

THE CAPITAL *Collection*

DIVERSE SECTOR FUND TRUST NO. 1
ARSN 088 775 259

2002 ANNUAL REPORT

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The Capital Collection – Diverse Sector Fund is a dual asset, fixed term direct property investment. It owns Post Office Square (a Brisbane CBD retail and public car parking facility) and the Homeworld Centre (a mixed use property encompassing a retail and office component) situated at Tuggeranong, Canberra, ACT.

The Fund has a two-tiered structure enabling investors to invest directly into a Syndicate or via a Trust.

Lots/units in the Syndicate/Trust are currently not listed on any exchange.

The Fund is managed by Property Funds Australia Limited. Details of the Manager can be obtained from the Manager's website www.pfaltd.com.au.



HIGHLIGHTS

FINANCIAL YEAR 01/02

Distribution rate per annum	9.2%
Tax Sheltered Percentage	81.2%
Est. Net Asset Backing** per lot/unit	94.5¢
% Borrowings to Total Assets*	58%
Book Value of Properties*	\$76.3M
Total Owners' Equity*	\$34.74M
Percentage of Nett Lettable Area unlet*	7.36%~
Capital Expenditure during year	\$1,297,775
Weighed Average Interest Rate*	7.6%

* as at 30 June, 2002

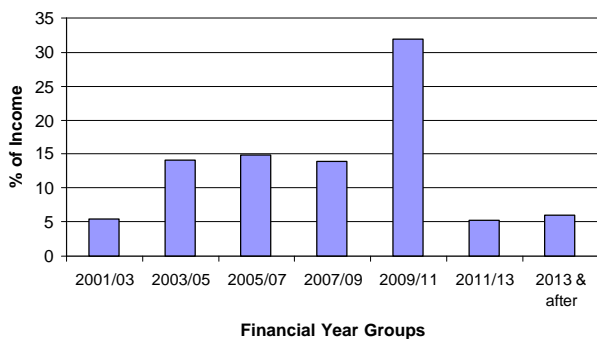
~ This percentage reduces by 5.3% upon the Woolworths transaction commencing (see Manager's Report)

** This amount is calculated by dividing syndicate/trust equity (as at the balance date) by contributed capital. It should not be interpreted as indicative of realizable value as at balance date. The amount contains intangible assets (see Note 8) and is not a NTA.

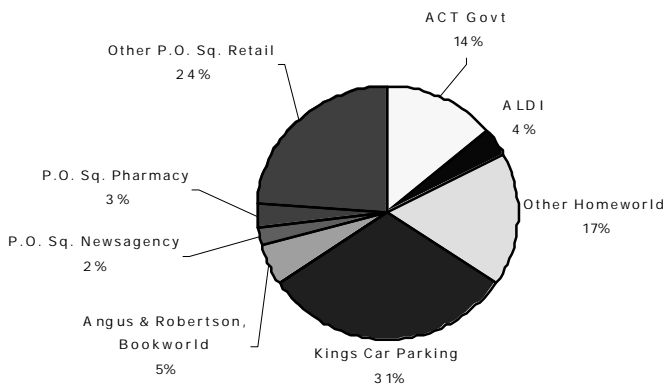


PORTFOLIO STATUS

LEASE EXPIRY PROFILE



TENANT BREAKDOWN (BY INCOME)



MANAGER'S REPORT

The Directors of Property Funds Australia Limited (the Manager) as responsible entity submit the following Annual Report of The Capital Collection – Diverse Sector Fund Syndicate No. 1 and The Capital Collection – Diverse Sector Fund Trust No. 1 (collectively referred to as the Fund) for the financial year ended 30 June, 2002.

DIRECTORS OF THE MANAGER

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

Christopher A Morton	
Rodney M Keown	(resigned 16 August, 2001)
Archibald N Douglas	
Clive D Schultz	(resigned 28 February, 2002)
David J Conquest	
Elizabeth A Pidgeon	(appointed 30 August, 2001)
Matthew B Madsen	(appointed 30 August, 2001)

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

PRINCIPAL ACTIVITIES

The principal activity of the Syndicate is to invest in Post Office Square and the Homeworld Centre. The principal activity of the Trust is to invest via the Syndicate into the same properties. There has been no significant change in the nature of the activities of the Syndicate or the Trust during the year.

DISTRIBUTIONS – FOR THE YEAR ENDED 30 JUNE, 2002

Distributions for the year equated to 9.2% per annum on the contributed capital subscribed by investors in the Fund.

DISTRIBUTION POLICY – FOR THE YEAR ENDING 30 JUNE, 2003

Proposed distributions for the year ending 30 June, 2003 equate to a yield of 8.0% per annum on the contributed capital subscribed by investors in the Fund. This drop in distribution has been significantly influenced by:-

- The number of long term leases that have been recently finalised (ALDI, Woolworths, ACT Government Shopfront, etc.) and their consequent capital works, incentives, rent frees, relocations, related created vacancies, etc. which have and will put pressure on Fund cash flows despite their value adding nature.
- Increases in operating costs, particularly insurance and land tax.

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



OPERATING RESULTS

The Syndicate's profit was \$1,052,004. Before accounting depreciation, amortisations and other non-cash items, the Syndicate's profit was \$2,213,895. The Syndicate's taxable income was \$4,477,454.

The Trust's profit was \$498,943 and its taxable income \$301,952.

REVIEW OF OPERATIONS

Set out below is a brief summary of the year:-

Homeworld Centre

- An increase in the value of the Homeworld Centre from \$23.7M to \$26.6M;
- The commencement of the following significant retail tenancies:-
 - ALDI Supermarkets lease (15 years);
 - ACT Government Shopfront facility (10 years); and
 - NCDI Radiology (10 years).
- Post balance date, the finalisation of:-
 - lease terms with Woolworths Limited (Dan Murphy's) for a 15 year lease in that area recently vacated by BBC Hardware;
 - the following new tenancies or renewals:-
 - Kashan Real Estate – new lease (4 years);
 - On Location – renewal (5 years); and
 - AVCO Financial Services – renewal (5 years).
- A significant increase in insurance costs.

Post Office Square

- The finalisation of two significant street frontage tenancies being:-
 - the Coffee Club (10 years); and
 - Post Office Square Newsagency (12 years).
- The commencement of four other leases being:-
 - Tie Rack (5 years);
 - Dry cleaner (7 years);
 - Subway (10 years); and
 - Ichiban Sushi (5 years).
- The introduction of two ATM's into the food court area on three year lease terms;
- Increases in operating expenses significantly due to substantial increases in insurance and land tax costs.



General

- The increase of debt by \$2.1M against the Homeworld Centre, fundamentally to bring about the ALDI Supermarkets 15 year lease;
- An impressive 50% increase since settlement in the weighted average lease expiry profile of the retail component of the portfolio from 4 years to 6 years (upon final conclusion of the Woolworth's transaction);
- After a comprehensive tender process, the appointment of Knight Frank to take over property management functions from Jones Lang LaSalle;
- The introduction of "inhouse" registry services rather than using external providers.

AUSTRALIAN PROPERTY EXCHANGE ("APX")

On 7 January, 2002, after many months of ASIC negotiations, comment and input, ASIC released the APX Application for a Stock Exchange Licence for public comment and consultation. ASIC then requested a further amended application after the Financial Services Reform Act came into being on 11 March, 2002 which request was completed with.

We are advised that ASIC still have not recommended the application to the Minister and meetings are pending between the Minister and representatives of the APX. The matter currently is a state of flux.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

There were no significant changes in the Fund's state of affairs during the financial year other than those referred to elsewhere in this report.

AFTER BALANCE DATE EVENTS

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

FUTURE DEVELOPMENTS

The results of operations in future financial years are difficult to anticipate beyond 30 June, 2003.

ENVIRONMENTAL ISSUES

The Funds operations are not subject to any significant environmental regulation under Commonwealth or State legislation other than that which any real property located in the Queensland or the ACT could be subjected.

OPTIONS

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



INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

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

PROCEEDINGS ON BEHALF OF MANAGER

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

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

Christopher A. Morton
Managing Director

18 September, 2002



CORPORATE GOVERNANCE

The Corporate Governance practices of the Manager are set out below. Unless otherwise stated, these practices were in place for the entire period.

THE MANAGER

Property Funds Australia Limited (the Manager) is the Responsible Entity of the Fund. The role of the Responsible Entity is to manage the Fund in the Investors' best interests in accordance with the Constitution and the Law.

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

THE BOARD OF THE MANAGER

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

Christopher A Morton (Managing Director)

Archibald N Douglas (Non-Executive)

Elizabeth A Pidgeon (Non-Executive)

David J Conquest (Executive)

Matthew B Madsen (Executive)

The Board has access to all documents and information necessary to discharge its duties and responsibilities. Board meetings are generally held monthly with additional meetings held as necessary.

COMPLIANCE MONITORING AND REPORTING

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

THE COMPLIANCE COMMITTEE

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

- Mr Bede King (External Chairman): Mr King is a senior legal practitioner previously practising in corporate and property areas of the law and is a partner of the legal firm Tobin King Lateef.
- Mr Ray Kellerman (External Member): Mr Kellerman is the former Head of Compliance Services, Perpetual Trustees Limited, a long established trustee company.
- Mr Chris Morton (Managing Director).



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

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

INDEPENDENT PROFESSIONAL ADVICE

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

ACCESS TO INFORMATION

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

FUNDS MANAGEMENT REVIEW COMMITTEE

The Funds Management Review Committee is a committee of the senior executives of the Manager (currently comprising the Managing Director, an Executive Director and the Fund Manager). The Committee (which was recently established) reviews significant matters as they arise (including capital expenditures, leasing proposals and distributions).

RISK MANAGEMENT

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

REMUNERATION OF EXPENSES

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

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

AUDIT

The Manager does not have a formally constituted audit committee.

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



Statement of Financial Performance

FOR THE YEAR ENDED 30 JUNE, 2002

	Note	2002 \$	2001 \$
Revenue from ordinary activities			
Distributions received		1,603,468	1,600,563
Interest received		722	1,049
		1,604,190	1,601,612
Expenses from ordinary activities			
Administration expenses		(639)	(606)
Increment/(diminution) in investment		(1,104,608)	(773,544)
		(1,105,247)	(774,150)
Profit/(Loss) from ordinary activities before income tax expense		498,943	827,462
Income tax expense relating to ordinary activities	1(c)	-	-
Profit/(Loss) from ordinary activities after income tax expense		498,943	827,462
Increase in asset revaluation reserve	6	1,870,780	-
Total changes in Trust Funds other than those resulting from transactions with unitholders as unitholders		2,369,723	827,462

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



Statement of Financial Position

AS AT 30 JUNE, 2002

	Note	2002 \$	2001 \$
CURRENT ASSETS			
Cash assets	2	20,902	22,068
TOTAL CURRENT ASSETS		20,902	22,068
NON-CURRENT ASSETS			
Equity investment	3	16,485,265	15,719,093
TOTAL NON-CURRENT ASSETS		16,485,265	15,719,093
TOTAL ASSETS		16,506,167	15,741,161
CURRENT LIABILITIES			
Payables	4	10,938	10,960
TOTAL CURRENT LIABILITIES		10,938	10,960
TOTAL LIABILITIES		10,938	10,960
NET ASSETS		16,495,229	15,730,201
EQUITY			
Unitholders capital	5	14,624,449	15,730,201
Reserves	6	1,870,780	-
TOTAL EQUITY		16,495,229	15,730,201

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



Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE, 2002

	Note	2002 \$	2001 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Distributions received		1,603,468	1,600,563
Interest received		722	1,049
Payments to suppliers		(661)	(621)
	7	1,603,529	1,600,991
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of distributions		(1,604,695)	(1,599,260)
Net cash provided by financing activities		(1,604,695)	(1,599,260)
Net increase/(decrease) in cash held		(1,166)	1,731
Cash at the beginning of the financial year		22,068	20,337
Cash at 30 June, 2002	2	20,902	22,068

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



Notes To the Financial Statements

FOR THE YEAR ENDED 30 JUNE, 2002

NOTE 1: STATEMENT OF ACCOUNTING POLICIES

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

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

The Capital Collection Diverse Sector Fund Trust No. 1 is a registered scheme under the Corporations Act 2001, domiciled and settled in Australia. The principal activities of the scheme are to invest funds of the unitholders in real estate.

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

(a) Distributions Received and Paid

Distributions received and paid are accounted for on a cash basis.

(b) Equity Investment

Equity investment is brought to account based on the Trust's interest in underlying net assets of the Capital Collection Diverse Sector Fund Syndicate No.1.

(c) Income Tax

The Trust adopts the liability method of tax effect accounting whereby the income tax expenses shown in the Statement of Financial Performance is based on the profit from ordinary activities before income tax adjusted for any permanent differences and distributions of taxable income to beneficiaries. No liability has been raised for income tax as it is unlikely that any taxable income will be retained by the Trust in 2002.

(d) Cash

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

(e) Comparatives

Where necessary, comparatives have been adjusted to comply with Accounting Standards, Urgent Issues Group Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board.



Notes to the Financial Statements (Cont.)

for the Year Ended 30 June, 2002

	2002 \$	2001 \$
NOTE 2: CASH ASSETS		
Cash at Bank	20,902	22,068

NOTE 3: EQUITY INVESTMENT		
Interest in the Capital Collection Diverse Sector Fund Syndicate No.1	16,485,265	15,719,093

The carrying value of the Trust's investment in the Capital Collection Diverse Sector Fund Syndicate No.1 recognises the Trust's share of the Syndicate annual results on an accumulated basis, the Trust's share of the Syndicate asset revaluation reserve and accumulated distributions received from the Syndicate which represents a return of capital.

Initial investment	17,429,000	17,429,000
Accumulated share of syndicate profits/(losses) beginning of financial year	548,542	(278,477)
Current year share of syndicate profit/(loss)	498,860	827,019
Share of Asset Revaluation Reserve	1,870,780	-
Accumulated distributions received beginning of financial year	(2,258,449)	(657,886)
Current year distributions received	(1,603,468)	(1,600,563)
	16,485,265	15,719,093

The number of units on issue in the Trust at year end
There were no issues or withdrawals during the year.

NOTE 4: PAYABLES

Current

Other creditor – Capital Collection Diverse Sector Fund Syndicate No.1	10,000	10,000
EFT distributions rejected	938	960
	10,938	10,960



Notes to the Financial Statements (Cont.)

for the Year Ended 30 June, 2002

	2002 \$	2001 \$
NOTE 5: UNITHOLDERS' CAPITAL		
Contributed capital	17,429,000	17,429,000
Accumulated distributions	(2,258,449)	(657,886)
Current year distributions	(1,604,695)	(1,600,563)
Accumulated profit/(loss)	559,650	(267,812)
Current year profit/(loss)	498,943	827,462
	<u>14,624,449</u>	<u>15,730,201</u>

NOTE 6: RESERVES

Opening balance	-	-
Increment	1,870,780	-
Closing balance	<u>1,870,780</u>	<u>-</u>

The purpose of the asset revaluation reserve is to revalue assets.

NOTE 7: NOTES TO THE STATEMENT OF CASH FLOWS

Reconciliation of Cash

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

Cash at bank	20,902	22,068
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Reconciliation of net cash provided by operating activities to profit from ordinary activities after income tax

Profit from ordinary activities after income tax	498,943	827,462
Non cash flows in profit from ordinary activities: (Increase)/diminution in investments	1,104,608	773,544
Changes in Assets and Liabilities: Increase/(decrease) in payables	(22)	(15)
Net Cash Provided by Operating Activities	<u>1,603,529</u>	<u>1,600,991</u>



Notes to the Financial Statements (Cont.)

for the Year Ended 30 June, 2002

NOTE 8: EVENTS SUBSEQUENT TO BALANCE DATE

Since the end of the financial year, the Trust has received Distributions from the Capital Collection – Diverse Sector Fund Syndicate No. 1 for June 2002 totalling \$133,622 (30 June, 2001 \$133,622).

NOTE 9: OTHER STATUTORY INFORMATION

- (a) The Trust was deemed to have commenced operations on the Commencement Date, being 19 October, 1999 (the date of receipt by Property Funds Australia Limited of the first Contribution). Under the Trust Constitution the property cannot be held for more than eight years from 30 December, 1999 unless all of the Unitholders agree that it should be retained for a further period.
- (b) The Capital Collection Diverse Sector Fund Trust No. 1 owns 47.42% of The Capital Collection Diverse Sector Fund Syndicate No. 1.
- (c) Property Funds Australia Limited ACN 078 199 569 is the Responsible Entity and Manager of The Capital Collection Diverse Sector Fund Trust No.1.

The registered office and principal place of business for the Manager is as follows:-

Level 23, Central Plaza 2
66 Eagle Street
BRISBANE QLD 4000

NOTE 10: RELATED PARTY TRANSACTIONS

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

Manager

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

Christopher Arthur Morton
Archibald Norman Douglas
Elizabeth Ann Pidgeon (appointed 30 August, 2001)
Clive Douglas Schultz (resigned 28 February, 2002)
David John Conquest
Matthew Bradley Madsen (appointed 30 August, 2001)
Rodney Michael Keown (resigned 16 August, 2001)

As at 30 June, 2002 the Manager and associates held 13,310 \$1 units (30 June, 2001 13,310 \$1 units) in the Trust which were fully paid for.



Notes to the Financial Statements (Cont.)

for the Year Ended 30 June, 2002

Custodian

Trust Company of Australia Limited ACN 004 027 749

Directors who held office during the period were -

James Gordon Moffat – Chairman

John Gregory Macarthur – Vice Chairman

Jonathan Westably Sweeney – Managing Director

Warren John McLeland

Robert Bruce Corlett

Robert David Jeremy

Robert Frantley Lloyd

Bruce Graham Barker – (resigned 3 September, 2001)

- (ii) In the context of the Trust, no transactions occurred with related parties to the Manager or the Custodian. Such transactions did occur in relation to related parties of the Manager for the Capital Collection Diverse Sector Fund Syndicate No.1 in which the Trust holds a 47.42% (30 June, 2001 47.42%) interest (see the Capital Collection Diverse Sector Fund Syndicate No.1 Financial Statements).

NOTE 11: FINANCIAL INSTRUMENTS

(a) Interest Rate Risk

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

(b) Net Fair Values

The net fair values of all financial assets and liabilities approximates their carrying values.

	Weighted Average Effective Interest Rate		Floating Interest Rate		1 to 5 Years		Non-interest Bearing		Total	
	30/6/02	30/6/01	30/6/02	30/6/01	30/6/02	30/6/01	30/6/02	30/6/01	30/6/02	30/6/01
Financial Assets										
Cash	5.5	5.5	20,902	22,068	-	-	-	-	20,902	22,068
Investments	-	-	-	-	-	-	16,485,265	15,719,093	16,485,265	15,719,093
Total Financial Assets			20,902	22,068	-	-	16,485,265	15,719,093	16,506,167	15,741,161
Financial Liabilities										
Payables	-	-	-	-	-	-	10,938	10,960	10,938	10,960
Total Financial Liabilities			-	-	-	-	10,938	10,960	10,938	10,960



Notes to the Financial Statements (Cont.)

for the Year Ended 30 June, 2002

NOTE 12: CONTINGENT LIABILITIES

There are no contingent liabilities as at balance date.

NOTE 13: SEGMENT INFORMATION

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



DECLARATION BY THE DIRECTORS OF THE MANAGER

The directors of Property Funds Australia Limited as Manager of The Capital Collection – Diverse Sector Fund Trust No. 1 declare that:

1. the financial statements and notes are in accordance with the Corporations Act 2001 and:
 - (a) comply with Australian Accounting Standards and the Corporations Regulations 2001; and
 - (b) give a true and fair view of the Trust's financial position as at 30 June, 2002 and of its performance for the year ended on that date;
2. in the directors' opinion, there are reasonable grounds to believe that The Capital Collection – Diverse Sector Fund Trust No. 1 will be able to pay its debts as and when they become due and payable.

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

C A Morton
Managing Director

Brisbane
18 September, 2002



INDEPENDENT AUDIT REPORT TO THE UNITHOLDERS

Scope

We have audited the Financial Report of The Capital Collection Diverse Sector Fund Trust No.1 being the Declaration by the Directors of the Manager, Statement of Financial Performance, Statement of Financial Position and Notes to the Financial Statements for the financial year ended 30 June, 2002. The Trustee is responsible for the preparation and presentation of the financial statements and the information they contain. The Manager has prepared the financial statements from accounting records maintained by the Manager. We have conducted an independent audit of these financial statements in order to express an opinion on them to the unitholders.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial statements are free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial statements are presented fairly in accordance with Australian Accounting Standards, other mandatory professional reporting requirements (Urgent Issues Group Consensus Views), statutory requirements and the terms of the Trust Constitution so as to present a view which is consistent with our understanding of The Capital Collection Diverse Sector Fund Trust No.1's financial position, the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion, the financial report is in accordance with:-

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the trust's financial position as at 30 June, 2002 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations;
- (b) other mandatory professional reporting requirements; and
- (c) the terms of the Trust Constitution.

BDO KENDALLS
Chartered Accountants
Brisbane
18 September, 2002

P A Gallagher
Partner



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THE CAPITAL COLLECTION – DIVERSE SECTOR FUND SYNDICATE NO. 1
STATEMENT OF FINANCIAL PERFORMANCE
for the Year Ended 30 June, 2002

	Note	2002 \$	2001 \$
Revenue from ordinary activities	2	8,212,176	8,441,706
Expenses from ordinary activities			
Property expenses	2	(1,747,860)	(1,473,811)
Fund expenses			
Direct expenses	2	(639,064)	(457,741)
Amortisation/depreciation	2	(932,476)	(1,014,109)
		(1,571,540)	(1,471,850)
Borrowing costs			
Interest	2	(3,611,357)	(3,525,263)
Amortisation	2	(229,415)	(226,753)
		(3,840,772)	(3,752,016)
Profit/(Loss) from ordinary activities before income tax expense		1,052,004	1,744,029
Income tax expense relating to ordinary activities	1(d)	-	-
Profit/(Loss) after income tax expense attributable to Syndicate members		1,052,004	1,744,029
Increase in asset revaluation reserve	12	3,945,128	-
Total changes in Syndicate equity other than those resulting from transactions with Syndicate members as Syndicate members		4,997,132	1,744,029

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



STATEMENT OF FINANCIAL POSITION

as at 30 June, 2002

	Note	2002 \$	2001 \$
CURRENT ASSETS			
Cash assets	4	825,832	951,313
Receivables	5	265,922	160,129
Other	6	65,241	59,499
TOTAL CURRENT ASSETS		1,156,995	1,170,941
NON-CURRENT ASSETS			
Cash assets	4	-	370,203
Investment – Property	7	76,252,976	71,794,233
Other	8	6,756,561	6,870,619
TOTAL NON-CURRENT ASSETS		83,009,537	79,035,055
TOTAL ASSETS		84,166,532	80,205,996
CURRENT LIABILITIES			
Payables	9	552,135	608,297
Interest bearing liabilities	10	300,413	-
TOTAL CURRENT LIABILITIES		852,548	608,297
NON-CURRENT LIABILITIES			
Interest bearing liabilities	10	48,577,000	46,477,000
TOTAL NON-CURRENT LIABILITIES		48,577,000	46,477,000
TOTAL LIABILITIES		49,429,548	47,085,297
NET ASSETS		34,736,984	33,120,699
EQUITY			
Syndicate member's equity	11	30,791,856	33,120,699
Reserves	12	3,945,128	-
TOTAL EQUITY		34,736,984	33,120,699

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



STATEMENT OF CASH FLOWS

for the Year Ended 30 June, 2002

	Note	2002 \$	2001 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Rent received		8,892,110	8,267,155
Interest received		41,779	36,556
Interest paid		(3,611,357)	(3,525,263)
Payments to suppliers		(3,276,334)	(1,516,054)
NET CASH PROVIDED BY OPERATING ACTIVITIES	13	2,046,198	3,262,394
CASH FLOWS FROM INVESTING ACTIVITIES			
Lease establishment costs		(234,391)	-
Capital improvements to investment property		(1,297,775)	(141,529)
NET CASH PROVIDED BY INVESTING ACTIVITIES		(1,532,166)	(141,529)
CASH FLOWS FROM FINANCING ACTIVITIES			
Distributions to Syndicate members		(3,380,847)	(3,374,835)
Income Guarantee		-	(71,865)
Borrowing Costs		(29,282)	(24,000)
Net proceeds from increased loan facilities		2,100,000	-
NET CASH PROVIDED BY FINANCING ACTIVITIES		(1,310,129)	(3,470,700)
NET INCREASE/(DECREASE) IN CASH HELD		(796,097)	(349,835)
Cash at the beginning of the financial year		1,321,516	1,671,351
CASH AT 30 JUNE, 2002	13	525,419	1,321,516

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



NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 30 June, 2002

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

(a) Income & Expenditure

Property and other income and expenditure are accounted for on an accrual basis.

(b) Investment - Property

Investment – Property consists of investments in property, primarily of land, buildings and improvements to land and buildings. Investment property is measured on the fair value basis. Annual assessments are undertaken by the Manager to ensure the carrying amount of investment property is not significantly different to the fair value of the investment property.

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

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



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

for the Year Ended 30 June, 2002

(c) Non-Current Other Assets

Other Assets consist of acquisition costs and borrowing costs.

Acquisition costs includes but is not limited to stamp duty on purchase, legal costs, Manager's fee attributable to property acquisition and due diligence costs.

These costs are capitalised to the extent of the future economic benefits expected to be derived from their initial incurrence.

The borrowing costs are amortised on a straight-line basis over the term of the loan. The acquisition costs are amortised on a straight-line basis over the remaining term of the Syndicate.

(d) Income Tax

The Syndicate itself is not subject to income tax as all the Investors are entitled to its taxable income/tax loss in any one tax year.

(e) Cash

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

(f) Comparatives

Comparatives have been amended where necessary to incorporate changes in accounting policies and changes in accounting standards.

(g) Distributions Paid

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

(h) Changes in Accounting Policies

In prior years, investments in Land, Buildings and Improvements were recognised as Property, Plant & Equipment. Plant & Equipment was depreciated over their useful life.

As at 30 June, 2002 the Manager has resolved to disclose in accordance with Exposure Draft 103 Investment Property whereby Land, Buildings and Improvements are recognised as an Investment -Property and measured on the fair value basis. Increments/decrements to fair value are reflected in the Asset Revaluation Reserve or the Statement of Financial Performance in accordance with AAS38 Revaluation of Non-Current Assets. Investment-Properties will not be depreciated in the future.

Prospectus Issue & Promotion Costs and Syndicate & Prospectus Legal Costs have been reclassified as an Other Asset better reflecting the nature of the asset.



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

for the Year Ended 30 June, 2002

These assets continue to be amortised on a straight line basis over five years from commencement of the Syndicate.

Borrowing Costs have been reclassified as an Other Asset. Borrowing Costs are amortised over five years from the date incurred on a straight line basis.

Acquisition Costs previously recognised in the cost of Property, Plant & Equipment have been reclassified as an Other Asset to better reflect the nature of the asset. Depreciation charged up to 30 June, 2002 has been reclassified as amortisation. The asset will now be amortised over the remaining term of the Syndicate.

The change in accounting policies has resulted in the following changes to disclosure in the 30 June, 2001 Financial Statements:

Post Office Square , 280 Queen Street, Brisbane, Queensland

30 June, 2001 carrying value of Property, Plant & Equipment	\$52,713,061	
Less transfer of Acquisition Costs at carrying value to Other Assets	\$4,489,780	\$48,223,281

Homeworld Shopping Centre, 150-180 Soward Way, Greenway, ACT

30 June, 2001 carrying value of Property, Plant & Equipment	\$24,971,254	
Less transfer of Acquisition Costs at carrying value to Other Assets	\$1,400,302	\$23,570,952

Total Investment – Property		\$71,794,233
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30 June, 2001 carrying value of intangibles	\$980,537	
Add transfer of Acquisition Costs at carrying value	\$5,890,082	
Other Assets		\$6,870,619



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

for the Year Ended 30 June, 2002

	2002 \$	2001 \$
NOTE 2: REVENUE & EXPENSES FROM ORDINARY ACTIVITIES		
REVENUE FROM ORDINARY ACTIVITIES		
Property income received	8,170,397	8,405,150
Interest received	41,779	36,556
	8,212,176	8,441,706
PROPERTY EXPENSES		
Airconditioning maintenance	91,964	60,406
Cleaning	229,606	181,080
Consultants fees	19,761	-
Electricity & gas	264,946	242,782
Equipment rent/lease	3,120	736
Fire protection costs	16,276	14,381
Insurance	156,497	79,698
Land tax	178,231	166,220
Lift maintenance	49,069	41,345
Property management costs	211,132	222,157
Rates	377,960	373,204
Repairs & maintenance	119,007	64,512
Security	19,241	17,586
Signs	873	3,323
Telephone	10,177	6,381
	1,747,860	1,473,811
DIRECT EXPENSES		
Accountancy	30,875	33,144
Advertising	937	3,511
Auditors remuneration	13,435	18,029
Bank charges	3,043	1,577
Commission leasing	3,109	36,000
Compliance committee costs	10,147	12,221
Consultants fees	31,497	3,967
Custodian fees	18,360	17,008
Legal fees	146,375	49,778
Licence & permits	1,860	2,069
Postage	4,347	3,586
Registry fees	10,850	5,250
Reporting expenses	9,162	10,407
Syndicate Managers fees	345,135	252,328
Travelling expenses	9,932	8,866
	639,064	457,741



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

for the Year Ended 30 June, 2002

	2002 \$	2001 \$
AMORTISATION/DEPRECIATION		
Prospectus issue & promotional costs	14,933	14,933
Syndicate & prospectus legal costs	23,246	23,246
Income guarantees	25,524	2,845
Lease establishment costs	15,575	-
Acquisition costs	69,038	79,397
Depreciation – Plant & Equipment	784,160	893,688
	932,476	1,014,109
BORROWING COSTS		
Interest	3,611,357	3,525,263
Amortisation	229,415	226,753
	3,840,772	3,752,016
PROFIT/(LOSS) FROM ORDINARY ACTIVITIES BEFORE		
INCOME TAX EXPENSE	1,052,004	1,744,029

NOTE 3: AUDITORS REMUNERATION

Audit of financial report	11,800	18,029
Other services	10,850	11,170
	22,650	29,199

NOTE 4: CASH ASSETS

Current		
Cash at bank	825,832	951,313
Non-Current		
Cash at bank	-	370,203

NOTE 5: RECEIVABLES

Current		
Other debtor - The Capital Collection Trust	10,000	10,000
Accrued income	16,500	-
Trade debtors	239,422	150,129
	265,922	160,129

NOTE 6: CURRENT OTHER ASSETS

Prepaid expenses	62,741	56,999
Deposits refundable	2,500	2,500
	65,241	59,499



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

for the Year Ended 30 June, 2002

	2002 \$	2001 \$
NOTE 7: INVESTMENT – PROPERTY		
Property described as Post Office Square, Brisbane, Queensland		
Investment in Land & Buildings – at directors valuation	49,600,000	-
Investment in Land & Buildings – at cost	-	48,215,866
Development Works in Progress – at cost	6,310	7,415
	49,606,310	48,223,281
Property described as Homeworld, Greenway, ACT		
Investment in Land & Buildings – at independent valuation	26,600,000	-
Investment in Land & Buildings – at cost	-	23,494,115
Development Works in Progress – at cost	46,666	76,837
	26,646,666	23,570,952
TOTAL INVESTMENT – PROPERTY	76,252,976	71,794,233

	Land	Buildings	P & E	WIP	Total
Property described as Post Office Square					
Carrying amount at the beginning of financial year	8,691,370	35,317,637	8,696,639	7,415	52,713,061
Net additions	-	70,049	90,107	(1,105)	159,051
Depreciation	-	-	(666,841)	-	(666,841)
Less transfer of Acquisition costs to Other Asset	(739,362)	(3,003,659)	(746,759)	-	(4,489,780)
	7,952,008	32,384,027	7,373,146	6,310	47,715,491
Revaluation increment					1,890,819
					49,606,310

Property described as Homeworld					
Carrying amount at the beginning of financial year	3,631,434	19,936,824	1,326,159	76,837	24,971,254
Net additions	-	1,064,876	104,019	(30,171)	1,138,724
Depreciation	-	-	(117,319)	-	(117,319)
Less transfer of Acquisition costs to Other Asset	(198,625)	(1,120,815)	(80,862)	-	(1,400,302)
	3,432,809	19,880,885	1,231,997	46,666	24,592,357
Revaluation increment					2,054,309
					26,646,666

An independent valuation of Homeworld land and buildings was undertaken by Graham Jeffress FAPI, Certified Practising Valuer of Colliers Jardine. The valuation was based on the current market value as at 1 March, 2002.



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

for the Year Ended 30 June, 2002

	2002 \$	2001 \$
NOTE 8: NON-CURRENT OTHER ASSETS		
Income guarantees	71,865	71,865
Less accumulated amortisation	(28,369)	(2,845)
	43,496	69,020
Prospectus issue & promotion costs	116,229	116,229
Less accumulated amortisation	(60,052)	(36,806)
	56,177	79,423
Borrowing costs	1,167,046	1,137,764
Less accumulated amortisation	(586,107)	(356,692)
	580,939	781,072
Syndicate & prospectus legal costs	74,666	74,666
Less accumulated amortisation	(38,577)	(23,644)
	36,089	51,022
Lease establishment costs	234,391	-
Less accumulated amortisation	(15,575)	-
	218,816	-
Acquisition costs	6,039,767	6,039,767
Less accumulated amortisation	(218,723)	(149,685)
	5,821,044	5,890,082
	6,756,561	6,870,619

NOTE 9: PAYABLES

Trade creditors	16,525	106,323
GST payable	84,270	115,428
Accrued expenses	445,611	386,122
EFT distributions rejected	-	424
Rental/Outgoings received in advance	5,729	-
	552,135	608,297



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

for the Year Ended 30 June, 2002

	2002 \$	2001 \$
NOTE 10: INTEREST BEARING LIABILITIES		
Current		
Bank overdraft - secured	300,413	-
The Syndicate has a Revolving Line of Credit which is currently limited to \$1,000,000. The facility is secured by a Third Registered Mortgage over the Land and Buildings and Plant and Equipment of each of the two properties.		
Non-Current		
Mortgage Loans	48,577,000	46,477,000

(a) The Mortgage Loans are as follows:

A Mortgage Loan from Colonial Funds Management Limited comprising a five year variable facility (maturing December, 2004) of \$15,457,000 secured by a First Registered Mortgage over the land and buildings and plant and equipment at Homeworld Shopping Centre, 150-180 Soward Way, Greenway, ACT. A Second Mortgage over the property is held by ANZ Funds Management Limited. Interest on the loan is payable monthly in arrears on the first day of each month.

(b) A Mortgage Loan from ANZ Funds Management Limited comprising a five year facility (maturing December, 2004) of \$31,020,000 fixed for three years secured by a First Registered Mortgage over the land and buildings and plant and equipment at Post Office Square, 280 Queen Street, Brisbane, QLD. A Second Mortgage over the property is held by Colonial Funds Management Limited. Interest on the loan is payable monthly in arrears on the first day of each month.

(c) A two year and 9 month Mortgage Loan (maturing December, 2004) from Colonial Funds Management Limited comprising a variable facility of \$2,100,000 secured by a First Registered Mortgage over the land and buildings and plant and equipment at Homeworld Shopping Centre, 150-180 Soward Way, Greenway, ACT. A Second Mortgage over the property is held by ANZ Funds Management Limited. Interest on the loan is payable monthly in arrears on the first day of each month.

(d) The borrowings were undertaken by the Owners with borrowing documentation executed by Property Funds Australia Limited under its power of attorney. Trust Company of Australia Limited as Custodian executed mortgages over the properties. Neither the Owners, Manager or the Custodian are liable beyond the value of the equity subscribed.



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

for the Year Ended 30 June, 2002

	2002 \$	2001 \$
NOTE 11: SYNDICATE MEMBERS' EQUITY		
Contributed Capital	36,750,110	36,750,110
Accumulated profits/(losses) beginning of financial year	1,133,810	(610,219)
Current year profit/(loss)	1,052,004	1,744,029
Accumulated distributions beginning of financial year	(4,763,221)	(1,388,386)
Current year distributions	(3,380,847)	(3,374,835)
	30,791,856	33,120,699

The number of lots on issue in the Syndicate at year end	36,750,110	36,750,110
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There were no issues or withdrawals during the year

NOTE 12: RESERVES

Opening balance	-	-
Asset Revaluation increment	3,945,128	-
Closing balance	3,945,128	-

The purpose of the Asset Revaluation Reserve is to record the revaluation increments and decrements.

NOTE 13: NOTES TO THE STATEMENT OF CASH FLOWS**Reconciliation of Cash**

Cash at the end of financial period as shown in The Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows: (refer to note 4 & 10)

Cash at Bank	825,832	1,321,516
Bank Overdraft – secured	(300,413)	-
	525,419	1,321,516



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

for the Year Ended 30 June, 2002

	2002 \$	2001 \$
Reconciliation of net cash provided by activities to profit from ordinary activities after income tax expense		
Profit/(Loss) from ordinary activities	1,052,004	1,744,029
Non cash flows in profit from ordinary activities:		
Amortisation – Prospectus Costs	14,933	14,933
Amortisation – Syndicate Formation and Prospectus Legal Costs	23,246	23,246
Amortisation – Acquisition Costs	69,038	79,397
Amortisation – Income Guarantees	25,524	2,845
Amortisation – Lease Establishment Costs	15,575	-
Amortisation – Borrowing Costs	229,415	226,753
Depreciation	784,160	893,688
Changes in Assets and Liabilities:		
Decrease/(Increase) in Receivables	(105,793)	(137,995)
Decrease/(Increase) in Other Assets	(5,742)	(24,923)
Increase/(Decrease) in Payables	(56,162)	440,421
Net Cash Provided by Operating Activities	2,046,198	3,262,394

NOTE 14: EVENTS SUBSEQUENT TO BALANCE DATE

Since the end of the financial year, the Syndicate has paid a Distribution to Syndicate Members for the month of June 2002 totalling \$281,750 (June 30, 2001 \$281,750).

NOTE 15: PRINCIPAL ACTIVITY

The principal activity of The Capital Collection – Diverse Sector Fund Syndicate No.1 is investment in income producing retail and commercial buildings at Post Office Square, Brisbane and Homeworld Shopping Centre, ACT.

NOTE 16: CAPITAL EXPENDITURE COMMITMENTS**Capital Expenditure**

As at the balance date the Manager had outstanding lease fitout obligations to tenants of \$253,337.



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

for the Year Ended 30 June, 2002

NOTE 17: CONTINGENT LIABILITY**(a) Sale Performance Management Fees**

In accordance with the prospectus and Syndicate Constitution, the Manager is entitled to remuneration as follows:-

- (i) In consideration for arranging the sale of the Real Estate and for the administration of determination of this Syndicate and only in the event that the sale price of the Real Estate after deduction of agents' fees, legal fees relating to the sale, advertising and auction expenses exceeds the Purchase Price of the Real Estate, the Manager will be paid 2% of the sale price of the Real Estate. Such sum will be paid to the Manager upon the date that the sale proceeds are received by the Manager.
- (ii) If upon the sale of the last of the Individual Properties all of the Real Estate has been sold during the term of the Syndicate at a price, which after the deduction of agent's fees and expenses of sale, has resulted in a premium on the subscribed amount by Owners at:-
 - a. More than 50% on their original subscribed amount, then the Manager will be paid an additional fee ("the Additional Fee") of 2.5% calculated on the gross sale price achieved in respect of all of the Real Estate before the subtraction of the usual selling expenses; or
 - b. 50% or less but more than 30% on their original subscribed amount, then the Manager will be paid a marginal fee ("the Marginal Fee") of 1.5% calculated on the gross sale price achieved in respect of all of the Real Estate before the subtraction of the usual selling expenses;

PROVIDED HOWEVER that if the payment of the Additional Fee or Marginal Fee reduces the premium on the subscribed amount to less than 50% or 30% respectively then the Additional Fee or Marginal Fee will reduce by an amount that will ensure that the 50% or 30% premium is payable to each Owner.

This is outlined in Section 17.3 of the prospectus or Clause 18.4 and 18.5 of the Syndicate Constitution.

(b) Claims Received

The Syndicate has received correspondence threatening court proceedings in relation to a contract interpretation involving a sum of approximately \$100,000. The Manager believes the other party's interpretation is incorrect and that any claim will not be successful.



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

for the Year Ended 30 June, 2002

NOTE 18: OPERATING LEASE COMMITMENT RECEIVABLE

Operating Lease Commitments contracted as receivables:

	2002	2001
	\$	\$
- not later than 1 year	7,982,757	6,782,127
- later than 1 year but not later than 5 years	28,476,521	22,195,969
- later than 5 years	19,116,383	18,742,639
Aggregate lease revenue contracted for at balance date	55,575,661	47,720,735

NOTE 19: OTHER STATUTORY INFORMATION

- (a) The Syndicate was deemed to have commenced operations on the Commencement Date, being 15 October, 1999 (the date of receipt by Property Funds Australia Limited of the first Contribution). Under the Syndicate Constitution the properties cannot be held for more than eight years from 30 December, 1999 unless the procedures outlined in Clause 11.2 of the Syndicate Constitution apply.
- (b) The Capital Collection Diverse Sector Fund Trust No.1 owns 47.42% of the Capital Collection Diverse Sector Fund Syndicate No. 1. The above interests were fully paid for.
- (c) The land title to the property is registered in the name of Trust Company of Australia Limited who is appointed under the Custody Agreement to act as nominee on behalf of the Manager.
- (d) Property Funds Australia Limited ACN 078 199 569 is the Responsible Entity and Manager of The Capital Collection Diverse Sector Fund Syndicate No.1.

The registered office and principal place of business for the Manager is as follows:-

Level 23, Central Plaza 2
66 Eagle Street
BRISBANE QLD 4000

- (e) The Capital Collection Diverse Sector Fund Syndicate No.1 is a Syndicate domiciled in Australia.



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

for the Year Ended 30 June, 2002

	2002 \$	2001 \$
NOTE 20: RELATED PARTY TRANSACTIONS		
(i) Details of the Manager and the Custodian are as follows:-		
<u>Manager</u>		
Property Funds Australia Limited ACN 078 199 569 Directors who held office during the period were -		
Christopher Arthur Morton		
Archibald Norman Douglas		
Elizabeth Ann Pidgeon	(appointed 30 August, 2001)	
Clive Douglas Schulz	(resigned 28 February, 2002)	
David John Conquest		
Matthew Bradley Madsen	(appointed 30 August, 2001)	
Rodney Michael Keown	(resigned 16 August, 2001)	
As at 30 June, 2002 the Manager and associates held 770 \$1 Lots (2001: 770 \$1 Lots) in the Syndicate.		
<u>Custodian</u>		
Trust Company of Australia Limited ACN 004 027 749 Directors who held office during the period were -		
James Gordon Moffat – Chairman		
John Gregory Macarthur – Vice Chairman		
Jonathan Westably Sweeney – Managing Director		
Warren John McLeland		
Robert Bruce Corlett		
Robert David Jeremy		
Robert Frantley Lloyd		
Bruce Graham Barker (resigned 3 September, 2001)		
(ii) Related party transactions during the period were as follows:-		
<u>The Manager</u>		
Syndicate Management Fee for the period was paid to Property Funds Australia Limited as provided for in the prospectus and the Syndicate Constitution.	345,135	252,328
Inhouse Accountancy Fee for the period was paid to Property Funds Australia Limited. This fee was determined on a commercial basis.	24,855	13,230
<u>PRD Consulting Services Pty Ltd</u>	-	24,000
PRD Consulting Services Pty Ltd for finance advice resulting in the procurement of finance facilities with ANZ Funds Management and Colonial Funds Management.		



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

for the Year Ended 30 June, 2002

	2002 \$	2001 \$
<u>The Custodian</u>	18,360	17,008
Custodian fee for the period was paid to Trust Company of Australia Limited in accordance with the Custody Agreement.		
<u>Investment Management Australia Limited</u>	1,444	3,563
Messrs A. Douglas and C. Schultz, Directors of the Manager, are Directors of Investment Management Australia Limited. Investment Management Australia Limited was paid a fee for assisting the Compliance Committee to perform its statutory functions.		

NOTE 21: FINANCIAL INSTRUMENTS

(c) Interest Rate Risk

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

(d) Net Fair Values

The net fair values of all financial assets and liabilities approximates their carrying values.

	Weighted Average Effective Interest Rate		1 to 5 Years		Non – Interest Bearing		Total	
	30/06/02	30/06/01	30/06/02	30/06/01	30/06/02	30/06/01	30/06/02	30/06/01
Financial Assets								
Cash	6.1	5.5	825,832	1,321,516			825,832	1,321,516
Other					2,500	2,500	2,500	2,500
Receivables					265,922	160,129	265,922	160,129
Total Financial Assets			825,832	1,321,516	268,422	162,629	1,094,254	1,484,145
Interest Bearing Liabilities								
	7.6	7.6	48,877,413	46,477,000	-	-	48,877,413	46,477,000
Payables			-	-	552,135	608,297	552,135	608,297
Total Financial Liabilities			48,877,413	46,477,000	552,135	608,297	49,429,548	47,085,297



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

for the Year Ended 30 June, 2002

(c) Interest Rate Swap

Interest rate swap transactions entered into by the Manager on behalf of the Owners/Borrowers exchange variable and fixed interest payment obligations to protect long term borrowings from the risk of increasing interest rates. The Owners/Borrowers have both variable and fixed interest rate debt exposure and have entered into swap contracts which enable the relevant Banks to receive the benefit of interest at both variable and fixed rates and for the Owners/Borrowers to effectively pay interest at fixed rates.

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

At balance date, the details of interest rate swap contracts are:

- A swap for a fixed interest rate of 8.42% on a principal amount of \$15,457,000 until 04 January 2005;
- A swap for a fixed interest rate of 8.20% on a principal amount of \$31,020,000 from 02 January 2003 until 04 January 2005;

NOTE 22: FINANCIAL INSTRUMENTS

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



DECLARATION BY THE DIRECTORS OF THE MANAGER

The directors of Property Funds Australia Limited as Manager of The Capital Collection - Diverse Sector Fund Syndicate No. 1 declare that:

2. the financial statements and notes are in accordance with the Corporations Act 2001 and:
 - (a) comply with Australian Accounting Standards and the Corporations Regulations 2001; and
 - (b) give a true and fair view of the Syndicate's financial position as at 30 June, 2002 and of its performance for the year ended on that date;
3. in the directors' opinion, there are reasonable grounds to believe that The Capital Collection – Diverse Sector Fund Syndicate No. 1 will be able to pay its debts as and when they become due and payable.

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

C A Morton
Managing Director

Brisbane
18 September, 2002



INDEPENDENT AUDIT REPORT TO THE SYNDICATE MEMBERS

Scope

We have audited the Financial Report of The Capital Collection – Diverse Sector Fund Syndicate No.1 being the Declaration by the Directors of the Manager, Statement of Financial Performance, Statement of Financial Position and Notes to the Financial Statements for the financial year ended 30 June, 2002. The Trustee is responsible for the preparation and presentation of the financial statements and the information they contain. The Manager has prepared the financial statements from accounting records maintained by the Manager. We have conducted an independent audit of these financial statements in order to express an opinion on them to the syndicate members.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial statements are free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial statements are presented fairly in accordance with Australian Accounting Standards, other mandatory professional reporting requirements (Urgent Issues Group Consensus Views), statutory requirements and the terms of the Syndicate Constitution so as to present a view which is consistent with our understanding of The Capital Collection Diverse Sector Fund Syndicate No.1's financial position, the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion, the financial report is in accordance with:-

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the scheme's financial position as at 30 June, 2002 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations;
- (b) other mandatory professional reporting requirements; and
- (c) the terms of the Syndicate Constitution.

BDO KENDALLS
Chartered Accountants
Brisbane
18 September, 2002

P A Gallagher
Partner



DIRECTORY

MANAGER

Property Funds Australia Limited
ACN 078 199 569

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Clive D Schultz
David J Conquest
Matthew B Madsen

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