

As mentioned in section 9.7 of the prospectus, the establishment of an approved stock exchange specifically for the trading of interests of the nature of The Capital Collection was being mooted. We are pleased to advise that the Australian Property Exchange Limited (APX) has been

established with Property Funds Australia being a seat member. Our chairman, Mr Rod Keown has been elected as one of the directors of the APX. The APX is currently preparing an application (including listing and trading rules) to ASIC for its approval. We understand that APX are confident that the exchange will be established by the end of this year.

## Y2K OK

As part of the due diligence on the acquisition of the properties, great care was taken to address upfront Y2K technology issues. We are pleased to report that no Y2K problems arose at the commencement of this year.

## PROPERTY MANAGERS

After receiving submissions, Jones Lang LaSalle have been selected as the property managers for both properties. Jones Lang LaSalle were the previous property managers for Post Office Square and have a long history with that property. For reasons of cost savings and their good background knowledge of the Tuggeranong market, Jones Lang LaSalle have also been selected for the Canberra property.

## MANAGER'S STOCK

We have Manager's stock in The Capital Collection which is available to be purchased by any investors who wish to take further advantage of this fine investment. An updated prospectus document is available.

## FOR FURTHER INFORMATION CONTACT:

Bronwyn Risk  
Manager - Investment Services  
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## INVESTOR SERVICES

### DISTRIBUTIONS

You will have now received your first income distribution from the properties. To assist you we have sent a notice advising of the amount that has been deposited into your bank account.

All future distributions will be made not later than the 21st of each month which means that the money will be in your bank account by the 23rd day of the month. We will not be sending you future monthly distribution notifications.

### TAX CHANGES

As mentioned in section 15.3 of the prospectus, certain taxation reforms were being considered at the time of its issue by the Federal Government. Some of these reforms have recently been given effect to and legislated such as:-

- Changes to accelerated depreciation requiring plant and equipment to be depreciated over its effective life;
- Changes to the Capital Gains Tax legislation such as the removal of CPI indexation and the compensatory significant reduction in amounts included for capital gains tax assessment in the case of individuals and complying superannuation funds.

The adjustments to accelerated depreciation have given effect to a reduction in the tax sheltered percentages of an amount similar to that forecast by us in section 15.3 of the prospectus.

### TAX RETURN TIME

To facilitate the completion of your tax returns, we will arrange for the preparation and lodgement of the tax returns for the Syndicate and Trust as soon as possible (approximately 6 – 8 weeks) after the end of each financial year. You will then receive a distribution summary and statement showing the details needed by you to complete your individual tax returns.

### WHO TO CONTACT?

If you have any queries about your investment, please contact our Manager – Investment Services, Bronwyn Risk. Bronwyn is responsible for investor liaison and also manages the maintenance of investor records and income distributions. Bronwyn has a strong background in the financial services and financial planning industry and understands the needs of investors.

# THE CAPITAL *Courier*

AN INVESTOR UPDATE

ISSUE No. 1

## WELCOME

Welcome to your first edition of The Capital Courier. To assist you to keep up to date with your investment in The Capital Collection – Diverse Sector Fund we will be sending you a newsletter every six months.

We hope that you find your newsletter informative and interesting.

## ACQUISITIONS FINALISED

Both of the contracts to purchase Post Office Square and The Homeworld Centre settled on 30 December, 1999.

The purchase prices paid were within one dollar of the estimate provided in the prospectus – which is particularly notable given the potential for purchase price variation provided for in the purchase price formulae in the Post Office Square contract.

In January, you received the interest that was earned on your application money whilst it was in a pre-settlement bank account with Adelaide Bank. You will also have received on or about 21 February, 2000 your first distribution by an electronic funds transfer into your designated bank account.

As provided for in the prospectus, \$1M more subscriptions than the minimum of \$35.75M was accepted. This reduces the gearing levels of the properties by approximately 1.2% which we view as a positive benefit to investors in the current environment of increasing interest rates.



Queen Street Entrance to Port Office Square

## ACQUISITION COSTS

Listed below are the expected actual costs and outstanding reserves associated with the acquisitions:-

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	1,434,649
Interest rate risk management reserve	800,000
Custody establishment costs	15,520
Contingency	8,709
Initial capital expenditure program	145,555
<b>Total acquisition and establishment costs</b>	<b>\$83,227,000</b>

## 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
<b>Total funds</b>	<b>\$83,227,000</b>

Please note that these costs evidenced an overrun of approximately 0.2% more than that forecast in the prospectus. The overrun was experienced mainly in the area of borrowing establishment costs and legal expenses and is intended to be funded out of reserves (e.g. capex reserves).



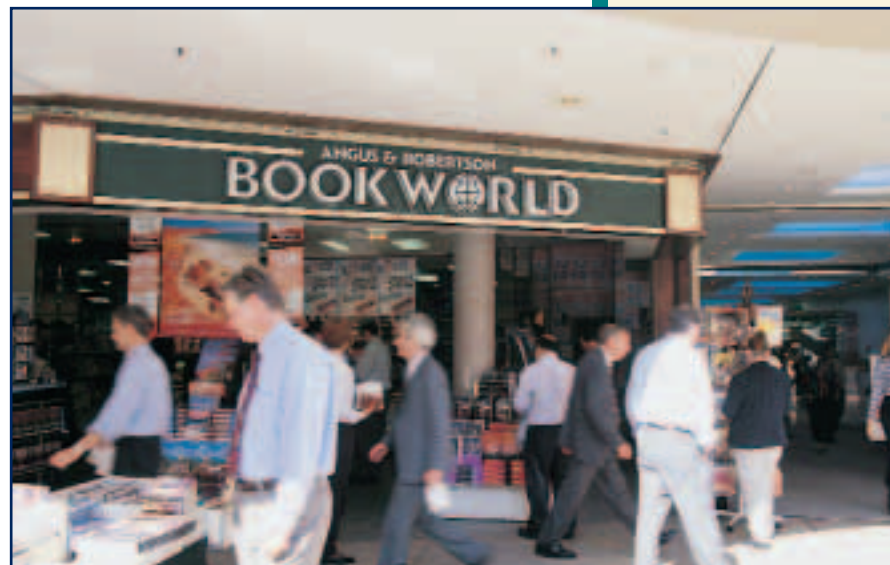
# Update

## POST OFFICE SQUARE

The refurbishment of Post Office Square went to plan with the revitalised appearance of the food court and entrances bringing the property into the new millennium. The refurbishment has brought positive comment from customers and tenants alike. At the time of this report, the remodelling of three outstanding shops is still occurring. By April, we expect any disruption from remodelling tenancies to be finished.

The food court tenancy mix and the takeaway food offer has been carefully reset under the guidance of experts in the field.

The mix has been broadened and now includes Chinese, Japanese, Juice Boost, Origin Kebab, Mexican Torts, Saks sandwich bar, Bread Basket and Muffin Break. The Park Lane Café (the only coffee shop in the centre) has been upgraded and now has takeaway counters.



Bookworld tenancy, Post Office Square

A recent article in The Sydney Morning Herald



## CANBERRA ON THE UP

The Canberra market has recently achieved an increased amount of attention from institutions who are now realising the value of acquiring in this region. Positive press about both the retail and office markets in the region has been occurring. The captioned article is just one example of the sort of press which is currently appearing about this market.

Property Investment Research Pty Ltd (well recognised property and property trust analysts) has recently completed their annual comprehensive report on the Canberra office market.

They report "Investor sentiment towards the Canberra office market has shown a significant improvement in recent months. This is due to higher than expected demand from office tenants leading to expectations that the market has bottomed out. ...The outlook for total returns in the short and medium term has improved significantly throughout the Canberra market over the past 12 months."

## FINANCE

### DIVERSITY IN FINANCIERS CHOSEN

An integral part of being able to deliver good income returns to investors is the selection of an appropriate finance package for the debt portion of the acquisition.

After reviewing a variety of finance submissions, PFA chose a blend of financiers, finance terms and arrangements. The property acquisition loan financiers were ANZ Funds Management and Colonial First State Funds Management.

ANZ have taken a first mortgage over

Post Office Square and a second ranking mortgage over Homeworld. Colonial have taken a first mortgage over Homeworld and a second ranking mortgage over Post Office Square.

The acquisition loans were \$46,477,000 being \$1,193,000 less than that estimated in the prospectus.

The spread of financiers provided a more flexible and competitive finance package than we would have obtained from one financier.

The terms of the acquisition loans were within the parameters outlined in the

## HOMEWORLD

# Update

The major activity associated with the Homeworld property has been the completion of the PJ O'Reilly's Irish Pub which opened on 25 February, 2000. The quality of the fitout (see photo) is indeed impressive. We are confident of the success of a venture of this nature given the current lack of similar facilities in the Tuggeranong Region. PJ O'Reilly's has another successful Irish pub in the Civic (i.e. CBD) area of Canberra.

The Homeworld Centre has a high percentage of its retail leases subject to CPI rent reviews. It has been well documented that the effect of GST is to trigger a greater than normal CPI index increase expected to be in the vicinity of 5.6%. Investors should benefit from

the increase in rent which should flow from that over the next 12 months.

As part of the purchase arrangements, we negotiated with the vendor that it would construct approximately 13 more car parking bays along the Soward Way frontage. This work has been completed and should enhance the appeal of what has been traditionally a "dead" area of the complex.

We are currently meeting with property managers and developing an improvement program for this property to maximise its value for you. In the prospectus we outlined some of our strategies for the property including such matters as improving signage, repainting and the refocussing of some of the current uses.



The recently opened P.J. O'Reilly's Irish Pub

prospectus including:-

- Interest only facilities;
- Five year loan terms;
- A fixed interest rate at 7.3% per annum for approximately 2/3 of the acquisition loans (being the ANZ component) until 30 December, 2002;
- A variable rate for approximately 1/3 of the acquisition loans (being the Colonial component).
- A loan establishment fee in the vicinity of 2.2%.

As mentioned in the prospectus, we set aside an \$800,000 reserve for the acquisition of an interest rate hedging instrument to be used if we form the view that the use of such funds for this purpose is appropriate.

As mentioned in the prospectus, other facilities such as a revolving facility (i.e. overdraft) for up to \$1M was to be arranged and has been with the National Australia Bank who have taken a third registered mortgage over both properties. A priority agreement governing the respective order of entitlements between each of these financiers and Trust Company of Australia (on behalf of the Syndicate owners) is in the course of finalisation.

The financiers' security was limited to the assets of the Syndicate (i.e. the properties and the income from the properties). As explained in the prospectus, the financiers are not entitled to make a claim against any investors' other assets.