PFA DIVERSIFIED PROPERTY TRUST

AND CONTROLLED ENTITIES

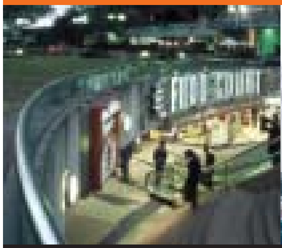
ARSN 097 860 690

2004 Half–Year Report

PROPERTY FUNDS AUSTRALIA LIMITED

ACN 078 199 569
AFSL No 224106

Trust Profile



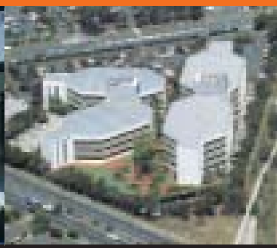
Post Office Square
Brisbane, Qld

Anzac Square Offices
Brisbane, Qld

388 Queen Street
Brisbane, Qld

Centro On James - Stage 3
Fortitude Valley, Brisbane

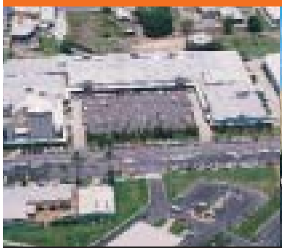
The Precinct
Coorparoo, Brisbane



Garden Square Office Park
Upper Mt. Gravatt, Brisbane

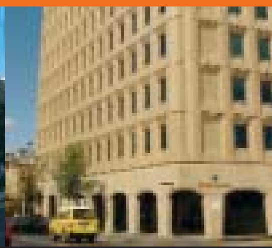
544 Kessels Road
MacGregor, Brisbane

The Homeworld Centre
Tuggeranong, ACT



Cairns Hypermart
Cairns, Qld

The Riverdale Centre
Dubbo, NSW



The Lands Building
Hobart, TAS

Sevenoaks
Cannington, Perth

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 $278 million. The portfolio is diversified by property sector, geographic location, tenant profile and lease expiry.

The Trust currently has in excess of 3,000 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 $10 million to $50 million.

The Trust evolved as a consequence of the amalgamation on 1 July, 2003 of all of the managed property funds managed by Property Funds Australia Limited. 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.pfaltd.com.au.

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

Operating Highlights

– Half Year ending 31 December, 2004

Events

September, 2004:

- Product disclosure statement dated 27 February, 2004 closed to subscriptions.
- Placement of 3,000,000 units.
- Final repayment of short-term extension of Joint Finance Facility.

December, 2004:

- Three private placements completed for the issue of 13,421,053 units.

February, 2005:

- New product disclosure statement ("PDS") lodged with ASIC for the issue of 24.78 million units in the Trust. The offer price under the PDS is $1.07 per Unit.
- Existing unitholders (i.e. those registered at 31 December, 2004) offered a one for five entitlement under a rights issue at $1.05 per Unit.
- Acquisition of the the Sevenoaks building, Cannington, Western Australia for $38.0M settled on 10 February, 2005.

Financial Performance

- Distribution of 4.74 cents per unit for the 6 months ended 31 December, 2004 in accordance with previous forecasts.
- Net Profit (before amortisations) for the Period approximately $5.2M.
- Net Profit (after amortisations) for the Period approximately $4.3M.
- Net Profit (before amortisations and merger costs) up 3.5% on financial forecasts underlying product disclosure statement dated 27 February, 2004.
- As at 31 December, 2004:-
  - Total assets $269.5M.
  - Net tangible asset backing per Unit increased 2 cents to $0.98 per Unit during the Period.

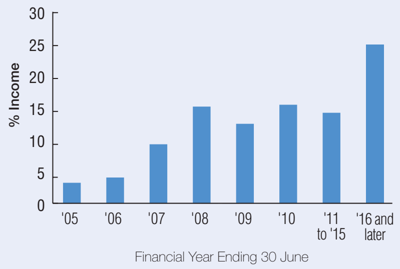
Financial Overview

	As at 31 December 2004
Total assets ($'000)	269,503
Total liabilities ($'000)	138,183
Total equity ($'000)	131,320
Net asset backing per unit ($)	1.06
Number of units on issue ('000)	123,898
Total borrowings ($'000)	136,416
% borrowings to total assets (%)	51
Number of unitholders	3,161
Vacancy Rate (%)	6.4

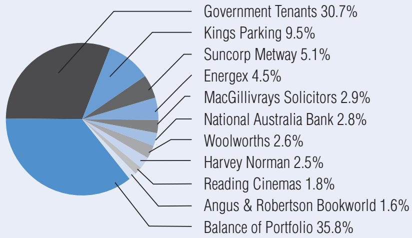
	Six months ending 31 Dec 2004
Net profit ($'000)	4,319
Distribution per ordinary unit (CPU)	4.74

Portfolio Status (as at date of report)

Lease Expiry Profile



Tenant Breakdown (by income)



Manager's Report

We are pleased to report to you on the activities and achievements of the PFA Diversified Property Trust since the commencement of the six months ended 31 December, 2004 (“the Period”).

Fund Performance

Distributions for the Period have been occurring at the rate of 0.79 cents per unit per month which is in accordance with previous forecasts which were incorporated in the product disclosure statement dated 27 February, 2004. The Directors of the Manager have, in the recently released product disclosure statement (discussed later), forecast that this distribution rate is likely to continue through to 30 June, 2006 (subject to the assumptions on which the forecast is based set out in section 6.2 of the Product Disclosure Statement (“PDS”)).

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

- net tangible asset backing per Unit increased to $0.98;
- revenue being 18% up over the previous corresponding period and 5% up on previous forecasts;
- net profit (before amortisations and merger costs) up 3.5% on the financial forecasts in the product disclosure statement dated 27 February, 2004.

Fund Management

Underpinning the Trust's sound financial result for the Period has been a commitment by the Manager to meeting the objectives and strategies of the Trust as set out in the original merger explanatory memoranda and product disclosure statement dated 27 February, 2004. These have included the following events which are discussed in greater detail below:-

- the ongoing commitment to the growth of the asset base and diversification of the Trust (as exhibited by the recent Sevenoaks (Perth situated) acquisition);
- improved tenant profile of the Trust with 83% of the portfolio now leased to national or government tenants thus underpinning the future stability of future portfolio income;
- monthly distributions continue at a rate of 9.48 cents per unit per annum in accordance with previous financial forecasts;
- acknowledgement of priority to existing unitholders in public equity raisings (as demonstrated by the recent one for five rights issue entitlement for existing unitholders);
- an improved exit (e.g. the sale of units on the BSX have been able to occur at greater than the net tangible asset per unit and at an increased trading price on the BSX).

Asset Management

Acquisitions

Subsequent to the end of the Period, the Trust completed the purchase on 10 February, 2005 of the Sevenoaks Building at 303 Sevenoaks Street, Cannington, Western Australia for $38.0M.

This acquisition was in line with the Trust's stated strategy of growing the Trust by investing in properties in the price range of $10 million to $50 million and which provide stability to distributions. It is also consistent with the stated focus to reduce the historical geographical emphasis on Queensland property. This acquisition has reduced the Fund's exposure to Queensland by 6.0%.

Sevenoaks is a modern four level office building situated in the Perth suburb of Cannington, 11 kilometres south-east of Perth's City Centre. It is located across the road from Cannington train station and bus interchange and some 600 metres from the Westfield Carousel regional shopping centre.

Sevenoaks has a large 5,500m^2 floorplate which is highly attractive to government and large corporate tenants due to spatial efficiencies. Two internal atriums within the building enable natural light to penetrate through it.

The building, which was originally built for the Australian Taxation Office, has been constructed to a high government specification. It offers a highly beneficial car parking ratio of one car space per 27m^2.

The building is wholly leased to the State Government of Western Australia with 78% of it leased until 30 June, 2017.

The property comprises approximately two hectares of surplus land which the Manager currently intends to dispose of, after its subdivision, and clarification of development issues associated with it.

The building has an attractive entrance area and will have undergone a significant refurbishment and new fitout prior to the commencement of the main Western Australian Government lease. The cost of these refurbishment and fitout works will be borne by the Vendor.

The property has been purchased at a yield of 8.5% (including the surplus land value) or 8.85% (assuming the surplus land is sold at its current valuation) or at $1,727/m^2 (approx.) of net lettable area.

The acquisition has been funded out of the proceeds of recent placements and through short-term debt facilities. However, this short-term debt will be reduced from part of the proceeds of the new $25 million capital raising (discussed later). This capital raising will also enable the funding of future property acquisitions.

As canvassed in the recent PDS, the Manager intends to acquire further property towards the end of the financial year utilising the proceeds of the current capital raising.

Manager's Report

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 a number of properties which have potential redevelopment opportunities. PFA continues to assess and clarify these opportunities.

Leasing Activity

The vacancy rate (based on income) for the Trust portfolio at the time of this report is 6.4%. The vacancy rate for the portfolio has increased during the Period (up from 4.0% at 30 June, 2004) due to the vacancy at the Garden Square property following Coles Myer's departure upon expiration of their lease in December, 2004. The Manager is confident of this reducing over the next 12 months as the space vacated by Coles Myer is released. The weighted average lease expiry has however increased by 13.93% to 6.3 years as a consequence of the Sevenoaks acquisition and recent leasing transactions. This current weighted average lease term of 6.3 years is a strong lease profile and points to the stability of future income.

The major focus for leasing deals completed during the Period have predominantly related to the Garden Square, 388 Queen Street, Cairns Hypermart, Post Office Square and 544 Kessels Road properties.

The Manager is pleased to report that it has been successful in reaching agreement for the retention of all three of the Coles Myer sub-tenants at the Garden Square property. At the time of this report, a 4 year lease agreement with the Queensland State Government Department of Education has been executed commencing 1 February, 2005. This department occupies 1,920m^2 at Garden Square which represents approximately 14% of the property's income. The remaining two separate heads of agreement have been reached with two other Queensland government departments. These two leases total 2,335m^2 of the Garden Square property. It has been assumed that enforceable leases will be executed with the Queensland government in accordance with these heads of agreement. This is a positive result for the property, as upon these leases being executed, 58% of the space previously head leased by Coles Myer will have been directly let to Queensland government departments. An active program to lease the balance of the former Coles Myer space has been implemented. Current market activity and enquiry is positive.

As reported in the 2004 Annual Report, the Manager has been renegotiating with Suncorp Metway to continue their lease over 9 floors at 388 Queen Street, which was due to expire in September this year.

The Manager is pleased to report that whilst formal legal documentation has not been signed as at the date of this report, detailed heads of agreement have been reached with Suncorp Metway to remain in their existing tenancy until 31 December, 2007. This is a good outcome for the property as Suncorp Metway occupies 4,420m^2 or 70% of this property.

388 Queen Street is now fully leased following the timely releasing of three other floors that became vacant in 2004.

A Cairns Hypermart major tenant, Freedom Furniture, has executed a further 10 year lease at the property until July 2015. A major focus for this property has been the releasing of the CUB Centre component of the property leading up to the expiry of the Carlton & United Breweries lease in March 2005. The Manager is pleased to report that heads of agreement has also been reached with a major tenant to occupy all of the warehouse component of this facility. This facility is currently sub-let to Harvey Norman. This will leave only the office component of the CUB Centre (a comparatively small area) to be released.

Currently, there are only two small vacancies at the Post Office Square property, following strong lease activity that has occurred in this property over the past six months. Quality tenants attracted during the Period to the property include Gloria Jeans, Sams Seafood, Green Bean, MYO and Jack Hanna Salons.

During the Period, a significant 7 year lease over the former Hudson building at 544 Kessels Road to Petwise at an increased rent than was paid by the previous tenant was transacted and refurbishment of that building occurred in preparation for this tenant.

As previously reported, the Manager continues to implement a leasing strategy to reduce vacancy within the Riverdale Centre.

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 83% 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 and actively manage the property portfolio with a focus to enhancing the portfolio's income stream.

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 for the six months to the end of December, 2004 was at the 544 Kessels Road property with the refurbishment of the former Hudson Building to accommodate Petwise (a new major tenant).

Manager's Report

Tenancy modifications, including new carpet and air conditioning works, were completed at 388 Queen Street to prepare the vacant floors for new leases that were completed during the Period. Tenancy modifications have also been undertaken at the Post Office Square and the Garden Square properties to accommodate new tenants.

Capital has also been expended on the Cairns Hypermart property to improve its overall presentation.

Proposed works to be undertaken at the Homeworld Centre to upgrade the retail forecourt at that Centre did not commence during the Period. These works are still to be undertaken however their timing will commence to coincide with a forthcoming lease expiry. Other works proposed to be undertaken in the next 6 months include improvements to the entry foyer of the 388 Queen Street office building.

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, 2004 was $136,416,000.

The weighted average interest rate of the Trust (including financiers' margins) as at 30 January, 2005 was 6.67% per annum.

An additional $30 million was drawn down on the day that the Sevenoaks property settled. The Financiers' LVR (i.e. loan to value ratio) was 62% after the draw down of the additional debt funds associated with the Sevenoaks property acquisition. This will reduce to below the 60% level as the funds raised by the new capital raising are received and initially used to reduce debt.

As at 31 December, 2004 81% of the Trust debt funding had fixed interest rates or was hedged with the balance being on variable rates. Following the acquisition of the Sevenoaks property, 66% of the Trust's debt funding has fixed interest rates or is hedged with the balance being on variable interest rates. The Manager believes, based on current markets, that it is appropriate to maintain the fixed/hedged percentage of the Trust's debt portfolio around 70%. The Manager regularly monitors the interest rate market for opportunities to purchase a hedging product at appropriate pricing.

Capital Management

Capital Raising

On 7 September, 2004 the capital raising pursuant to the PDS dated 27 February, 2004 was closed after raising $20,878,533. 20,420,162 units were allotted as part of this capital raising.

On 9 September, 2004 the Trust raised a further $3 million by the placement of 3 million units at $1.00 each to National Nominees Limited.

Since the lodgement of 2004 Annual Report, the Trust has undertaken three private placements, raising $13.9 million. The placements occurred as follows:-

- 5 million units at $1.02 per Unit to Sandhurst Trustees Limited on 21 December, 2004;
- 3,636,364 units at $1.045 per Unit to Tower Trust Limited on 31 December, 2004; and
- 4,787,689 units at $1.045 per Unit to RBC Global Services Australia Nominees Pty Ltd on 31 December, 2004.

On 27 February, 2005 the Manager lodged with ASIC a product disclosure statement for the issue of an additional 24.78 Million Units in the Trust at an offer price of $1.07 per unit. The proceeds of this offer will be used to:-

- initially reduce the Trust's debt used for the acquisition of the Sevenoaks property;
- provide cash reserves to enable funding of future acquisitions; and
- fund capital works which the Manager believes should occur to underpin and add value to the portfolio.

Existing unitholders (i.e. those registered as at 31 December, 2004) have been offered a one for five rights entitlement under a rights issue at $1.05 per Unit. The closing date for the rights issue entitlement is 24 March, 2005.

The Market

During the Period, the weighted average price per unit that units in the Trust have traded on the BSX has been $1.01, an increase of 2¢ from that previously reported for the financial year ended 30 June, 2004. At the time of lodgement of this report, the last trade was at $1.05 per unit. The market capitalisation of the Trust as at 31 December 2004 was $127.6 million. The Manager is hopeful that given the sound financial performance of the Trust and the recent increases in the net tangible assets per unit in the Trust that subsequent pricing will continue to more fully reflect these events.

Manager's Report

Manager Update

In the 2004 Annual Report, the Manager advised that well known property specialists (JFG), through James Fielding Holdings Limited had acquired a 50% interest in Property Funds Australia Limited, the Manager and responsible entity of the Trust.

Since that report, the James Fielding Group was acquired by the Mirvac Group creating a diversified property group which has $15 billion worth of assets under its control and a market capitalisation of $3.8 billion.

James Fielding's managing director and PFA's non-executive chairman, Mr Greg Paramor, has been appointed managing director of the Mirvac Group. Fellow PFA non-executive director, Mr Nicholas Collishaw now heads Mirvac Group's investment division.

No changes to personnel are to occur as a result of the Mirvac/James Fielding transaction.

Importantly, our investor/adviser service team remains unchanged and investment queries will be still handled by our experienced team in Brisbane.

Outlook

The long term fundamentals in those markets in which the Trust holds assets still remains positive. This, combined with the Trust's strong tenant profile and balanced lease expiry profile places the Trust in a solid position from which to move forward.

Key focuses for the forthcoming six months will include the continuation of the sound performance of the Trust, finalisation of the current capital raising and the acquisition of a further property as canvassed in the recent PDS.

Financial Report

For the Half-Year Ended December 31, 2004

Directors' Report

The Directors of Property Funds Australia Limited ("the Manager") as responsible entity submit the following Interim Report of the PFA Diversified Property Trust ("the Trust") for the six months ending 31 December, 2004 ("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:-

Christopher Arthur Morton

Elizabeth Ann Pidgeon
(retired 27 August, 2004)

David Conquest

Dennis Wildenburg

Gregory James Paramor
(appointed 27 August, 2004)

Nicholas Roland Collishaw
(appointed 27 August, 2004)

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 4.74 cents per unit. These distributions were paid on a monthly basis at a rate of 0.79 cents per unit.

Highlights

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

- the closure of the capital raising pursuant to the PDS dated 27 February, 2004;
- the completion of four private placements during the Period, raising $16.9 million for the Trust;
- acquisition of the Sevenoaks Building, Perth for $38 million;
- lodgement with ASIC of the product disclosure statement on 7 February, 2005 relating to the issue of 24.78 million units in the Trust at a unit price of $1.07

Auditor's Independence Declaration

A copy of the auditor's independence declaration is set out on page 13.

Rounding Amounts

The PFA Diversified Property Trust has applied for 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 16th day of March, 2005

Christopher Arthur Morton
Managing Director

Auditor's Independence Declaration

BDO Kendalls
Chartered Accountants
& Advisers

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Facsimile + 61 7 3221 9227

16 March, 2005

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

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 2004, 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 sincerely

BDO Kendalls

Paul Gallagher

Paul Gallagher
Partner

Advisers to growing businesses

Condensed Statement of Financial Performance

for the six months ended 31 December 2004

	Note	Consolidated 31 December 2004 $ '000	Consolidated 31 December 2003 $ '000
Revenue from ordinary activities		14,464	12,284
Expenses from ordinary activities			
Property expenses		(3,172)	(2,551)
Fund expenses			
Direct expenses		(1,332)	(978)
Amortisation		(786)	(1,533)
		(2,118)	(2,511)
Borrowing costs			
Interest		(4,745)	(4,022)
Amortisation		(110)	(947)
		(4,855)	(4,969)
Profit/(loss) from ordinary activities before income tax expense		**4,319**	**2,253**
Income tax expense relating to ordinary activities	1(b)	-	-
Profit/(loss) after income tax expense attributable to Unitholders		**4,319**	**2,253**
Increase in asset revaluation reserve		-	5,762
Total changes in Trust equity other than those resulting from transactions with Unitholders as Unitholders		**4,319**	**8,015**
Basic earnings per unit	7	0.040 cents	0.024 cents
Diluted earnings per unit		0.040 cents	0.024 cents

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

Condensed Statement of Financial Position

as at 31 December 2004

	Note	Consolidated 31 December 2004 $ '000	Consolidated 30 June 2004 $ '000
CURRENT ASSETS			
Cash assets		13,804	4,593
Receivables		669	701
Other assets		740	726
Total Current Assets		15,213	6,020
NON-CURRENT ASSETS			
Investment – Property		243,957	242,662
Intangible assets		7,188	7,740
Other assets		3,145	3,488
Total Non-Current Assets		254,290	253,890
TOTAL ASSETS		269,503	259,910
CURRENT LIABILITIES			
Payables		1,767	5,377
Interest bearing liabilities		-	16,410
Total Current Liabilities		1,767	21,787
NON-CURRENT LIABILITIES			
Interest bearing liabilities		136,416	136,416
Total Non-Current Liabilities		136,416	136,416
TOTAL LIABILITIES		138,183	158,203
NET ASSETS		131,320	101,707
EQUITY			
Unitholders' equity	5	120,288	90,675
Asset revaluation reserve		11,032	11,032
TOTAL EQUITY		131,320	101,707

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

Condensed Statement of Cash Flows

for the six months ended 31 December 2004

	Consolidated 31 December 2004 $ '000	Consolidated 31 December 2003 $ '000
Cash Flows from Operating Activities		
Property income	15,783	13,415
Interest received and sundry income	61	57
Payments to suppliers	(5,857)	(5,332)
Borrowing costs paid	(4,851)	(3,853)
Cash Provided by/(Used in) Operating Activities	5,136	4,287
Cash Flows from Investing Activities		
Net cash assumed as result of merger	-	(723)
Security deposit	(3)	-
Payment for capital improvements	(1,296)	(556)
Cash Provided by/(Used in) Investing Activities	(1,299)	(1,279)
Cash Flows from Financing Activities		
Proceeds from borrowings	-	1,454
Refinancing costs paid	-	(566)
Capital raising funds	26,965	-
Cost of equity raising	(242)	-
Reduction in debt facility	(14,410)	-
Distributions to unitholders	(4,939)	(3,866)
Merger expenses	-	(12)
Cash Provided by/(Used in) Financing Activities	7,374	(2,990)
Net increase/(decrease) in cash held	11,211	18
Cash at the beginning of the financial period	2,593	749
CASH AS AT 31 DECEMBER, 2004	13,804	767

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

Notes to the Condensed Financial Statements

for the six months ended 31 December 2004

Note 1 – Basis of Preparation

The half-year consolidated financial statements are a general purpose financial report prepared in accordance with the requirements of the BSX Listing Rules, Corporations Act 2001, Australian Accounting Standard AASB 1029: Interim Financial Reporting, Urgent Issues Group Consensus views and other authoritative pronouncements of the Australia Accounting Standards Board. It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June, 2004 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.

The accounting policies have been consistently applied by the entities in the economic entity and are consistent with those applied in the 30 June, 2004 annual report unless otherwise stated.

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

(a) Principles of Consolidation

A controlled entity is any entity controlled by the Trust. Control exists where the Trust has the capacity to dominate the decision-making in relation to the financial and operating policies of another entity so that the other entity operates with the Trust to achieve the objectives of the Trust.

All inter-entity balances and transactions between entities in the economic entity, including any unrealised profits and losses, have been eliminated on consolidation.

Where controlled entities have entered or left the economic entity during the year, their operating results have been included from the date control was obtained or until the date control ceased.

(b) Income Tax

The Trust and its controlled entities adopts the liability method of tax effect accounting whereby the income tax expense shown in the statement of financial performance is based on the profit from ordinary activities before income tax adjusted for any permanent differences and distributions of taxable income to beneficiaries. No liability has been raised for income tax as it is unlikely that any taxable income will be retained by the Trust and its controlled entities in 2005.

Notes to the Condensed Financial Statements

for the six months ended 31 December 2004

Note 2 – Events Subsequent to Reporting Date

(a) Acquisition of Property

On 10 February, 2005 the Trust completed the purchase of a property located at 303 Sevenoaks Street, Cannington, Perth for $38m. The acquisition was part funded through existing finance facilities via a further drawdown of $30 million.

(b) Capital Raising Product Disclosure Statement

On 7 February, 2005 Property Funds Australia Limited as responsible entity lodged a product disclosure statement for a $25m capital raising with the Australian Securities and Investments Commission. The capital raising will be utilised to repay debt, fund future property acquisitions and provide working capital.

Note 3 – Contingent Liabilities

Other than the contingent liability for performance management fees payable on the sale of a property as disclosed in the 30 June, 2004 Financial Report, there are no other contingent liabilities as at balance date.

Note 4 – Segment Information

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

Note 5 – Unitholders' Equity

	Consolidated 31 December 2004 $'000	Consolidated 30 June 2004 $'000
Contributed Capital	124,786	94,310
Accumulated distributions	(11,645)	(3,385)
Current year distributions	(4,939)	(8,260)
Capital raising costs	(1,066)	(823)
Accumulated profit/(loss)	8,833	2,488
Current year profit/(loss)	4,319	6,345
	120,288	**90,675**

Note 6 – Contingent Assets

The Trust and its controlled entities (lessor) hold unconditional bank guarantees from lessees. These bank guarantees may crystallise on default by the lessee to the lessor. The total amount of bank guarantees held as at 31 December, 2004 was $1,701,744 for the economic entity.

Note 7 – Earnings Per Unit

(a) Net Profit used in calculation of earnings per unit $4,319,091.

(b) Weighted average number of units used in calculation of earnings per unit is 109,159,894. There were no partly paid units on issue during the Period.

Note 8 – Australian Equivalents To International Financial Reporting Standards (IFRSs)

(a) Changes to Key Accounting Policies

The Trust has identified the following key differences in accounting policies that are expected to arise from adopting Australian Equivalents to IFRSs.

Intangible Asset – Goodwill

Goodwill acquired in a business combination, such as the Trust's acquisition of Subsidiary Trusts, will not require amortisation, but instead be subject to impairment testing at least annually. If there is any impairment, it will be recognised immediately in the Income Statement. This will result in lower amortisation expenses, and therefore higher earnings on an annual basis, but increased volatility of results in the event of impairment.

Revenue on Disposal of Assets

Currently the Trust includes gross revenue received on disposal of assets as revenue. Under Australian Equivalents to IFRSs, gains and losses on sale of assets will be recognised on a net basis in revenue, resulting in lower revenue being recorded by the Trust.

Recognition of Revenue on Sale of Goods/Services

When the Trust adopts Australian Equivalents to IFRSs, revenue from the sale of goods and services can only be recognised when the costs incurred or expected to be incurred can be reliably measured. This condition is currently not required and may result in revenue currently recognised being deferred to later periods. To the extent that revenue has been recognised under current standards at transition date that ought to have been delayed under Australian Equivalents to IFRSs, an initial negative adjustment may be required to opening balances of retained earnings at 1 July 2004. The Trust is not aware of any required adjustments on transition to opening balances of retained earnings at 1 July, 2004.

Notes to the Condensed Financial Statements

for the six months ended 31 December 2004

Note 8 – Australian Equivalents To International Financial Reporting Standards (IFRSs) continued

Capitalisation of Borrowing Costs

Currently the Trust capitalises all borrowing costs but will be required to expense all borrowing costs in the period that they are incurred under Australian Equivalents to IFRSs. This will result in additional expenses being recorded by the Trust and therefore lower profits. There will be an initial negative impact on retained earnings at 1 July, 2004.

Distributions

The Trust currently records distributions on a cash basis when they are paid. No accrual for distribution entitlements is recognised. The Trust believes this policy is in accordance with Australian Equivalents to IFRSs.

Other Assets – Non-Current

Establishment costs are currently recognised in the Statement of Financial Position at cost less accumulated amortisation. The Directors are of the view that these intangible assets will have to be written off on adoption of Australian Equivalents to IFRSs.

Derivative Financial Instruments

The Trust currently does not recognise derivative financial instruments, including embedded derivatives, in the financial statements. Under Australian Equivalents to IFRSs derivative financial instruments will need to be recognised in the Balance Sheet at fair value with unrealised gains or losses recognised in income if they do not qualify for hedge accounting. This will result in new assets and liabilities being recognised and an increased volatility in future earnings. Recognition of derivatives will also have an initial impact on opening retained earnings at 1 July, 2004.

Non-Current Other Financial Assets

Investments in Controlled Entities

Under Australian Equivalents to IFRSs, these investments are not classified as held for sale and as such will be measured by the Trust entity at cost with impairment tests performed when indicators of impairment are identified in accordance with AASB 136 Impairment of Assets. Initial impairment adjustments may arise because of the requirement to discount cash flows and these would have a negative impact on opening balances of retained earnings at 1 July, 2004.

Hedging

All derivatives contracts, whether used as hedging instruments or otherwise, will be carried at fair value on the Trust's Balance Sheet. Australian Equivalents to IFRSs recognise fair value hedge accounting, cash flow hedge accounting, and hedges of investments in foreign operations. Fair value and cash flow hedge accounting can only be considered where effectiveness tests are met.

Ineffectiveness outside the prescribed range precludes the use of hedge accounting and can result in significant volatility in the Income Statement. The Trust expects to predominantly use cash flow hedging in respect of its interest rate risk hedges, which will create volatility in equity reserve balances.

The hedging rules will impact the way the Trust accounts for hedges of its funding and for hedges of its Balance Sheet. This will result in new assets and liabilities being recognised, increased volatility in future earnings and will have an initial impact on opening retained earnings at 1 July, 2004.

Investment Property

The Trust's investment properties are currently carried at cost or revalued amount, with changes in the revalued amount recognised in asset revaluation reserves. Australian Equivalents to IFRSs permit a choice for subsequent measurement at fair value or at cost, less accumulated depreciation and impairment losses. If measured at fair value, changes in fair value are recognised in the net profit or loss in the period in which they occur which will result in an increased volatility of future earnings. Use of fair value will also have an initial impact on opening balances of retained earnings at 1 July, 2004 because existing balances of asset revaluation reserves will be transferred to opening balances of retained earnings.

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 Accounting Standard AASB 1029: *Interim Financial Reporting* and the Corporations Regulations 2001; and
   - (b) give a true and fair view of the financial position as at 31 December, 2004 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
16 March, 2005

Independent Review Report to the Unitholders

Scope

We have reviewed the Interim Financial Report of the PFA Diversified Property Trust and its controlled entities for the half year ended 31 December, 2004. The Interim Financial Report includes the consolidated financial statements of the economic entity comprising the PFA Diversified Property Trust and the entities it controlled at the half year's end or from time to time during the half year. The Directors are responsible for the interim financial report. We have performed an independent review of the Interim Financial Report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the Interim Financial Report is not presented fairly in accordance with Australian Accounting Standard AASB1029: *Interim Financial Reporting* and other mandatory professional reporting requirements in Australia, and statutory requirements so as to present a view which is consistent with our understanding of the trust's financial position, and performance as represented by the results of its operations and its cash flows, and in order for the Trust to lodge the interim financial report with the Australian Securities and Investment Commission and Bendigo Stock Exchange.

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

Independence

We are independent of the PFA Diversified Property Trust, and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. We have given to the directors of the responsible entity a written Auditor's Independence Declaration stating this.

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 and its controlled entities is not in accordance with:

(a) the Corporations Act 2001, including:

- (i) giving a true and fair view of the trust's financial position as at 31 December, 2004 and of its performance for the half-year ended on that date; and
- (ii) complying with Australian Accounting Standard AASB1029: *Interim Financial Reporting* and the Corporations Regulations; and

(b) other mandatory professional reporting requirements in Australia.

BDO Kendalls
Chartered Accountants

Paul Gallagher

Paul Gallagher
Partner

Brisbane
16 March, 2005

Directory

Manager/Responsible Entity

Property Funds Australia Limited
ACN 078 199 569

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Christopher A Morton (*Managing Director*)
Dennis W Wildenburg
David J Conquest
Nicholas R Collishaw

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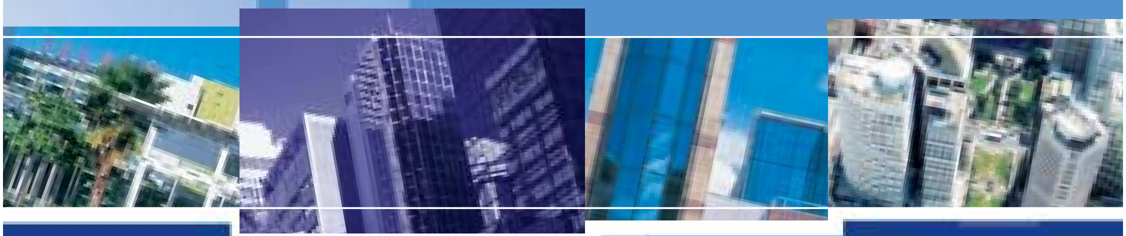

PROPERTY FUNDS
AUSTRALIA LIMITED