



The
CAPITAL
Collection
Diverse Sector Fund

**interim financial report
December 31, 2002**

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THE CAPITAL COLLECTION – DIVERSE SECTOR FUND

INTERIM MANAGER'S REPORT



The Directors of Property Funds Australia Limited (the Manager) as responsible entity submit the following Interim 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 six months ending 31 December, 2002 ("the Period").

Directors

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

Christopher Arthur Morton
Archibald Norman Douglas
Elizabeth Ann Pidgeon
David John Conquest
Matthew Bradley Madsen

Review of Operations

The Fund's current operational issues are as follows:-

Post Office Square

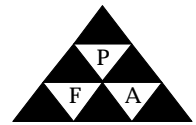
- ▲ **Leasing:** There are two shops not permanently leased. A shop front has been installed in shop 27 to improve its leasing prospects. Angus & Robertson's Bookworld continue to occupy shop 6 on a temporary basis. Whilst this provides additional revenue for the fund, longer term prospects are being focussed on.
- ▲ **Trading:** The centre continues to trade well in the face the of increased competition from the recently opened Macarthur Central complex, diagonally opposite the property in Queen Street. Promotion of the centre will continue to focus on increasing sales for the retail tenants. Both trading figures and pedestrian traffic counts have to date demonstrated no performance damage caused by this new retail complex. The adjoining Rowes Arcade is currently undergoing refurbishment and will provide additional competitive pressure upon completion, due in June this year.
- ▲ **Rental Increases:** Specialty shop rentals continue to increase at the fixed 4% to 5% range.
- ▲ **Rental Guarantee:** During the reporting period, settlement was reached with the vendor over the disputed rental guarantee, resulting in a positive result for the fund of some \$140,000 as final payment for the release of all ongoing rental support obligations of the Vendor.
- ▲ **Valuation:** We have commissioned an independent valuation from Landmark White, which is expected to be finalised by mid March. Investors will be kept informed via the next newsletter.

Homeworld, Canberra

- ▲ **Leasing:** In addition to the leasing efforts of Knight Frank, the centre manager, we have appointed LJ Hooker Commercial to intensify the focus on leasing. A number of lease expiries have been successfully renegotiated with new lease terms agreed. These include Dick Smith Electronics, Jenny Craig and Civic Video.
- ▲ **Dan Murphy's Liquor Barn:** Woolworths Limited trading as Dan Murphy commenced trading from this property prior to Christmas. The tenancy provides an excellent anchor for this end of the complex. As part of the transaction, the fund has committed to ownership of part of the tenants fitout. The fund enjoys the depreciation benefit of this ownership. The final payment for the lessor's contribution towards fitout is due upon receipt of satisfactory documentation from the lessee.

Fund Matters

- ▲ **Revenue:** Increased slightly during the period under review.
- ▲ **Expenses:** Combined property and direct fund expenses were contained during the period.
- ▲ **Debt:** The fund has increased its debt position to fund, amongst other items, tenants incentives and capital works. The fund is in the process of securing an additional \$1.0m in long term debt, secured



against both Homeworld and Post Office Square. This advance will be used to reduce the overdraft facility which is a more expensive source of funding.

- ▲ **Members' Equity:** During the period net assets (Syndicate) increased by \$187,417 primarily due to the revaluation increment of Homeworld, Canberra.

Distributions for the period ended 31 December, 2002

Distributions for the period equated to 8.3% p.a. on the capital subscribed by investors. However, ongoing distributions are contemplated to occur at the rate of 8.0% p.a. on the capital subscribed.

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

A handwritten signature in black ink, appearing to read 'Amata', with a long horizontal flourish extending to the right.

.....
Christopher A. Morton
Managing Director



The **CAPITAL** Collection

Diverse Sector Fund Syndicate No. 1
ARSN 088 775 375

**interim financial report
December 31, 2002**

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THE CAPITAL COLLECTION – DIVERSE SECTOR FUND SYNDICATE No. 1
CONDENSED STATEMENT OF FINANCIAL PERFORMANCE
FOR THE SIX MONTHS ENDED 31 DECEMBER 2002



	Note	31 December 2002 \$	31 December 2001 \$
Revenue from ordinary activities		4,352,077	4,229,426
Expenses from ordinary activities			
Property expenses		(894,468)	(1,033,486)
Fund expenses			
Direct Expenses		(332,408)	(310,981)
Amortisation/depreciation		(560,643)	(457,800)
		<u>(893,051)</u>	<u>(768,781)</u>
Borrowing costs			
Interest		(1,886,267)	(1,791,176)
Amortisation		(118,701)	(113,376)
		<u>(2,004,968)</u>	<u>(1,904,552)</u>
Profit/(loss) from ordinary activities before income tax expense		559,590	522,607
Income tax expense relating to ordinary activities	1(a)	<u>-</u>	<u>-</u>
Profit /(loss) after income tax expense attributable to Syndicate members		559,590	552,607
Increase in asset revaluation reserve	6	1,171,326	-
Total changes in Syndicate equity other than those resulting from transactions with Syndicate members as Syndicate members		<u>1,730,916</u>	<u>522,607</u>

The above condensed statement of financial performance should be read in conjunction with the notes to the financial statements.

THE CAPITAL COLLECTION – DIVERSE SECTOR FUND SYNDICATE No. 1
CONDENSED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2002



	Note	31 December 2002 \$	30 June 2002 \$
CURRENT ASSETS			
Cash assets		609,635	825,832
Receivables		387,565	265,922
Other		80,992	65,241
TOTAL CURRENT ASSETS		<u>1,078,192</u>	<u>1,156,995</u>
NON-CURRENT ASSETS			
Investment - Property		78,788,837	76,252,976
Other		5,858,401	6,756,561
TOTAL NON-CURRENT ASSETS		<u>84,647,238</u>	<u>83,009,537</u>
TOTAL ASSETS		<u>85,725,430</u>	<u>84,166,532</u>
CURRENT LIABILITIES			
Payables		1,773,799	552,135
Interest bearing liabilities		450,231	300,413
TOTAL CURRENT LIABILITIES		<u>2,224,030</u>	<u>852,548</u>
NON-CURRENT LIABILITIES			
Interest bearing liabilities		48,577,000	48,577,000
TOTAL NON-CURRENT LIABILITIES		<u>48,577,000</u>	<u>48,577,000</u>
TOTAL LIABILITIES		<u>50,801,030</u>	<u>49,429,548</u>
NET ASSETS		<u>34,924,400</u>	<u>34,736,984</u>
EQUITY			
Syndicate members' equity	5	29,807,946	30,791,856
Reserves	6	5,116,454	3,945,128
TOTAL EQUITY		<u>34,924,400</u>	<u>34,736,984</u>

The above condensed statement of financial position should be read in conjunction with the notes to the financial statements.

THE CAPITAL COLLECTION – DIVERSE SECTOR FUND SYNDICATE No. 1
CONDENSED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2002



	31 December 2002	31 December 2001
	\$	\$
Cash Flows from Operating Activities		
Rent & outgoings received	4,596,072	4,002,046
Interest received	10,050	33,470
Payments to suppliers	(1,077,491)	(1,175,233)
Interest Paid	(1,886,267)	(1,791,176)
Cash Provided by/ (Used in) Operating Activities	<u>1,642,364</u>	<u>1,069,107</u>
Cash Flows from Investing Activities		
Capital improvements to investment property	(464,878)	(985,203)
Cash Provided by/ (Used in) Investing Activities	<u>(464,878)</u>	<u>(985,203)</u>
Cash Flows from Financing Activities		
Payment of distributions	(1,543,501)	(1,690,345)
Cash Provided by/ (Used in) Financing Activities	<u>(1,543,501)</u>	<u>(1,690,345)</u>
Net increase/(decrease) in cash held	(366,015)	(1,606,441)
Cash at the beginning of the financial period	525,419	1,321,516
CASH AS AT 31 DECEMBER, 2002	<u><u>159,404</u></u>	<u><u>(284,925)</u></u>

The above condensed statement of cash flows should be read in conjunction with the notes to the financial statements.



Note 1 – Basis of Preparation

The half-year condensed financial statements are a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standard AASB 1029: Interim Financial Reporting and other mandatory professional reporting requirements in Australia. It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2002 and any public announcements made by Property Funds Australia Limited as the responsible entity for The Capital Collection – Diverse Sector Fund Syndicate No. 1 during the half-year in accordance with the continuous disclosure requirements arising under the Corporations Act 2001.

The accounting policies have been consistently applied by the syndicate and are consistent with those applied in the 30 June 2002 annual report.

The half-year interim financial report does not include full disclosures of the type normally included in the annual financial report.

(a) 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.

Note 2 – Events Subsequent to Balance Date

The Directors are considering an application to list the interests in the Syndicate on the Bendigo Stock Exchange (BSX). The BSX is yet to approve the application to list. There is no warranty that any application (if finally made) will be successful. It is however, expected that the interests in the Syndicate will be approved and will open for trading during March 2003. The listing process will have no impact on the distributions paid to Investors. The decision to consider for listing on the BSX is based on the belief that it is in the best interest of Investors that the trading of interests in the Syndicate should take place in a formal and efficient environment and within an open and transparent market.

Note 3 – Contingent Liabilities

There are no contingent liabilities as at balance date.

Note 4 – Segment Information

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

	31 December 2002	30 June 2002
	\$	\$
Note 5 – Syndicate Members' Equity		
Contributed Capital	36,750,110	36,750,110
Accumulated profits / (losses) beginning of financial year	2,185,815	1,133,810
Current year profit / (loss)	559,590	1,052,004
Accumulated distributions beginning of financial year	(8,144,068)	(4,763,221)
Current year distributions	(1,543,501)	(3,380,847)
	<u>29,807,946</u>	<u>30,791,856</u>

THE CAPITAL COLLECTION – DIVERSE SECTOR FUND SYNDICATE No. 1
NOTES TO THE CONDENSED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2002



	31 December 2002	30 June 2002
	\$	\$
Note 6 – Reserves		
Opening balance	3,945,128	-
Asset revaluation increment	1,171,326	3,945,128
Closing balance	<u>5,116,454</u>	<u>3,945,128</u>

An independent valuation of Homeworld land and buildings has been undertaken by Stephen R Andrew FAPI, Certified Practising Valuer of Colliers International Consultancy and Valuation Pty Ltd. The valuation of \$28,900,000 was based on market value and has been adopted as at 31 December, 2002.

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



The directors of Property Funds Australia Ltd as the Responsible Entity for The Capital Collection – Diverse Sector Fund Syndicate No. 1 declare that:

1. the accompanying financial statements and notes
 - (a) comply with Australian Accounting Standard AASB 1029: Interim Financial Reporting and the Corporations Regulations; and
 - (b) give a true and fair view of the financial position as at 31 December 2002 and performance for the half year ended on that date.
2. in the directors' opinion there are reasonable grounds to believe that the syndicate 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 Directors of Property Funds Australia Limited.

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Christopher Arthur Morton
Managing Director

Brisbane

Dated: 14 March 2003



Scope

We have reviewed the Interim Financial Report of The Capital Collection – Diverse Sector Fund Syndicate No. 1 for the half year ended 31 December 2002 as set out on pages 1 to 6. The Directors are responsible for the interim financial report. We have performed an independent review of the Interim Financial Report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the Interim Financial Report is not presented fairly in accordance with Australian Accounting Standard AASB1029: *Interim Financial Reporting* and other mandatory professional reporting requirements in Australia, and statutory requirements so as to present a view which is consistent with our understanding of the syndicate's financial position, and performance as represented by the results of its operations and its cash flows, and in order for the syndicate to lodge the interim financial report with the Australian Securities and Investment Commission.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of syndicate personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year interim financial report of The Capital Collection – Diverse Sector Fund Syndicate No. 1 is not in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the syndicate's financial position as at 31 December 2002 and of its performance for the half-year ended on that date; and
 - (ii) complying with Australian Accounting Standard AASB1029: *Interim Financial Reporting* and the Corporations Regulations; and
- (b) other mandatory professional reporting requirements in Australia.

BDO Kendalls Chartered Accountants

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Paul Gallagher
Partner

Brisbane

Date: 14 March 2003