

PFA

DIVERSIFIED  
PROPERTY TRUST

AND CONTROLLED ENTITIES

ARSN 097 860 690



# 2006 Half-Year Interim Financial Report

PFA

PROPERTY FUNDS  
AUSTRALIA LIMITED

ACN 078 199 569  
AFSL No 224106

# Trust Profile



**180 Queen Street  
Brisbane, QLD**



**AAPT Building  
Richmond, VIC**



**Sevenoaks  
Cannington, WA**



**The Lands Building  
Hobart, TAS**



**Civic Tower  
Sydney, NSW**



**Anzac Square Offices  
Brisbane, QLD**



**388 Queen Street  
Brisbane, QLD**



**Centro On James - Stage 3  
Fortitude Valley, Brisbane, QLD**



**The Precinct  
Coorparoo, Brisbane, QLD**



**The Riverdale Centre  
Dubbo, NSW**



**544 Kessels Road  
MacGregor, Brisbane, QLD**



**The Homeworld Centre  
Tuggeranong, ACT**



**Cairns Hypermart  
Cairns, QLD**



**33 McDowell Street  
Welshpool, WA**



**Citigate  
Melbourne, VIC**



**706 Mowbray Road  
Lane Cove, NSW**

The PFA Diversified Property Trust is a listed Australian unit trust which owns a portfolio (either directly or through wholly owned subsidiary trusts) of Australian investment grade properties currently valued at \$407M. The portfolio is diversified by property sector, geographic location, tenant profile and lease expiry.

The Trust currently has approximately 4,000 unitholders. The Trust's fundamental strategy is to invest in a growing portfolio of quality properties diversified by property sector, geographic location, tenant profile and lease expiry with the properties generally in the price range of \$10M to \$50M. The Trust is listed on the Bendigo Stock Exchange.

The responsible entity of the Trust is Property Funds Australia Limited ("PFA"), a specialist property fund manager. Details of PFA can be obtained from its website [www.pfaltld.com.au](http://www.pfaltld.com.au).

The custodian for PFA in holding the assets of the Trust is Trust Company Limited - established in 1885.

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*Property Funds Australia Limited ACN 078 199 569 ("PFA") does not guarantee or in any way stand behind the performance of the PFA Diversified Property Trust or the repayments of capital by the PFA Diversified Property Trust.*

*The information contained in this half-yearly report ("the Information") does not constitute a securities recommendation. It has not been prepared taking into account your particular investment objectives, financial situation and particular needs. You should assess whether it is appropriate in the light of your own circumstances before acting on it. If you are unsure you should seek the help of your financial adviser.*

*Whilst all reasonable care has been taken in relation to the preparation and collation of the Information, no person, including PFA and its directors, accept responsibility for loss or damage howsoever occurring resulting from a use or reliance on the Information by any person. Past performance is not indicative of future performance and no guarantee of future returns is implied or given.*

## Operating Highlights

– Half-Year ending 31 December 2006

### Events

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#### July 2006:

One for seven rights issue closed on 25 July 2006 with 10,940,854 units having been issued at \$1.09 per unit.

#### August 2006:

PDS No. 4 closed after raising \$24.6M, and a total of 22,378,234 units having been issued.

#### September 2006:

- Announcement of \$25.46M increase in the value of Trust's property portfolio resulting in a 9 cent per unit increase in NTA.
- The potential sale of Garden Square Office Park, Upper Mt Gravatt, Brisbane announced.

#### December 2006:

- The Trust entered into a contract for the sale of Garden Square Office Park, Upper Mt Gravatt, Brisbane for an agreed sale price of \$57M, \$22M above its book value as at 30 June 2006.
- As a consequence of the potential sale of Garden Square Office Park, a special distribution of 5.26 cents per unit announced, subject to the completion of the sale, to be paid to unitholders on the register as at 1 March 2007.
- The Trust entered into unconditional contract to purchase 706 Mowbray Road, Lane Cove, Sydney for \$29.265M.

### Financial Performance

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- General monthly distribution of 4.90 cents per unit for the half-year ended 31 December 2006 in accordance with previous forecasts.
- Profit (before amortisations and unitholder distributions) for the Period \$22.34M (December 2005: \$14M).
- Profit (after amortisations and before unitholder distributions) for the Period \$21.84M (December 2005: \$13.26M).
- As at 31 December 2006:-
  - Total assets \$482.1M.
  - Net tangible asset backing \$1.17 per unit\*.

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

## Financial Overview

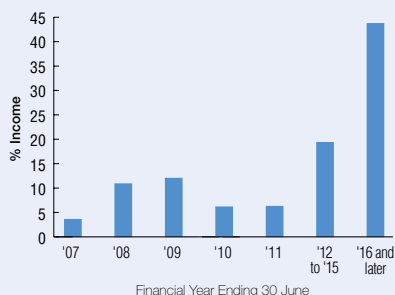
	As at 31 Dec 2006	As at 31 Dec 2005
Total assets (\$'000)	482,108	363,885
Total unitholder funds (\$'000)	223,437	168,899
Net tangible asset backing per unit* (\$)	1.17	1.08
Number of units on issue ('000)	190,121	155,095
Total borrowings (\$'000)	211,014	185,894
% borrowings to total assets (%)	44	51
Number of unitholders	3,984	3,466
Vacancy Rate (% by income)	1.2	2.1

\* The calculation ignores AIFRS treatment of unitholders' funds as debt

	Half-year ended 31 Dec 2006	Half-year ended 31 Dec 2005
Monthly distributions per ordinary unit (CPU)	4.90	4.74
Special Distribution per eligible unit (CPU)	5.26	6.76
Earnings per unit (before amortisation and unitholder distributions) (CPU)	12.02	9.40

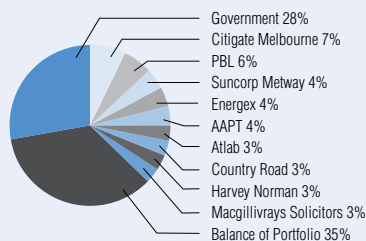
## Portfolio Status (as at date of report)

### Lease Expiry Profile



### Top 10 Tenants

(% of Gross Passing Income)



## Manager's Report

We are pleased to report to you on the activities and achievements of the PFA Diversified Property Trust ("the Trust") since the commencement of the half-year ended 31 December 2006 ("the Period").

### Fund Performance

Distributions for the Period have been occurring at the rate of 0.8167 cents per unit per month which is in accordance with PDS forecasts for the Trust. In the product disclosure statement dated 5 June 2006 ("PDS No. 4") the directors of the Manager have forecast that this distribution rate is likely to continue through to 30 June 2007 (subject to the assumptions on which the forecast is based set out in section 6.2 of PDS No. 4).

Of particular note during the Period were the following positive results:-

- net tangible asset backing per unit of \$1.17;
- operating activities revenue 27% up over the corresponding period;
- profit (after amortisations and before unitholder distributions) up 65% over the previous corresponding period;
- earnings per unit (before amortisation and unitholder distributions) at 12.02 cents up 28% over the previous corresponding period;
- the sale of Garden Square at a sale price \$22.0M above its book value; and
- announcement of proposed special distribution of 5.26 cents per unit to eligible unitholders.

### Funds Management

Underpinning the Trust's sound financial result for the Period has been the continuing commitment by the Manager to meeting the objectives and strategies of the Trust as set out in the original merger explanatory memoranda and subsequent product disclosure statements. These have included the following events which are discussed in greater detail below:-

- maximise the total return to unitholders as demonstrated by the special distribution paid to unitholders as a consequence of the capital profit following the sale of the Garden Square Office Park;
- the ongoing commitment to the growth of the asset base as demonstrated by the acquisition of 706 Mowbray Road, Lane Cove, Sydney, NSW;
- the monitoring of all properties within the portfolio and determining if it is appropriate to divest properties which are no longer considered appropriate or strategic to continue to hold (e.g. the sale of Garden Square);
- improved vacancy rate of the Trust's portfolio at a low 1.2% thus underpinning the future stability of portfolio income;
- monthly distributions continue at a rate of 9.80 cents per unit per annum in accordance with previous financial forecasts; and
- an increase in the liquidity and the unit price of units traded on the Bendigo Stock Exchange (BSX).

## Asset Management

### *Acquisitions*

The acquisition of 706 Mowbray Road, Lane Cove, Sydney was completed by the Trust on 31 January 2007 for \$29.265M.

706 Mowbray Road, Lane Cove was constructed in 1987 and is a multi-level, hi-tech industrial complex comprising of two, three level office buildings, two warehouse levels and four levels of basement parking. The property comprises a land area of 1.756 hectares and has a net lettable area of around 17,000m<sup>2</sup>.

The property is located less than 10 radial kilometres from the Sydney CBD. The property is easily accessible given its prominent location on Mowbray Road and its close proximity to the M2 Motorway and the soon to be completed Lane Cove Tunnel.

The property has six quality tenants and a strong 6.22 year weighted average lease expiry. Major tenants include Atlab Group Pty Ltd and Permail Pty Ltd.

Atlab has the largest film processing laboratory and post production facilities in the Australasian region, with operations in Sydney, Melbourne, Auckland and at the Warner Roadshow Studios in Queensland. The Group also includes Atlab Image and Sound Technology, which supplies, installs and maintains equipment in cinemas, and Filmlab Engineering, a leading manufacturer of film processing machines and other laboratory equipment.

Atlab's head office is located at the Mowbray Road property. Services provided from 706 Mowbray Road include Atlab processing and digital services, bulk release printing, Atlab media logistics and group administration. Sound mixing, editing and film processing were carried out at the property for the recent Kennedy Miller hit movie "Happy Feet". The Group occupy 8,052m<sup>2</sup> (approximately 50% of the property) on a lease to 2018. Atlab is 50% owned by Amalgamated Holdings Limited with the other 50% owned by DX III Holdings and provides a strong lease covenant underpinning the property's income stream.

The property's other major tenant, Permail, have been providing mail-house services for over forty years and occupy 2,806m<sup>2</sup> until 2008.

Subject to current lease negotiations, there is a vacancy around 15% of the property's income. Rental support for this vacancy is being provided for approximately two years whilst the vacancy is let. PFA is confident of leasing this space due to the strengthening of the leasing market that is been occurring in the area.

This acquisition was consistent with the Manager's continued commitment to geographical and sector diversification. This property increases the Trust's exposure to the industrial property market and the Lane Cove and North Ryde hi-tech property markets which are showing positive signs of strengthening.



## Manager's Report

### *Divestments*

#### **Sale of Garden Square**

A contract for the sale of Garden Square to Stockland Trust Management Limited on behalf of the Stockland Trust was entered into in December 2006. The agreed sale price was \$57M which is well above the property's book value of \$35M as at 30 June 2006. The sale contract provided for settlement on 28 February 2007 which occurred on that date.

Under the contractual arrangements, the Trust is to bear the cost of any outstanding tenancy related incentives (e.g. rent free periods given to tenants) and provide a one year rental guarantee over a remaining vacant space (approximately 900m<sup>2</sup>) of which the Manager is currently finalising negotiations for letting. The cost to the Trust under these arrangements is expected to be minimal.

Garden Square was purchased in 1998 and is the longest held property of the Trust (and its sub-Trusts). The property was bought by the Trust for a price of \$20.6M. The sale price at \$57M represents an initial yield of around 6.5%.

The divestment of the Garden Square Office Park is consistent with the Manager's ongoing diversification strategy for the Trust, particularly given the extent of the Trust's material overweight nature to Brisbane office.

### *Revaluations*

No revaluations of the portfolio have occurred during the Period.

### *Portfolio Review*

PFA continues to monitor the Trust's portfolio of investment properties to ensure consistency with the business needs and objectives of the Trust. Properties which are not consistent with the objectives of the Trust will be considered for divestment.

### *Redevelopment Opportunities*

The portfolio contains some properties which have potential redevelopment opportunities. The Manager continues to assess and clarify these opportunities.

As previously reported, the Sevenoaks property located at 303 Sevenoaks Street, Cannington, Western Australia comprises approximately two hectares of surplus land which the Manager has been assessing for subdivision. Following full consideration, the Manager has now decided to proceed with the excising of the surplus land from the main block and the subsequent sale of this surplus land. Applications for subdivision are being lodged and the surplus land is in the process of being marketed. It is expected that, subject to the necessary State government approvals being granted for the subdivision, that a sale could occur prior to 30 June 2007 with settlement to occur late in the following year. Owner's works required under subdivisional approvals have been carried out.

### *Land Resumption*

In 2005, an overpass was constructed adjacent to the surplus land at the Sevenoaks property by the local Council. As a result, the Manager is seeking compensation from the West Australian Lands Department for



the resumption of 922m<sup>2</sup> of this property's surrounding land.

### ***Leasing Activity***

The vacancy rate (based on income) for the Trust portfolio at the time of this report is 1.2% which is comparatively low in industry terms. The vacancy rate for the portfolio has decreased during the Period, down from 1.5% as at the date of last year's annual report. This has been a pleasing result and is significantly due to the active management strategy of the Manager for the Trust's property portfolio.

The weighted average lease expiry of the portfolio remained relatively constant during the Period and remains strong at 6.7 years. This current weighted average lease term of 6.7 years provides a strong lease profile and underpins the stability of future income for the Trust.

Leasing activity during the Period has predominantly related to the Civic Tower, 180 Queen Street, Lands Building and Citigate Melbourne properties.

### **Civic Tower**

Since the annual report, leases have now been signed for three of the vacant office floors in Civic Tower. This leaves, as at the date of this report, only 4 floors remaining to be leased.

Publishing & Broadcasting Limited (PBL) has commenced a new lease for an additional floor, Level 23, of this property. This new lease is for a further 975m<sup>2</sup> to 2016. PBL now occupy 10 floors of this property and account for approximately 41% of the property's income.

Business advisors and chartered accountants, William Buck NSW, have commenced a 10 year lease, from 1 January 2007, for levels 28 and 29 of Civic Tower. William Buck are a long established chartered accountancy firm. They deliver a complete range of professional services, with over 520 professionals and 55 partners in five offices located throughout Australia.

A 5 year lease has also been signed for a café to operate from the ground level of Civic Tower. Following the completion of approvals and fitout, the café is due to commence its operation in March.

### **180 Queen Street**

During the Period, ABT Recruitment commenced a lease for 345m<sup>2</sup> for 7 years on Level 1 of the 180 Queen Street property. The leasing that has occurred at this property since its acquisition, has resulted in there now being a vacancy of only 41m<sup>2</sup> or 2% of the net lettable area of the office areas. At the time of acquisition of the property, this percentage including monthly tenancies, was 41%. This reduction over a period of a little over a year, is an excellent performance. Rental support continues to be provided until June 2007 for the small remaining vacancy.

### **The Lands Building**

As advised in the 2006 Annual Report, it was expected that the results of an outstanding market rent review would be known. This rental review is now subject to independent determination and a result is expected by the end of March 2007. The intended revaluation will occur following the finalisation of the rental review.

## Manager's Report

### The Citigate, Melbourne

In June 2006, the Trust acquired its first hotel property located at 270 Flinders Street, Melbourne. At the time of acquisition, this property was operated as a Ramada hotel. As advised in PDS No. 4, at the time of acquisition of the hotel, Mirvac Hotels commenced the management of the hotel and re-branded it under its Citigate brand. The hotel re-branding and management changeover has occurred smoothly and the hotel is trading well and in accordance with the Manager's expectations at the time of contracting.

#### *Future Leasing Activity*

Maintaining a strong tenant profile remains a critical focus for the Manager and a key point of difference for the Trust as against many trusts of a similar size, particular with national and government tenants currently accounting for approximately 85% of the income of the Trust.

Importantly, the Manager's management strategy for the Trust is to maintain and develop relationships with tenants to meet their current and future requirements and actively manage the property portfolio with a focus to enhancing the portfolio's income stream.

This is not to say that there are not challenges in the forthcoming period as some of the current vacancies are focused upon. In particular, the Manager's main focus will be:-

- undertaking an ongoing tenancy remix at Homeworld;

- continuation of the leasing strategy and tenancy remix at the Riverdale Centre;
- the continuation of an energetic leasing campaign for the remaining vacant levels (currently under rental support) of Civic Tower, Sydney;
- resolving as early as possible Suncorp Metway's tenancy intentions for their space in 388 Queen Street which lease expires at the end of 2007; and
- the commencement of a leasing campaign for the vacancies (currently under rental support) which exist at 706 Mowbray Road, Lane Cove.

#### *Capital Works*

The Manager is conscious of the necessity to maintain the assets to keep them competitive in the marketplace.

The major focus of capital works during the Period, has been the commencement of works at Anzac Square Offices and the completion of works at the Cairns Hypermart property.

Works have commenced on the foyer of Anzac Square Offices to enable the coffee shop operator, Extract Coffee, to expand its successful operation into that area. Given the heritage nature of the property, it has been necessary to gain necessary heritage approvals to undertake the works. An additional doorway has been cut through the wall adjoining the coffee shop to enable access and café seating in the Anzac Square foyer. The expansion of the café space will provide additional rental and appeal to this property.

A lift interior refurbishment program has also been carried out in Anzac Square

Offices to deal with the normal wear and tear that lifts experience.

As previously reported, Harvey Norman occupy all of the warehouse facility at the Cairns Hypermart property. As part of the Harvey Norman lease, works were undertaken within the warehouse and a refurbishment of the warehouse office areas was also completed. The warehouse office area is fully leased.

In 2005 the Trust acquired the AAPT Centre located at 180-188 Burnley Street, Richmond from AAPT Limited under a sale and leaseback structure. Under the agreed lease arrangements, provision was made for the Trust to fund up to \$3M in fitout and refurbishment of this property. These capital works are due to commence prior to 30 June 2007. Under the lease agreement, AAPT's rental will increase upon the completion of these works.

## **Debt Management**

The Trust's debt is financed via a joint finance facility between the Commonwealth Bank of Australia ("CBA") and mortgage funds managed by ING Management Limited ("ING"). Under this joint finance facility, the total debt as at 31 December 2006 was \$211,014,000. This represents as at the date of this report, a gearing ratio against total assets of 44%.

The weighted average interest rate of the Trust (including financiers' margins) as at 31 December 2006 was 6.66% per annum.

Of these borrowings, approximately 69% of the Trust's debt funding as at 31 December 2006 had fixed interest rates or was hedged with the balance being at variable rates. The

Manager continues to monitor the interest rate market for opportunities to purchase hedging style products at appropriate pricing. Subsequent to 31 December 2006 a callable swap arrangement relating to \$20M of debt has been entered into with Deutsche Bank which will have the effect of increasing the above percentage.

The Manager may seek to alter the above percentage during the current year.

On 31 January 2007, an additional \$21,220,000 was drawn down to assist with the acquisition of 706 Mowbray Road, Lane Cove, Sydney.

Following settlement of the sale of Garden Square, the Trust will have \$46M on deposit pending reinvestment into properties which are currently being considered for purchase to replace the Garden Square property.

## **Capital Management**

### *Capital Raising*

On 5 June 2006, a product disclosure statement ("PDS No. 4") was lodged by the Manager with ASIC for the issue of up to 23,963,317 units in the Trust at an offer price of \$1.11 per unit.

Current unitholders (i.e. those registered at 14 June 2006) were also offered a one for seven entitlement under the rights issue at \$1.09 per unit. Current unitholders could also purchase additional units above their entitlement under the PDS at the general offer price of \$1.11 per unit.

Rights issue entitlements closed on 25 July 2006 with current unitholders subscribing approximately \$11.9M at the discounted offer price of \$1.09 per unit. Current unitholders

## Manager's Report

also subscribed an additional \$2.6M (approx.) under the general offer at \$1.11 per unit.

On 25 August 2006, the Manager announced the closure of PDS No. 4 after raising \$24.6M. 22,378,234 units in total were allotted as part of this process.

### Special Distribution

As a consequence of the sale of Garden Square, it is the intention of the Manager to make a special distribution of 5.26 cents per unit. Unitholders recorded on the register as at 1 March 2007 will be entitled to the special distribution. The special distribution is payable 14 days after the settlement of the Contract for Sale which occurred on 28 February 2007. The special distribution is scheduled to be made on 14 March 2007.

### The Market

During the Period, the weighted average price per unit that units in the Trust have traded on the BSX has been \$1.11, an increase of 4 cents per unit from that previously reported for the financial year ended 30 June 2006. At the time of lodgement of this report, the last trade was \$1.21 per unit. The market capitalisation of the Trust as at 31 December 2006 was \$218M.

The total trade volume on the BSX for the Period (i.e. 6 months) was 1.78 million units. Comparatively the total trade volume for the year ended 30 June 2006 (i.e. a 12 month period) was approximately 3.3 million units.

### Unit Pricing Policy

The Manager has implemented a Unit Pricing Policy which is primarily based on the issue price requirements of the Trust's constitution. A copy of the Unit Pricing Policy and any

discretions exercised by the Manager are available free of charge on request.

### Manager Update

#### *Trust Wins Property Trust Industry Award*

The Trust has been awarded the 2006 Property Trust Industry Award by the Australian Property Institute (Qld Division). The Trust also won this award in 2005. The judging for the award is made on the basis of financial performance, management and innovation.

### Outlook

The Manager remains positive about the underlying fundamentals of the Trust and its future. In the context of alternative property investment opportunities available in the market, it would appear to offer value.

The long term fundamentals in those markets in which the Trust holds assets still remains positive and the Trust will continue to benefit from its overweight nature in those markets which continue to have strong growth in them (e.g. the general office markets of Australia, and in particular, Brisbane office).

Key focuses for the forthcoming six months will include the continuation of the sound performance of the Trust, the acquisition of replacement assets following the sale of Garden Square and an ongoing review of the structure and strategy of the Trust (including its liquidity).

Depending on the nature, pricing and timing of future acquisitions, there exists the possibility of a future capital raising for the Trust during the next 6 months.

## Directors' Report

The Directors of Property Funds Australia Limited ("the Manager") as responsible entity submit the following Interim Financial Report of the PFA Diversified Property Trust ("the Trust") for the half-year ended 31 December 2006 ("the Period").

### Directors of the Manager/ Responsible Entity

The name of each person who has been a director of the Manager during the Period and up to the date of this report are:-

Robert Thomas Summerton  
Christopher Arthur Morton  
Dennis Wayne Wildenburg  
Nicholas Roland Collishaw  
Jennifer Joan Hutson

The Directors have been in office since the start of the Period to the date of this report unless otherwise stated.

### Review of Operations

#### *Distributions*

Distributions for the Period totalled to 4.90 cents per unit. These distributions were paid on a monthly basis at a rate of 0.8167 cents per unit.

#### *Highlights*

The key highlights over the Period and up to the date of this report include:-

- the closure of PDS No.4 after raising \$24.6M, and a total of 22,378,234 units having been issued;

- the acquisition of 706 Mowbray Road, Lane Cove, Sydney, NSW for \$29.265M;
- the sale of Garden Square for \$57M;
- a special distribution of 5.26 cents per unit to be paid to eligible unitholders.

### Auditor's Independence Declaration

A copy of the auditor's independence declaration is set out on page 12.

### Rounding Amounts

The PFA Diversified Property Trust has applied the relief available to it in ASIC Class Order 98/100 and accordingly certain amounts in the financial report have been rounded off to the nearest one thousand dollars.

Further information in respect of the operations of the Trust is set out in the Manager's Report.

Signed in accordance with a resolution of Directors.

Dated this 14th day of March 2007



### Christopher Arthur Morton

*Managing Director*

## Auditor's Independence Declaration

# **BDO Kendalls**

14 March 2007

The Directors  
Property Funds Australia Ltd  
Level 3  
200 Adelaide Street  
BRISBANE Q 4000

BDO Kendalls  
Chartered Accountants  
& Advisers

[www.bdokendalls.com.au](http://www.bdokendalls.com.au)  
enquiries@bdokendalls.com.au

Level 18, 300 Queen Street  
GPO Box 457 Brisbane  
Queensland 4001 Australia

**Telephone** + 61 7 3237 5999  
**Facsimile** + 61 7 3221 9227

Dear Directors

### **AUDITOR'S INDEPENDENCE DECLARATION**

In relation to our review of the Interim Financial Report of the PFA Diversified Property Trust for the half-year ended 31 December 2006, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Yours faithfully

**BDO Kendalls**



**Paul Gallagher**

*Partner*

**Advisers to growing businesses**

## Condensed Income Statement

for the half-year ended 31 December 2006

	Note	Consolidated 31 December 2006 \$ '000	Consolidated 31 December 2005 \$ '000
Revenue			
Operating activities		22,841	17,989
Gain on disposal of investment property		14,798	5,432
Gain on revaluation of investment property		-	2,905
		37,639	26,326
Expenses			
Property expenses		(5,035)	(4,469)
Amortisation		(209)	(564)
Impairment of property, plant & equipment		(1,378)	-
Fund expenses		(1,909)	(1,744)
		(8,531)	(6,777)
Financing costs – Financial Institutions			
Interest		(6,979)	(6,099)
Amortisation		(289)	(185)
		(7,268)	(6,284)
<b>Profit before finance costs to Unitholders</b>		<b>21,840</b>	<b>13,265</b>
Financing costs – Unitholders			
Distributions to Unitholders	2	(19,101)	(17,062)
<b>Profit/(loss) before income tax expense</b>		<b>2,739</b>	<b>(3,797)</b>
Income tax expense		-	-
<b>Profit/(loss) after income tax expense attributable to Unitholders</b>		<b>2,739</b>	<b>(3,797)</b>

*To be read in conjunction with the notes to the Financial Statements.*



## Condensed Balance Sheet

as at 31 December 2006

	Consolidated	Consolidated
	31 December	30 June
	2006	2006
	\$ '000	\$ '000
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	15,794	2,777
Trade and other receivables	58,293	1,821
Other assets	1,189	929
<b>Total Current Assets</b>	75,276	5,527
<b>NON-CURRENT ASSETS</b>		
Investment – property	406,832	409,954
<b>Total Non-Current Assets</b>	406,832	409,954
<b>TOTAL ASSETS</b>	482,108	415,481
<b>CURRENT LIABILITIES</b>		
Trade and other payables	48,683	8,957
<b>Total Current Liabilities</b>	48,683	8,957
<b>NON-CURRENT LIABILITIES</b>		
Other liabilities	223,437	196,745
Interest bearing liabilities	209,988	209,779
<b>Total Non-Current Liabilities</b>	433,425	406,524
<b>TOTAL LIABILITIES</b>	482,108	415,481
<b>NET ASSETS</b>	-	-

*To be read in conjunction with the notes to the Financial Statements.*

## Condensed Cash Flow Statement

for the half-year ended 31 December 2006

	Consolidated	Consolidated
	31 December	31 December
	2006	2005
	\$ '000	\$ '000
<b>Cash Flows from Operating Activities</b>		
Property income	23,329	19,005
Interest received and sundry income	511	559
Payments to suppliers	(10,892)	(6,387)
Interest paid	(6,851)	(5,991)
<b>Cash Provided by/(Used in) Operating Activities</b>	<b>6,097</b>	<b>7,186</b>
<b>Cash Flows from Investing Activities</b>		
Net proceeds from sale of property	-	67,787
Proceeds from investment in S8 Property Trust	-	10,000
Security deposit	-	3
Investment in Citigate Melbourne Pty Ltd	(90)	-
Deposit on investment – property	(1,500)	-
Purchase of investment – property and capital improvements	(4,141)	(81,495)
<b>Cash Provided by/(Used in) Investing Activities</b>	<b>(5,731)</b>	<b>(3,705)</b>
<b>Cash Flows from Financing Activities</b>		
Proceeds from borrowings	-	10,800
Financing costs paid	(79)	(418)
Units issued	24,622	7,872
Capital raising funds provided for (used)	(2,295)	7,197
Cost of equity raising	(723)	(761)
Reduction in debt facility	-	(2,436)
Distributions to Unitholders	(8,874)	(17,005)
<b>Cash Provided by/(Used in) Financing Activities</b>	<b>12,651</b>	<b>5,249</b>
Net increase/(decrease) in cash held	13,017	8,730
Cash at the beginning of the financial period	2,777	468
<b>CASH AS AT 31 DECEMBER</b>	<b>15,794</b>	<b>9,198</b>

*To be read in conjunction with the notes to the Financial Statements.*

## Notes to the Financial Statements

*for the half-year ended 31 December 2006*

### **Note 1 - Basis of Preparation**

The half-year interim financial report is a general purpose financial report prepared in accordance with the requirements of the BSX Listing Rules, Corporations Act 2001, Australian Equivalent to International Financial Reporting Standard AASB 134: Interim Financial Reporting, Urgent Issues Group Consensus views and other authoritative pronouncements of the Australia Accounting Standards Board. It is recommended that this interim financial report be read in conjunction with the annual financial statements for the year ended 30 June 2006 and any public announcements made by Property Funds Australia Limited as the responsible entity for the PFA Diversified Property Trust ("Trust") and its controlled entities during the half-year in accordance with continuous disclosure requirements arising under the BSX Listing Rules and Corporations Act 2001.

This interim financial report was prepared under Australian Equivalents to IFRS, and the accounting policies have been consistently applied by the entities in the economic entity and are consistent with those applied in the 30 June 2006 annual report unless otherwise stated.

Compliance with Australian Equivalents to IFRS ensures that the interim financial report, comprising the financial statements and notes there to, complies with the Financial International Reporting Standards.

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

#### *(a) Rounding of Amounts*

The Trust has applied the relief available to it in ASIC Class Order 98/100 and accordingly certain amounts in these financial statements have been rounded off to the nearest one thousand dollars.

#### *(b) Earnings Per Unit*

Earnings per unit (EPU) information is not disclosed for the half-year ended 31 December 2006, as the units of the Trust are considered to be debt instruments in accordance with AASB 132 requirements.

#### *(c) Comparative Figures*

Where required by the Australian Equivalents to International Financial Reporting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

#### *(d) Condensed Statement of Changes in Equity*

The Trust is not required to complete a Condensed Statement of Changes in Equity for the half-year ended 31 December 2006 as all unitholders' funds have been classified as non-current liabilities.

## Notes to the Financial Statements

for the half-year ended 31 December 2006

### Note 2 - Distributions Paid and Payable

	Consolidated Entity	
	31 December 2006 \$ '000	31 December 2005 \$ '000
21 August	1,374	1,168
21 September	1,515	1,168
21 October	1,553	1,168
21 November	1,553	1,168
08 December (Special Distribution)	-	9,997
21 December	1,553	1,168
22 December (Special Distribution announcement)	10,000	-
21 January	1,553	1,225
	<b>19,101</b>	<b>17,062</b>

### Note 3 - Segment Information

The Trust and its controlled entities operate predominantly in one geographical segment, being Australia, and one business segment, being property investment.

## Notes to the Financial Statements

*for the half-year ended 31 December 2006*

### **Note 4 - Contingent Liabilities**

#### *Revolving Cash Advance Facility*

As at 31 December 2006, the Trust is to provide a \$1,000,000 cash facility to Citigate Melbourne Pty Ltd as per the Revolving Cash Advance Facility Agreement. The Trust holds shares in Citigate Melbourne Pty Ltd and as at 31 December 2006, \$682,379 was drawn down. Interest is accrued monthly in accordance with the Revolving Cash Advance Facility Agreement.

#### *Legal Dispute – Sale PO Square*

A legal dispute with CFS Gandel Retail Trust has arisen over the interpretation of the 12 month Price Adjustment provisions in relation to the settlement of Post Office Square which occurred on 1 December 2005. The Manager has appointed corporate lawyers, McCullough Robertson, to finalise the post settlement variation.

#### *Capital Works – 180-188 Burnley Street, Richmond, Melbourne*

The Trust is to provide up to \$3M in fitout and refurbishment of this property, under the agreed lease arrangements. These capital works are due to commence prior to 30 June 2007. Under the lease agreement, AAPT's rental will increase upon the completion of these works.

#### *Sale Performance Management Fees and Acquisition Management Fees*

In accordance with Clause 25.1 of the Trust's Constitution, and as disclosed in the 30 June 2006 Financial Report, the Manager is entitled to remuneration on the disposal and acquisition of a property.

On the 21 December 2006 the directors of the Manager signed a Contract for Sale for the sale of the Garden Square Complex, Brisbane, with a base sale price of \$57M. The settlement was completed on 28 February 2007. The fee payable to the Manager is \$2.56M.

On the 22 December 2006 the directors of the Manager signed a Contract for Sale for the purchase of 706 Mowbray Road, Lane Cove, Sydney, with a base purchase price of \$29.265M. The settlement was completed on 31 January 2007. The fee payable to the Manager is \$0.58M.

Other than the above mentioned, there are no other contingent liabilities as at balance date.

## Notes to the Financial Statements

*for the half-year ended 31 December 2006*

### **Note 5 - Contingent Assets**

The Trust and its controlled entities (lessor) hold unconditional bank guarantees and security deposits from lessees. These bank guarantees and security deposits may crystallise on default by the lessee to the lessor. The total amount of bank guarantees and security deposits held as at 31 December 2006 was \$2,336,791 for the economic entity.

As at 31 December 2006 the Trust holds rental support guarantees covering a maximum period to 31 October 2007 for 180 Queen Street, Brisbane of \$25,915 and a maximum period to 16 December 2008 for Civic Tower, Sydney of \$3,195,178 (half share). The income support guarantee for Civic Tower, Sydney is to provide for capital works, lease incentives and rental income support.

### **Note 6 - Events Subsequent to Reporting Date**

#### *Settlement of 706 Mowbray Road, Lane Cove, Sydney*

The acquisition of 706 Mowbray Road, Lane Cove, Sydney was completed by the Trust on 31 January 2007 for \$29.265M.

#### *Settlement of Garden Square*

The sale of Garden Square Complex, Brisbane was completed by the Trust on 28 February 2007 for \$57M.

#### *Special Distribution*

As a consequence of the sale of Garden Square, a special distribution of 5.26 cents per unit was announced, to be paid to unitholders on the register as at 1 March 2007. The Special Distribution is payable 14 days after the completion of the sale.

After the reporting date, the Trust has paid monthly distributions to unitholders in the months of January and February 2007 totaling \$3,105,444.

Otherwise there have been no events subsequent to the reporting date that would require disclosure in the Interim Financial Report.

## Notes to the Financial Statements

for the half-year ended 31 December 2006

### Note 7 - Contributed Capital

	Parent Entity		Parent Entity	
	2006 \$	2006 Number	2005 \$	2005 Number
Units on Issue at the beginning of the financial year	171,894,743	167,743,219	150,236,511	147,872,433
Units issued during the period in accordance with the Product Disclosure Statement dated 5 June 2006	24,621,520	22,378,234	-	-
Units issued during the period in accordance with the 2005 Special Distribution Reinvestment Plan ("DRP")	-	-	2,594,131	2,380,516
Units issued during the period in accordance with the Product Disclosure Statement dated 20 October 2005	-	-	5,277,608	4,841,957
Units on Issue as at 31 December	<b>196,516,263</b>	<b>190,121,453</b>	<b>158,108,250</b>	<b>155,094,906</b>



## Declaration by the Directors of the Responsible Entity

The Directors of Property Funds Australia Limited as the responsible entity for The PFA Diversified Property Trust declare that:-

1. the accompanying condensed financial statements and notes
  - (a) comply with Australian Equivalents to International Financial Reporting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001; and
  - (b) give a true and fair view of the financial position as at 31 December 2006 and performance for the half-year ended on that date; and
2. in the Directors' opinion there are reasonable grounds to believe that the Trust 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.



**Christopher Arthur Morton**

*Managing Director*

Brisbane

14 March 2007

# Independent Review Report to the Unitholders

## Report on the Half-Year Interim Financial Report

We have reviewed the accompanying half-year interim financial report of the PFA Diversified Property Trust, which comprises the condensed balance sheet as at 31 December 2006, condensed income statement and condensed cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration of the responsible entity on behalf of the consolidated disclosing entity comprising the disclosing entity and the entities it controlled at the half-year end or from time to time during the half-year in order for the disclosing entity to lodge the half-year interim financial report with the Australian Securities and Investments Commission and Bendigo Stock Exchange.

## Directors' Responsibility for the Half-Year Interim Financial Report

The directors of the responsible entity are responsible for the preparation and fair presentation of the half-year interim financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the half-year interim financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of an Interim Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the disclosing entity's financial position as at 31 December 2006 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of the PFA Diversified Property Trust, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the interim financial report.

A review of a half-year interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## **Independence**

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. We confirm the independence declaration required by the Corporations Act 2001, provided to the directors of the responsible entity for the disclosing entity on 14 March 2007, would be in the same terms if provided to the directors as at the date of this review report.

## **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 PFA Diversified Property Trust is not in accordance with the Corporations Act 2001 including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and of its performance for the half-year ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001.

**BDO Kendalls**  
**Chartered Accountants**



**Paul Gallagher**  
*Partner*

Brisbane  
14 March 2007

### Manager/Responsible Entity

#### Property Funds Australia Limited

ACN 078 199 569

#### Registered Office and Principal Place of Business

Level 3

Anzac Square Commercial

200 Adelaide Street

Brisbane QLD 4000

Phone: (07) 3221 7170

Toll Free: 1800 687 170

Fax: (07) 3221 6729

Email: [info@pfaltd.com.au](mailto:info@pfaltd.com.au)

#### Postal Address

PO Box 10398

Brisbane Adelaide Street QLD 4000

#### Directors of Property Funds Australia Limited

Robert T Summerton (*Non-Executive Chairman*)

Christopher A Morton (*Managing Director*)

Dennis W Wildenburg

Nicholas R Collishaw

Jennifer J Hutson

#### Company Secretary

Michael F White

#### Auditor

##### BDO Kendalls

Level 18, 300 Queen Street

Brisbane QLD 4000

### Custodian

#### Trust Company of Australia Limited

ACN 004 027 749

213 St Pauls Terrace

Brisbane QLD 4000

### Taxation Adviser

#### BDO Kendalls

Level 18, 300 Queen Street

Brisbane QLD 4000

### Corporate Lawyers for The Manager

#### McCullough Robertson Lawyers

Level 12, Central Plaza II

66 Eagle Street

Brisbane QLD 4000

### Registry

#### Property Funds Australia Limited

ACN 078 199 569

### Office

Level 3

Anzac Square Commercial

200 Adelaide Street

Brisbane QLD 4000

Phone: (07) 3221 7170

Toll Free: 1800 687 170

Fax: (07) 3221 6729

Email: [info@pfaltd.com.au](mailto:info@pfaltd.com.au)

#### Postal Address

PO Box 10398

Brisbane Adelaide Street QLD 4000



