

THE TRILOGY TRUST

Diverse Sector Fund

A.R.S.N. 097 860 690

**interim financial report
December 31, 2002**

CONTENTS

	Page
Managers' Report	1 - 2
Condensed Statement of Financial Performance	3
Condensed Statement of Financial Position	4
Condensed Statement of Cash Flows	5
Notes to the Financial Statements	6-7
Declaration by Directors of the Manager	8
Independent Review Report	9

THE TRILOGY TRUST – DIVERSE SECTOR FUND

INTERIM MANAGER'S REPORT



The Directors of Property Funds Australia Limited (the Manager) as responsible entity submit the following Interim Report of The Trilogy Trust – Diverse Sector Fund ("the Fund") for the six months ending 31 December, 2002 ("the Period").

Directors

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

Christopher Arthur Morton
Archibald Norman Douglas
Elizabeth Ann Pidgeon
David Conquest
Matthew Bradley Madsen

Review of Operations

The Fund's operational issues are as follows:-

388 Queen Street, Brisbane

- ▲ **Suncorp Metway Rent Increase:** The major tenant, Suncorp Metway which occupies some 76% of net lettable area has had its rent increased by 4.0% in September 2002 pursuant to lease arrangements.
- ▲ **100% Leased:** Subsequent to the reporting date, a five year lease has been executed over the remaining ground floor tenancy in favour of RESI Mortgage who has over 20 outlets throughout Australia. This property is now 100% leased.

Centro on James – Stage III, Fortitude Valley

- ▲ **General:** The centre is trading well and the surrounding precinct continues to grow as exemplified by the recent opening of the James Street Markets some 100 metres from the property.
- ▲ **Car Park Lot Purchase:** As contemplated by and disclosed in the prospectus, the settlement of the purchase of the Centro Car Park Lot will occur around April/May, 2003. The fund will utilise existing cash reserves to facilitate settlement.

Cairns Hypermart

- ▲ **New Harvey Norman Lease:** During the reporting period, and in accordance with the stated strategy in the Prospectus to seek an early renewal, the Harvey Norman lease was renegotiated to achieve a new 10 year lease from 1 October, 2002, however, at an initially lesser rent than was previously paid by them. However, as the anchor tenant of the retail component of this property, this was seen as an opportunity to secure the future of the property. Harvey Norman represents an excellent tenant who attracts others and the longer term lease should see a firming of the capitalisation rate upon revaluation.
- ▲ **Refinancing:** As a result of the longer term lease negotiated with Harvey Norman, the opportunity to refinance the debt facilities presented itself and the debt was reset with the Commonwealth Bank at a lower rate than we previously had with ING (the previous financier of this property). The debt was also reduced by an additional \$900,000. The combination of these two elements will see a reduced interest cost on this property over the next few years.

Fund Matters

- ▲ **Revenue:** Net property revenue of \$2.284m is slightly ahead of our prospectus estimates for the corresponding period of \$2.268m.

THE TRILOGY TRUST – DIVERSE SECTOR FUND

INTERIM MANAGER'S REPORT



- ▲ **Expenses:** Direct fund expenses and interest expenses (before amortisation) of \$1.067m were also slightly ahead of our prospectus estimates for the corresponding period of \$1.070m.
- ▲ **Debt:** As mentioned above, the long term debt was reduced by \$900,000 during the reporting period.
- ▲ **Cash Position:** The fund has a strong cash position.
- ▲ **Unitholders' Equity:** During the period net assets declined by \$352,175 due substantially to non-cash adjustments such as the amortisation of establishment costs and borrowing costs.

Distributions for the period ended 31 December, 2002

Distributions for the period equated to 10%p.a. on the capital subscribed by investors.

Signed in accordance with a resolution of the Board of Directors of the Manager.

.....
Christopher A. Morton
Managing Director

THE TRILOGY TRUST – DIVERSE SECTOR FUND
CONDENSED STATEMENT OF FINANCIAL PERFORMANCE
 FOR THE SIX MONTHS ENDED 31 DECEMBER 2002



	Note	31 December 2002 \$	31 December 2001 \$
Revenue from ordinary activities		2,814,984	131,403
Expenses from ordinary activities			
Property expenses		(530,933)	(60,052)
Fund expenses			
Direct expenses		(172,062)	(2,947)
Amortisation		(233,307)	(30,955)
		<u>(405,369)</u>	<u>(33,902)</u>
Borrowing costs			
Interest		(894,975)	(58,753)
Amortisation		(170,886)	-
		<u>(1,065,861)</u>	<u>(58,753)</u>
Profit/(loss) from ordinary activities before income tax expense		812,821	(21,304)
Income tax expense relating to ordinary activities	1(a)	-	-
		<u>812,821</u>	<u>(21,304)</u>
Profit/(loss) after income tax expense attributable to Unitholders		812,821	(21,304)
Total changes in Trust equity other than those resulting from transactions with Unitholders as Unitholders		812,821	(21,304)

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

THE TRILOGY TRUST – DIVERSE SECTOR FUND
CONDENSED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2002



	Note	31 December 2002 \$	30 June 2002 \$
CURRENT ASSETS			
Cash assets		944,195	1,539,882
Receivables		255,571	165,591
Other		61,194	69,496
Total Current Assets		<u>1,260,960</u>	<u>1,774,969</u>
NON-CURRENT ASSETS			
Other financial assets		313,604	921,218
Investment – Property		42,072,558	42,051,661
Other		3,719,106	3,858,009
Total Non-Current Assets		<u>46,105,268</u>	<u>46,830,888</u>
TOTAL ASSETS		<u>47,366,228</u>	<u>48,605,857</u>
CURRENT LIABILITIES			
Payables		244,566	231,012
Interest bearing liabilities		163	1,171
Total Current Liabilities		<u>244,729</u>	<u>232,183</u>
NON-CURRENT LIABILITIES			
Interest bearing liabilities		24,582,644	25,482,644
Total Non-Current Liabilities		<u>24,582,644</u>	<u>25,482,644</u>
TOTAL LIABILITIES		<u>24,827,373</u>	<u>25,714,827</u>
NET ASSETS		<u>22,538,855</u>	<u>22,891,030</u>
EQUITY			
Unitholders' equity	5	22,538,855	22,891,030
TOTAL EQUITY		<u>22,538,855</u>	<u>22,891,030</u>

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

THE TRILOGY TRUST – DIVERSE SECTOR FUND
CONDENSED STATEMENT OF CASH FLOWS
 FOR THE SIX MONTHS ENDED 31 DECEMBER 2002



	31 December 2002 \$	31 December 2001 \$
Cash Flows from Operating Activities		
Rent & outgoings received	2,885,514	142,833
Interest received	51,638	-
Payments to suppliers	(893,585)	(3,502,341)
Borrowing costs paid	(894,676)	(362,968)
Cash Provided by/ (Used in) Operating Activities	<u>1,148,891</u>	<u>(3,722,476)</u>
Cash Flows from Investing Activities		
Payment for other financial assets	(20,897)	(42,040,679)
Cash Provided by/ (Used in) Investing Activities	<u>(20,897)</u>	<u>(42,040,679)</u>
Cash Flows from Financing Activities		
Proceeds from borrowings	-	25,485,000
Proceeds from cash securities	607,614	-
Refinancing costs paid	(265,290)	-
Reduction in debt facility	(900,000)	-
Distributions to syndicate members	(1,164,997)	-
Units issued	-	23,300,000
Cost of equity raising	-	(175,521)
Cash Provided by/ (Used in) Financing Activities	<u>(1,722,673)</u>	<u>48,609,479</u>
Net increase/(decrease) in cash held	(594,679)	2,846,324
Cash at the beginning of the financial period	1,538,711	-
CASH AS AT 31 DECEMBER, 2002	<u>944,032</u>	<u>2,846,324</u>

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

THE TRILOGY TRUST – DIVERSE SECTOR FUND
NOTES TO THE CONDENSED FINANCIAL STATEMENTS
 FOR THE SIX MONTHS ENDED 31 DECEMBER 2002



Note 1 – Basis of Preparation

The half-year interim financial statements are a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standard AASB 1029: Interim Financial Reporting and other mandatory professional reporting requirements in Australia. It is recommended that this interim financial report be read in conjunction with any public announcements made by Property Funds Australia Limited as the responsible entity for The Trilogy Trust during the half-year in accordance with the continuous disclosure requirements arising under the Corporations Act 2001.

The accounting policies have been consistently applied by the trust and will be consistent with those to be applied in the 30 June 2002 annual report.

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

(a) Income Tax

The trust 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 tax as it is unlikely that any taxable income will be retained by the trust in 2003.

Note 2 – Events Subsequent to Reporting Date

The Directors are considering an application to list the interests in the Trust on the Bendigo Stock Exchange (BSX). The BSX is yet to approve the application to list. There is no warranty that any application (if finally made) will be successful. It is however, expected that the interests in the Trust will be approved and will open for trading during March 2003. The listing process will have no impact on the distributions paid to Investors. The decision to consider for listing on the BSX is based on the belief that it is in the best interest of Investors that the trading of units in the Trust should take place in a formal and efficient environment and within an open and transparent market.

Note 3 – Contingent Liabilities

There are no contingent liabilities as at balance date.

Note 4 – Segment Information

The Trust operates predominantly in one geographical segment, being Queensland, and one business segment, being property investment.

Note 5 – Unitholders' Equity

	31 December 2002	30 June 2002
	\$	\$
Contributed Capital	23,300,000	23,300,000
Accumulated distributions	(1,054,771)	-
Current year distributions	(1,164,997)	(1,054,771)
Capital raising costs	(387,538)	(387,538)
Accumulated profit / (loss)	1,033,340	-
Current year profit / (loss)	812,821	1,033,341
	<u>22,538,855</u>	<u>22,891,030</u>

THE TRILOGY TRUST – DIVERSE SECTOR FUND
NOTES TO THE CONDENSED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2002



Note 6 – Commitments

In accordance with the prospectus, the Centro on James – Stage 5 carpark lot that was contemplated being acquired post settlement is expected to be settled in approximately May 2003. The negotiated price is anticipated to be in the order of \$362,500.

Note 7 – Amortisation of borrowing costs

Previously capitalised borrowing costs in relation to the financing of Cairns Hypermart, 101 – 103 Spence Street, Cairns, Queensland, have been written off in the period to an amount of \$130,209, due to refinancing of the loan facility secured by the property.

THE TRILOGY TRUST – DIVERSE SECTOR FUND

DECLARATION BY THE DIRECTORS OF THE MANAGER



The directors of Property Funds Australia Ltd as the Responsible Entity for The Trilogy 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; and
 - (b) give a true and fair view of the financial position as at 31 December 2002 and performance for the half year ended on that date.
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

Dated: 14 March 2003



Scope

We have reviewed the Interim Financial Report of The Trilogy Trust for the half year ended 31 December 2002 as set out on pages 3 to 8. 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.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of trust personnel 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.

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 Trilogy Trust 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 2002 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
Partner

Brisbane

Date: 14 March 2003