

New Acquisition

The Trust has entered into an unconditional contract to purchase a hotel property located at 270 Flinders Street, Melbourne for \$34.0M.

The property is a 182 room four star hotel which is centrally located on Flinders Street between Elizabeth Street and Swanston Walk, directly across the road from Flinders Street Station.

The hotel was totally redeveloped from its previous use as an office building in 2002/03 and it possesses a contemporary fitout. The hotel is only 100 metres from Federation Square and within walking distance to the Melbourne retail and commercial heart as well as major sporting, shopping and entertainment venues such as Crown Casino.

This hotel property is currently known as a Ramada. However, following the acquisition by the Trust, the hotel will be leased to Citigate Melbourne Pty Ltd for 10 years and managed for that company by Mirvac Hotels Pty Limited under its Citigate brand.

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New Capital Raising

A new product disclosure statement ("PDS No. 4") to invest in the PFA Diversified Property Trust has just been released. This latest offer is an opportunity for current Unitholders to further invest in the Trust. Key features of the offer include:-

- Minimum investment is \$5,000 and then in multiples of \$1,000.
- Forecast distributions are 9.80 cents per Unit per annum* during the 2006/07



financial year. This equates to an annualised distribution rate of **8.83% per annum*** when calculated on the Offer Price of \$1.11 per Unit.

- 68%** of the forecast distributions are expected to be Tax Deferred in the financial year 2005/2006 and 57%** in the financial year 2006/07.
- Nil entry fees
- A \$374 million property portfolio of quality investment grade property including the acquisition of the Citigate Melbourne property. The addition of this property to the Trust's portfolio enhances its diversity, security and lease expiry profile.
- The proceeds of this Offer will be used to provide cash reserves to enable fund of future property acquisitions.

* The forecast distributions and related underlying assumptions are set out in detail in section 6.2 of the PDS.

** For further information in relation to the tax deferred percentage please see section 6.2 Note 12 of the PDS.

Left: Exterior balcony, the Citigate Melbourne.

Rights Issue Entitlement For Current Unitholders

As a special offer, Current Unitholders (i.e. those registered as at 14 June 2006) are being offered a one (1) for seven (7) entitlement under a **Rights Issue at \$1.09 per Unit, a discount of 2¢ per Unit to the General Offer price under the PDS.**

Key features of the Rights Issue are:-

- The forecast distribution rate for the Forecast Period, based on the Rights Issue Price of \$1.09 per Unit is **8.99% per annum*** per Unit with approximately 57%** of that forecast distribution expected to be Tax Deferred in the 2006/2007 financial year.

- You do not need to accept in respect of all of your entitlement, partial acceptances can occur.
- You will also be entitled to apply for additional Units over and above your Rights Issue entitlement under the Rights Issue (to the extent of any shortfall not taken up). However, Units applied for under the General Offer will be at \$1.11 per Unit. The first allotment of any additional Units under the General Offer will occur on or after 1 August 2006.
- **The closing date for Rights Issue entitlement acceptances is 5.00p.m. (AEST) on 25 July 2006.**



Citigate Melbourne (building at right of photo) shown as a Ramada.

New Property Acquisition Continued

Mirvac currently manages over 30 hotels and resorts throughout Australia and New Zealand. Some of Mirvac's hotel brands include Sebel, Quay Grand, Quay West, Sea Temple and Citigate.

PFA Managing Director, Mr Chris Morton, said "We see the addition of a hotel property to the Trust as a great opportunity to add another property sector to the Trust's portfolio further enhancing its diversification, as is the charter for the Trust. We are very positive about the growth prospects for room rates in the Australian hotel market, including the Melbourne hotel market, and in particular the 4 star hotel category in

which this hotel lies. Further, there are also opportunities for improvement to this hotel through re-branding, intensive management and marketing."

Settlement of the Citigate Melbourne property is expected to occur on 30 June 2006. Following the completion of the acquisition of this property, the Trust will own a portfolio of 16 properties valued at \$374 million.

The pie charts below demonstrate the Trust's updated geographic and sector diversification and the contribution (by income) of the top 10 tenants of the portfolio.

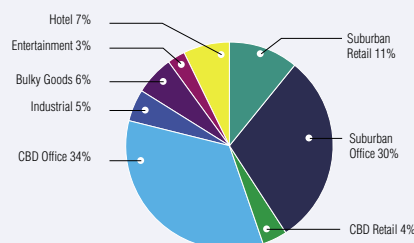
Key Data

Location:	270-272 Flinders Street, Melbourne, Vic
Principal Use:	Hotel
Title:	Freehold
Date to be Acquired:	June 2006
Date Built:	1977 (redeveloped 2002)
No. of Rooms:	182
Site Area:	594m ²
Weighted Av. Lease Expiry:	10 years

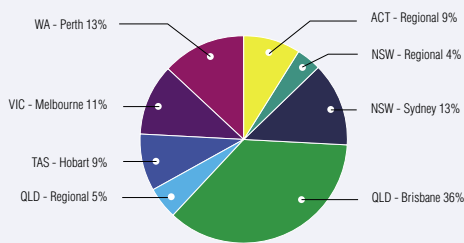
Current Valuation Information

Valuation:	\$ 34.0 million
Value/Room:	\$ 186,819
Valuation Date:	March 2006
Valuer:	Colliers International Consultancy and Valuation Pty Limited

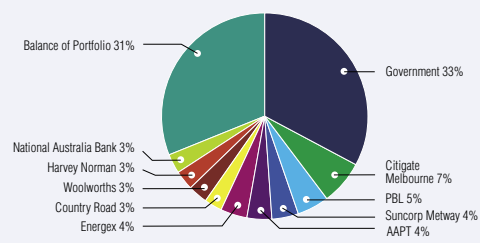
Sector



Geographical Diversification



Tenant Profile



Distributions Set To Increase

In the recently released product disclosure statement ("PDS"), the directors of PFA have forecast an increase in the Trust's distribution amount to **9.80 cents per unit** per annum for the 2006/07 financial year **up from that previously paid of 9.48 cents per unit per annum.**

A monthly distribution policy and proposed calendar for distributions is announced to the Bendigo Stock Exchange ("BSX") on a quarterly basis. Distribution policies are subject to review at all times and may change for any reason. As such, it is expected that the forecast distribution increase will be announced, as a policy for the forthcoming quarter, in late June with the first payment at the proposed increased distribution rate to occur on or about 21 August 2006.

A personal notification will be sent to you when there is any variation to your distribution rate.

Finance Margins Renegotiated Down

With the growth in the size and quality of the Trust's portfolio and the increasing quality of the tenants' covenants within it, PFA saw an opportunity to enter into discussions with the Trust's financiers with the object of achieving a reduction in the debt margins applicable to the Joint Finance Facility provided by CBA and mortgage funds managed by ING.

These discussions were successful and resulted in reductions of the Lenders' margins as follows:-

- CBA: 0.60% down to 0.45% (for up to 40% loan to valuation ratio)

- ING: 1.38% down to 1.20% (for between 40% to 60% loan to valuation ratio)

The fees paid to AMG for management of these facilities were also negotiated down.

The term of the Finance Facility has remained the same. The effect of these negotiations has resulted in a reduction in debt cost of approximately \$345,000 p.a. to the Trust based on current debt levels.

These new arrangements took effect from 1 February 2006.

Two Properties Revalued Up

As at 31 December 2005, two of the Trust's property assets were revalued resulting in the addition of \$6.1M to the Trust's property portfolio value. The relevant properties subject to valuation increases were:-

Property	Previous Book Value	New Book Value	Increase
Garden Square	\$31.3M	\$35.0M	\$3.7M
Cairns Hypermart	\$17.0M	\$19.4M	\$2.4M

Underlying the increases in valuations has been the general firming in capitalisation yields which have occurred in the Queensland commercial and retail property market since the date of the last valuation of these properties. These properties' capital appreciation (particularly Garden Square) has also been the result of positive leasing campaigns resulting in new leasing deals and rental growth.



Garden Square, revalued up by \$3.7M

Leasing Update

As at the time of the issue of PDS No. 4, the **vacancy rate** for the Trust portfolio (based on income and including rental support arrangements as a letting) was a **low 1.42%**. The weighted average lease expiry is strong at 6.6 years.

Centro on James – Stage 3

As reported in the 2005 Half-Year Report, the property's major tenant within the commercial component, Workpac (now known as Smart Service) executed, prior to their original lease expiry, a new 6 year lease until December, 2011. As part of this new lease, Smart Service has increased their space by an additional 200m² (approx.) and with a material rental increase to that previously paid.

Following the departure of a major retail tenant (Melandas Home Concepts) prior to the expiration of their lease, three new retail tenants including fashion retailers Lorna Jane, Milu and Boom Hair have now leased this previous Melandas' space following reconfiguration works to accommodate the new tenants. These new leases are at rental levels materially above the previous levels and are expected to result in an increase of this property's value upon the next revaluation.

Active and leisure wear fashion retailer, Lorna Jane, commenced a new five year lease for 135m² from 1 May 2006. This new Lorna Jane store has prominent exposure on the corner of James and Robertson Street. Lorna Jane has 23 signature stores throughout Australia and also has stores in New Zealand and Singapore.

Specialising in Italian ladies and mens shoes and accessories, Milu Pty Ltd have commenced a new 5 year lease term for 107m² of retail space with James Street frontage. Milu currently have stores in Melbourne, Sydney and the Brisbane CBD.

Hairdressing salon, Boom Hair, have commenced a five year lease for approximately 121m². The salon is located on the Robertson Street side of this property.

544 Kessels Road, MacGregor

Following a strategic decision by Encel Stereo to withdraw from the local market, the Manager co-operated with a surrender by Encel of their lease with the contemporaneous entry into a new 10 year lease to Aussie Living Furniture and Bedding (an existing tenant of another building within the complex). The new lease to Aussie Living is at a materially increased rental level to that of Encel's previous rental as from 1 April, 2006. The 544 Kessels Road property is fully leased.

Manager Update

Change in Directors

It was with regret, that on 16 January 2006 the Manager announced the retirement of PFA executive director, David Conquest due to health reasons. His retirement as a director took immediate effect and Mr Conquest retired as a PFA employee on 9 February 2006.

We take this opportunity to thank David for his considerable contribution to PFA during his almost six years as a director and executive. Mr Conquest's contribution, particularly as the main liaison point with financial intermediaries, has seen a material growth of the funds under management of PFA. He provided to PFA an innate understanding of the needs of the users of investment products and their advisers' requirements.

Mr Greg Paramor, PFA's non-executive chairman, retired from the board effective 9 March 2006 due to his obligations as managing director of Mirvac. Greg was appointed as PFA's non-executive chairman in 2004 following the James Fielding Group's (now a division of Mirvac) acquisition of a 50% interest in PFA. Due to his role in Mirvac, Mr Paramor will still have a strategic interest in PFA and the success of the funds that it manages.

Greg's nominated replacement to the board and as the new non-executive chairman is James Fielding Funds Management director Mr Robert Summerton. Mr Summerton is a consultant of the Queensland law firm Summerton de Vere. He has extensive experience in the law on major commercial and property transactions in Australia and the United Kingdom. He is a member of professional bodies including the Law Council of Australia and the Australian Institute of Company Directors and is a director of a number of companies. Mr Summerton has had considerable experience as a director of property funds management companies including as a current director of James Fielding Funds Management and a former director of Paladin Australia Limited. Robert brings to the board an intrinsic understanding of the fundamentals of property and property funds management, as well as a high level of technical knowledge including due diligence expertise.

Ms Jenny Hutson has also been appointed to PFA's board as a non-executive director. Ms Hutson is managing director of Wellington Capital, a merchant and investment bank. She is a former partner of McCullough Robertson Lawyers where she was head of the Corporate Advisory Group and the corporate division of that legal firm. As an investment banker, Jenny is focused on capital

raisings, mergers and acquisitions and property based funds management. She has had a special focus and experience in property based projects and capital raising issues. Jenny is a director of a number of companies including as chairperson of the ASX listed S8 Limited which owns Harvey World Travel. She is also a director of the responsible entity of an ASX listed property trust.

We welcome both Bob Summerton and Jenny Hutson to the board. They both come to the board with an enormous wealth of experience in the world of property funds management.



Foyer, Civic Tower, Sydney.

Appointment of New Distribution Executive

Following the retirement of David Conquest, PFA appointed Mr Brad Macaulay to the position of General Manager – Distribution.

Brad's role is responsible for growing PFA's distribution network nationally and effectively replaces the executive position previously held by Mr David Conquest. Brad is now the main liaison point with financial intermediaries and will assist with the growth of funds under management for PFA. Brad will also be involved in the development and implementation of new product initiatives.

Brad has had over 22 years of experience in the property and financial services industries. Prior to joining PFA, Brad was State Manager for Queensland, Northern Territory and Northern NSW at Australian Unity Investments. Brad has also held senior positions with National Australia Financial Management and MLC.

Brad's background and professional qualifications encompass both property and financial services. Brad holds a Bachelor of Business in Property Studies – University of Queensland, Advanced Diploma in Financial Services, Diploma for Financial Planning and Certificate IV in Real Estate.

Brad is a Fellow of the Financial Services Institute of Australasia and a member of the Financial Planning Association.

Half Year Results

As you may be aware, the Half-Year Report for the Trust is not automatically forwarded to you. It is available on request or alternatively on the Investor Relations page of our website (www.pfaltd.com.au) or on the Announcements page of the BSX website (www.bsx.com.au).

Some of the key highlights for the half-year ended 31 December 2005, included:-

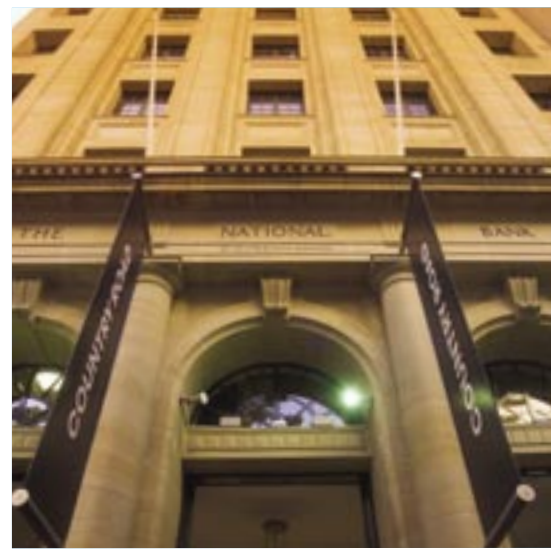
- General monthly distribution of 4.74 cents per unit for the half-year ended 31 December 2005 in accordance with previous forecasts.
- The sale of Post Office Square to CFS Gandel Retail Trust occurred on 1 December 2005. The sale price of Post Office Square was \$70.5M which was above the originally agreed base purchase price of \$68.6M and \$9.0M above its book value.
- A special distribution for eligible unitholders of 6.76 cents per unit.
- PDS No. 3 closed oversubscribed on 27 February 2006 with 19,870,786 units having been issued.
- Profit (before amortisations and unitholder distributions) for the Period \$14M (December 2004: \$3.85M).
- Profit (after amortisations and before unitholder distributions) for the Period \$13.26M (December 2004: \$3.67M).
- As at 31 December, 2005:-
 - Total assets \$364M.
 - Net tangible asset backing \$1.08 per Unit*.

* This calculation ignores AIFRS treatment of unitholder funds as debt.

Trust Wins Property Trust Industry Award

The Trust was awarded the 2005 Property Trust Industry Award by the Australian Property Institute (Qld Division) – the property industry organisation that primarily represents valuers and land economists. Judged against 6 other candidates, the award was made on the basis of financial performance, management and innovation.

PFA's Managing Director, Chris Morton and Manager, Investment Services, Bronwyn Risk accepting the 2005 Property Trust Industry Award from A.P.I. President, Brett McCauliffe.



180 Queen Street, Brisbane.

IMPORTANT NOTICE

The PFA Diversified Property Trust (ARSN 097 860 690) is issued by Property Funds Australia Limited (ABN 58 078 199 569) (AFSL No 224106). A Product Disclosure Statement ("PDS") is available at www.pfaltd.com.au or by calling PFA on 1800 687 170. You should consider the PDS in deciding whether to acquire, or to continue to hold, the product. This document does not constitute financial product advice. Should you not wish to receive any further marketing material from PFA please contact us on 1800 687 170.

Changing your bank details or moving

Don't forget to let us know

To ensure that you keep receiving your monthly income distributions don't forget to advise us if you change your bank account details. Otherwise, the electronic credit distribution system rejects your funds transfer. Likewise, if you are changing your mailing address we need to be notified. Any changes need to be notified to us in writing.

Investor Services Personnel

Who to contact?

If you have any queries about your investment, please contact our Manager – Investment Services, Bronwyn Risk or Mary Goodwin.

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