

PEPPERCORN INVESTMENT FUND
ARSN 102 955 939

Annual Financial Report
30 June 2003



26 September 2003

Dear Investor

Peppercorn Investment Fund (ASX code - PIV) is pleased to report an after-tax loss of \$167,000 for the start-up period ended 30 June 2003. The Fund commenced operations in November 2002 and has progressively acquired childcare centres since that time. In December 2002, PIV raised \$30 million by way of an excluded offer of convertible securities. In May 2003, PIV raised a further \$21 million by way of an offer to the public and listed on ASX. Additional equity has also been raised as part consideration for the acquisition of a number of centres.

The management of these centres has been undertaken by Peppercorn Management Group under long-term lease arrangements. Under the lease arrangement, PIV receives the profit from the centres after management charges.

The after-tax loss of \$167,000 compares with the prospectus forecast of a start-up loss after-tax of \$610,000. The positive variance of \$443,000 from forecast is due mainly to the earlier settlement of centres prior to year-end and lower than expected interest costs. The result includes the write-off of substantial start-up and establishment costs.

At the date of this report, PIV had acquired a total of 91 centres.

The prospectus forecast for 2003-2004 is an after-tax profit of \$5.97 million. The forecast distribution is 9.7 cents a unit, equivalent to 13.2 cents a unit before-tax after allowing for franking and a tax-deferred component.

As foreshadowed in the prospectus, no distribution has been declared for the period. The first interim payment will be made in February 2004.

DDH Graham Limited
Responsible Entity

**PEPPERCORN INVESTMENT FUND
DIRECTORS' REPORT
FOR THE PERIOD ENDED 30 JUNE 2003**

The directors of DDH Graham Limited ("the Responsible Entity"), the Responsible Entity of Peppercorn Investment Fund ("the Fund"), present their report together with the financial report of the Fund for the period from 8 July 2002, being the Fund formation date, to 30 June 2003 and the auditor's report thereon.

The Fund became a registered scheme under the Corporations Act on 6 December 2002.

THE RESPONSIBLE ENTITY

The registered office and principal place of business of the Responsible Entity and the Fund is Level 18, 344 Queen Street, Brisbane QLD 4000.

The directors of DDH Graham Limited at any time during or since the end of the financial period are:

<i>Name and qualifications</i>	<i>Age</i>	<i>Experience and special responsibilities</i>
David D H Graham Chairman and Managing Director Bachelor of Commerce Bachelor of Economics (Hons) Master of Business Administration Fellow of CPA Australia.	61	Managing Director since 1986. Extensive experience in financial advisory and trust management services. Non-executive director of Centro Properties Group, Prime Property Management Limited and Stradbroke Ferries Limited.
Peter B Lockhart Bachelor of Economics Master of Business Administration	49	Director of the Company since 1988. Extensive experience in financial advisory and trust management services. Member of Compliance Committee for the Fund. Member of Audit Committee for the Fund.
Ugo C Di Girolamo Associate Diploma in Business Member of Finance & Treasury Association Limited	41	Director of the Company since 2000. Over 20 years experience in financial markets including 7 years in an executive money market role.
Frederick J Lunn Bachelor of Economics Diploma of Journalism Associate of Securities Institute of Australia	64	Appointed as non-executive director January 2000. Extensive career in print media. Retired 12 September 2002.
Bruce W Smeed Bachelor of Economics Diploma of Education Master of Business Administration Fellow of Securities Institute of Australia	50	Appointed June 2000. Extensive experience in economic and financial analysis including 16 years in the stockbroking industry. Retired 29 November 2002.

The Company's Constitution does not require directors to retire and seek re-election.

The members of the Compliance Committee for the Fund are:

- Alex D Fraser (Independent Chairman)
- Peter J Short (Independent member)
- Peter B Lockhart (Executive member)

**PEPPERCORN INVESTMENT FUND
DIRECTORS' REPORT
FOR THE PERIOD ENDED 30 JUNE 2003**

PRINCIPAL ACTIVITIES

The Fund is a specialist childcare centre owner which currently owns a total of 91 childcare centres (62 centres as at 30 June 2003) in locations around Australia.

Each centre is leased to and managed by Peppercorn Holdings No 4 Pty Ltd, part of the Peppercorn Group. The Peppercorn Group is one of the largest operators of childcare centres in Australia.

REVIEW AND RESULTS OF OPERATIONS

A total of \$59 million in equity funding was raised during the period which together with a debt facility of \$40 million was applied towards the acquisition of childcare centres.

Each centre, when acquired, is leased to and managed by Peppercorn Holdings No 4 Pty Ltd.

The result for the period to 30 June 2003 was a net loss after income tax of \$166,869.

DISTRIBUTIONS

No distributions have been paid since the Fund has been established and no distribution is payable for the period ended 30 June 2003 in accordance with the Fund prospectus dated 10 April 2003.

STATE OF AFFAIRS

Formation

The Fund was formed on 8 July 2002 and was registered as a managed investment scheme by the Australian Securities and Investments Commission on 6 December 2002. As a result of this registration DDH Graham Limited became the single Responsible Entity for the Fund and Trust Company of Australia Limited was appointed Custodian of the Fund assets.

Funding

- A total of 30 million Converting Debt Securities were issued at \$1.00 each on 19 December 2002 to provide funding for the acquisition of a number of childcare centres. Interest was paid on the securities at a rate of 6% per annum. The securities converted to ordinary units in the Fund on a one for one basis upon listing on ASX.
- On 10 April 2003 a prospectus was lodged with the Australian Securities and Investments Commission to raise further funds for the acquisition of additional childcare centres. The capital raising subsequently closed oversubscribed and a total of 18,163,000 units were issued at \$1.15 each on 16 May 2003.
- During the period a number of childcare centres were contracted to be acquired using a combination of units and cash as consideration. A total of 11,437,500 units were to be issued to vendors of 16 centres at \$1.00 each. As at 30 June 2003, a total of 8,347,500 units had been issued with the remaining units to be issued subsequent to year end.
- Long-term debt funding of \$40.1 million was arranged during the period under review to assist with the acquisition of centres. In addition, a short term facility of \$10 million was established which will be utilised periodically to facilitate acquisition of additional childcare centres.

ASX Listing

Following the successful completion of its initial public offer, the Fund listed on ASX on 22 May 2003.

**PEPPERCORN INVESTMENT FUND
DIRECTORS' REPORT
FOR THE PERIOD ENDED 30 JUNE 2003**

Centre Acquisitions

As at 30 June 2003 a total of 62 of the initial 84 childcare centres identified for acquisition in the Fund's prospectus had been settled. The remaining centres have been or are to be acquired in the first quarter of the year ended 30 June 2004. A further 7 centres have also been acquired since 30 June 2003.

In the opinion of the directors there were no other significant changes in the state of affairs of the Fund that occurred during the financial period under review other than those disclosed in this report.

ENVIRONMENTAL REGULATION

The Fund's operations are not subject to any significant environmental regulations under either Commonwealth, State or Territory legislation. However, the directors believe that the Fund has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the Fund.

EVENTS SUBSEQUENT TO BALANCE DATE

As at 30 June 2003, the Fund had acquired a total of 62 centres. A further 29 centres have been acquired since year end bringing the total centres owned to 91 at the date of this report.

Other than the matter disclosed above, there has not arisen in the interval between the end of the financial period and the date of this report, any item, transaction or event of a material and unusual nature likely, in the opinion of the directors, to affect significantly the operations of the Fund, the results of those operations, or the state of affairs of the Fund, in future financial years.

INTERESTS OF THE RESPONSIBLE ENTITY

Interests of both DDH Graham Limited and its directors in the Fund are disclosed in Note 17 to the financial statements.

UNITS ON ISSUE

During the financial period 56,510,525 ordinary units were issued.

The number of interests in the Fund as at the end of the financial period consists of 56,510,525 ordinary units.

The Fund had total assets valued at \$82,627,696 as at 30 June 2003. The basis for valuation of the Fund's assets is disclosed in Note 1 to the financial statements.

The Fund neither acquired nor cancelled any units on issue during the period, including up to the date of this report.

No options have been granted over any unissued units in the Fund.

LIKELY DEVELOPMENTS

The Fund will continue to pursue its investment strategy focused on investment in childcare centres.

Further information as to likely developments in the operations of the Fund and the expected results of those operations in subsequent financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Fund.

**PEPPERCORN INVESTMENT FUND
DIRECTORS' REPORT
FOR THE PERIOD ENDED 30 JUNE 2003**

INDEMNITIES AND INSURANCE PREMIUMS FOR OFFICERS AND AUDITORS

Indemnification

Under the Fund Constitution, the Responsible Entity, including its officers and employees, is indemnified out of the Fund's assets for any loss, damage, expense or other liability incurred by it in properly performing or exercising any of its powers, duties or rights in relation the Fund.

The Fund has not indemnified any auditor of the Fund.

Insurance Premiums

During the financial period the Responsible Entity has paid premiums in respect of its officers for liability and legal expenses insurance contracts for the period ended 30 June 2003. The Responsible Entity has paid or agreed to pay in respect of the Fund, premiums in respect of such insurance contracts for the year ending 30 June 2004. Such insurance contracts insure against certain liability (subject to specified exclusions) for persons who are or have been officers of the Responsible Entity.

Details of the nature of the liabilities covered or the amount of the premium paid has not been included as such disclosure is prohibited under the terms of the contracts.

Signed in accordance with a resolution of directors



Peter B Lockhart
Director
DDH Graham Limited
Brisbane, 26 September 2003

**PEPPERCORN INVESTMENT FUND
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE PERIOD ENDED 30 JUNE 2003**

	Note	2003 \$
Revenue from Ordinary Activities		
Lease income		2,272,987
Interest income		283,053
Total revenue		<u>2,556,040</u>
Expenses from Ordinary Activities		
Property evaluation costs		87,141
Borrowing costs		2,580,204
Depreciation		114,913
Responsible Entity's remuneration		184,065
Other expenses from ordinary activities	2	100,932
Total expenses		<u>3,067,255</u>
Loss from ordinary activities before related income tax benefit		(511,215)
Income tax benefit relating to ordinary activities	14(a)	344,346
Loss from ordinary activities after related income tax benefit		<u>(166,869)</u>
Total changes in equity as a result of transactions other than those with owners as owners		(166,869)
Basic earnings/(loss) per unit (cents per unit)	3	(2.64)
Diluted earnings per unit (cents per unit)	3	<u>1.89</u>

The Statement of Financial Performance is to be read in conjunction with the notes to the financial statements set out on pages 8 to 18.

**PEPPERCORN INVESTMENT FUND
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2003**

	Note	2003 \$
Current assets		
Cash assets	19(a)	7,326,834
Receivables	4	1,334,581
Other	5	131,945
Deferred tax assets	6	475,181
Total current assets		<u>9,268,541</u>
Non-current assets		
Investment properties	7	69,912,307
Furniture, fixtures and fittings	8	3,446,848
Total non-current assets		<u>73,359,155</u>
Total assets		<u>82,627,696</u>
Current liabilities		
Payables	9	1,604,920
Tax liabilities	10	130,835
Total current liabilities		<u>1,735,755</u>
Non-current liabilities		
Interest-bearing liabilities	11	24,334,750
Total non-current liabilities		<u>24,334,750</u>
Total liabilities		<u>26,070,505</u>
Net assets		<u>56,557,191</u>
Equity		
Contributed equity	12	56,724,060
Accumulated losses	13	(166,869)
Total equity		<u>56,557,191</u>

The Statement of Financial Position is to be read in conjunction with the notes to the financial statements set out on pages 8 to 18.

**PEPPERCORN INVESTMENT FUND
STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 30 JUNE 2003**

	Note	2003 \$
Cash flows from operating activities		
Cash receipts in the course of operations		1,518,290
Cash payments in the course of operations		(248,894)
Interest received		283,463
Net cash provided by (used in) operating activities	19(b)	<u>1,552,859</u>
Cash flows from investing activities		
Payments for furniture, fixtures and fittings		(3,561,761)
Payments for investment properties		(61,193,908)
Net cash provided by (used in) investing activities		<u>(64,755,669)</u>
Cash flows from financing activities		
Borrowing costs paid		(2,191,347)
Proceeds from borrowings		28,234,750
Repayment of borrowings		(3,900,000)
Proceeds from issue of units		50,887,475
Issue costs paid		(2,501,234)
Net cash provided by (used in) financing activities		<u>70,529,644</u>
Net (decrease)/increase in cash held		<u>7,326,834</u>
Cash at the beginning of the financial period		<u>-</u>
Cash at the end of the financial period	19(a)	<u>7,326,834</u>

The Statement of Cash Flows is to be read in conjunction with the notes to the financial statements set out on pages 8 to 18.

**PEPPERCORN INVESTMENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2003**

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies which have been adopted by the Fund in the preparation of these financial statements are:

(a) Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board, the Corporations Act 2001 and the requirements of the Fund Constitution dated 8 July 2002.

It has been prepared on the basis of historical costs and, except where stated, does not take into account changing money values or fair values of non-current assets.

The accounting policies have been consistently applied throughout the period.

(b) Current year and comparative information

The Fund was established on 8 July 2002 and commenced operations on 1 November 2002 with the acquisition of its first childcare centre. As a result, all current year information is effectively for the period from 1 November 2002 to 30 June 2003.

As the Fund was established during the period ended 30 June 2003, no comparative information is provided.

(c) Revenue and expenditure recognition

Lease income

Lease income is brought to account on an accrual basis and, if not received at balance date, is reflected in the Statement of Financial Position as a receivable.

Interest income

Interest is brought to account when earned and if not received at balance date, is reflected in the Statement of Financial Position as a receivable.

Responsible Entity's remuneration

Under the Trust Constitution, the Responsible Entity is entitled to a fee amounting to 0.5% of the Total Tangible Assets of the Trust.

Operator's remuneration

In accordance with each of the property leases, the lessee and operator of the childcare centres, Peppercorn Holdings No.4 Pty Ltd, is entitled to receive a base management fee of \$1,900 per centre operated per month (indexed by the CPI) plus 2% of gross revenue and 10% of net operating income (after deducting the base fee and 2% of gross revenue).

The operator's remuneration is deducted before lease income is paid to the Fund and as a result is not included as an expense in these financial statements.

All expenses are brought to account on an accrual basis.

**PEPPERCORN INVESTMENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2003**

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Borrowing costs

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings and amortisation of ancillary costs incurred in connection with arrangement of borrowings. Borrowing costs are expensed as incurred unless they relate to qualifying assets. Qualifying assets are assets which take more than twelve months to get ready for their intended use or sale. Where funds are borrowed specifically for the acquisition, construction or production of a qualifying asset, the amount of borrowing costs capitalised is those incurred in relation to that borrowing, net of any interest earned on those borrowings. Where funds are borrowed generally, borrowing costs are capitalised using a weighted average capitalisation rate.

(i) Receivables

Debtors are usually settled within 30 days and are carried at amounts due. The collectibility of debts is assessed at balance date and specific provision is made for any doubtful accounts.

(j) Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed to the Fund. Trade accounts payable are normally settled within 30 days.

(k) Bank loans

Bank loans are carried on the Statement of Financial Position at their principal amount, subject to set off arrangements. Interest is payable in advance and is written off over the term of the borrowing.

(l) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(m) Earnings per unit

Basic earnings per unit (EPU) is calculated by dividing the net profit attributable to the unitholders for the reporting period, by the weighted average number of ordinary units of the Fund.

Diluted EPU is calculated by dividing the basic EPU earnings, adjusted by the effect of financing costs associated with the dilutive potential ordinary units and the effect on revenues and expenses of conversion to ordinary units associated with dilutive potential ordinary units, by the weighted average number of ordinary units and dilutive potential ordinary units adjusted for any bonus issue.

PEPPERCORN INVESTMENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2003

2. OTHER EXPENSES FROM ORDINARY ACTIVITIES	Note	2003 \$
Administration costs		2,058
Auditor's remuneration:		
- Audit services		7,750
- Other services	(i)	-
Bank charges		3,145
Consultant fees		4,575
Custodian & compliance costs		17,883
Insurance		7,118
Land tax		4,719
Legal fees		40,614
Lodgement fees		4,166
Unit registry fees		8,904
		100,932

(i) The auditors provided services in relation to prospectus due diligence to the value of \$25,000. These costs are included as part of unit issue costs (refer note 12).

3. EARNINGS PER UNIT	Note	2003 \$
Classification of securities as ordinary units		
All of the Fund's units are classified as ordinary units		
Earnings reconciliation		
Net loss after tax		(166,869)
Adjustments		-
Basic earnings		(166,869)
Add back after tax interest expense on Converting Debt Securities		522,138
Diluted earnings		355,269
		2003 Number
Weighted average number of ordinary units used as the denominator		
Number for basic earnings per unit		6,322,360
Effect of Converting Debt Securities		12,493,151
Number for diluted earnings per unit		18,815,511

On 19 December 2002, the Fund issued 30,000,000 Converting Debt Securities which were subsequently converted to ordinary units on 20 May 2003. The diluted EPU calculation includes the effect of these units

**PEPPERCORN INVESTMENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2003**

weighted with reference to the date of issue.

4. RECEIVABLES	Note	2003
		\$
Sundry debtors		1,174,319
GST receivable		160,262
		<u>1,334,581</u>
5. OTHER ASSETS		
Prepayments		<u>131,945</u>
6. DEFERRED TAX ASSETS		
Future income tax benefit	14(c)	<u>475,181</u>
7. INVESTMENT PROPERTIES		
Investment properties, at cost		<u>69,912,307</u>
Reconciliation of the carrying amount of investment properties is set out below:		
Carrying amount at the beginning of the financial period		-
Additions		<u>69,912,307</u>
Carrying amount at the end of the financial period		<u>69,912,307</u>
8. FURNITURE, FIXTURES AND FITTINGS		
Furniture, fixtures and fittings at cost		3,561,761
Accumulated depreciation		<u>(114,913)</u>
Total furniture, fixtures and fittings		<u>3,446,848</u>
Reconciliation of the carrying amount of furniture, fixtures and fittings is set out below:		
Carrying amount at the beginning of the financial period		-
Additions		3,561,761
Disposals		-
Depreciation		<u>(114,913)</u>
Carrying amount at the end of the financial period		<u>3,446,848</u>

**PEPPERCORN INVESTMENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2003**

	Note	2003 \$
9. PAYABLES		
Sundry creditors		416,391
Accruals		1,188,529
		1,604,920
10. TAX LIABILITIES		
Income tax	14(b)	130,835
11. INTEREST-BEARING LIABILITIES		
Non-current		
Bank loan – secured	19(c)	24,334,750
12. CONTRIBUTED EQUITY		
56,510,525 ordinary units at issue price		56,724,060
Movement in ordinary units		
Balance at the beginning of the financial period		-
25 ordinary units issued on Fund formation		25
18,163,000 units issued pursuant to initial public offer	(i)	20,887,450
30,000,000 units issued from conversion of Converting Debt Securities	(ii)	30,000,000
8,347,500 units issued to centre vendors as consideration for acquisitions	(iii)	8,347,500
Less unit issue costs		(2,510,915)
Balance at the end of the financial period		56,724,060

- (i) On 16 May 2003, 18,163,000 ordinary units were issued by the Fund at \$1.15 each. Issue costs of \$1,574,626 were recognised as a reduction of the proceeds of the issue. These units were issued pursuant to a prospectus dated 10 April 2003. The funds utilised to acquire additional childcare centres, to pay issue costs and to provide working capital.
- (ii) On 20 May 2003, 30,000,000 ordinary units were issued by the Fund at \$1.00 each following the conversion of 30,000,000 Converting Debt Securities (CDS). The CDS were issued at \$1.00 each on 19 December 2002 to provide funding for the acquisition of additional childcare centres. Issue costs of \$936,289 were recognised as a reduction of the proceeds of the issue.
- (iii) During the period a number of childcare centres were contracted to be acquired using a combination of units and cash as consideration. A total of 11,437,500 units were to be issued to vendors of centres at \$1.00 each. As at 30 June 2003, a total of 8,347,500 units had been issued with the remaining units to be issued subsequent to year end.

All units in the Fund are of the same class and therefore carry equal rights.

There are no restricted units on issue at the date of the Directors' Report or during the year.

PEPPERCORN INVESTMENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2003

13. ACCUMULATED LOSSES	Note	2003 \$
Accumulated losses at the beginning of the financial period		-
Loss from ordinary activities after income tax		(166,869)
Accumulated losses at the end of the financial period		<u>(166,869)</u>

14. TAXATION

(a) Income tax benefit

Prima facie income tax benefit calculated at 30% on the loss from ordinary activities

153,364

Increase in income tax benefit due to:

Building allowance

34,898

Write-off of unit issue costs

156,084

Income tax benefit relating to ordinary activities

344,346

(b) Current tax liabilities

Provision for current income tax

Movements during the period:

Balance at the beginning of the period

-

Current year's income tax on operating profit

130,835

Balance at the end of the period

130,835

(c) Deferred tax assets

Future income tax benefit

Future income tax benefit comprises the estimated future benefit at the applicable rate of 30% on the following items:

Expenses not currently deductible

475,181

15. NET TANGIBLE ASSETS

Net tangible assets

\$56,557,191

Units issued

56,510,525

Net tangible asset backing (at book value) per unit

\$1.0008

16. SEGMENT REPORTING

The Fund's revenues are entirely derived from the ownership and leasing of childcare centres. All operations and assets are based in Australia. Accordingly the Fund's domicile is in Australia.

**PEPPERCORN INVESTMENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2003**

17. RELATED PARTY DISCLOSURES

The Responsible Entity

The Responsible Entity of the Fund is DDH Graham Limited.

Directors of the Responsible Entity

The names of each person holding the position of director of DDH Graham Limited during the financial period were Messrs DDH Graham, P B Lockhart, U C Di Girolamo, FJ Lunn (retired 12 September 2002) and BW Smeed (retired 29 November 2002).

Since commencement of the Fund, no director of the Responsible Entity has received or become entitled to receive any benefit because of a contract made by the Fund with a director or with a firm of which a director is a member, or with an entity in which the director has a substantial interest.

Responsible Entity's holdings of units

The relevant interests of DDH Graham Limited and each director of DDH Graham Limited (including director related entities) in the unit capital of the Fund at 30 June 2003 are set out below:

	Number held 2003		2003 \$
DDH Graham Limited	80,020		
DDH Graham	350,005		
PB Lockhart	47,500		
U C Di Girolamo	32,500		
		Note	

Responsible Entity's remuneration

Set out below are the fees paid or payable by the Fund to the Responsible Entity during the period:

■ Trust management fees		184,065
■ Trust establishment, prospectus preparation and management of distribution	(i)	250,000
■ Arrangement of debt funding		250,500
■ Marketing commissions – Converting Debt Securities	(i)	3,667
■ Sub-underwriting of initial public offer	(i)	25,875
■ Due diligence fees on centre acquisitions	(ii)	240,000

(i) These expenses were recognised as a reduction of the proceeds of the initial public offer and offset directly against contributed equity (refer note 12).

(ii) These amounts were capitalised as part of centre acquisition costs (refer note 7).

**PEPPERCORN INVESTMENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2003**

17. RELATED PARTY DISCLOSURES (Continued)

No amounts are paid by the Fund directly to the directors of DDH Graham Limited. The amount of remuneration paid by DDH Graham Limited to its directors in connection with their responsibilities for the Fund is not separately identified.

<i>Balances owed to the Responsible Entity</i>	Note	2003 \$
The following amounts are included in accounts payable as owed to the Responsible Entity at balance date		102,490

Custodian

The custodian of the Fund assets is Trust Company of Australia Limited. Remuneration paid or payable to the custodian during the period:

12,404

Operator

Set out below are the fees paid or payable by the Fund to the operator, Peppercorn Holdings No. 4 Pty Ltd, during the period:

■ Centre management fees	(i)	976,662
■ Due diligence fees on centre acquisitions	(ii)	620,000
■ Fee for services in relation to preparation of Fund prospectus	(iii)	100,000
■ Commitment fee for funding the acquisition of initial centres	(iii)	128,000

(i) The operator's remuneration is deducted before lease income is paid to the Fund and as a result is not included as an expense in these financial statements.

(ii) These amounts were capitalised as part of centre acquisition costs (refer note 7).

(iii) These expenses were recognised as a reduction of the proceeds of the initial public offer and offset directly against contributed equity (refer note 12).

18. EVENTS SUBSEQUENT TO BALANCE DATE

As at 30 June 2003, the Fund had acquired a total of 62 centres. A further 29 centres have been acquired since year end bringing the total centres owned to 91 at the date of this report.

19. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of Cash

For the purpose of the Statement of Cash Flows, cash includes cash on hand and at bank and short term deposits at call. Cash as at the end of the period as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	Note	2003 \$
Cash		7,326,834

**PEPPERCORN INVESTMENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2003**

19. NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

(b) Reconciliation of loss from ordinary activities after income tax to net cash provided by operating activities	Note	2003 \$
Loss from ordinary activities after income tax		(166,869)
Add/(less) items classified as investing or financing activities:		
Borrowing costs		2,580,204
Add/(less) non-cash items:		
Depreciation		114,913
Change in assets and liabilities:		
(Increase)/decrease in debtors		(1,334,581)
(Increase)/decrease in deferred tax assets		(475,181)
(Increase)/decrease in prepayments		(4,672)
Increase/(decrease) in accounts payable		708,210
Increase/(decrease) in tax liabilities		130,835
Net cash provided by (used in) operating activities		1,552,859
(c) Financing arrangements		
<i>The Fund has access to the following lines of credit:</i>		
Total facilities available:		
Commercial bill facility		40,100,000
Standby bill facility		10,000,000
		<u>50,100,000</u>
<i>Facilities utilised at balance date:</i>		
Commercial bill facility		24,334,750
Standby bill facility		-
		<u>24,334,750</u>
<i>Facilities not utilised at balance date:</i>		
Commercial bill facility		15,765,250
Standby bill facility		10,000,000
		<u>25,765,250</u>

Commercial bill facility

The facility is a fixed 5 year interest-only facility and is secured by a first ranking registered mortgage over the Fund properties and a first ranking fixed and floating charge over the assets and undertakings of the Fund.

The facility expires on 30 June 2008.

Standby bill facility

This is a short term facility (repayable within 180 days). The facility expires on 31 January 2004 and is then subject to annual review.

**PEPPERCORN INVESTMENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2003**

2003
\$

20. COMMITMENTS

Centre acquisitions

Contracted but not provided for and payable not later than one year 20,961,000

21. ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE

(a) Interest rate risk

The Fund does not employ any interest rate derivatives in managing its surplus funds on deposit or its loan facility.

Interest rate risk exposure

The Fund's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities is set out below:

2003	Weighted average interest rate %	Floating interest rate \$	Fixed interest maturing in 1-5 years \$	Non-interest bearing \$	Total \$
Financial assets					
Cash	4.55	7,326,834	-	-	7,326,834
Receivables	-	-	-	1,334,581	1,334,581
		7,326,834	-	1,334,581	8,661,415
Financial liabilities					
Payables	-	-	-	1,604,920	1,604,920
Interest-bearing liabilities	5.95	24,334,750	-	-	24,334,750
		24,334,750	-	1,604,920	25,939,670

Upon drawdown of the full debt facility the interest rate has been fixed for 5 years at a rate of 6.30%.

(b) Foreign exchange risk

The Fund does not have any foreign exchange exposures.

(c) Liquidity and cash flow risk

The Fund ensures that sufficient cash and cash equivalents are maintained to meet the needs of the Fund.

(d) Credit risk exposures

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

The total credit risk for financial instruments contained in the Statement of Financial Position is limited to the carrying amount disclosed on the Statement of Financial Position, net of any provisions for doubtful debts.

(e) Net fair value of financial assets and liabilities

The Fund's financial assets and financial liabilities included in the Statement of Financial Position are carried at amounts that approximate net fair value.

**PEPPERCORN INVESTMENT FUND
DIRECTORS' DECLARATION**

In the opinion of the directors of DDH Graham Limited, the responsible entity of Peppercorn Investment Fund ("the Fund"):

1. the financial statements and notes, set out on pages 5 to 18, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the Fund as at 30 June 2003 and of its performance, as represented by the results of its operations and its cash flows, for the period ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001.
2. there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.
3. the Fund has operated during the period ended 30 June 2003 in accordance with the provisions of the Fund Constitution dated 8 July 2002.

Signed in accordance with a resolution of the directors of DDH Graham Limited.

Dated at Brisbane this 26th day of September 2003.



Peter B Lockhart
Director
DDH Graham Limited

**PEPPERCORN INVESTMENT FUND
INDEPENDENT AUDIT REPORT TO THE UNITHOLDERS**

SCOPE

We have audited the financial report of Peppercorn Investment Fund for the financial period ended 30 June 2003, consisting of the Statement of Financial Performance, Statement of Financial Position, Statement of Cash Flows, accompanying notes and the Directors' Declaration set out on pages 5 to 19. The directors of the Responsible Entity, DDH Graham Limited are responsible for the financial report. We have conducted an independent audit of the financial report in order to express an opinion on it to the unitholders.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with the Fund Constitution dated 8 July 2003, Accounting Standards, other mandatory professional reporting requirements and statutory requirements in Australia so as to present a view which is consistent with our understanding of the Fund's financial position and performance as represented by the results of its operations and cash flows.

The audit opinion expressed in this report has been formed on the above basis.

AUDIT OPINION

In our opinion, the financial report of Peppercorn Investment Fund is in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Fund's financial position as at 30 June 2003 and of its performance for the period ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia; and
- (c) the provisions of the Fund Constitution dated 8 July 2002.



Hall Chadwick
CHARTERED ACCOUNTANTS



D W LANGDON
PARTNER
Brisbane 26 September 2003

**PEPPERCORN INVESTMENT FUND
CORPORATE GOVERNANCE STATEMENT
FOR THE PERIOD ENDED 30 JUNE 2003**

This statement outlines the main corporate governance practices that were in place throughout the financial period, unless otherwise stated.

ROLE OF THE RESPONSIBLE ENTITY

The Fund became a registered scheme under the Corporations Act 2001 on 6 December 2002. DDH Graham Limited became the Responsible Entity on this date.

The Responsible Entity is responsible for the overall corporate governance of the Fund, including protection of the unitholders' interests, developing strategic direction, establishing goals for management and monitoring the achievement of these goals. The Responsible Entity has established a Compliance Committee and an Audit Committee to assist in this process. The Responsible Entity has also established a framework for the management of the Fund including a system of internal control, a business risk management process and the establishment of appropriate ethical standards. The philosophy of the Responsible Entity in regard to corporate governance is in accordance with the philosophy set down by the Fund Constitution and the Corporations Act 2001.

Primary Duties and Obligations

The Responsible Entity's primary duties and obligations include:

- i) exercising all due diligence and vigilance in carrying out its duties and in protecting the rights and interests of the unitholders;
- ii) performing its functions and exercising its powers under the Fund Constitution in the best interests of all unitholders;
- iii) ensuring that the Fund is carried on and conducted in a proper and efficient manner; and
- iv) keeping or causing to be kept proper books of account in relation to the Fund, causing the financial report to be audited annually by a registered auditor and sending a copy of the auditors' report to unitholders each year.

Under the requirements of the Fund Constitution the Responsible Entity is responsible for the day-to-day operations of the Fund including:

- approval and acquisition of property investments;
- preparing all notices and reports to be issued to the unitholders; and
- maintenance of accounts for the Fund.

Conflict of Interest

In accordance with the Corporations Act 2001 and the Fund's Constitution, directors of the Responsible Entity must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Fund. No such conflicts of interest were identified during the financial period. The Board has developed procedures to assist directors to disclose potential conflicts of interest.

Remuneration of the Responsible Entity

Refer to note 17 of the financial statements for details regarding remuneration of the Responsible Entity.

**PEPPERCORN INVESTMENT FUND
CORPORATE GOVERNANCE STATEMENT
FOR THE PERIOD ENDED 30 JUNE 2003**

Composition of the Board

The Responsible Entity's Board of Directors is responsible for the overall corporate governance of the Fund. The Board of Directors meets on a regular basis, and is required to discuss pertinent business developments and issues and review the operations and performance of the Fund.

The Board conducts an annual review of its processes to ensure that it is able to carry out its functions in the most effective manner.

The names of the directors of the Responsible Entity in office at the date of this Statement are set out in the Directors' Report on page 1 of this financial report.

The Responsible Entity supports the appointment of independent members to its committees who bring a range of business skills and appropriate financial and industry experience.

Liaison with Operator

The Operator, Peppercorn Management Group, reports on the trading results for each of the Fund properties on a monthly basis and liaises with the Responsible Entity on a regular basis on any matters affecting Fund assets.

Directors' Dealings in Fund Units

The Responsible Entity is entitled either by itself or by a nominee, to subscribe for, purchase or hold or dispose of any units and will thereafter, for so long as it is a unitholder, unless otherwise expressly provided in the Fund Constitution, have all rights of a unitholder.

Fund policy prohibits directors and employees of the Responsible Entity from dealing in Fund units whilst in possession of price sensitive information. Employees must obtain approval from a director before they sell or buy units in the Fund. Directors must obtain approval from two fellow directors and notify the Company Secretary before they sell or buy units in the Fund. Directors must advise ASX of any transactions conducted by them in units in the Fund.

Independent Professional Advice

Under the terms of the Fund's Constitution, the directors and non-executive committee members of the Responsible Entity have the right to seek independent professional advice at the Fund's expense.

Audit Committee

The audit committee plays a key role in assisting the Board of directors to fulfill its corporate governance and overseeing responsibilities in relation to the funds financial reporting, internal control structure, risk management systems and the external audit function.

The members of the Audit Committee are Mr A Fraser (Chairman) – Independent Non-Executive, Mr P Short – Independent Non-Executive and Mr P Lockhart - Director.

The responsibilities of the Audit Committee include:

- reviewing the Fund's annual and half-year and financial reports and other information distributed externally, including new accounting policies to ensure compliance with Australian Accounting Standards and generally accepted accounting principles;
- monitoring the Responsible Entity's risk assessment processes for the Fund;

**PEPPERCORN INVESTMENT FUND
CORPORATE GOVERNANCE STATEMENT
FOR THE PERIOD ENDED 30 JUNE 2003**

Audit Committee (Continued)

- considering whether non-audit services provided by the external auditor are consistent with maintaining the external auditor's independence;
- reviewing the nomination and performance of the external auditor;
- monitoring the Responsible Entity's establishment of an appropriate internal control framework and considering appropriate ethical standards;
- monitoring the procedures to ensure compliance with the Fund's Constitution, Corporations Act 2001, ASX Listing Rules and all other regulatory requirements;
- address any matters outstanding with auditors, Australian Taxation Office, Australian Securities and Investments Commission, ASX and financial institutions.

The Audit Committee also conducts an annual review of its processes to ensure that it has carried out its functions in an effective manner.

Internal Control Framework

The Responsible Entity's Board is responsible for the overall internal control framework, but recognises that no cost effective internal control system will preclude all errors and irregularities. To assist in discharging this responsibility, the Responsible Entity's Board has instigated an internal control framework that is described as follows:

- Compliance plan – the Responsible Entity has adopted a compliance plan which sets out the policies and procedures that ensure management objectives are carried out effectively and efficiently. The compliance plan provides for the necessary actions to be taken to address compliance risk, operational risk, control environment risk, liquidity risk and investment dealing risk. The Responsible Entity's board has appointed a compliance officer who is responsible for performing periodic reviews of the Responsible Entity's compliance with the provisions of the plan.

The Board of Directors of the Responsible Entity has established a Compliance Committee, which is responsible for maintaining the compliance plan.

- Financial reporting – there is a comprehensive budgeting system with an annual budget prepared in conjunction with the operator and approved by the directors of the Responsible Entity. Monthly actual results are reported against budget and revised forecasts for the year are prepared regularly. The Responsible Entity reports to unitholders half-yearly. Procedures are also in place to ensure that price sensitive information is reported to the ASX in accordance with continuous disclosure requirements.
- Investment appraisal – the Responsible Entity has clearly defined guidelines for capital expenditure. These include annual budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements where properties are being acquired or divested.

Compliance Committee

The role of the compliance committee includes responsibility for assessing, at regular intervals, the adequacy of the Fund's compliance plan and monitoring the Responsible Entity and Fund's compliance with the Corporations Act 2001 and the Fund Constitution.

The members of the committee during the period were:

- Mr P Lockhart (appointed 12 December 2002)
- Mr A Fraser (appointed 12 December 2002)
- Mr P Short (appointed 12 December 2002)

**PEPPERCORN INVESTMENT FUND
CORPORATE GOVERNANCE STATEMENT
FOR THE PERIOD ENDED 30 JUNE 2003**

Compliance Committee (Continued)

The functions of the compliance committee in relation to compliance are to:

- monitor to what extent the Responsible Entity complies with its compliance plan and report its findings to the Responsible Entity;
- report breaches of the Corporations Act 2001 and constitution to the Responsible Entity;
- report to the ASIC any circumstances where the committee considers that appropriate action has not or will not be taken on a reported breach; and
- evaluate the adequacy of the compliance plan at regular intervals and recommend changes where appropriate.

The Committee met four times during the year.

Ethical Standards

All directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Fund.

Every employee of the Responsible Entity has a nominated supervisor to whom they may refer any issues arising from their employment.

ROLE OF THE UNITHOLDERS

Unitholder Reporting

The Responsible Entity aims to ensure that the unitholders are informed of all significant developments affecting the Fund's state of affairs. Information is communicated to unitholders as follows:

- Distribution statements are distributed to all unitholders. The distribution statement includes details of distributions received and the components which make up the distributions;
- The annual financial report is distributed to all unitholders (unless a unitholder has specifically requested not to receive the document). The Responsible Entity ensures that the annual financial report includes relevant information about the operations of the Fund during the year, changes in the state of affairs of the Fund and details of future developments, in addition to the other disclosures required by the Corporations Act, the Australian Stock Exchange and Accounting Standards;
- Half-yearly financial statements contain summarised financial information and a review of the operations of the Fund during the period. Half-year reviewed financial statements prepared in accordance with the requirements of Accounting Standards and the Corporations Act are lodged with the Australian Securities & Investments Commission and the Australian Stock Exchange;
- Proposed major changes in the Fund which may impact on unitholders' rights are submitted to a vote of unitholders.

Unitholders' Meetings

The Fund Constitution, the Corporations Act and Corporations Regulations prescribe the manner and circumstance in which a unitholders' meeting may be convened and regulate voting by unitholders.

A change in the appointment of the Responsible Entity is subject to a vote by the unitholders, as set out in the terms of the Fund Constitution.

PEPPERCORN INVESTMENT FUND ASX ADDITIONAL INFORMATION

Additional information required by the Australian Stock Exchange Limited Listing Rules and not disclosed elsewhere in this report.

1. Substantial Unitholders

There were no substantial unitholders listed in the Fund's register of substantial unitholders as at 15 September 2003.

2. On-market buy-back

There is no current on-market buy-back.

3. Distribution of unitholders (as at 15 September 2003)

Number of units held	Number of Unitholders
1 - 1,000	65
1,001 - 5,000	776
5,001 - 10,000	769
10,001 - 100,000	737
100,001 and over	66
Total	2,413

There were 7 unitholders holding less than a marketable parcel at 15 September 2003.

4. Classes of units and voting rights

At 15 September 2003, there were 2,413 holders of the ordinary units of the Fund. The voting rights attaching to the ordinary units, set out in section 253C of the Corporations Act 2001, are:

- (a) On a show of hands, every person present who is a unitholder has one vote; and
- (b) On a poll each unitholder present in person or by proxy or attorney has one vote for each dollar of value of the total interests they have in the Fund.

PEPPERCORN INVESTMENT FUND
ASX ADDITIONAL INFORMATION

5. Twenty largest unitholders (as at 15 September 2003)

Name	Number of ordinary units held	Percentage %
M F Custodians Ltd	2,255,000	3.80
Peppercorn Management Group Limited	2,200,000	3.71
Feng Holdings Pty Ltd	2,000,000	3.37
J & L Nominees Pty Ltd	1,100,000	1.85
Permanent Trustee Australia Limited	970,000	1.64
Penwain Pty Ltd	945,000	1.59
Mr Roderick Hollonds	900,000	1.52
Mr Ean Keith Youd & Mrs Margaret Maud Youd	900,000	1.52
Mr Warren Arthur Castray and Ms Denyse Ann Castray	700,000	1.18
Tarben Management Pty Ltd	700,000	1.18
Talkikids Pty Ltd	550,000	0.93
Bastiaan Enterprises Pty Ltd	542,500	0.91
The Aged & Disabled Persons Hostel & Welfare Association	500,000	0.84
G & K Sorensen Pty Ltd	500,000	0.84
Noray Investments Pty Ltd	500,000	0.84
Warren Castray and Denyse Castray	500,000	0.84
Hillstowe Pty Ltd	500,000	0.84
Mr Lyndon Campbell Macmillan & Mrs Jennifer St John Macmillan	500,000	0.84
Mr Coyne Anthony Graham	500,000	0.84
Mr Raymond George de Hayr & Mrs Doreen Elizabeth de Hayr	500,000	0.84
	17,762,500	29.92

PEPPERCORN INVESTMENT FUND DIRECTORY

Registered office of Responsible Entity and Principal place of business of the Fund	DDH Graham Limited Level 18 344 Queen Street Brisbane Qld 4000
Directors of Responsible Entity	David DH Graham Peter B Lockhart Ugo C Di Girolamo
Company Secretary of Responsible Entity	Anthony J Keating
Childcare Centre Operator	Peppercorn Holdings No 4 Pty Ltd Level 6 232 Adelaide Street Brisbane Qld 4000
Auditors	Hall Chadwick Level 16 Hall Chadwick Centre 120 Edward Street Brisbane Qld 4000
Taxation Advisors	PricewaterhouseCoopers Level 17 Waterfront Place 1 Eagle Street Brisbane Qld 4000
Custodian	Trust Company of Australia Limited 213-217 St Paul's Terrace Spring Hill Qld 4006
Unit Registry	Douglas Heck & Burrell Level 22, 300 Queen Street Brisbane QLD 4000
Stock Exchange	The Trust is listed on the Australian Stock Exchange . The Home Exchange is Brisbane . ASX Code: PIV