

GARDEN SQUARE JOINT INVESTMENT

1998 Annual Report



**PROPERTY FUNDS
AUSTRALIA LIMITED**

A.C.N. 078 199 569

▲ PROPERTY FUND MANAGERS ▲

GARDEN SQUARE JOINT INVESTMENT MANAGER'S REPORT

It is with much pleasure that I present the first annual report for the Garden Square Joint Investment (encompassing both the Syndicate and the Trust) being for the period ended June 30, 1998. Given that the Syndicate has owned the Garden Square Property for only 3 months (as at the end of that financial year) there is little initial activity to report. However, the Board of Property Funds Australia has been pleased with the performance of the property to date which is performing in accordance with prospectus forecasts and the comprehensive due diligence process carried out upon it. We believe that the property will provide sound investment performance during the term of the Joint Investment and as Manager, we are committed to maximising the performance of your investment.

Review of Acquisition

The purchase of Garden Square, Kessels Road, Mt Gravatt was completed on 25 March, 1998 at a purchase price of \$20.65M. The purchase was financed by Citibank Limited with an initial loan of \$11,250,000. The loan is an interest only facility and is fixed for a five year term at a rate of 7.11%. A second facility has also been established with Citibank to provide flexibility during the life of your investment. The second facility is a revolving line of credit with a current limit of \$1,140,000 (subject to review up to \$1.75M with later valuations). The interest rate on this facility is variable and as at June 30, 1998 was 8.45% per annum. The Manager established this second facility to generally assist in meeting capital expenditure, tenancy incentives and to even out distribution payments.

Investment and Borrowing Policies of the Joint Investment

There have been no changes to the investment and borrowing policies outlined in the prospectus for the Joint Investment.

Capital Expenditure Program

As mentioned in the prospectus, a minor capital expenditure program is proposed to give effect to some of the property strategies outlined therein. This capital expenditure program was provided for in the cashflow forecast contained in the prospectus. It is directed to better improve the efficiency and life of the building's improvements and plant and to increase future lettable area. The Board will have presented to it in the next month or so a costed program for its approval. This program is to be given effect over the subsequent 12 months.

Tenancy Issues

The tenancy status of the property remains essentially as represented in the prospectus. Earlier in the year we were pleased to advise that extended terms for the Breakwater Island Limited, Queensland Government (Regional Health) and Kedcorp Pty Ltd leases were successfully negotiated. The small Commonwealth of Australia (Commonwealth Rehabilitation Service) lease is currently in a holding over status pending their determination of the future of this tenancy. If they should determine to leave, it should have no effect on the property incomes as the space is covered by the vendor's rental guarantee. It only represents 1.5% of the property's lettable area.



Surrounding Developments

Development works are proceeding on adjacent lands for the 16 cinema Birch Carroll & Coyle cinema complex (opposite the property) and the South East Transit Project which involves construction of the nearby Upper Mt Gravatt bus station. Both these projects have proceeded as indicated in the prospectus. They should provide enhanced livability and lettability of the Garden Square property.

Results

After accounting depreciation of \$805,123 and Division 10(D) deductions of \$44,580 the Syndicate recorded an accounting loss of \$471,665 and a tax loss of \$472,893.

In the case of the Trust, an accounting loss of \$158,578 and a tax loss of \$157,655 was recorded for the period.

Distributions – for the period ended June 30, 1998

The distributions are essentially made from the surplus cashflows (ie net profit after adding back depreciation for plant, equipment and buildings, and amortisation of intangibles and other non-cash items). They are not related to the tax position.

The distributions for the period from 25 March, 1998 to 30 June 1998 were at the rate of 10.5% per annum return on the amounts subscribed by the owners and is in accordance with the prospectus forecast for this period.

Distribution Policies – for the year ending June 30, 1999

As a consequence of the extension of certain tenancies and achieving acquisition finance below the prospectus forecast rate, the PFA Board has determined that the proposed distribution level to the syndicate investors should be increased to 10.7% per annum for the year ending June 30, 1999. This is of course subject to continual review based upon the performance of the property.

As the Garden Square Property Trust incurs expenses of its own (as was stated in the prospectus) PFA's directors have proposed that distributions to the Trust unitholders will be maintained until further notice at the prospectus forecast rate of 10.5% through to June 30, 1999.

State of Affairs

In the opinion of the Manager there were no significant changes in the state of affairs of the Joint Investment from that outlined in the prospectus.

Conclusion

We trust that you, the investors, are satisfied with the service you receive. We would welcome any feedback that you may have. On behalf of Property Funds Australia Limited, I would like to thank each of you for your support of the Garden Square Joint Investment.

Rodney M Keown
Chairman



GARDEN SQUARE SYNDICATE

FINANCIAL ACCOUNTS

FOR THE PERIOD ENDED
JUNE 30, 1998

CONTENTS

	Page
1. Property Profit & Loss Account.....	1
2. Syndicate Profit & Loss Account.....	2
3. Balance Sheet.....	3
4. Statement of Cash Flows.....	4
5. Notes to the Accounts.....	5 - 10



▲ PROPERTY FUND MANAGERS ▲

**GARDEN SQUARE SYNDICATE
PROPERTY PROFIT & LOSS ACCOUNT
FOR THE PERIOD ENDED JUNE 30, 1998**

	Note	1998 \$
PROPERTY INCOME		
Rent Received		671,188
Outgoings recovered		<u>70,141</u>
		741,329
DIRECT PROPERTY EXPENSES		
Car Park Managers Fees		589
Cleaning		15,673
Consultants Fees		3,434
Electricity & Gas		22,483
Fire Protection Costs		2,409
Garden Maintenance		3,957
Hire of Plant		(46)
Insurance		6,725
Land Tax		13,143
Licences & Fees		823
Property Managers Fees & Petties - PRD Realty		5,605
Pest Control		249
Rates		32,657
Repairs & Maintenance - Building		25,312
Security		1,380
Telephone		<u>530</u>
TOTAL DIRECT PROPERTY EXPENSES		<u>134,923</u>
NET PROPERTY INCOME		<u><u>606,406</u></u>

To be read in conjunction with the attached notes



**GARDEN SQUARE SYNDICATE
SYNDICATE PROFIT AND LOSS ACCOUNT
FOR THE PERIOD ENDED JUNE 30, 1998**

	Note	1998 \$
INCOME		
Net Property Income		606,406
Interest Received		1,221
TOTAL INCOME		<u>607,627</u>
EXPENSES		
Accountancy		6,333
Amortisation - Prospectus Costs		3,094
Amortisation - Syndicate Formation & Prospectus Legal Costs		3,854
Auditors Fees		8,205
Bank Charges		181
Borrowing Expenses		5,374
Depreciation - Plant & Equipment		805,123
Freight & Cartage		27
Interest on Borrowings		200,119
Postage		198
Printing & Stationery		423
Reporting Expenses		2,387
Syndicate Managers Fees		36,629
Trustees Fees		7,345
TOTAL EXPENSES		<u>1,079,292</u>
NET OPERATING LOSS		<u><u>471,665</u></u>

To be read in conjunction with the attached notes



GARDEN SQUARE SYNDICATE
BALANCE SHEET
AS AT JUNE 30, 1998

	Note	1998 \$
CURRENT ASSETS		
Cash	2	168,414
Receivables	3	<u>18,787</u>
TOTAL CURRENT ASSETS		<u>187,201</u>
NON-CURRENT ASSETS		
Property, Plant and Equipment	4	21,785,452
Other Assets	5	<u>217,144</u>
TOTAL NON-CURRENT ASSETS		<u>22,002,596</u>
TOTAL ASSETS		<u>22,189,797</u>
CURRENT LIABILITIES		
Accounts Payable	6	<u>34,762</u>
TOTAL CURRENT LIABILITIES		<u>34,762</u>
NON-CURRENT LIABILITIES		
Borrowings	7	<u>11,250,000</u>
TOTAL NON-CURRENT LIABILITIES		<u>11,250,000</u>
TOTAL LIABILITIES		<u>11,284,762</u>
NET ASSETS/(DEFICIT)		<u>10,905,035</u>
TOTAL SYNDICATE MEMBERS' FUNDS	8	<u>10,905,035</u>

To be read in conjunction with the attached notes



**GARDEN SQUARE SYNDICATE
STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED JUNE 30, 1998**

	Note	1998
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Rental received		637,313
Payments to suppliers		(275,890)
Security Deposit - Energex		(3,000)
Interest Received		1,221
Net cash provided by operating activities		<u>359,644</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of non current assets		<u>(22,590,575)</u>
Net cash provided by investing activities		<u>(22,590,575)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Syndicate members		11,600,000
Proceeds from borrowings		11,250,000
Prospectus and Syndicate Costs		(129,385)
Borrowing Costs		(100,082)
Distributions to Syndicate Members		(222,688)
Expenses to be reimbursed by related entity		(1,500)
Net cash provided by financing activities		<u>22,396,345</u>
Net increase in cash held		<u>165,414</u>
Cash at beginning		-
Cash at June 30 1998	1	<u><u>165,414</u></u>

To be read in conjunction with the attached notes



GARDEN SQUARE SYNDICATE
NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE PERIOD ENDED JUNE 30, 1998

NOTE 1: STATEMENT OF ACCOUNTING POLICIES

These financial accounts are a general purpose financial report that have been prepared in accordance with Accounting Standards and other mandatory professional reporting requirements (Urgent Issues Group Consensus Views). The financial accounts have also been prepared on the basis of historical costs and do 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 & Blakeley Pty Ltd Depreciation Consultants in their report for income tax purposes.

(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 presently entitled to its taxable income/tax loss in any one tax year.

(e) Cash

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



GARDEN SQUARE SYNDICATE
NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE PERIOD ENDED JUNE 30, 1998

6

1998
\$

NOTE 2: CASH

Cash at Bank - Citibank Mortgage Power Account	165,414
Deposits Refundable - Energex	3,000
	<u>168,414</u>

NOTE 3: RECEIVABLES

Current

Other Debtor - Garden Square Property Trust	1,485
Prepaid Expenses	17,302
	<u>18,787</u>

NOTE 4: PROPERTY, PLANT & EQUIPMENT

Property described as Garden Square, Kessels Road
Mt Gravatt, Brisbane, Queensland

Land at Cost	3,391,321
Buildings at Cost	12,182,262
Total Land & Buildings	<u>15,573,583</u>

Plant & Equipment at Cost	7,016,992
Less Provision for Depreciation	(805,123)
	<u>6,211,869</u>

Total Property, Plant & Equipment	<u>21,785,452</u>
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NOTE 5: OTHER ASSETS

Prospectus Issue & Promotion Costs	57,621
Less Accumulated Amortisation	(3,094)
	<u>54,527</u>

Borrowing Costs	100,082
Less Accumulated Amortisation	(5,375)
	<u>94,707</u>

Syndicate & Prospectus Legal Costs	71,764
Less Accumulated Amortisation	(3,854)
	<u>67,910</u>
	<u>217,144</u>



1998
 \$

NOTE 6: ACCOUNTS PAYABLE

Current

Trade Creditors - Audit & Accountancy Fees	4,926
EFT Distributions Rejected	612
Rental/Outgoings in Advance	3,963
Accrued Expenses	25,261
	<u>34,762</u>

NOTE 7: BORROWINGS

Non-Current

Mortgage Loan	<u>11,250,000</u>
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- (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. As at June 30 1998, the credit facility was undrawn.
- (c) The borrowings were undertaken by Property Funds Australia Limited as Manager of the Syndicate 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.

NOTE 8: SYNDICATE MEMBERS' FUNDS

Funds Contributed	11,600,000
Distributions to Syndicate Members	(223,300)
Accumulated Losses	(471,665)
	<u>10,905,035</u>



1998
\$

NOTE 9: EVENTS SUBSEQUENT TO BALANCE DATE

Since the end of the financial year, the Syndicate has paid the Distribution to Syndicate Members for the month of June 1998 totalling \$101,500.

NOTE 10: PRINCIPAL ACTIVITY

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

NOTE 11: INCOME TAX

Net Operating Loss	(471,665)
Non deductible accrued expenses	8,780
Non deductible syndicate legal & prospectus costs	6,947
Non deductible fees	120
Non Deductible Accounting	
Depreciation - Plant & Equipment	44,807
Allowable Taxation Depreciation - Buildings	(44,580)
Deductible Prepaid Expenses	(17,302)
Net Tax Loss for the Period	<u>(472,893)</u>

NOTE 12: CONTINGENT LIABILITY

Sale Performance Management Fees

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

- a) 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.
- b) 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:-
 - i) 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
 - ii) 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 13: 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 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.
- (e) Details of the acquisition of the Syndicate property are as follows:

	\$
Valuation	
Dated: December 1 1997	
By Arthur Andersen	21,400,000
Acquisition Details (Settlement March 25 1998)	
Purchase Price	20,650,000
Acquisition Costs	1,940,575
Total Costs of Acquisition	<u>22,590,575</u>
Reconciliation to book value at June 30 1998:	
Total Costs of Acquisition	22,590,575
Accumulated Depreciation	
- Plant & Equipment	(805,123)
Total Property, Plant & Equipment (Note 4)	<u>21,785,452</u>

- (f) There were no disposals of property in the period to which these financial statements relate
- (g) As at June 30 1998, the Manager and associates held 1.28% of total investors capital in the Syndicate and 1.55% of the Garden Square Property Trust which owns 33.2328% of the Garden Square Syndicate. All of the above interests were fully paid for.
- (h) Book value of the net tangible assets of the Syndicate at June 30 1998 is \$10,905,035. 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.
- (i) 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 and trustee of the Joint Syndicate.



1998
 \$

NOTE 14: 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

Trustee/Nominee

Trust Company of Australia Limited ACN 004 027 749

Directors who held Office during the year were:-

John P Sweeney, (Chairman), James G M Moffatt, (Vice Chairman), Hon. Anthony A Street, John M Stanham, Warren J McLeland, Bruce G Barker, Jonathan W Sweeney

- (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.

36,629

PRD Realty for property management services for the period.

5,605

Joint Acquisition Fee payable 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.

1,032,500

The Trustee

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

7,345

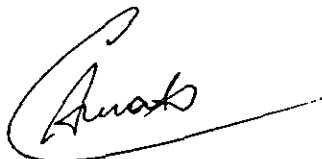


STATEMENT BY THE DIRECTORS OF THE MANAGER

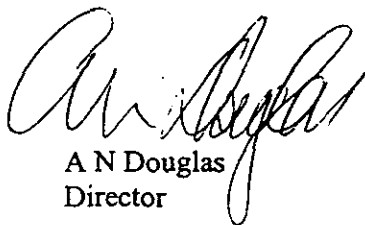
In the opinion of the Directors of Property Funds Australia Limited as Manager of the Garden Square Syndicate:

- a) The accompanying financial statements are drawn up so as to give a true and fair view of the results and cash flows of the Garden Square Syndicate for the period ended 30 June 1998.
- b) The financial statements of the Garden Square Syndicate have been made in accordance with applicable Accounting Standards and the Syndicate Deed dated 22 December 1997.

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



A N Douglas
Director

Brisbane
18 August 1998



TRUST COMPANY OF AUSTRALIA LIMITED
TRUSTEE'S STATEMENT

In accordance with the Law and the Syndicate Deed, the Trustee has caused the Manager to prepare:

- a) The accounts which Sections 323C and 323D of the Law require; and
- b) The report which Section 323J of the Law requires, which is contained within the section titled Manager's/Trustee's Report.

Based on the Trustee's ongoing program of monitoring of the Garden Square Syndicate, the Manager and the Trustee's review of the accounts:

- a) The Garden Square Syndicate has been conducted in accordance with stated investment policies and the Syndicate Deed; and
- b) The accounts have been appropriately prepared and contain all relevant and required disclosures.

The Trustee is not aware of any material matters occurring up to the date of this report that require disclosure and have not been disclosed in the financial statements.

For and on behalf of the Trustee

per: *M. Michael*

TRUST COMPANY OF AUSTRALIA LIMITED

Dated: *18/8/90* Brisbane



INDEPENDENT AUDIT REPORT

TO THE OWNERS OF THE GARDEN SQUARE SYNDICATE

SCOPE

We have audited the Financial Statements of the Garden Square Syndicate for the period 12 February 1998 to 30 June 1998 as set out on pages (1) to (10). 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 View), statutory requirements 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, the results of their operations and their cash flows.

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

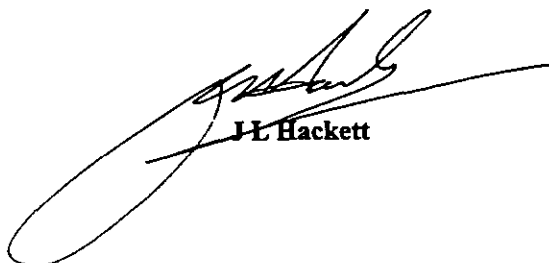
AUDIT OPINION

In our opinion, the Financial Statements of The Garden Square Syndicate are properly drawn up:

- (a) so as to give a true and fair view of:
 - (i) the state of affairs of the Garden Square Syndicate as at 30 June 1998 and their results and cash flows for the period ended on that date; and
 - (ii) the other matters required by Division 11 of Part 3.6 of the Corporations Law to be dealt with in the financial statements;
- (b) in accordance with the provisions of the Corporations Law;
- (c) in accordance with applicable Accounting Standards and other mandatory professional reporting requirements; and
- (d) in accordance with the terms of the syndicate deed.

19 August 1998
Brisbane

HACKETTS
Chartered Accountants



J.L. Hackett



DIRECTORY

MANAGER

Property Funds Australia Limited
ACN 078 199 569

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BRISBANE Q 4000

DIRECTORS OF THE MANAGER

Rodney M Keown (Chairman)
Christopher A Morton (Managing
Director)
Archibald N Douglas (Director)
Clive D Schultz (Director)

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