



The
CAPITAL
Collection
Diverse Sector Fund

2001 annual report

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THE CAPITAL COLLECTION – DIVERSE SECTOR FUND

MANAGER'S REPORT



I am pleased to present on behalf of the Manager ("PFA") the Annual Report of The Capital Collection – Diverse Sector Fund (the Fund) for the year ended June 30, 2001.

Review of Operations

This has been a year with considerable focus upon the Homeworld Centre although there have been issues to be dealt with at Post Office Square. A brief review of operational issues over the year are detailed below. Only major developments during the period have been mentioned.

Post Office Square

The pharmacy (which is a major tenant occupying 10.5% of the retail space) signed a new ten year lease. As part of the transaction a refurbishment of the shop occurred such that it now provides a more appealing Queen Street entrance to the property. Suncorp Metway (at the Queen Street entrance of the property) did not renew their lease upon its expiry at 31 May, 2001. Two tenants are in the process of finalising lease documentation in respect of part of the Suncorp Metway space. The balance of that space is currently subject to negotiations. Due to the important nature of this entrance point we have given careful consideration to tenancy selection for this prime space.

Zaraffa's Coffee commenced operation at the Adelaide Street entrance of the property following Vodafone's recent vacation. The Zaraffa's lease is for seven years.

Homeworld Shopping Centre

Last year's annual report and subsequent investor updates have alluded to a large space user for the Homeworld Centre. A 15 year agreement for lease has been entered into with Aldi Foods Pty Ltd over 1,250m² (approx.) at the Anketel Street end of the Centre. Aldi is one of the world's largest grocery operators. Their inclusion in the Centre will add a significant new dimension to the Centre. A substantial amount of negotiations and work has occurred to bring about the necessary relocations and refurbishment to enable the Aldi tenancy to commence. The Aldi tenancy is expected to commence trading in January. Further details of the Aldi transaction are provided in the latest investor update.

During the year, the ACT Government office lease market rent review was completed. This lease represents about 30% of this property's income which made its result a material consideration. The result of the rent review negotiations was above expectations and higher than the vendor's guarantee for the space. The result should have a positive affect on the value of the property when next revalued.

Financial Results

After accounting depreciation of \$973,085 (30 June, 2000: \$865,067) the Syndicate recorded an accounting profit of \$1,744,029 (30 June, 2000: loss \$610,219) and a taxable income of \$1,371,301 (30 June, 2000: tax loss \$835,168) after tax depreciation adjustments and Division 10(D) deductions of \$478,445 (30 June, 2000: \$239,213).

The Trust had an accounting profit of \$827,462 (30 June, 2000: \$269,116) and a taxable income of \$279,022 (30 June, 2000: tax loss \$371,772) for the year.

Due to adjustments for non-cash items such as depreciation for plant, equipment and buildings and amortisation of intangibles and other non-cash items, the accounting and taxation results referred to above do not reflect the surplus cash generated by the operations of the Fund which is available for distribution.

Distributions – for the period to June 30, 2001

Distributions for the year equated to a yield of 9.2% per annum on the capital subscribed by Syndicate Owners and Trust Unitholders. Distributions are principally made from the Fund's surplus cashflows.

Distribution Policy – for the year ending June 30, 2002

As mentioned in our last letter to investors, the Board of PFA resolved that the distribution rate for the year ended 30 June, 2002 should be maintained at the same rate as the previous financial year, being 9.2%p.a. rather than increase it to 9.4%p.a. as initially forecast. The principal cause for such a decision is the loss of rental income and increase in expenses consequent upon the refurbishment works, relocation expenses and incentives which flow from the Aldi Supermarkets lease and related transactions. It will be necessary to



supplement surplus cashflows from operational activities by funds drawn down from debt facilities so as to meet the determined distribution rates during this period. The Manager believes that it is better to take this course of action than not to take the Aldi opportunity which significantly helps to underpin the long term value of the Homeworld Centre.

The PFA board will continue to monitor the ongoing appropriateness of the determined distribution rate throughout the year.

APX/Exempt Market

On 30 August, 2001, the Minister for Financial Services and Regulation approved PFA to conduct an exempt stock market in the interests of the Fund subject to the conditions of the approval.

The application by Australian Property Exchange Limited ("APEL") for the establishment of its stock exchange ("APX") for the trading of property related interests (e.g. such as interests in the Fund) is still before the Australian Securities and Investment Commission ("ASIC"). The application is expected to be subject to its public exposure period in the forthcoming months. APEL representatives have indicated that they remain hopeful of an approval of the APX by ASIC and the Minister to be issued in the next few months, with the APX to be operational soon thereafter.

The board is aware of the benefits to a number of investors of having a formal secondary market for interests in the Fund. It is also conscious of incurring market set up costs associated with the establishment of the exempt stock market and then moving trading across to the APX soon thereafter. It is therefore our intention not to give effect to our exempt market approval and commence our own market until such time as there has been some reasonable finality and conclusion of the APX application. The board of PFA will continue to monitor this issue.

GST

We are pleased to advise that no material affect on distributions has resulted from the introduction of this tax. Considerable effort has been ongoing in assessing the Fund's existing leases and operating expenses with a view to ensuring the Fund's compliance with GST legislation and minimising any unforeseen consequences of the introduction of the tax.

Tax Reform Proposals

In previous annual reports and investor updates, mention has been made of potential effects to investors as a consequence of recommendations flowing from the Ralph Committee Report. In particular, the Collective Investment Vehicle proposal has been discussed.

Currently, it appears that the Collective Investment Vehicle issue has subsided. The issue involved the potential threat and confusion as to the transparent/flow through tax nature of the Fund. There is however an exposure draft "New Business Taxation System (Entity Taxation) Bill 2000" outstanding. Indications from our taxation advisers are that it will have no effect on the Fund.

With the constant taxation system review that we are all subject to today, entity taxation changes are however never far from the agenda of our federal politicians.

Principal Activities

The principal activity of the Syndicate is to invest in the 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.

Environmental Regulation

Neither the Syndicate or the Trust are subject to any particular and significant environmental regulation under either Commonwealth or State legislation other than that which any real property located in the state of Queensland or the Australian Capital Territory is subject to.

Events Subsequent to Balance Date

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 Syndicate or the Trust, the results of those operations or the state of affairs of the Syndicate or the Trust, in future financial years.

Indemnification and Insurance of Officers and Auditors

No insurance premiums are paid out of the assets of the Syndicate or the Trust in regards to insurance cover provided to the Manager, the Custodian or the Auditors of the Syndicate or the Trust. As long as the officers of the Manager act in accordance with the Syndicate and/or Trust Deed and the law, the Manager remains indemnified out of the assets of the relevant Investment against losses incurred while acting on behalf of the Syndicate/Trust. The auditors are not indemnified out of the assets of the Syndicate/Trust.

Future Events

The likely developments in the operations of the Fund and the expected results of those operations in future financial years are not anticipated to vary significantly from that disclosed in the prospectus although (as mentioned above) it is intended to distribute at a rate less than prospectus forecast as a result of anticipated diminished incomes in the forthcoming year.

Proceedings on behalf of the Company

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.

The Manager was not a party to any such proceedings during the year.

Directors

The names of directors of the Manager who held office at any time during the period were R.M. Keown (Chairman), C.A. Morton (Managing Director), A.N. Douglas, C.D. Schultz and D.J. Conquest.

It is with disappointment that I advise of the retirement of Mr Rod Keown as a director of the Manager on 16 August, 2001. Rod's contribution to PFA and the funds under its management have indeed been significant. His guidance and input will be missed.

On 30 August, 2001, Elizabeth A. Pidgeon and Matthew B. Madsen were appointed as directors. Details of their backgrounds are provided in the forthcoming investor update.

State of Affairs

In the opinion of the Manager, there were no significant changes in the state of affairs of the Investment.

Conclusion

The implementation of the Aldi Supermarkets program represents the major task for us at PFA in the forthcoming year. Once Aldi and the related relocations are in place, the effort to reap the benefits by the leasing or re-letting of some related areas commences. Post Office Square and in particular the leasing of the remainder of the old Suncorp Metway space will remain a priority for us and the Fund.

You can be assured the management team will be focussed on these important issues during the year.

On behalf of Property Funds Australia Limited, may I thank each of you for your support of The Capital Collection – Diverse Sector Fund.

Christopher A Morton
Managing Director



The **CAPITAL** Collection

Diverse Sector Fund Trust No. 1
ARSN 088 775 259

**financial statements for the
the year ended June 30, 2001**

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THE CAPITAL COLLECTION DIVERSE SECTOR FUND TRUST No.1
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED JUNE 30, 2001



| | Note | 2001 \$ | 2000 \$ |
|--|------|------------------|------------------|
| Revenue from ordinary activities | 2 | 1,601,612 | 667,492 |
| Expenses from ordinary activities | 2 | <u>(774,150)</u> | <u>(936,608)</u> |
| Profit from ordinary activities before income tax expense | | 827,462 | (269,116) |
| Income tax expense relating to ordinary activities | 3 | <u>-</u> | <u>-</u> |
| Net profit from ordinary activities after income tax expense | | <u>827,462</u> | <u>(269,116)</u> |

STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2001

| | Note | 2001 \$ | 2000 \$ |
|----------------------------------|------|-------------------|-------------------|
| TRUST CAPITAL | | | |
| Unit Capital | | 17,429,000 | 17,429,000 |
| Distributions to Unitholders | | (2,257,145) | (657,885) |
| Accumulated profit/(loss) | 8 | <u>558,346</u> | <u>(269,116)</u> |
| TOTAL TRUST FUNDS | | <u>15,730,201</u> | <u>16,501,999</u> |
| CURRENT ASSETS | | | |
| Cash Assets | 4 | <u>22,068</u> | <u>20,337</u> |
| TOTAL CURRENT ASSETS | | <u>22,068</u> | <u>20,337</u> |
| NON-CURRENT ASSETS | | | |
| Equity Investments | 5 | <u>15,719,093</u> | <u>16,492,637</u> |
| TOTAL NON-CURRENT ASSETS | | <u>15,719,093</u> | <u>16,492,637</u> |
| TOTAL ASSETS | | <u>15,741,161</u> | <u>16,512,974</u> |
| CURRENT LIABILITIES | | | |
| Payables | 6 | <u>10,960</u> | <u>10,975</u> |
| TOTAL CURRENT LIABILITIES | | <u>10,960</u> | <u>10,975</u> |
| TOTAL LIABILITIES | | <u>10,960</u> | <u>10,975</u> |
| NET ASSETS | | <u>15,730,201</u> | <u>16,501,999</u> |

To be read in conjunction with the attached notes

THE CAPITAL COLLECTION DIVERSE SECTOR FUND TRUST NO.1
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2001



| | Note | 2001 \$ | 2000 \$ |
|---|------|--------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Distributions Received | | 1,600,563 | 657,886 |
| Interest Received | | 1,049 | 9,606 |
| Payments to Suppliers | | (621) | (245) |
| | 7 | <u>1,600,991</u> | <u>667,247</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Payment for Investment | | - | (17,429,000) |
| | | <u>-</u> | <u>(17,429,000)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from issue of units | | - | 17,429,000 |
| Expenses paid by related entity | | - | 10,000 |
| Distributions to Unitholders | | (1,599,260) | (656,910) |
| Net cash provided by financing activities | | <u>(1,599,260)</u> | <u>16,782,090</u> |
| Net increase in cash held | | 1,731 | 20,337 |
| Cash at the beginning of the year | | 20,337 | - |
| Cash at the end of the year | 4,7 | <u>22,068</u> | <u>20,337</u> |

To be read in conjunction with the attached notes

THE CAPITAL COLLECTION DIVERSE SECTOR FUND TRUST No.1
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001



NOTE 1: STATEMENT OF ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board. 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 accounting policies have been consistently applied, unless otherwise stated.

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

The following is a summary of the material policies adopted by the trust in the preparation of the financial accounts.

(a) Income & Expenditure

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

(b) Investments

Investments are brought to account at cost. The carrying amount of investments is reviewed every three years by the trustee's to ensure it is not in excess of the recoverable amount of these investments. The recoverable amount is assessed from the underlying net assets in 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 operating profit 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 2001.

(d) Cash

For the purpose of the Statement of Cashflows, 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.

NOTE 2: REVENUE AND EXPENSES FROM ORDINARY ACTIVITIES

| | 2001 | 2000 |
|--|------------------|----------------|
| | \$ | \$ |
| Revenue from Ordinary Activities | | |
| - Distributions Received | 1,600,563 | 657,886 |
| - Interest Received | 1,049 | 9,606 |
| | <u>1,601,612</u> | <u>667,492</u> |
| Expenses from Ordinary Activities | | |
| - Diminution in Investments | 773,544 | 935,388 |
| - Administration Expenses | 606 | 1,220 |
| | <u>774,150</u> | <u>936,608</u> |

NOTE 3: INCOME TAX EXPENSE

The trust has no tax assets or liabilities recorded as all taxable income has been distributed to investors.

THE CAPITAL COLLECTION DIVERSE SECTOR FUND TRUST No.1
NOTES THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001



| | 2001 | 2000 |
|---|-------------------|-------------------|
| | \$ | \$ |
| NOTE 4: CASH ASSETS | | |
| Cash at Bank – National Australia Bank Account | <u>22,068</u> | <u>20,337</u> |
| | <u>22,068</u> | <u>20,337</u> |
| NOTE 5: EQUITY INVESTMENTS | | |
| Interest in the Capital Collection Diverse Sector Fund Syndicate No.1 | 15,719,093 | 16,492,637 |
| | <u>15,719,093</u> | <u>16,492,637</u> |
| The value of the trust's investment in the Capital Collection Diverse Sector Fund Syndicate No.1 recognises the Trust's share of the Syndicate profit/loss for the period and the distributions received from the Syndicate for the period which represent a return of capital. | | |
| Initial investment | 17,429,000 | 17,429,000 |
| Distributions from the Capital Collection Diverse Sector Fund Syndicate No.1 | (2,258,892) | (657,886) |
| Share of Syndicate Profit/(Loss) | <u>548,985</u> | <u>(278,477)</u> |
| | <u>15,719,093</u> | <u>16,492,637</u> |
| NOTE 6: PAYABLES | | |
| Current | | |
| Other Creditor – Capital Collection Diverse Sector Fund Syndicate No.1 | 10,000 | 10,000 |
| EFT Distributions Rejected | <u>960</u> | <u>975</u> |
| | <u>10,960</u> | <u>10,975</u> |
| 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 | <u>22,068</u> | <u>20,337</u> |
| | <u>22,068</u> | <u>20,337</u> |
| Reconciliation of Net Cash provided by Operating Activities to Net Profit from Ordinary Activities after Income Tax Expense | | |
| Net Profit/(Loss) after Income Tax Expense | 827,462 | (269,116) |
| Non Cash Flows in Net Profit: | | |
| Diminution in Investments | 773,544 | 935,388 |
| Changes in Assets and Liabilities: | | |
| Increase/(Decrease) in Payables | <u>(15)</u> | <u>975</u> |
| Net Cash Provided by Operating Activities | <u>1,600,991</u> | <u>667,247</u> |

THE CAPITAL COLLECTION DIVERSE SECTOR FUND TRUST NO.1
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001



NOTE 8: ACCUMULATED PROFIT/(LOSS)

| | | |
|--|----------------|------------------|
| Accumulated Profits at the beginning of the year | (269,116) | - |
| Net Profit attributable to the trust | 827,462 | (269,116) |
| Accumulated Profit for the end of the year | <u>558,346</u> | <u>(269,116)</u> |

NOTE 9: 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 2001 totalling \$133,622 (June 30, 2000 \$130,718).

NOTE 10: OTHER STATUTORY INFORMATION

- (a) The Trust was deemed to have commenced operations on the Commencement Date, being October 19, 1999 (the date of receipt by Property Funds Australia Limited of the first Contribution). Under the Trust Deed the property cannot be held for more than eight years from December 30, 1999 unless all of the Unitholders agree that it should be retained for a further period.
- (b) No earnings have been capitalised and used in writing down the book value of the Trust's investment.
- (c) There were no transfers to reserves during the period to which these financial statements relate.
- (d) No commissions were paid or are payable by the Manager in relation to the issue or purchase of equity in the Trust. The Manager did pay commissions to authorised persons out of its own funds.
- (e) There were no disposals of property in the period to which these financial statements relate.
- (f) As at June 30, 2001 the Manager and associates held 0.019% (June 30, 2000 40.77%) of total investors capital in the Trust which were fully paid for.
- (g) Book value of the net tangible assets of the Trust at June 30, 2001 is \$15,730,201 (June 30, 2000 \$16,501,999). Each Unitholder's interest in the book value of the net tangible assets of the Trust is in the proportion of each Unitholder's percentage share in the Trust.

NOTE 11: RELATED PARTY TRANSACTIONS

- (i) Details of the Manager and the Trustee/Nominee are as follows:-

Manager

Property Funds Australia Limited ACN 078 199 569
 Directors who held office during the period were -
 R M Keown, C A Morton, A N Douglas, C D Schultz, D J Conquest

Custodian

Trust Company of Australia Limited ACN 004 027 749
 Directors who held office during the period were -
 Gordon Moffat (Chairman), John M Stanham (Vice Chairman),
 Johnathon W Sweeney (Managing Director), Warren J McLeland, Bruce G Barker,
 Bruce Corlett, Robert D Jeremy, Robert G Lloyd

- (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% (June 30, 2000 47.42%) interest (see the Capital Collection Diverse Sector Fund Syndicate No.1 Financial Statements).

THE CAPITAL COLLECTION DIVERSE SECTOR FUND TRUST No.1
NOTES THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001



NOTE 12: 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 | |
|------------------------------------|--|---------|------------------------|---------|--------------|---------|----------------------|------------|------------|------------|
| | 30/6/01 | 30/6/00 | 30/6/01 | 30/6/00 | 30/6/01 | 30/6/00 | 30/6/01 | 30/6/00 | 30/6/01 | 30/6/00 |
| Financial Assets | | | | | | | | | | |
| Cash | 5.5 | 5.5 | - | - | - | - | 22,068 | 20,337 | 22,068 | 20,337 |
| Investments | - | - | - | - | - | - | 15,719,093 | 16,482,637 | 15,719,093 | 16,482,637 |
| Total Financial Assets | - | - | - | - | - | - | 15,741,161 | 16,512,974 | 15,741,161 | 16,512,974 |
| Financial Liabilities | | | | | | | | | | |
| Payables | - | - | - | - | - | - | 10,960 | 10,975 | 10,960 | 10,975 |
| Total Financial Liabilities | - | - | - | - | - | - | 10,960 | 10,975 | 10,960 | 10,975 |

THE CAPITAL COLLECTION DIVERSE SECTOR FUND TRUST No.1
DECLARATION BY THE DIRECTORS OF THE MANAGER



In the opinion of the Directors of Property Funds Australia Limited as Manager of The Capital Collection Diverse Sector Fund Trust No.1:

- (a) The accompanying financial statements and notes give a true and fair view of the Trust's financial position as at 30 June 2001 and its performance for the year ended on that date in accordance with the Corporations Act 2001, applicable Accounting Standards and the Trust Constitution dated 21 July, 1999;
- (b) In the directors' opinions there are reasonable ground 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.

Signed for and on behalf of the directors of Property Funds Australia Limited in accordance with a resolution of the Board.

C A Morton
Managing Director

D J Conquest
Director

Brisbane
20 September, 2001

THE CAPITAL COLLECTION DIVERSE SECTOR FUND TRUST No.1
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 Accounts for the financial year ended June 30, 2001. 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 Accounting Standards, other mandatory professional reporting requirements (Urgent Issues Group Consensus Views), statutory requirements and the terms of the trust deed 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 scheme's financial position as at 30 June, 2001 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and the Corporations Regulations;
- (b) other mandatory professional reporting requirements; and
- (c) the terms of the Trust Deed.

BDO KENDALLS
Chartered Accountants

P.A. Gallagher
Partner

Brisbane: 24 September, 2001

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The **CAPITAL** Collection

Diverse Sector Fund Syndicate No. 1
ARSN 088 775 375

**financial statements for the year ended
June 30, 2001**

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THE CAPITAL COLLECTION – DIVERSE SECTOR FUND SYNDICATE NO.1
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED JUNE 30, 2001



| | Note | 2001 \$ | 2000 \$ |
|---|------|-------------|-------------|
| Revenue From Ordinary Activities | 2 | 8,441,706 | 4,312,100 |
| Expenses from Ordinary Activities | 2 | (1,931,552) | (2,181,391) |
| Depreciation / Amortisation | 2 | (1,014,109) | (887,338) |
| Borrowing Costs | 2 | (3,752,016) | (1,853,590) |
| Profit /(Loss) from Ordinary Activities before Tax Expenses | | 1,744,029 | (610,219) |
| Income Tax Expense relating to Ordinary Activities | 1(d) | - | - |
| Net Profit/(Loss) from Ordinary Activities after Income Tax Expense | | 1,744,029 | (610,219) |

STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2001

| | Note | 2001 \$ | 2000 \$ |
|---|------|-------------|-------------|
| CURRENT ASSETS | | | |
| Cash Assets | 4 | 951,313 | 1,671,351 |
| Receivables | 6 | 160,129 | 22,134 |
| Other | 5 | 59,499 | 34,576 |
| TOTAL CURRENT ASSETS | | 1,170,941 | 1,728,061 |
| NON-CURRENT ASSETS | | | |
| Cash Assets | 4 | 370,203 | - |
| Property, Plant and Equipment | 7 | 77,684,315 | 78,515,871 |
| Intangibles | 8 | 980,537 | 1,152,449 |
| TOTAL NON-CURRENT ASSETS | | 79,035,055 | 79,668,320 |
| TOTAL ASSETS | | 80,205,996 | 81,396,381 |
| CURRENT LIABILITIES | | | |
| Payables | 9 | 608,297 | 167,876 |
| TOTAL CURRENT LIABILITIES | | 608,297 | 167,876 |
| NON-CURRENT LIABILITIES | | | |
| Interest Bearing Liabilities | 10 | 46,477,000 | 46,477,000 |
| TOTAL NON-CURRENT LIABILITIES | | 46,477,000 | 46,477,000 |
| TOTAL LIABILITIES | | 47,085,297 | 46,644,876 |
| NET ASSETS | | 33,120,699 | 34,751,505 |
| TOTAL SYNDICATE MEMBERS' FUNDS | | 33,120,699 | 34,751,505 |
| SYNDICATE MEMBERS' FUNDS | | | |
| Opening Balance of Syndicate Members' Funds | | | |
| Funds Contributed | | 34,751,505 | 36,750,110 |
| Distributions to Syndicate Members | | (3,374,835) | (1,388,386) |
| Net Profit/(Loss) | | 1,744,029 | (610,219) |
| Closing Balance of Syndicate Members' Funds | | 33,120,699 | 34,751,505 |

To be read in conjunction with the attached notes

THE CAPITAL COLLECTION – DIVERSE SECTOR FUND SYNDICATE No.1
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2001



| | Note | 2001 \$ | 2000 \$ |
|--|------|--------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net Rental received | | 8,267,155 | 4,247,981 |
| Payments to suppliers | | (5,041,317) | (3,772,791) |
| Interest Received | | 36,556 | 51,985 |
| Net cash provided by operating activities | 11 | <u>3,262,394</u> | <u>527,175</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of non current assets | | <u>(141,529)</u> | <u>(79,380,938)</u> |
| Net cash provided by investing activities | | <u>(141,529)</u> | <u>(79,380,938)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Income Guarantee | | (71,865) | - |
| Proceeds from Syndicate members | | - | 36,750,110 |
| Proceeds from borrowings | | - | 46,477,000 |
| Prospectus and Syndicate Costs | | - | (190,895) |
| Borrowing Costs | | (24,000) | (1,113,764) |
| Distributions to Syndicate Members | | (3,374,835) | (1,387,337) |
| Payments to be reimbursed by related entity | | - | (10,000) |
| Net cash provided by financing activities | | <u>(3,470,700)</u> | <u>80,525,114</u> |
| Net Increase/(decrease) in cash held | | (349,835) | 1,671,351 |
| Cash at the beginning of the year | | 1,671,351 | - |
| Cash at the end of the year | 4,11 | <u>1,321,516</u> | <u>1,671,351</u> |

To be read in conjunction with the attached notes



NOTE 1: STATEMENT OF ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board. 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 accounting policies have been consistently applied, unless otherwise stated.

The Capital Collection – Diverse Sector Fund Syndicate No.1 is a registered scheme under the Corporations Law, domiciled and incorporated in Australia.

The following is a summary of the material policies adopted by the syndicate in the preparation of the financial accounts.

(a) Income & Expenditure

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

(b) Property, Plant and Equipment

Freehold land and buildings are brought to account at cost.

The syndicate has not charged depreciation on buildings as the interest in land and buildings is held as an investment property.

The carrying amount of fixed assets is reviewed annually by the responsible entity to ensure it is not in excess of the recoverable amount of those assets. The recoverable amount is assessed on the basis of expected net cash flows which will be received from the assets' employment and subsequent disposal. The expected net cash flows have not been discounted to their present values in determining the recoverable amounts. Plant and Equipment is depreciated between 1.5% and 30% at various rates.

Plant and equipment are depreciated on the diminishing value basis using the rates determined by Napier & Blakely Pty Ltd depreciation consultants in their report for income tax purposes.

Work in progress is expenditure capitalised at year end in relation to building works that are incomplete. On completion of building works the expenditure will be analysed and allocated to land and buildings, plant and equipment or expensed where appropriate. Depreciation is not charged on work in progress.

(c) Capitalised Costs

Costs associated with the establishment of the Syndicate, issue of the Prospectus and the Borrowing Costs incurred in relation to the funding of the acquisition of the investment property have been capitalised. The costs are amortised over 5 years which is the estimated period of the investment in accordance with the Prospectus.

(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 Cashflows, Cash includes Cash at Bank.

(f) 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.

THE CAPITAL COLLECTION – DIVERSE SECTOR FUND SYNDICATE NO. 1
NOTES TO THE FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2001



NOTE 2: REVENUE & EXPENSES FROM ORDINARY ACTIVITIES

| | 2001 \$ | 2000 \$ |
|--|------------------|------------------|
| Revenue From Ordinary Activities | | |
| - Rent & Licence Fees Received | 8,405,150 | 4,260,115 |
| - Interest Received | 36,556 | 51,985 |
| | <u>8,441,706</u> | <u>4,312,100</u> |
| Expenses from Ordinary Activities | | |
| - Direct Property Expenses | 1,473,361 | 682,732 |
| - Administration Expenses | 458,191 | 1,498,659 |
| | <u>1,931,552</u> | <u>2,181,391</u> |
| Depreciation / Amortisation | | |
| - Property Plant & Equipment | 973,085 | 865,067 |
| - Intangibles | 41,024 | 22,271 |
| | <u>1,014,109</u> | <u>887,338</u> |
| Borrowing Costs | | |
| - Interest Expense | 3,525,263 | 1,723,651 |
| - Amortisation | 226,753 | 129,939 |
| | <u>3,752,016</u> | <u>1,853,590</u> |

NOTE 3: AUDITORS REMUNERATION

| | | |
|------------------|---------------|---------------|
| - Audit | 18,029 | 18,750 |
| - Other Services | 11,170 | 4,120 |
| | <u>29,199</u> | <u>22,870</u> |

NOTE 4: CASH ASSETS

| | | |
|--|----------------|------------------|
| Current | | |
| Cash at Bank – National Australia Bank Rental Account | 10,305 | 551,409 |
| Cash at Bank – National Australia Bank Account | 570,805 | 1,119,942 |
| Cash at Bank - National Australia Bank Secured Term Deposit | 370,203 | - |
| | <u>951,313</u> | <u>1,671,351</u> |
| Non-Current | | |
| Cash at Bank – National Australia Bank Secured Term Deposits | 370,203 | - |
| | <u>370,203</u> | <u>-</u> |

NOTE 5: OTHER ASSETS

| | | |
|------------------|---------------|---------------|
| Deposits | 2,500 | 2,500 |
| Prepaid Expenses | 56,999 | 32,076 |
| | <u>59,499</u> | <u>34,576</u> |

NOTE 6: RECEIVABLES

| | | |
|---|----------------|---------------|
| Current | | |
| Debtors - Rental/Outgoings | 150,129 | 12,134 |
| Other Debtor - The Capital Collection Trust | 10,000 | 10,000 |
| | <u>160,129</u> | <u>22,134</u> |

THE CAPITAL COLLECTION – DIVERSE SECTOR FUND SYNDICATE NO. 1
NOTES TO THE FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2001



| | 2001 \$ | 2000 \$ |
|--|-------------|------------|
| NOTE 7: PROPERTY, PLANT & EQUIPMENT | | |
| Property described as Post Office Square, 280 Queen Street Brisbane, Queensland | | |
| Land at Cost | 8,691,370 | 8,691,370 |
| Buildings at Cost | 35,317,637 | 35,311,982 |
| Total Land & Buildings | 44,009,007 | 44,003,352 |
| Plant & Equipment at Cost | 10,232,319 | 10,180,697 |
| Less Provision for Depreciation | (1,535,680) | (700,742) |
| Total Plant & Equipment | 8,696,639 | 9,479,955 |
| Work in Progress at Cost | | |
| Additions at Cost 2000/2001 | 7,415 | - |
| Total Property, Plant & Equipment – Post Office Square | 52,713,061 | 53,483,307 |

Property described as Homeworld Shopping Centre, 150-180 Soward Way Greenway, ACT

| | | |
|---|-------------------|-------------------|
| Land at Cost | 3,631,434 | 3,631,434 |
| Buildings at Cost | 19,936,824 | 19,936,824 |
| Total Land & Buildings | 23,568,258 | 23,568,258 |
| Plant & Equipment at Cost | 1,628,631 | 1,628,631 |
| Less Provision for Depreciation | (302,472) | (164,325) |
| Total Plant & Equipment | 1,326,159 | 1,464,306 |
| Work in Progress at Cost | | |
| Additions at Cost 2000/2001 | 76,837 | - |
| Total Property, Plant & Equipment – Homeworld Shopping Centre | 24,971,254 | 25,032,564 |
| Total Property, Plant & Equipment | 77,684,315 | 78,515,871 |

| | Land | Buildings | Plant & Equipment | Work In Progress | Total |
|--|-------------------|-------------------|-------------------|------------------|-------------------|
| Property described as Post Office Square | | | | | |
| Carrying amount at the beginning of the financial year | 8,691,370 | 35,311,982 | 9,479,955 | - | 53,483,307 |
| Additions | - | 5,655 | 51,622 | 7,415 | 64,692 |
| Disposals | - | - | - | - | - |
| Depreciation | - | - | (834,938) | - | (834,938) |
| Carrying amount at the end of financial year | 8,691,370 | 35,317,637 | 8,696,639 | 7,415 | 52,713,061 |
| Property described as Homeworld | | | | | |
| Carrying amount at the beginning of the financial year | 3,631,434 | 19,936,824 | 1,464,306 | - | 25,032,564 |
| Additions | - | - | - | 76,837 | 76,837 |
| Disposals | - | - | - | - | - |
| Depreciation | - | - | (138,147) | - | (138,147) |
| Carrying amount at the end of financial year | 3,631,434 | 19,936,824 | 1,326,159 | 76,837 | 24,971,254 |
| Total Property, Plant & Equipment | 12,322,804 | 55,254,461 | 10,022,798 | 84,252 | 77,684,315 |



| | 2001 \$ | 2000 \$ |
|------------------------------------|----------------|------------------|
| NOTE 8: INTANGIBLES | | |
| Income Guarantees | 71,865 | - |
| Less Accumulated Amortisation | (2,845) | - |
| | <u>69,020</u> | <u>-</u> |
| Prospectus Issue & Promotion Costs | 116,229 | 116,229 |
| Less Accumulated Amortisation | (36,806) | (13,560) |
| | <u>79,423</u> | <u>102,669</u> |
| Borrowing Costs | 1,137,764 | 1,113,764 |
| Less Accumulated Amortisation | (356,692) | (129,939) |
| | <u>781,072</u> | <u>983,825</u> |
| Syndicate & Prospectus Legal Costs | 74,666 | 74,666 |
| Less Accumulated Amortisation | (23,644) | (8,711) |
| | <u>51,022</u> | <u>65,955</u> |
| | <u>980,537</u> | <u>1,152,449</u> |

NOTE 9: PAYABLES

| | | |
|----------------------------|----------------|----------------|
| Current | | |
| GST Payable | 115,428 | 240 |
| Trade Creditors | 106,323 | 15,800 |
| EFT Distributions Rejected | 424 | 1,050 |
| Accrued Expenses | 386,122 | 150,786 |
| | <u>608,297</u> | <u>167,876</u> |

NOTE 10: INTEREST BEARING LIABILITIES

| | | |
|--------------------|-------------------|-------------------|
| Non-Current | | |
| Mortgage Loans | <u>46,477,000</u> | <u>46,477,000</u> |

- (a) The Mortgage Loans are as follows:
 A Mortgage Loan from Colonial Funds Management Limited comprising a variable facility 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.

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

An interest rate management product has been purchased using the interest rate risk management reserve referred to in the prospectus. The effect of this purchase from the National Australia Bank is that the acquisition loans have been effectively fixed for five years (see Note 17(c)).



| | 2001 \$ | 2000 \$ |
|--|------------------|------------------|
| NOTE 10: INTEREST BEARING LIABILITIES (CON'T) | | |
| (b) 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. | | |
| NOTE 11: 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 – Rental Account | 10,305 | 551,409 |
| Cash at Bank | 570,805 | 1,119,942 |
| Secured Term Deposit – Current | 370,203 | - |
| Secured Term Deposit – Non-Current | 370,203 | - |
| | <u>1,321,516</u> | <u>1,671,351</u> |
| Reconciliation of Net Cash provided by Operating Activities to Net Profit from Ordinary Activities after Income Tax Expense | | |
| Net Profit after Income Tax Expense | 1,744,029 | (610,219) |
| Non Cash Flows in Net Profit/(Loss): | | |
| Amortisation – Income Guarantees | 2,845 | - |
| Amortisation – Prospectus Costs | 23,246 | 13,560 |
| Amortisation – Syndicate Formation and Prospectus Legal Costs | 14,933 | 8,711 |
| Depreciation | 973,085 | 865,067 |
| Amortisation – Borrowing Costs | 226,753 | 129,939 |
| Changes in Assets and Liabilities: | | |
| Decrease (Increase) in Receivables | (137,995) | (12,134) |
| Decrease (Increase) in Other Assets | (24,923) | (34,576) |
| Increase (Decrease) in Payables | 440,421 | 166,827 |
| Net Cash Provided by Operating Activities | <u>3,262,394</u> | <u>527,175</u> |



NOTE 12: CAPITAL AND LEASING COMMITMENTS

| | 2001 \$ | 2000 \$ |
|---|-------------------|-------------------|
| Operating Lease Commitments | | |
| Non-Cancellable Operating Leases contracted for but not capitalised in the financial statements | | |
| Receivable | | |
| - not later than 1 year | 6,782,127 | 6,453,569 |
| - later than 1 year but not later than 5 years | 22,195,969 | 17,809,156 |
| - later than 5 years | 18,742,639 | 12,930,306 |
| Aggregate lease revenue contracted for at balance date | <u>47,720,735</u> | <u>37,193,031</u> |

NOTE 13: EVENTS SUBSEQUENT TO BALANCE DATE

Since June 30, 2001, the Syndicate has paid Distributions to Syndicate Members for the month of June 2001 totalling \$281,750 (June 30, 2000 \$273,975).

NOTE 14: PRINCIPAL ACTIVITY

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

NOTE 15: CONTINGENT LIABILITY

Sale Performance Management Fees

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

- (i) If upon the sale of each of the properties, the sale price (after deductions of agents' commission, legal fees, advertising and auction expenses) exceeds the purchase price, the Manager is entitled to a fee equal to 2% of the sale price.
- (ii) If upon the sale of the last of the properties, the portfolio has been sold at a price which, after a deduction of agents' fees and expenses on the sale results in a premium on the subscribed amount by owners at:-
 - (a) More than 50% of their original subscribed amount then the Manager will be paid an additional fee of 2.5% calculated on the gross sale price of the properties; or
 - (b) 50% or less but more than 30% on their original subscribed amount, the Manager will be paid an additional fee of 1.5% calculated on the gross sale price of the properties.

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



NOTE 16: OTHER STATUTORY INFORMATION

- (a) The Syndicate was deemed to have commenced operations on the Commencement Date, being October 15, 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 December, 30 1999 unless the procedures outlined in Clause 11.2 of the Syndicate Constitution apply.
- (b) No earnings have been capitalised and used in writing down the book value of the Syndicate's property.
- (c) There were no transfers to reserves during the period to which these financial statements relate.
- (d) No commissions were paid or are payable by the Syndicate in relation to the issue or purchase of equity in the Syndicate. The Manager did pay commissions to authorised persons out of its own funds.
- (e) There were no disposals of property in the period to which these financial statements relate.
- (f) As at June 30, 2001 the Manager and associates held .0021% of total investors capital in the Syndicate and 0.019% of the Capital Collection Diverse Sector Fund Trust No.1 which owns 47.42% of the Capital Collection Diverse Sector Fund Syndicate No.1. All of the above interests were fully paid for.
- (g) Book value of the net tangible assets of the Syndicate at June 30, 2001 is \$32,140,162 (June 30, 2000 \$33,599,056). Each Owner's interest in the book value of the net tangible assets of the Syndicate is in the proportion of each Owner's percentage share in the Syndicate.
- (h) The land title of the property is registered in the name of Trust Company of Australia Limited who is appointed under a Custodian Deed to hold the property as custodian for Property Funds Australia Limited, the responsible entity of this Scheme and therefore on behalf of the Owners.

NOTE 17: RELATED PARTY TRANSACTIONS

- (i) Details of the Manager and the Trustee/Nominee are as follows:-

Manager

Property Funds Australia Limited ACN 078 199 569

Directors who held office during the period were -

R M Keown, C A Morton, A N Douglas, C D Schultz, D J Conquest

Custodian

Trust Company of Australia Limited ACN 004 027 749

Directors who held office during the period were -

Gordon Moffat (Chairman), John M Stanham (Vice Chairman),
 Johnathon W Sweeney (Managing Director), Warren J McLeland,
 Bruce G Barker, Robert D Jeremy, Robert G Lloyd, Bruce Corlett



NOTE 17: RELATED PARTY TRANSACTIONS (CON'T)

| | 2001 \$ | 2000 \$ |
|--|------------|------------|
| (ii) Related party transactions during the period were as follows:- | | |
| <u>The Manager</u> Syndicate Management Fee for the period paid to Property Funds Australia Limited as provided for in the prospectus and in accordance with the Syndicate Deed. | 252,328 | 125,669 |
| Inhouse Accounting Fee for the period paid to Property Funds Australia Limited. This fee has been determined on a commercial basis. | 13,230 | - |
| Acquisition Fee paid to the Manager as provided for in the prospectus and the Syndicate Deed from which the Manager pays commissions to authorised persons and some other expenses. | - | 3,667,016 |
| <u>PRD Consulting Services Pty Ltd</u> Mr A. Douglas, a Director of the Manager, is a Director of PRD Consulting Services Pty Ltd. PRD Consulting Services Pty Ltd was paid a fee of \$24,000 for finance advice resulting in the procurement of finance facilities with ANZ Funds Management and Colonial Funds Management and advice in relation to interest rate swaps which culminated in finalisation of an agreement with the National Australia Bank. | 24,000 | - |
| <u>The Custodian</u> Custodian fee for the period paid to Trust Company of Australia Limited as provided for in the prospectus and in accordance with the Custody Agreement. | 17,008 | 11,500 |
| <u>Investment Management Australia Limited</u> 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. | 3,563 | - |



NOTE 18: FINANCIAL INSTRUMENTS

(a) 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:

(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 | | Within 1 to 5 Years | | Non-Interest Bearing | | Total | |
|------------------------------------|--|----------|---------------------------|----------|------------------------|------------|-------------------------|----------|------------|------------|
| | 30/06/01 | 30/06/00 | 30/06/01 | 30/06/00 | 30/06/01 | 30/06/00 | 30/06/01 | 30/06/00 | 30/06/01 | 30/06/00 |
| Financial Assets | | | | | | | | | | |
| Cash | 5.5 | 5.5 | - | - | 1,321,516 | 1,671,351 | - | - | 1,321,516 | 1,671,351 |
| Receivables | | | - | - | - | - | 160,129 | 22,134 | 160,129 | 22,134 |
| Other Assets | | | - | - | - | - | 59,499 | 34,576 | 59,499 | 34,576 |
| Total Financial Assets | | | - | - | 1,321,516 | 1,671,351 | 219,628 | 56,710 | 1,541,144 | 1,728,061 |
| Financial Liabilities | | | | | | | | | | |
| Interest Bearing Liabilities | 6.6 | 6.6 | - | - | 46,477,000 | 46,477,000 | - | - | 46,477,000 | 46,477,000 |
| Payables | | | - | - | - | - | 608,297 | 167,877 | 608,297 | 167,877 |
| Total Financial Liabilities | - | - | - | - | 46,477,000 | 46,477,000 | 608,297 | 167,877 | 47,085,297 | 46,644,877 |



NOTE 18: FINANCIAL INSTRUMENTS (CON'T)

(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:

| | Effective Average Interest Rate Payable 30/06/2001 | Effective Average Interest Rate Payable 30/6/2000 | Notional Principal 30/06/2001 | Notional Principal 30/6/2000 |
|------------------|---|--|-------------------------------------|------------------------------------|
| Settlement | - | - | - | - |
| Less than 1 year | 6.2 | 6.2 | 15,457,000 | 15,457,000 |
| 1 to 2 years | - | - | - | - |
| 2 to 5 years | *See Below | * See Below | 31,020,000 | 31,020,000 |
| | | | <u>46,477,000</u> | <u>46,477,000</u> |

* This effective average interest rate will not be able to be calculated until the finalisation of the interest rate swap in the year 2003.

NOTE 19: SEGMENT INFORMATION

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



NOTE 20: FINANCIAL PERFORMANCE – DETAIL SUMMARY

| | 2001 | 2000 |
|--|------------------|------------------|
| | \$ | \$ |
| REVENUE AND EXPENSES FROM ORDINARY ACTIVITIES | | |
| PROPERTY INCOME | | |
| Rent & Licence Fees Received | 8,405,150 | 4,260,115 |
| | <u>8,405,150</u> | <u>4,260,115</u> |
| DIRECT PROPERTY EXPENSES | | |
| Airconditioning Maintenance | 60,406 | 37,579 |
| Cleaning | 181,080 | 74,859 |
| Electricity | 242,782 | 107,759 |
| Equipment Rent/Lease | 736 | 245 |
| Fire Protection Costs | 14,381 | 5,838 |
| Garden Maintenance | 752 | 678 |
| Insurance | 79,698 | 29,574 |
| Land Tax | 166,220 | 86,494 |
| Lift Maintenance | 41,345 | 18,569 |
| Property Managers Fees & Petties | 222,157 | 117,631 |
| Rates | 373,204 | 174,643 |
| Repairs & Maintenance | 63,310 | 15,272 |
| Security | 17,586 | 10,917 |
| Signs | 3,323 | 2,115 |
| Telephone | 6,381 | 559 |
| TOTAL DIRECT PROPERTY EXPENSES | <u>1,473,361</u> | <u>682,732</u> |
| NET PROPERTY INCOME FROM ORDINARY ACTIVITIES | <u>6,931,789</u> | <u>3,577,383</u> |



NOTE 20: FINANCIAL PERFORMANCE – DETAIL SUMMARY (CONT'D)

| | 2001 \$ | 2000 \$ |
|---|------------------|------------------|
| INCOME | | |
| Net Property Income | 6,931,789 | 3,577,383 |
| Interest Received | 36,556 | 51,985 |
| TOTAL INCOME | <u>6,968,345</u> | <u>3,629,368</u> |
| EXPENSES | | |
| Accountancy | 33,144 | 17,070 |
| Advertising | 3,511 | - |
| Amortisation - Income Guarantees | 2,845 | - |
| Amortisation - Prospectus Costs | 23,246 | 13,560 |
| Amortisation - Syndicate Formation & Prospectus Legal Costs | 14,933 | 8,711 |
| Amortisation - Borrowing Expenses | 226,753 | 129,939 |
| Auditors Fees | 18,029 | 18,750 |
| Bank Charges | 1,577 | 3,310 |
| Consultancy Fees | 3,784 | 8,860 |
| Commission Leasing | 36,000 | - |
| Compliance Committee Costs | 12,221 | - |
| Depreciation - Plant & Equipment | 973,085 | 865,067 |
| Fees & Permits | 2,069 | 1,150 |
| Interest on Borrowings | 3,525,263 | 1,723,651 |
| Legal Fees | 49,778 | 14,801 |
| Postage | 3,586 | 77 |
| Printing & Stationery | 10,195 | 589 |
| Repairs & Maintenance | 450 | - |
| Reporting Expenses | 212 | 3,327 |
| Registry | 5,250 | - |
| Stamp Duty | - | 1,293,316 |
| Syndicate Managers Fees | 252,328 | 125,669 |
| Telephone | 183 | - |
| Travelling Expenses | 8,866 | 240 |
| Custodian Fees | 17,008 | 11,500 |
| TOTAL EXPENSES | <u>5,224,316</u> | <u>4,239,587</u> |
| NET OPERATING PROFIT/(LOSS) FROM ORDINARY ACTIVITIES | <u>1,744,029</u> | <u>(610,219)</u> |

THE CAPITAL COLLECTION – DIVERSE SECTOR FUND SYNDICATE NO.1
DECLARATION BY THE DIRECTORS OF THE MANAGER



In the opinion of the Directors of Property Funds Australia Limited as Manager of The Capital Collection Diverse Sector Fund Syndicate No.1:

- (a) The accompanying financial statements and notes give a true and fair view of the Syndicate's financial position as at 30 June 2001 and its performance for the year ended on that date in accordance with the Corporations Act 2001, applicable Accounting Standards and the Syndicate Constitution dated 21 July, 1999;
- (b) In the directors' opinions there are reasonable ground 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.

Signed for and on behalf of the directors of Property Funds Australia Limited in accordance with a resolution of the Board.

C A Morton
Managing Director

D J Conquest
Director

Brisbane
20 September, 2001

THE CAPITAL COLLECTION – DIVERSE SECTOR FUND SYNDICATE No.1
INDEPENDENT AUDIT REPORT TO THE UNITHOLDERS



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 Accounts for the financial year ended June 30, 2001 as set out on pages (1) to (14). 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 owners.

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 Accounting Standards, other mandatory professional reporting requirements (Urgent Issues Group Consensus Views), statutory requirements and the terms of the syndicate deed 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 2001 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and the Corporations Regulations;
- (b) other mandatory professional reporting requirements; and
- (c) the terms of the Syndicate Deed.

BDO KENDALLS
CHARTERED ACCOUNTANTS

BDO Kendall

P.A. Gallagher

P.A. Gallagher
Partner

Brisbane: 24 September, 2001



DIRECTORY

PROPERTY FUNDS
AUSTRALIA LIMITED

MANAGER

Property Funds Australia Limited
ACN 078 199 569

Registered Office &

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BRISBANE ADELAIDE ST Q 4000

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BRISBANE Q 4000

TAXATION ADVISER

Hacketts
Chartered Accountants
220 Boundary Street
SPRING HILL Q 4000

DIRECTORS OF THE MANAGER

Christopher A Morton (Managing Director)
Archibald N Douglas
Elizabeth A Pidgeon
Clive D Schultz
David J Conquest
Matthew B Madsen

REGISTRY

BDO Kendalls
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AUDITOR

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SOLICITORS FOR MANAGER

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