



# *Garden Square*

## *Joint Investment*

**2001 annual report**

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# GARDEN SQUARE JOINT INVESTMENT MANAGER'S REPORT



I am pleased to present the Annual Report of The Garden Square Joint Investment (the Fund) for the year ended June 30, 2001.

## Review of Operations

It has been a busy year of consolidation for the property as evidenced by the activities outlined below.

## Capital Expenditure Program

The entrance statement, paved entrance and car park reconfiguration were completed towards the end of 2000. The car park reconfiguration has enabled the property to receive car parking revenues not previously achieved. The entrance statement, new signage and landscaping have received acknowledgement as enhancing the appeal and visibility of the property.

We are currently in the final stages of completion of the reconfiguration of the ground floor of Block C which is designed to increase its ongoing lettable area and its net lettable area and therefore rent earning capacity.

## Tenancy Issues

At the date of this report, we have achieved 100% letting of the property. This is an admirable achievement for any office property. This has occurred due to the following lettings up to the date of this report.

- ▲ the lease to Citibank Limited of 580m<sup>2</sup> on level 2 of Block D in the space formerly occupied by Hanover Holdings;
- ▲ the renewal and expansion by the Queensland State Government of its lease of level 2 of Block C and part of Block D for a further six years;
- ▲ a lease to a new tenant being accounting firm Davies Knox Maynard of 449m<sup>2</sup> of the ground floor of Block C for seven years;
- ▲ the relocation and letting to Kedcorp Constructions Pty Ltd and Wilson Chan (accountants) of 355m<sup>2</sup> on the refurbished ground floor of Block C.

In addition, to adding new revenue streams via the car parking reconfiguration, we entered into a licensing agreement of part of the roof space of Blocks A and B for the purposes of telecommunications for \$20,000p.a.

## Financial Results

After accounting depreciation/amortisation of \$875,131 and Division 10(D) deductions of \$175,889 the Syndicate recorded an accounting profit of \$260,491 and a taxable income of \$150,616 for the year. A tax advantaged portion of distributed income of 88% has been achieved compared to the prospectus forecast of 58% due to higher than expected depreciation figures.

The Trust had an accounting profit of \$86,441 and taxable income of \$50,053 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 profit/loss referred to above does not reflect the surplus cash generated by the operations of the Fund which is available for distribution.

## Distributions – for the year ended 30 June, 2001

Distributions for the year equated to a yield of 11.3% per annum on the capital subscribed by owners in the Syndicate and 11.2% of capital subscribed by unitholders in the Trust. Distributions are made principally from the Joint Investment'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 10.5%p.a. down from the previous year's rate of 11.3%p.a. The decision was taken after regard was given to future cash requirements, expected property performance and the overall position of the Fund over the last year or so. The income of the Fund has been adversely affected by a number of factors including the earlier unexpected demise of the serviced office tenant, Hanover Holdings Pty Ltd. The re-letting of the Regional Health tenancy took longer than anticipated and the refurbishment



and full re-letting of the ground floor of Block C was delayed by prolonged negotiations with one of the tenants necessary to be relocated.

The Board will continue to monitor the appropriateness of distribution rates throughout the following year.

#### **Investment and Borrowing Policies of the Joint Investment**

There have been no changes to the investment and borrowing policies outlined in the prospectus. At settlement of the acquisition, a revolving line of credit was established with a limit of \$1.75million. As at 30 June, 2001 \$638,254 of this facility was being utilised principally as a consequence of the capital expenditure program.

The borrowing facilities have been reviewed post 30 June, 2001 with a \$1.5M increase in the term debt to \$12.75M and a reduction in the overdraft facility to \$450,000.

The increased term debt repays the existing outstanding indebtedness under the overdraft with the balance being used for lessor works and tenant incentives for the recent leasing at the property.

The interest rate under the term debt will be approximately 2% less than under the overdraft facility thereby reducing the average cost of funds.

#### **GST**

We are pleased to advise that no material effect 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**

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 Garden Square Joint Investment. 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 Garden Square office complex. The principal activity of the Trust is to invest via the Syndicate into the same property. 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 would be 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 Trustee 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 in no way 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 currently anticipated to vary significantly from that disclosed in the prospectus. Determinations or comment as to distribution rates in the year ending 30 June, 2003 and thereafter cannot be made at this stage, particularly whilst the future of the renewal of the Q-Build State Government tenancy is unknown.

#### **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 Fund.*

#### **Conclusion**

The greatest challenge over the next 12 months for the Fund and ourselves as Manager is the resolution of the expiry of the Q-Build State Government tenancy on the first floor of Blocks C and D on 31 August, 2002.

We are in the early stages of discussions with this tenant. This negotiation is another step in the positioning process of the property for its eventual sale.

On behalf of Property Funds Australia Limited, I would like to thank each of you for your ongoing support of the Garden Square Joint Investment.

**Christopher A. Morton**  
Managing Director

24-9-01



# *Garden Square*

## *Syndicate*

financial statements for the  
financial year ended June 30, 2001

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**GARDEN SQUARE SYNDICATE**  
**STATEMENT OF FINANCIAL PERFORMANCE**  
**FOR THE YEAR ENDED JUNE 30, 2001**



	Note	2001 \$	2000 \$
Revenue from Ordinary Activities	2,21(a)	2,842,058	2,767,336
Expenses from Ordinary Activities	2	(824,982)	(758,107)
Depreciation/Amortisation	2	(875,131)	(1,075,690)
Borrowing Costs	2	(881,454)	(821,668)
		<hr/>	<hr/>
Profit from Ordinary Activities before Income Tax Expense		260,491	111,871
Income Tax Expense relating to Ordinary Activities	1(d)	-	-
		<hr/>	<hr/>
Net Profit/(Loss) from Ordinary Activities after Income Tax Expense	21(b)	<u>260,491</u>	<u>111,871</u>

*To be read in conjunction with the attached notes*

**GARDEN SQUARE SYNDICATE**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT JUNE 30, 2001**



	Note	2001 \$	2000 \$
<b>CURRENT ASSETS</b>			
Cash Assets	4	235	241
Receivables	5	50,131	49,152
Other	6	3,000	3,000
<b>TOTAL CURRENT ASSETS</b>		<u>53,366</u>	<u>52,393</u>
<b>NON-CURRENT ASSETS</b>			
Property, Plant and Equipment	7	19,419,176	19,983,122
Intangibles	8	79,464	125,357
<b>TOTAL NON-CURRENT ASSETS</b>		<u>19,498,640</u>	<u>20,108,479</u>
<b>TOTAL ASSETS</b>		<u>19,552,006</u>	<u>20,160,872</u>
<b>CURRENT LIABILITIES</b>			
Payables	9	865,095	427,927
<b>TOTAL CURRENT LIABILITIES</b>		<u>865,095</u>	<u>427,927</u>
<b>NON-CURRENT LIABILITIES</b>			
Interest Bearing Liabilities	10	11,250,000	11,250,000
<b>TOTAL NON-CURRENT LIABILITIES</b>		<u>11,250,000</u>	<u>11,250,000</u>
<b>TOTAL LIABILITIES</b>		<u>12,115,095</u>	<u>11,677,927</u>
<b>NET ASSETS</b>		<u>7,436,911</u>	<u>8,482,945</u>
<b>TOTAL SYNDICATE MEMBERS' FUNDS</b>		<u>7,436,911</u>	<u>8,482,945</u>
<b>SYNDICATE MEMBERS INFORMATION</b>			
Opening Balance of Syndicate Members Funds		8,482,945	9,628,051
Distributions to Syndicate Members		(1,306,525)	(1,256,977)
Profit for the Year Ended		260,491	111,871
Closing Balance of Syndicate Members Funds		<u>7,436,911</u>	<u>8,482,945</u>

*To be read in conjunction with the attached notes*

**GARDEN SQUARE SYNDICATE**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2001**



	Note	2001 \$	2000 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net Rental Received		2,896,520	2,697,442
Payments To Suppliers		(1,779,627)	(1,535,768)
Interest Received		-	13
GST Paid In Advance		-	(1,626)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	11	<u>1,116,893</u>	<u>1,160,061</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase Of Non Current Assets And Capital Improvements		(285,308)	(309,240)
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>		<u>(285,308)</u>	<u>(309,240)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Distributions To Syndicate Members		(1,306,525)	(1,256,886)
Expenses To Be Reimbursed By Related Entity		-	(3,120)
<b>Net Cash Provided By Financing Activities</b>		<u>(1,306,525)</u>	<u>(1,260,006)</u>
<b>NET INCREASE/(DECREASE) IN CASH HELD</b>		<u>(474,940)</u>	<u>(409,185)</u>
Cash At Beginning		<u>(163,079)</u>	<u>246,106</u>
<b>CASH AT JUNE 30, 2001</b>	11	<u><u>(638,019)</u></u>	<u><u>(163,079)</u></u>

*To be read in conjunction with the attached notes*



**GARDEN SQUARE SYNDICATE**  
**NOTES TO AND FORMING PART OF 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, other mandatory professional reporting requirements, statutory requirements in Australia and the terms of the Syndicate deed. 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 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 or at independent or Trustee's valuation.

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 syndicate trustee 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 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. The depreciation rates used for each class of assets are:

Class of Fixed Asset	Depreciation Rate
Plant & Equipment	10-40%

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.

**(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 statutory requirements in Australia.

**GARDEN SQUARE SYNDICATE**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2001**



	2001 \$	2000 \$
<b>NOTE 2: REVENUE &amp; EXPENSES FROM ORDINARY ACTIVITIES</b>		
<b>Revenue from Ordinary Activities</b>		
- Rent Received	2,595,029	2,480,201
- Outgoings Recovered	247,029	287,122
- Interest Received	-	13
	<u>2,842,058</u>	<u>2,767,336</u>
<b>Expenses from Ordinary Activities</b>		
- Direct Property Expenses	560,891	524,533
- Administration Expenses	264,091	233,574
	<u>824,982</u>	<u>758,107</u>
<b>Depreciation/Amortisation</b>		
- Property Plant & Equipment	849,254	1,049,813
- Intangibles	25,877	25,877
	<u>875,131</u>	<u>1,075,690</u>
<b>Borrowing Costs</b>		
- Interest Expense	861,438	801,652
- Amortisation	20,016	20,016
	<u>881,454</u>	<u>821,668</u>
<b>NOTE 3: AUDITORS REMUNERATION</b>		
- Audit of Financial Report	<u>7,556</u>	<u>4,432</u>
<b>NOTE 4: CASH ASSETS</b>		
Cash at Bank – National Australia Bank	<u>235</u>	<u>241</u>
<b>NOTE 5: RECEIVABLES</b>		
<b>Current</b>		
Trade Debtors	28,503	25,134
Other Debtors	-	1,588
Prepaid Expenses	21,628	20,804
GST Paid in Advance	-	1,626
	<u>50,131</u>	<u>49,152</u>
<b>NOTE 6: OTHER ASSETS</b>		
Deposits Refundable – Energex	<u>3,000</u>	<u>3,000</u>

**GARDEN SQUARE SYNDICATE**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2001**



	2001 \$	2000 \$
<b>NOTE 7: PROPERTY, PLANT &amp; EQUIPMENT</b>		
Property described as Garden Square, Kessels Road Mt Gravatt, Brisbane, Queensland		
Land at Cost	3,391,321	3,391,321
Buildings at Cost	12,555,105	12,539,691
Total Land & Buildings	<u>15,946,426</u>	<u>15,931,012</u>
Plant & Equipment at Cost	7,443,660	7,262,795
Less Provision for Depreciation	(4,059,939)	(3,210,685)
Total Plant & Equipment	<u>3,383,721</u>	<u>4,052,110</u>
Work in Progress at Cost	<u>89,029</u>	<u>-</u>
Total Property, Plant & Equipment	<u><u>19,419,176</u></u>	<u><u>19,983,122</u></u>

An independent valuation of land and buildings at Garden Square was undertaken as at June 30, 2000. This valuation was carried out by M J Buckley AAPI from FPD Savills. The valuation was made in accordance with the obligations under the Syndicate Deed to value land and buildings no less than every three years. The valuation was based on the current market value as at June 30, 2000 and determined a valuation of \$22,000,000.

	Land	Buildings	P & E	WIP	Total
Carrying Amount at the Beginning of the financial year	3,391,321	12,539,691	4,052,110	-	19,983,122
Additions	-	15,414	180,865	89,029	285,308
Disposals	-	-	-	-	-
Depreciation	-	-	(849,254)	-	(849,254)
Carrying Amount at the End of the financial year	<u>3,391,321</u>	<u>12,555,105</u>	<u>3,383,721</u>	<u>89,029</u>	<u>19,419,176</u>

**GARDEN SQUARE SYNDICATE**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2001**



	2001 \$	2000 \$
<b>NOTE 8: INTANGIBLES</b>		
Prospectus Issue & Promotion Costs	57,621	57,621
Less Accumulated Amortisation	(37,668)	(26,143)
	<u>19,953</u>	<u>31,478</u>
Borrowing Costs	100,082	100,082
Less Accumulated Amortisation	(65,423)	(45,407)
	<u>34,659</u>	<u>54,675</u>
Syndicate & Prospectus Legal Costs	71,764	71,764
Less Accumulated Amortisation	(46,912)	(32,560)
	<u>24,852</u>	<u>39,204</u>
	<u>79,464</u>	<u>125,357</u>

**NOTE 9: PAYABLES**

<b>Current</b>		
Bank Overdraft	638,254	163,320
Trade Creditors	154,476	231,477
Rental Income and Outgoings in Advance	57,831	-
Other Creditors	14,534	33,130
	<u>865,095</u>	<u>427,927</u>

**NOTE 10: INTEREST BEARING LIABILITIES**

<b>Non-Current</b>		
Mortgage Loan	<u>11,250,000</u>	<u>11,250,000</u>

- (a) The Mortgage Loan from Citibank Limited comprises a fixed five year facility of \$11,250,000 secured by a First Registered Mortgage over the land and buildings and plant and equipment at Garden Square, Kessels Road Mt Gravatt and a set-off agreement. Interest on the loan is payable monthly in arrears on the same day of each month as the loan was made.
- (b) The Syndicate also has a Mortgage Power Credit Line Facility with Citibank Limited which is currently limited to \$1,140,000 (subject to review to \$1,750,000 with later valuations). The Credit Line Facility is secured by the same securities as the Fully Drawn Advance.
- (c) The borrowings were undertaken by Property Funds Australia Limited as Manager of the Syndicate and on behalf of the Owners and Trust Company of Australia Limited as Trustee has given a mortgage over the Property. Neither the Investors, Manager or Trustee are personally liable beyond the value of the equity subscribed.



	2001 \$	2000 \$
<b>NOTE 11: NOTES TO THE STATEMENT OF CASH FLOWS</b>		
<b>Reconciliation of Cash</b>		
Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the statement of financial position as follows:		
Bank Overdraft – Citibank Mortgage Power Account	(638,254)	(163,265)
Bank Overdraft – National Australia Bank	-	(55)
Cash at Bank – National Australia Bank	235	241
	<u>(638,019)</u>	<u>(163,079)</u>
<b>Reconciliation of Net Cash provided by Operating Activities to Operating Profit after Income Tax</b>		
Operating Profit (Loss) after Income Tax	260,491	111,871
Non Cash Flows in Operating Profit:		
Amortisation - Borrowing Costs	20,016	20,016
Amortisation – Prospectus Costs	11,524	11,524
Amortisation – Syndicate Formation & Prospectus Legal Costs	14,353	14,352
Depreciation	849,254	1,049,813
Changes in Assets & Liabilities:		
Decrease (Increase) in Trade Debtors	(3,369)	(25,134)
Decrease (Increase) in Other Debtors	1,588	-
Decrease (Increase) in Prepayments	(824)	(3,604)
Decrease (Increase) in GST Paid in Advance	1,626	(1,626)
Increase (Decrease) in Trade Creditors	(77,001)	22,673
Increase (Decrease) in Other Creditors	(18,596)	4,923
Increase (Decrease) in Rental/Outgoings in Advance	57,831	(44,747)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>1,116,893</u>	<u>1,160,061</u>



**NOTE 12: EVENTS SUBSEQUENT TO BALANCE DATE**

Since June 30, 2001, the Syndicate has paid a Distribution to Syndicate Members for the month of June 2001 totalling \$108,912 (June 30, 2000 \$104,864).

**NOTE 13: PRINCIPAL ACTIVITY**

The principal activity of the Garden Square Syndicate is investment in an income producing commercial building at Mt Gravatt, Brisbane, Queensland.

**NOTE 14: TAXABLE INCOME ATTRIBUTABLE TO OWNERS**

	2001 \$	2000 \$
Net Operating Profit	260,491	111,871
(Increase)/Decrease in Non deductible accrued expenses	350	(1,850)
Non deductible syndicate legal & prospectus costs	25,877	25,877
Non Deductible Accounting		
Depreciation - Plant & Equipment	40,611	52,360
Allowable Taxation Depreciation – Buildings	(175,889)	(168,056)
(Increase)/Decrease in Deductible Prepaid Expenses	(824)	(3,604)
Taxable Income for the Period	150,616	16,598

**NOTE 15: CONTINGENT LIABILITY**

**Sale Performance Management Fees**

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

- (i) If upon the sale of the property, 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 the property is 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; 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.

This is more comprehensively outlined in Section 14.3 of the prospectus or Clause 18.4 of the Syndicate Deed.



**NOTE 16: OTHER STATUTORY INFORMATION**

- (a) The Syndicate was deemed to have commenced operations on the Commencement Date, being February 12, 1998 (the date of receipt by the Trustee of the first Contribution). Under the Syndicate Deed the property cannot be held for more than eight years unless all of the Investors 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 Syndicate's property.
- (c) There were no transfers to or from 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.
- (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 1.2% of total investors capital in the Syndicate and 1.55% of the Garden Square Property Trust which owns 33.23% of the Garden Square Syndicate. 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 \$7,357,447 (June 30, 2000 \$8,357,588). 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 to the property is registered in the name of Trust Company of Australia Limited who is appointed under the Syndicate Deed to act as nominee for the owners and trustee of the Joint Investment.
- (i) Property Funds Australia Limited ACN 078 199 569 is the Manager of the Garden Square Syndicate.

The Registered Office and Principal Place of Business for the above entities is as follows:-

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

**GARDEN SQUARE SYNDICATE**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2001**



	2001 \$	2000 \$
<b>NOTE 17: OPERATING LEASE COMMITMENT RECEIVABLE</b>		
Operating Lease Commitments contracted as receivables:		
<b>RECEIVABLES</b>		
Not later than 1 year	2,598,497	2,539,653
Later than 1 year but not later than 5 years	6,774,846	6,870,313
Later than 5 years	701,568	-
Aggregate lease revenue contracted for at balance date	10,074,911	9,409,966

**NOTE 18: 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 Conquest

**Trustee/Nominee**

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) Related party transactions during the period were as follows:-

**The Manager**

Syndicate Management Fee for the period was paid to  
 Property Funds Australia Limited as provided for in the  
 prospectus in accordance with the Garden Square Syndicate  
 Deed.

	129,281	141,180
--	---------	---------

Inhouse Accountancy Fee for the period was paid to Property  
 Funds Australia Limited. This fee was determined on a  
 commercial basis.

	10,000	-
--	--------	---

PRD Realty for property management services for the period.

	23,200	28,230
--	--------	--------

**The Trustee**

Trustee fee for the period was paid to Trust Company of  
 Australia Limited as provided for in the prospectus and in  
 accordance with the Syndicate Deed.

	14,000	14,000
--	--------	--------





## NOTE 18 RELATED PARTIES TRANSACTIONS (CONT'D)

### Director Related Entities

Hanover Holdings Pty Ltd was a tenant of Garden Square. Administrators were appointed to the company on December 7, 1998. The company subsequently entered into a Deed of Company Arrangement on January 28, 1999. A N Douglas and C A Morton were appointed directors of Hanover Holdings Pty Ltd on February 3, 1999.

The directors were appointed to the Board of Hanover Holdings Pty Ltd (Deed of Company Arrangement) in order to protect the interests of the Garden Square Syndicate. Rent was charged to Hanover Holdings Pty Ltd (Deed of Company Arrangement) on the basis of the amount that may be recovered. Hanover Holdings Pty Ltd (Deed of Company Arrangement) ceased to be a tenant on March 31, 2001.

## NOTE 19 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 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		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
Cash Assets	-	-	-	-	235	241	235	241
Other Assets	-	-	-	-	3,000	3,000	3,000	3,000
Receivables	-	-	-	-	50,131	49,152	50,131	49,152
<b>Total Financial Assets</b>			-	-	53,366	52,393	53,366	52,393
<b>Financial Liabilities</b>								
Bank Overdraft		9.49	638,254	163,320	-	-	638,254	163,320
Interest Bearing Liabilities	7.11	7.11	11,250,000	11,250,000	-	-	11,250,000	11,250,000
Payables								
	-	-	-	-	226,841	264,607	226,841	264,607
<b>Total Financial Liabilities</b>			11,888,254	11,413,320	226,841	264,607	12,115,095	11,677,927



**NOTE 20: SEGMENT INFORMATION**

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

**NOTE 21: STATEMENT OF FINANCIAL PERFORMANCE**

	<b>2001</b>	<b>2000</b>
	<b>\$</b>	<b>\$</b>
<b>REVENUE AND EXPENSES FROM ORDINARY ACTIVITIES</b>		
<b>a) PROPERTY INCOME</b>		
Rent Received	2,595,029	2,480,201
Outgoings recovered	<u>247,029</u>	<u>287,122</u>
	<u>2,842,058</u>	<u>2,767,323</u>
<b>DIRECT PROPERTY EXPENSES</b>		
Air conditioning Maintenance	23,081	-
Audit Fees	2,250	-
Advertising	-	1,040
Cleaning	46,998	44,047
Consultants Fees	22,230	7,785
Electricity & Gas	111,331	92,033
Facilities Management Fee	12,500	12,500
Fire Protection Costs	10,893	1,426
Garden Maintenance	22,586	20,534
Insurance	28,886	22,910
Land Tax	47,554	45,900
Licences & Fees	2,882	2,108
Property Managers Fees & Petties - PRD Realty	23,200	28,230
Pest Control	943	974
Rates	130,832	121,107
Repairs & Maintenance - Building	59,653	106,315
Security	10,726	13,835
Telephone	<u>4,346</u>	<u>3,789</u>
<b>TOTAL DIRECT PROPERTY EXPENSES</b>	<u>560,891</u>	<u>524,533</u>
<b>NET PROPERTY INCOME FROM ORDINARY ACTIVITIES</b>	<u><u>2,281,167</u></u>	<u><u>2,242,790</u></u>



**NOTE 21: STATEMENT OF FINANCIAL PERFORMANCE (CONT'D)**

		2001 \$	2000 \$
<b>REVENUE AND EXPENSES FROM ORDINARY ACTIVITIES</b>			
<b>b) INCOME</b>			
Net Property Income		2,281,167	2,242,790
Interest Received		-	13
<b>TOTAL INCOME</b>	21(a)	<u>2,281,167</u>	<u>2,242,803</u>
<b>EXPENSES</b>			
Accountancy		23,575	19,400
Amortisation - Prospectus Costs		11,524	11,524
Amortisation - Syndicate Formation & Prospectus Legal Costs		14,353	14,352
Amortisation - Borrowing Expenses		20,016	20,016
Auditors Fees		7,556	4,432
Bank Charges		1,968	1,104
Commission - Leasing		32,423	-
Consultants Fees		29,135	24,815
Depreciation - Plant & Equipment		849,254	1,049,813
Freight & Cartage		232	391
Guard Services		2,383	-
Interest on Borrowings		861,438	801,652
Legal Fees		12,391	18,467
Postage		1,063	1,059
Printing & Stationery		2,471	-
Registry Fees		1,500	3,000
Reporting Expenses		5,392	3,373
Syndicate Managers Fees		129,281	141,180
Trustees Fees		14,000	14,000
Travelling Expenses		721	2,354
<b>TOTAL EXPENSES</b>		<u>2,020,676</u>	<u>2,130,932</u>
<b>NET OPERATING PROFIT FROM ORDINARY ACTIVITIES</b>		<u>260,491</u>	<u>111,871</u>

# GARDEN SQUARE SYNDICATE

## DECLARATION BY THE DIRECTORS OF THE MANAGER

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In the opinion of the Directors of Property Funds Australia Limited as Manager of the Garden Square Syndicate:

- (a) The accompanying financial statements and notes are in accordance with the Corporations Law, including:
  - (i) giving a true and fair view of the Syndicate's financial position as at 30 June 2001 and its performance, as represented by the results of its operations and its cash flows for the year ended on that date; and
  - (ii) complying with Accounting Standards, Corporations Regulations and the Syndicate Deed dated 22 December 1997;
- (b) In the directors' opinions there are reasonable grounds to believe that the Garden Square Syndicate 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 directors.

C A Morton  
Managing Director

Brisbane  
24 September, 2001

# TRUST COMPANY OF AUSTRALIA LIMITED

## TRUSTEE'S STATEMENT AND REPORT



### TRUSTEE'S STATEMENT

In accordance with a resolution of Trustees of, Trust Company of Australia Limited A.C.N 004 027 749 ("the Trustee") I declare that:

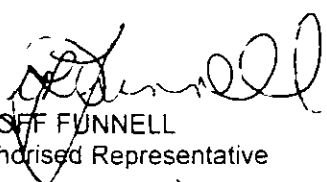
- (a) The accompanying financial statements and notes are in accordance with the Corporations Law and comply with Accounting Standards, Corporations Regulations and the Syndicate Deed dated 22 December 1997;
- (b) The accompanying financial statements and notes give true and fair view of the Syndicate's financial position as at 30 June 2001 and its performance, as represented by the results of its operations and its cash flows for the year ended on that date; and
- (c) There are reasonable grounds to believe that the Syndicate will be able to pay its debts as and when they become due and payable.

### TRUSTEE'S REPORT

In accordance with the Corporations Law, Trust Company of Australia Limited A.C.N 004 027 749 ("the Trustee") in respect of the Garden Square Syndicate ("the Syndicate") reports as follows for the twelve (12) month period ended June 30, 2001

- d) A review of the Syndicate's operations during the twelve months and the results of those operations are contained in the Manager's Report and the financial statements and accompanying notes relating to the Syndicate.
- e) Trust Company of Australia Limited has been the Trustee for the Syndicate throughout the period under review.
- f) As Trustee, it has caused the Manager to prepare the accounts in accordance with Corporations Law requirements.

For and on behalf of the Trust Company of Australia Limited A.C.N 004 027 749.

  
GEOFF FUNNELL  
Authorised Representative

Dated: 24/9/2001

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# GARDEN SQUARE SYNDICATE

## INDEPENDENT AUDIT REPORT TO MEMBERS



### Scope

We have audited the financial report of the Garden Square Syndicate for the financial year ended 30 June 2001 being the statement of financial performance, statement of financial position, statement of cash flows, notes to and forming part of the accounts, declaration by the Directors of the Manager and Trustee's Statement. The Trustee is responsible for the preparation and presentation of the financial report and the information it contains. The Trustee has instructed the Manager to prepare the financial report from accounting records that the Manager maintains. We have conducted an independent audit of the financial report in order to express an opinion on it 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 report is presented fairly in accordance with Accounting Standards, other mandatory professional reporting requirements, statutory requirements in Australia and the terms of the Syndicate deed, so as to present a view which is consistent with our understanding of the Garden Square Syndicate's financial position and performance as represented by the results of its operations and its cash flows.

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

### Audit Opinion

In our opinion, the financial report of The Garden Square Syndicate is in accordance with:

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

**HACKETTS CHARTERED ACCOUNTANTS**

**J L Hackett**  
**Partner**

Brisbane  
Date: 24 September, 2001

# DIRECTORY



## MANAGER

Property Funds Australia Limited  
ACN 078 199 569

### ***Registered Office & Principal Place of Business***

Level 23, Central Plaza Two  
66 Eagle Street  
BRISBANE Q 4000

**Phone:** (07) 3221 7170

**Fax:** (07) 3221 6729

### ***Postal Address***

PO Box 10398  
BRISBANE ADELAIDE ST Q 4000

## TRUSTEE

Trust Company of Australia Limited  
ACN 004 027 749  
213 St Paul's Terrace  
BRISBANE Q 4000

## TAXATION ADVISER

BDO Kendalls  
Level 18  
300 Queen Street  
BRISBANE 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  
Level 18  
300 Queen Street  
BRISBANE Q 4000

## AUDITOR

Hacketts  
Chartered Accountants  
220 Boundary Street  
SPRING HILL Q 4000

## SOLICITORS FOR MANAGER

McCullough Robertson  
Level 12, Central Plaza Two  
66 Eagle Street  
BRISBANE Q 4000