIT IN THE CAPITAL COLLECTION - DIVERSE SECTOR FUND TRUST No.1 & LODGE APPLICATION MONEY. $

6. DISTRIBUTIONS

Insert Name of Account which is to be credited

Bank | Branch

BSB Number | Account Number

Prospectus No.

7. I acknowledge, agree and understand that:-

a) My application is made on the basis that pending completion of the purchase of the first property in the Portfolio, my Subscription will be held by the Trustee and will be returned to me if the purchase does not proceed or if my application is not accepted.
b) I have read and understood the Prospectus to which this application is attached.
c) the Manager may accept or reject this application in whole or in part.
d) if my application is accepted I agree to be bound by the Trust Deed and any successor document or constitution.

EXECUTED as a deed

Applicant

Joint Applicant #2

Joint Applicant #3

DATE: / /

Corporations signing under common seal sign here.

Common Seal

Director

Director/Secretary

OFFICE USE ONLY

Received / /