

# THE TRILOGY

## AN INVESTOR UPDATE

# Times

Issue No. 1

## WELCOME

Welcome to your first edition of The Trilogy Times. To assist you to keep up to date with your investment in The Trilogy Trust we will be sending you a newsletter every six months.

We hope that you find your newsletter informative and interesting.

## ACQUISITIONS FINALISED

Contracts to purchase 388 Queen Street, Centro on James (Stage 3) and Cairns Hypermart were all settled on 19 December, 2001.

The purchase prices paid were in accordance with the figures provided in the prospectus.

Your Unitholder Certificate which confirms your allotment and unitholding in The Trilogy Trust and your interest cheque were sent on 21 December, 2001. If you have not received or misplaced your cheque or certificate please contact us as soon as possible. You will also have received on or about 21 February, 2002 your first distribution by an electronic funds transfer into your designated bank account.

As previously communicated and as provided for in the prospectus, \$1.88M more subscriptions than the minimum of \$21.42M were accepted. This reduces the gearing levels of the fund by approximately 4% which we view as a positive benefit to investors. Due to the low interest rates available at the time, this was able to be achieved without any anticipated effect on forecast distribution levels.



**PROPERTY FUNDS  
AUSTRALIA LIMITED**

ACN 078 199 569



*388 Queen Street, Brisbane*

## ACQUISITION OFFER & BORROWING COSTS

### ACQUISITION COSTS

Purchase Price of Properties	42,040,669
Centro Car Park Lot (yet to be settled)	362,162
Stamp Duty & Transfer Costs	1,649,373
Legal Fees – Acquisition only	71,345
Due Diligence Costs	132,369
Acquisition Fee	2,120,142
Provisions	1,350,000
Interest Rate Management Provision	750,000
<b>Total Acquisition Costs</b>	<b>48,476,060</b>

### OFFER & BORROWING COSTS

Legal Fees – corporate	52,447
Custodian Costs	8,000
Independent Expert & Registry Costs	19,000
Prospectus & Research Costs	101,454
ASIC Costs	1,800
Borrowing Costs	281,300
Contingency (unexpended)	71,939
<b>Total Offer &amp; Borrowing Costs</b>	<b>535,940</b>

### TOTAL FUNDS

**49,012,000**

### Source of Funds

Subscriptions from Investors	23,300,000
Loans From Financiers	25,712,000
<b>TOTAL FUNDS</b>	<b>49,012,000</b>

Please note that compared to the prospectus the loans were reduced by an amount of \$1,848,000 whilst subscriptions from investors were increased by \$1,880,000. Accordingly the Total Funds has increased by \$32,000.

The acquisition costs were marginally (\$12,366) less than expected. The contingency amount of \$71,939 shown above reflects the \$22,806 allowed within the prospectus and an amount of \$49,133 in which total outlays were under that forecast in the prospectus. Additionally an amount of \$87,667 out of the \$750,000 Interest Rate Management provision has been expended. The balance of the interest rate management and general provisions is retained as cash on hand. Please see the finance section later for further detail.

## CAIRNS HYPERMART

The Cairns Hypermart has not undergone any changes since the prospectus was issued. There has, however, been a change to the ownership of a major tenant with the announcement in late 2001 of the acquisition of the Capt'n Snooze chain by the well known Freedom Group Limited. Freedom happen to be an adjoining tenant of Capt'n Snooze in your Cairns Hypermart. It is understood that Capt'n Snooze will continue to operate under its own brand as a wholly owned subsidiary of Freedom Group Limited. Capt'n Snooze currently has 73 stores throughout Australia. Freedom in its last annual report reported net assets of over \$50M.

### **Australian Airlines to commence operations in Cairns**

In December, 2001 it was announced that Australian Airlines would locate its first operational base in Cairns with initial non-stop return flights from Cairns to six Asian cities. Australian Airlines whilst wholly-owned by Qantas Airways, will have separate management and operate independently of Qantas. Commencement of the airline has been approved by the Qantas Board however the approval was conditional on management achieving a cost structure satisfactory to the CEO of Qantas. It is believed that approval should be gained in early 2002.

The commencement of the airline is expected to provide a real boost to the Cairns economy particularly from increased inbound tourism.



*Outdoor dining at the James Street Bistro adjacent to the Palace Centro Cinemas.*

## CENTRO ON JAMES

The Palace Centro Cinemas are a major focus of the Centro on James development and principal tenant of the Centro on James (Stage 3) property. Showing a combination of arthouse and quality mainstream movies, the cinemas are attracting a strong following throughout Brisbane. The cinemas offer luxurious seating, state of the art projection and sound technology together with an innovative and stylish interior. The Centro precinct has become a favoured meeting place where patrons can enjoy a drink at the Cinemas' own licensed bar or visit the adjoining James Street Bistro or Luxe Wine Bar.

*Kathryn Whitehouse, Manager –  
Palace Centro Cinemas*

Kathryn Whitehouse, Manager – Palace Centro Cinemas states that whilst Centro attracts a diverse age group its patrons are predominantly in the 30-40 age group. The cinema first opened in December, 2000. Kathryn said, "trading was constant from opening until Easter 2001, however from there on the cinemas' trading dramatically increased". On a number of evenings, the



## 388 QUEEN STREET

The major activity associated with this property has been the recent assignment of two (2) leases on Levels 11 and 14. The first relates to Prentice Parbury Barilla (Level 11) who have assigned their lease to Harmers Workplace Lawyers. Harmers Workplace Lawyers specialise in Industrial Relations, Employment, Occupational Health & Safety, Human Rights & Equal Opportunity, Change Management and Legal Risk Management. Harmers also have offices in Sydney and Melbourne.

The second lease assignment is for the space occupied by the Dunne Group (financial planners) of level 14 who have assigned to Wedgetail Communications. Wedgetail Communications develops security technology for all classes of computer network devices. Wedgetail Communications is a privately owned, Brisbane-based company. They also maintain sales offices in San Francisco, USA and Sydney together with a research and development office in Canberra.



patrons are often queued for some distance along the street outside the cinema.

Evidence of their success is Palace Centro Cinemas being awarded Winner of the 2001 Business Achievers Award for "Best New Business". Other cinema attractions include Palace Movie Club membership for reduced price cinema tickets and their French and Italian movie festivals.

### **James Street Bistro Opens**

Although mentioned in the Trilogy Trust prospectus The James Street Bistro adjacent to the Palace Cinemas was not open for trading at the time of the prospectus release. The Bistro which opened for trading in November last year, has an up-market stylish fitout with quality modern interiors and offers both indoor and outdoor dining. The operators of The James Street Bistro are extremely experienced having run a popular CBD Brasserie for many years. We will feature the James Street Bistro in a future edition of The Trilogy Times.

### **Centro Car Park Lot**

As mentioned in Section 4.5 of the Prospectus, the Trust has the benefit of a contract to purchase 30 car parks within the Centro – Stage 5 residential development. This proposed development known as "East Village" is currently being marketed by the vendors with pre-sales contracts reportedly progressing at a good rate. The purchase price for these car parks is paid out of a previously established reserve as well as a draw down of acquisition debt facilities. It is hoped that these car parks will be constructed and available towards the end of this year.



## **FINANCE**

### **Diversity in Financiers Chosen**

An integral part of being able to deliver good income returns to investors is the selection of an appropriate finance package for the debt portion of the acquisition.

After reviewing a variety of finance submissions, PFA chose a blend of financiers, finance terms and arrangements. The property acquisition loan financiers were Citibank Limited (388 Queen Street), Commonwealth Bank (Centro – Stage 3) and ING Funds Management (Cairns Hypermart). Each of the financiers have taken a first mortgage over their respective properties. A priority agreement governing the respective order of entitlements between each of these financiers and Trust Company of Australia (on behalf of the Unitholders) is in the process of finalisation.

The spread of financiers provided a more flexible and competitive finance package than we would have obtained from one financier. The terms of the acquisition loans were within the parameters outlined in the prospectus including:-

- Interest only facilities;
- Five year loan terms;
- Fixed interest rate acquisition loans at 7.2% per annum for 5 years with Citibank (37.3% of the total acquisition debt) and 7.3% per annum for 5 years with the Commonwealth Bank (23.7% of the total acquisition debt);
- A variable rate for the acquisition loan with ING (39.0% of the total acquisition debt);
- A loan establishment fee of 0.5%.

As mentioned in the prospectus, a general provision of \$1,350,000 (eg for leasing incentives) was established. Of this amount \$300,000 has been charged to Citibank and \$600,000 to ING. These amounts are able to be released to the Trust for reletting. This specifically relates to the Suncorp Metway tenancy at 388 Queen Street and the Carlton & United Breweries tenancy in the Cairns Hypermart.

As further mentioned in the prospectus:-

- We set aside a \$750,000 reserve for the acquisition of an interest rate hedging instrument to be used if we form the view that the use of such funds for this purpose is appropriate. An amount of \$87,677 has been expended from this reserve essentially in the process of fixing 61% of the debt. It is expected that the balance of this reserve should be more than adequate to minimise interest rate risk on the remaining 39% variable component.
- Other facilities such as a revolving facility (i.e. overdraft) for up to \$1M may be arranged in due course. Currently, given the surplus cash reserves of the Trust this is not considered a priority and would only incur unnecessary line fees.

The financiers' security was limited to the assets of the Trust (i.e. the properties and the income from the properties). As explained in the prospectus, **the financiers are not entitled to make a claim against any investors' other assets.**

THE  
TRILLOGY  
TRUST



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## INVESTOR SERVICES

### **Distributions**

You will have now received your first income distribution from the properties. To assist you we have sent a notice advising of the amount that has been deposited into your bank account.

All future distributions will be made not later than the 21st of each month which means that the money will be in your bank account by the 23rd day of the month. We will not be sending you future monthly distribution notifications.

### **Tax return time**

To facilitate the completion of your tax returns, we will arrange for the preparation and lodgement of the tax returns for the Trust as soon as possible (approximately 6 – 8 weeks) after the end of each financial year. You will then receive a distribution summary and statement showing the details needed by you to complete your individual tax returns.

### **Quarterly instalment/business activity statements**

To assist those who are required to complete a quarterly Instalment/Business Activity Statement we will be forwarding a PAYG Statement on a quarterly basis.

### **Six monthly reporting**

As required under the Corporations Law, six monthly audited accounts will be lodged with ASIC for The Trilogy Trust. Due to the additional onerous cost to the fund, we will not be sending a copy of six monthly reports to all investors as it is not required under the Corporations Law or the Constitutions for the Funds. However, audited accounts and the interim manager's report for the first 13 days of ownership of the properties to 31 December, 2001 are available upon request. Should you or your adviser require a copy please do not hesitate to contact our Investment Services Division.

### **Your next newsletter**

Due to the settlement timeframe of The Trilogy Trust we have issued your first newsletter to co-incide with your first distribution. Your newsletters will now be issued in September and March each year.

### **Who to contact?**

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

## PROPERTY MANAGERS

After receiving a number of submissions over recent months, relating not only to The Trilogy Trust but other properties within PFA Funds, Knight Frank have been selected as the principal property manager for The Trilogy Trust portfolio. CB Richard Ellis will be the “on-site” managers for the Cairns Hypermart. Both of these organizations have strong national and international reputations in the property management profession. For an interim period, pending finalisation of the leasing of the outstanding vacant area in the Centro on James development, the property management will be carried out by the previous owner's property manager – whilst the previous owners still have rental guarantee exposure.

## PROTECTING YOUR PRIVACY

On 21 December, 2001 new privacy legislation known as the Privacy Amendment (Private Sector) Act 2000 came into effect. This new legislation sets a national standard which will regulate the way businesses collect, use, disclose and transfer “personal” information. Enclosed with your newsletter is a notice which we believe should help you to understand how we handle your personal information. We encourage you to read this statement.

## INHOUSE ACCOUNTING

In line with the PFA practice with other funds under its management, the accounting for The Trilogy Trust will be undertaken by PFA's accounting personnel. In accordance with details provided in the prospectus (page 36, note 9) accounting fees will be charged to the fund in accordance with estimates provided by BDO Kendalls. Taxation advice and returns and end of year financial accounts will be provided by external accountants.

## FOR FURTHER INFORMATION CONTACT:–

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