

PEPPERCORN INVESTMENT FUND  
ARSN 102 955 939

---

Annual Financial Report  
30 June 2004

**PEPPERCORN INVESTMENT FUND  
DIRECTORS' REPORT  
FOR THE YEAR ENDED 30 JUNE 2004**

---

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 year ended 30 June 2004 and the auditor's report thereon.

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

**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 year are:

---

<i>Name and qualifications</i>	<i>Age</i>	<i>Experience and special responsibilities</i>
<b>David D H Graham</b>		
Chairman and Managing Director Bachelor of Commerce Bachelor of Economics (Hons) Master of Business Administration Fellow of CPA Australia.	62	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.
<b>Peter B Lockhart</b>		
Bachelor of Economics Master of Business Administration	50	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.
<b>Ugo C Di Girolamo</b>		
Associate Diploma in Business Member of Finance & Treasury Association Limited	42	Director of the Company since 2000. Over 20 years experience in financial markets including 8 years in an executive money market role.

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

**DIRECTORS' MEETINGS**

The number of directors' meetings (including meetings of committees of directors) and the number of meetings attended by each of the directors of the Responsible Entity during the year are:

	Board Meetings		Compliance Committee Meetings		Audit Committee Meetings	
	A	B	A	B	A	B
Mr DDH Graham	5	5	-	-	-	-
Mr PB Lockhart *	5	5	4	4	2	2
Mr UC Di Girolamo	5	5	-	-	-	-

A- Number of meetings attended.

B- Number of meetings held during the time the director held office during the year.

\*Since 30 June 2004 Mr Lockhart has retired from the Audit Committee

**PEPPERCORN INVESTMENT FUND  
DIRECTORS' REPORT  
FOR THE YEAR ENDED 30 JUNE 2004**

---

The members of the Compliance and Audit Committees for the Fund are:

**Compliance Committee**

- Mr AD Fraser (Independent Chairman)
- Mr PJ Short (Independent member)
- Mr J Frayne (Independent member)
- Mr P B Lockhart (Executive member)

**Audit Committee**

- Mr AD Fraser (Independent Chairman)
- Mr PJ Short (Independent member)
- Mr J Frayne (Independent member)

Mr Fraser, Mr Short and Mr Frayne are not directors of the Responsible Entity.

**PRINCIPAL ACTIVITIES**

The Fund is a specialist childcare centre owner which currently owns a total of 115 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**

The result for the year to 30 June 2004 was a net profit after income tax of \$5,476,000 (2003: loss of \$167,000).

The year under review has been a successful one in so far as the Fund has been able to almost double the size of its portfolio of centres from 62 to 115 and is now in a strong position to leverage unitholder returns from this operating base.

The Fund has been advised by the Peppercorn Group that while the Fund's centres experienced some operational difficulties during its establishment year largely in the form of settlement delays and extended transition timeframes, the current operating environment is considered to be positive.

The current year, 2004/05, is expected to be a period of consolidation. The emphasis will be on completing the transition of the more recently acquired centres and focusing on portfolio management rather than on growth in the number of centres.

As a demonstration of the Fund's ability to leverage unitholder returns from portfolio management, the Fund has been successful in 2003/04 in disposing of six leasehold only centres for a pre-tax profit of \$1.2 million.

Funds available from disposals will be used to acquire other more profitable centres including centres coming on stream from National Child Care Centres Pty Ltd (NCCC). The Fund has now acquired three centres from NCCC with which it has an exclusive and long-term supply agreement. Each of the centres acquired is performing to expectation.

**PEPPERCORN INVESTMENT FUND  
DIRECTORS' REPORT  
FOR THE YEAR ENDED 30 JUNE 2004**

---

**DISTRIBUTIONS**

The distribution for the year to 30 June 2004 is 9.70(2003:Nil) cents per unit. The distribution consists of 7.2445 cents per unit franked to 65% and 2.4555 cents as a tax deferred component.

Distributions paid or declared by the Fund since the end of the previous financial year were:

	\$'000
In respect of the current financial year	
- a distribution of 4.0 cents per unit for the six months ended 31 December 2003, paid in February 2004.	2,915
- a distribution of 5.7 cents per unit for the six months ended 30 June 2004, paid in August 2004.	4,191
	<hr/>
Total distributions provided for or paid in respect of the year ended 30 June 2004	7,106
	<hr/>

**STATE OF AFFAIRS**

*Funding*

- During November 2003 the Fund placed 13.282 million units with a range of institutional investors raising \$15.94 million. The Funds were used to acquire additional childcare centres.
- The Fund's long-term loan facility was increased to \$70 million to assist with the acquisition of additional childcare centres. In addition, a short-term facility of \$15 million was established to further facilitate childcare centre acquisitions. The interest rate on the long term debt facility has been fixed at a weighted average interest rate of 6.33% for the first \$60.1 million of borrowings.

*Distribution Reinvestment Plan*

A Distribution Reinvestment Plan ("DRP") was introduced during the year. Participation in the DRP has resulted in the issue of 1,377,345 new units in respect of the December 2003 and June 2004 distributions.

*Centre Acquisitions*

During the year, a further 59 centres were acquired and 6 leasehold centres were sold. The total centres owned as at 30 June 2004 was 115, an increase of 85% from the number held at 30 June 2003.

A long-term source of centres has been established with an exclusive alliance with National Childcare Centres Pty Ltd (NCCC), which will develop centres primarily on property owned by churches of various denominations. Three such centres have been settled in the year to 30 June 2004. In addition, other agreements have been reached with developers to ensure ongoing supply objectives are met.

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.

**PEPPERCORN INVESTMENT FUND  
DIRECTORS' REPORT  
FOR THE YEAR ENDED 30 JUNE 2004**

---

**EVENTS SUBSEQUENT TO BALANCE DATE**

*Memorandum of Understanding*

On 9 September 2004, the Fund entered into a Memorandum of Understanding (MOU) with ABC Learning Centres Limited (ABC) and Peppercorn Management Group Limited (PMG) with a view to ABC negotiating the acquisition of the 115 child care centre businesses ("the businesses") currently owned by the Fund.

The MOU only relates to the possible divestment of the businesses and not the 115 freehold assets which the Fund would retain. No change in ownership of the Fund is proposed and the Fund will remain as a listed entity.

ABC has indicated in the MOU that it is prepared to pay up to \$42 million for the businesses however the Fund has not accepted this or any other price at this stage. Negotiations between the Fund and ABC will take place until 9 October 2004 to determine if agreement can be reached on a price.

If agreement can be reached with ABC regarding the divestment of the businesses then DDH Graham Limited will convene a Unitholder Meeting as soon as possible to seek approval to the agreement.

*International Financial Reporting Standards*

For reporting periods starting on or after 1 January 2005, the Fund must comply with International Financial Reporting Standards (IFRS) as issued by the Australian Accounting Standards Board. At balance date, it was not possible to quantify the effect of the convergence to IFRS, as key IFRS and AASBs are currently under development.

Other than the matters disclosed above, there has not arisen in the interval between the end of the financial year 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 18 to the financial statements.

**UNITS ON ISSUE**

During the financial year, 17,007,686 ordinary units were issued.

The number of interests in the Fund as at the end of the financial year consists of 73,518,211 ordinary units.

The Fund had total assets valued at \$143,189,000 as at 30 June 2004. 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 YEAR ENDED 30 JUNE 2004**

---

**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 year the Responsible Entity has paid premiums in respect of its officers for liability and legal expenses insurance contracts for the year ended 30 June 2004. 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 2005. 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.

**ROUNDING**

The Fund is of a kind referred to in ASIC Class order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and the directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of directors



David DH Graham  
Chairman  
DDH Graham Limited  
Brisbane, 24 September 2004

**PEPPERCORN INVESTMENT FUND  
STATEMENT OF FINANCIAL PERFORMANCE  
FOR THE YEAR ENDED 30 JUNE 2004**

	Note	2004 \$'000	2003 \$'000
<b>Revenue from Ordinary Activities</b>			
Lease income		9,355	2,273
Interest income		233	283
Revenue from sale of investment properties		5,935	-
Other income from centres		629	-
<b>Total revenue</b>		<b>16,152</b>	<b>2,556</b>
<b>Expenses from Ordinary Activities</b>			
Property evaluation costs		-	87
Borrowing costs		2,605	2,580
Carrying amount of investment properties sold		4,666	-
Depreciation		738	115
Responsible Entity's remuneration		396	184
Other expenses from ordinary activities	2	475	101
<b>Total expenses</b>		<b>8,880</b>	<b>3,067</b>
<b>Profit/(Loss) from ordinary activities before related income tax (expense)/ benefit</b>		<b>7,272</b>	<b>(511)</b>
Income tax (expense)/benefit relating to ordinary activities	15(a)	(1,796)	344
<b>Profit/(Loss) from ordinary activities after related income tax (expense)/benefit</b>		<b>5,476</b>	<b>(167)</b>
<b>Total changes in equity as a result of transactions other than those with owners as owners</b>		<b>5,476</b>	<b>(167)</b>
<b>Basic earnings/(loss) per unit (cents per unit)</b>	3	<b>8.09</b>	<b>(2.64)</b>
<b>Diluted earnings per unit (cents per unit)</b>	3	<b>8.09</b>	<b>1.89</b>

The Statement of Financial Performance is to be read in conjunction with the notes to the financial statements set out on pages 9 to 24.

**PEPPERCORN INVESTMENT FUND  
STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2004**

	Note	2004 \$'000	2003 \$'000
<b>Current assets</b>			
Cash assets	19(a)	7,156	7,327
Receivables	4	3,645	1,335
Other	5	1,034	132
Deferred tax assets	6	549	475
<b>Total current assets</b>		<b>12,384</b>	<b>9,269</b>
<b>Non-current assets</b>			
Investment properties	7	121,818	69,912
Furniture, fixtures and fittings	8	7,591	3,447
Other	5	1,396	-
<b>Total non-current assets</b>		<b>130,805</b>	<b>73,359</b>
<b>Total assets</b>		<b>143,189</b>	<b>82,628</b>
<b>Current liabilities</b>			
Payables	9	7,527	1,605
Tax liabilities	10	1,435	131
<b>Total current liabilities</b>		<b>8,962</b>	<b>1,736</b>
<b>Non-current liabilities</b>			
Interest-bearing liabilities	11	60,100	24,335
<b>Total non-current liabilities</b>		<b>60,100</b>	<b>24,335</b>
<b>Total liabilities</b>		<b>69,062</b>	<b>26,071</b>
<b>Net assets</b>		<b>74,127</b>	<b>56,557</b>
<b>Equity</b>			
Contributed equity	12	74,127	56,724
Undistributed profits/(accumulated losses)	13	-	(167)
<b>Total equity</b>		<b>74,127</b>	<b>56,557</b>

The Statement of Financial Position is to be read in conjunction with the notes to the financial statements set out on pages 9 to 24.

**PEPPERCORN INVESTMENT FUND  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2004**

---

	Note	2004 \$'000	2003 \$'000
<b>Cash flows from operating activities</b>			
Cash receipts in the course of operations		9,400	1,518
Cash payments in the course of operations		(1,295)	(249)
Interest received		233	284
Income taxes paid		(565)	-
<b>Net cash provided by (used in) operating activities</b>	19(b)	<b>7,773</b>	<b>1,553</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of investment properties		5,847	-
Payments for furniture, fixtures and fittings		(3,883)	(3,562)
Payments for investment properties		(54,999)	(61,194)
<b>Net cash provided by (used in) investing activities</b>		<b>(53,035)</b>	<b>(64,756)</b>
<b>Cash flows from financing activities</b>			
Borrowing costs paid		(3,859)	(2,191)
Proceeds from borrowings		35,765	28,235
Repayment of borrowings		-	(3,900)
Distributions paid		(2,077)	-
Proceeds from issue of units		15,938	50,887
Issue costs paid		(676)	(2,501)
<b>Net cash provided by (used in) financing activities</b>		<b>45,091</b>	<b>70,530</b>
<b>Net (decrease)/increase in cash held</b>		<b>(171)</b>	<b>7,327</b>
Cash at the beginning of the financial year		7,327	-
<b>Cash at the end of the financial year</b>	19(a)	<b>7,156</b>	<b>7,327</b>

---

The Statement of Cash Flows is to be read in conjunction with the notes to the financial statements set out on pages 9 to 24.

**PEPPERCORN INVESTMENT FUND  
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2004**

---

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

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

**(a) Basis of preparation**

The financial report is a general purpose financial report which has been prepared in accordance with Australian applicable 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 year and are consistent with those of the previous year.

**(b) 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 comparative year information is effectively for the period from 1 November 2002 to 30 June 2003.

**(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 \$1,965 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 YEAR ENDED 30 JUNE 2004**

---

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(d) Investment properties**

Investment properties comprise investment interests in land and buildings (including integral plant and equipment) held for the purpose of letting to produce rental income.

Land and buildings comprising the investment properties are considered composite assets and are disclosed as such in the accompanying notes to the financial statements.

Investment properties acquired are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition.

The costs of assets constructed/redeveloped internally include the costs of materials and direct labour. Directly attributable overheads and other incidental costs are also capitalised to the asset.

***Valuations***

Investment properties are measured at fair value and revalued with sufficient regularity to ensure the carrying amount of each property does not differ materially from its fair value at the reporting date.

The Fund's Constitution requires the Responsible Entity to have the Fund's property investments independently valued at intervals of not more than three years. These valuations are considered by the directors of the Responsible Entity when determining fair value. When assessing fair value, the directors will also consider the discounted cash flow of the property, the highest and best use of the property and sales of similar properties.

Fair value is based on the price at which a property might reasonably be expected to be sold at the date of valuation, assuming:

- (i) a willing, but not anxious, buyer and seller on an arm's length basis
- (ii) a reasonable period in which to negotiate the sale, having regard to the nature and situation of the property and the state of the market for property of the same kind
- (iii) that the property will be reasonably exposed to that market
- (iv) that no account is taken of the value or other advantage or benefit, additional to market value, to the buyer incidental to ownership of the property being valued
- (v) it only takes into account instructions given by the Responsible Entity and is based on all the information that the valuer needs for the purposes of the valuation being made available by or on behalf of the Responsible Entity.

All investment properties are considered one class of asset.

Revaluation increments, on a class of assets basis, are recognised in the asset revaluation reserve, except for amounts reversing a decrement previously recognised as an expense, which are recognised as revenues. Revaluation decrements are only offset against revaluation increments relating to the same class of asset and any excess is recognised as an expense.

Potential capital gains tax is taken into account.

**PEPPERCORN INVESTMENT FUND  
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2004**

---

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(e) Income tax**

The Fund is taxed on a similar basis to a company. Accordingly, the Fund is subject to income tax at the prevailing corporate rate.

Distributions to unitholders out of profit are treated as dividends for tax purposes and may be franked to the extent franking credits are available. Thus, such distributions are taxed at an investor's marginal tax rate subject to the level of franking credits attaching to the distributions. Distributions which exceed the profit of the Fund are treated as a return of capital for tax purposes. Returns of capital are not assessable but reduce the unitholder's cost base for the purposes of determining any liability for capital gains tax on disposal of the units.

**(f) Depreciation**

In accordance with Accounting Standard AASB 1021: Depreciation, investment properties are not depreciated. Accordingly, the buildings and any component thereof (including integral plant and equipment) are not depreciated. Items of furniture, fixtures and fittings not integral to the buildings are carried at cost and depreciated on a straight line basis over their estimated useful lives.

Depreciation rates used for each class of assets are as follows:

- Furniture, fixtures and fittings 5% - 25%

**(g) 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.

**(h) 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.

**(i) 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.

**(j) 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.

**PEPPERCORN INVESTMENT FUND  
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2004**

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(k) 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.

**(l) 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.

<b>2. OTHER EXPENSES FROM ORDINARY ACTIVITIES</b>	Note	2004 \$'000	2003 \$'000
ASX fees		39	4
Auditor's remuneration:			
- Audit services		21	8
- Other services	(i)	-	-
Bank charges		4	3
Consultant fees		5	4
Custodian & compliance costs		36	18
Insurance		40	7
Land tax		97	5
Legal fees		61	41
Postage		9	-
Printing and stationery		13	1
Repairs and maintenance		97	-
Sundry expenses		13	1
Unit registry fees		40	9
		475	101

(i) The auditors provided services in relation to prospectus due diligence to the value of \$Nil (2003: \$25,000). These costs are included as part of unit issue costs (refer note 12).

**PEPPERCORN INVESTMENT FUND  
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2004**

---

<b>3. EARNINGS PER UNIT</b>	Note	2004 \$'000	2003 \$'000
Classification of securities as ordinary units			
All of the Fund's units are classified as ordinary units			
Earnings reconciliation			
Net profit/(loss) after tax		5,476	(167)
Adjustments		-	-
Basic earnings		5,476	(167)
Add back after tax interest expense on Converting Debt Securities		-	522
Diluted earnings		5,476	355
<b>Weighted average number of ordinary units used as the denominator</b>		<b>2004 Number</b>	<b>2003 Number</b>
Number for basic earnings per unit		67,663	6,322
Effect of Converting Debt Securities	(i)	-	12,493
Number for diluted earnings per unit		67,663	18,815

- (i) 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 weighted with reference to the date of issue.

<b>4. RECEIVABLES</b>	Note	2004 \$'000	2003 \$'000
Sundry debtors		3,645	1,175
GST receivable		-	160
		3,645	1,335
<b>5. OTHER ASSETS</b>			
Current			
Deposits		5	-
Prepayments		1,029	132
		1,034	132
Non Current			
Centre acquisition costs		1,353	-
Deferred borrowing costs		43	-
		1,396	-

**PEPPERCORN INVESTMENT FUND**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2004**

<b>6. DEFERRED TAX ASSETS</b>	Note	2004 \$'000	2003 \$'000
Future income tax benefit	15(c)	549	475
<b>7. INVESTMENT PROPERTIES</b>			
Investment properties, at Responsible Entity's directors' valuation (2003: at cost)		121,818	69,912
Reconciliation of the carrying amount of investment properties is set out below:			
Carrying amount at beginning of year		69,912	-
Additions		56,464	69,912
Disposals		(4,558)	-
Carrying amount at end of year		121,818	69,912
<b>8. FURNITURE, FIXTURES AND FITTINGS</b>			
Furniture, fixtures and fittings at cost		8,443	3,562
Accumulated depreciation		(852)	(115)
Total furniture, fixtures and fittings		7,591	3,447
Reconciliation of the carrying amount of furniture, fixtures and fittings is set out below:			
Carrying amount at beginning of year		3,447	-
Additions		4,990	3,562
Disposals		(108)	-
Depreciation		(738)	(115)
Carrying amount at end of year		7,591	3,447
<b>9. PAYABLES</b>			
Sundry creditors		1,864	416
Accruals		1,472	1,189
Distribution payable		4,191	-
		7,527	1,605
<b>10. TAX LIABILITIES</b>			
Income tax	15(b)	1,435	131
<b>11. INTEREST-BEARING LIABILITIES</b>			
<b>Non-current</b>			
Bank loan – secured	19(c)	60,100	24,335

**PEPPERCORN INVESTMENT FUND  
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2004**

<b>12. CONTRIBUTED EQUITY</b>	Note	2004 \$'000	2003 \$'000
73,518,211 (2003: 56,510,525) ordinary units at issue price		74,127	56,724
<b>Movement in ordinary units</b>			
Balance at beginning of year		56,724	-
Units issued pursuant to initial public offer	(i)	-	20,887
Units issued from conversion of Converting Debt Securities	(ii)	-	30,000
Units issued to centre vendors as consideration for acquisitions	(iii)	3,090	8,348
Units issued to institutional investors	(iv)	15,939	-
Units issued pursuant to Distribution Reinvestment Plan	(v)	837	-
Less Return of Capital	(vi)	(1,796)	-
Less unit issue costs		(667)	(2,511)
Balance at end of year		74,127	56,724

- (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 were 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 year a number of childcare centres were 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 3,090,000 units issued during the year ended 30 June 2004.
- (iv) On 17 November 2003, the Fund made a placement of 13,282,000 ordinary units at a price of \$1.20 per unit raising \$15.94 million. The issue of units was approved at a General Meeting of Unitholders held on 12 November 2003. Issue costs of \$627,555 were recognised as a reduction of the proceeds of the issue.
- (v) A total of 635,686 ordinary units were issued on 27 February 2004 pursuant to the Distribution Reinvestment Plan. The units were issued at a price of \$1.3174 each. Issue costs of \$39,236 were recognised as a reduction of the proceeds of the issue.
- (vi) The distributions paid or provided for the year ended 30 June 2004 included a capital component of 2.4555 cents per unit.

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 YEAR ENDED 30 JUNE 2004**

<b>13. UNDISTRIBUTED PROFITS</b>	Note	2004 \$'000	2003 \$'000
Undistributed profits/ (losses) at beginning of year		(167)	-
Profit/ (loss) from ordinary activities after income tax		5,476	(167)
Total available for distribution		<u>5,309</u>	<u>(167)</u>
Distribution provided for or paid		(5,309)	-
Undistributed profits/ (losses) at end of year		<u>-</u>	<u>(167)</u>

**14. DISTRIBUTIONS**

Distributions provided for or paid by the Fund are:

Distribution Period	Cents per unit	Total amount \$'000	Date of payment	Franked amount (cents per unit)	Tax deferred amount (cents per unit)	Tax rate for franking credit	Percentage franked
Six months ended 31 December 2003	4.00	2,915	27/02/04	2.5900	1.4100	30%	65%
Six months ended 30 June 2004	5.70	4,191	31/08/04	4.6545	1.0455	30%	65%
Total distributions	<u>9.70</u>	<u>7,106</u>		<u>7.2445</u>	<u>2.4555</u>		

No unfranked distributions have been declared or paid during the year.

*Distribution franking account*

	2004 \$'000	2003 \$'000
30% franking credits available to unitholders of the Fund for subsequent financial years	<u>521</u>	<u>1</u>

The above available amounts are based on the balance of the distribution franking account at year-end adjusted for:

- (a) franking credits that will arise from the payment of the amount of the provision for income tax;
- (b) franking debits that will arise from the payment of distributions recognised as a liability at year-end.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare distributions.

**PEPPERCORN INVESTMENT FUND**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2004**

---

<b>15. TAXATION</b>	Note	2004 \$'000	2003 \$'000
<b>(a) Income tax (expense)/benefit</b>			
Prima facie income tax (expense)/benefit calculated at 30% on the profit/ (loss) from ordinary activities		(2,182)	153
<i>(Decrease) / Increase in income tax (expense)/ benefit due to:</i>			
Building allowance		198	35
Write-off of unit issue costs		188	156
Income tax (expense)/ benefit relating to ordinary activities		(1,796)	344
<b>(b) Current tax liabilities</b>			
<b>Provision for current income tax</b>			
Movements during the year:			
Balance at beginning of year		131	-
Income tax paid		(566)	-
Income tax refunded		1	-
Current year's income tax on operating profit		1,869	131
Balance at end of year	10	1,435	131
<b>(c) Deferred tax assets</b>			
<b>Future Income tax benefit</b>			
Future income tax benefit comprises the estimated future benefit at the applicable rate of 30% on the following items:			
Expenses not currently deductible	6	549	475
<b>16. NET TANGIBLE ASSETS</b>			
Net tangible assets		\$74,127	\$56,557
Units issued		73,518	56,511
Net tangible asset backing (at book value) per unit		\$1.0083	\$1.0008

**17. 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 YEAR ENDED 30 JUNE 2004**

---

**18. 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 year were Messrs DDH Graham, P B Lockhart and U C Di Girolamo.

Since the end of the previous financial year, 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 2004 are set out below:

	2004 Units	2003 Units
DDH Graham Limited	80,020	80,020
DDH Graham	350,005	350,005
PB Lockhart	47,500	47,500
U C Di Girolamo	32,500	32,500

The following distributions arising from the aforementioned unit holdings were paid or payable:

	Note	2004 \$'000	2003 \$'000
DDH Graham Limited		8	
DDH Graham		34	-
PB Lockhart		5	-
U C Di Girolamo		3	-

*Responsible Entity's remuneration*

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

■ Trust management fees		396	184
■ Trust establishment, prospectus preparation and management of distribution	(i)	-	250
■ Arrangement of debt funding		50	251
■ Marketing commissions – Converting Debt Securities	(i)	-	4
■ Sub-underwriting of initial public offer	(i)	-	26
■ Due diligence fees on centre acquisitions	(ii)	533	240
■ Prospectus preparation and management of distribution	(iii)	50	-

**PEPPERCORN INVESTMENT FUND  
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2004**

**18. RELATED PARTY DISCLOSURES (Continued)**

- (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).
- (iii) This amount was recognised as a reduction of the proceeds of the placement made in November 2003 and offset directly against contributed equity (refer note 12).

***Remuneration of directors of the Responsible Entity***

Remuneration of the directors is paid directly by the Responsible Entity. The directors are not provided with any remuneration by the Fund itself. Directors are not entitled to any equity interests in the Fund, or any rights to or options for equity interests in the Fund, as a result of the remuneration provided by the Responsible Entity.

Given the number and variety of schemes operated by the Responsible Entity, the directors of the Responsible Entity do not consider that there is any direct correlation between the level of remuneration provided to directors of the Responsible Entity and the management fees paid by the Fund to the Responsible Entity in accordance with the Fund Constitution.

The Responsible Entity determines remuneration levels and ensures they are competitively set to attract and retain appropriately qualified and experienced directors and senior executives.

The Fund has applied the relief available under ASIC Class Order 04/967 in relation to disclosures of remuneration paid by the Responsible Entity to its directors and executives.

***Loans to directors of the Responsible Entity***

The Fund has not made, guaranteed or secured, directly or indirectly, any loans to the directors of their personally-related entities at any time during the reporting period.

***Balances owed to the Responsible Entity***

The following amounts are included in accounts payable as owed to the Responsible Entity at balance date

Note	2004 \$'000	2003 \$'000
	196	102

***Custodian***

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

	24	12
--	----	----

***Operator***

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

■ Centre management fees	(i)	4,536	977
■ Due diligence fees on centre acquisitions	(ii)	610	620
■ Fee for services in relation to preparation of Fund prospectus	(iii)	-	100
■ Commitment fee for funding the acquisition of initial centres	(iii)	-	128

- (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).

**PEPPERCORN INVESTMENT FUND  
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2004**

**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 year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	Note	2004 \$'000	2003 \$'000
Cash		7,156	7,327
<b>(b) Reconciliation of profit/(loss) from ordinary activities after income tax to net cash provided by operating activities</b>			
Profit / (loss) from ordinary activities after income tax		5,476	(167)
<b>Add/(less) items classified as investing or financing activities:</b>			
Profit on sale of investment properties		(1,269)	-
Borrowing costs		2,605	2,580
<b>Add/(less) non-cash items:</b>			
Depreciation		738	115
<b>Change in assets and liabilities:</b>			
(Increase)/decrease in debtors		(2,118)	(1,335)
(Increase)/decrease in deferred tax assets		(74)	(475)
(Increase)/decrease in prepayments		(33)	(4)
Increase/(decrease) in accounts payable		1,144	708
Increase/(decrease) in tax liabilities		1,304	131
<b>Net cash provided by (used in) operating activities</b>		<b>7,773</b>	<b>1,553</b>
<b>(c) Financing arrangements</b>			
<i>The Fund has access to the following lines of credit:</i>			
Total facilities available:			
Commercial bill facility		70,000	40,100
Standby bill facility		15,000	10,000
		<u>85,000</u>	<u>50,100</u>
<i>Facilities utilised at balance date:</i>			
Commercial bill facility		60,100	24,335
Standby bill facility		-	-
		<u>60,100</u>	<u>24,335</u>
<i>Facilities not utilised at balance date:</i>			
Commercial bill facility		9,900	15,765
Standby bill facility		15,000	10,000
		<u>24,900</u>	<u>25,765</u>

**PEPPERCORN INVESTMENT FUND  
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2004**

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

*Commercial bill facility*

The facility is a 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 2005 and is then subject to annual review.

**(d) Non- cash investing and financing activities**

The following non-cash investing and financing activities occurred during the year:

	2004		2003	
	Units '000	\$'000	Units '000	\$'000
Units issued under the Distribution Reinvestment Plan	636	837	-	-
Units issued to vendors as consideration for acquisitions	3,090	3,090	8,348	8,348

**20. COMMITMENTS**

*Centre acquisitions*

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

**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:

2004	Weighted average interest rate %	Floating interest rate \$'000	Fixed interest maturing in 1-5 years \$'000	Non-interest bearing \$'000	Total \$'000
<b>Financial assets</b>					
Cash	4.97	7,156	-	-	7,156
Receivables	-	-	-	3,645	3,645
		7,156	-	3,645	10,801
<b>Financial liabilities</b>					
Payables	-	-	-	7,527	7,527
Interest-bearing liabilities	6.33	-	60,100	-	60,100
		-	60,100	7,527	67,627

**PEPPERCORN INVESTMENT FUND  
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2004**

**21. ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE (Continued)**

2003	Weighted average interest rate %	Floating interest rate \$'000	Fixed interest maturing in 1-5 years \$'000	Non-interest bearing \$'000	Total \$'000
<b>Financial assets</b>					
Cash	4.55	7,327	-	-	7,327
Receivables	-	-	-	1,335	1,335
		<b>7,327</b>	<b>-</b>	<b>1,335</b>	<b>8,662</b>
<b>Financial liabilities</b>					
Payables	-	-	-	1,605	1,605
Interest-bearing liabilities	5.95	24,335	-	-	24,335
		<b>24,335</b>	<b>-</b>	<b>1,605</b>	<b>25,940</b>

A total of \$60.1 million of the \$70 million debt facility has been fixed until 30 June 2008 at an average rate of 6.33%

**(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**

***Valuation approach***

The net fair value of financial assets and liabilities are determined by the Fund on the following bases:

*Recognised financial instruments*

Monetary financial assets and financial liabilities not readily traded in an organised financial market are valued at the present value of contractual future cash flows on amounts due from customers (reduced for expected credit losses) or due to suppliers. Cash flows are discounted using standard valuation techniques at the applicable market yield having regard to the timing of the cash flows. The carrying amounts of bank deposits, receivables, other debtors, accounts payable, bank loans, lease liabilities and distributions payable approximate net fair value.

*Unrecognised financial instruments*

The valuation of off-balance sheet financial instruments reflects the estimated amounts which the Fund expects to pay or receive to terminate the contracts (net of transaction costs) or replace the contracts at their current market rates as at reporting date. This is based on independent market quotations and determined using accepted valuation techniques.

**PEPPERCORN INVESTMENT FUND  
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2004**

---

**21. ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE (Continued)**

*Net fair values*

*Recognised financial instruments*

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

*Unrecognised financial instruments*

The Fund has no off-balance sheet financial instruments.

**22. EVENTS SUBSEQUENT TO REPORTING DATE**

*Memorandum of Understanding*

On 9 September 2004, the Fund entered into a Memorandum of Understanding (MOU) with ABC Learning Centres Limited (ABC) and Peppercorn Management Group Limited (PMG) with a view to ABC negotiating the acquisition of the 115 child care centre businesses ("the businesses") currently owned by the Fund.

The MOU only relates to the possible divestment of the businesses and not the 115 freehold assets which the Fund would retain. No change in ownership of the Fund is proposed and the Fund will remain as a listed entity.

ABC has indicated in the MOU that it is prepared to pay up to \$42 million for the businesses however the Fund has not accepted this or any other price at this stage. Negotiations between the Fund and ABC will take place until 9 October 2004 to determine if agreement can be reached on a price.

If agreement can be reached with ABC regarding the divestment of the businesses then DDH Graham Limited will convene a Unitholder Meeting as soon as possible to seek approval to the agreement.

*International Financial Reporting Standards*

For reporting periods beginning on or after 1 January 2005, the Fund must comply with International Financial Reporting Standards (IFRS) as issued by the Australian Accounting Standards Board.

This financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements (Australian GAAP). The differences between Australian GAAP and IFRS identified to date as potentially having a significant effect on the Fund's financial performance and financial position are summarised below. The summary should not be taken as an exhaustive list of all the differences between Australian GAAP and IFRS. No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented.

The Fund has not quantified the effects of the differences discussed below. Accordingly, there can be no assurances that the performance and financial position as disclosed in this financial report would not be significantly different if determined in accordance with IFRS.

Regulatory bodies that promulgate Australian GAAP and IFRS have significant ongoing projects that could affect the differences between Australian GAAP and IFRS described below and the impact of these differences relative to the Fund's financial performance and financial position of the adoption of IFRS, including system upgrades and other implementation costs which may be incurred, have not been quantified as the actual impacts will depend on the particular circumstances prevailing on adoption in the half-year commencing 1 January 2005.

**PEPPERCORN INVESTMENT FUND  
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2004**

---

**22. EVENTS SUBSEQUENT TO REPORTING DATE (Continued)**

The key potential implications of the conversion to IFRS on the Fund are as follows:

- Investment properties carried at fair value must be measured at market value and changes in value are recognised in income, not in the asset revaluation reserve. If carried at cost, the property must be depreciated and tested for impairment.
- Changes in accounting policies will be recognised by restating comparatives rather than making current year adjustments with note disclosure of prior year effects.
- The international tax standard uses a balance sheet approach to calculate deferred tax balances. As the income statement method of the current Australian standard focuses on movements rather than closing balances, some deferred tax balances are currently not recognised. As a consequence, the amount of deferred tax balances (assets and liabilities) may increase under the standard.

The Responsible Entity has established an implementation project to achieve transition to IFRS reporting consisting of the following phases:

- a) Assessment and planning phase  
Identification of the impacts of conversion to IFRS reporting on existing accounting policies and procedures.
- b) Design phase  
Formulation of the changes required to existing accounting policies and procedures to achieve compliance with IFRS requirements.
- c) Implementation phase  
Implementation of identified changes to accounting and business procedures.

**23. CONTINGENT LIABILITIES**

The Trust has a contingent liability as at 30 June 2004 with respect to certain entitlements of employees of Peppercorn Holdings No 4 Pty Ltd. These amounts may become payable in the event that the lease of a property to Peppercorn Holdings No 4 Pty Ltd is terminated. The total amount of the contingent liability at 30 June 2004 is \$1,199,571.

**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 6 to 24, 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 2004 and of its performance, as represented by the results of its operations and its cash flows, for the year 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 year ended 30 June 2004 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 24th day of September 2004.



David DH Graham  
Chairman  
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 year ended 30 June 2004, 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 6 to 25. 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 2002, 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 2004 and of its performance for the year 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.



William Buck  
Chartered Accountants



D W Langdon  
Partner  
Brisbane 24 September 2004

**PEPPERCORN INVESTMENT FUND  
CORPORATE GOVERNANCE STATEMENT  
FOR THE YEAR ENDED 30 JUNE 2004**

---

The Fund is a listed managed investment scheme. Its units are traded on the Australian Stock Exchange (ASX). In March 2003 the ASX Corporate Governance Council issued 10 Principles of Good Corporate Governance and Best Practice Recommendations. Under the ASX Listing Rules, listed entities are required to disclose the extent to which they have followed the Best Practice Recommendations during the reporting period for years commencing after 1 January 2003.

This statement outlines the main corporate governance practices that were in place throughout the financial year, unless otherwise stated, and the extent to which these practices follow the Best Practice Recommendations.

**PRINCIPLE 1: BOARD AND MANAGEMENT**

**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 Board of Directors of the Responsible Entity (hereafter referred to as the Board) is responsible for the overall corporate governance of the Fund. This includes setting the strategic direction, establishing management performance objectives and monitoring the achievement of those objectives. It also includes ensuring that significant risks facing the Fund have been identified, and that appropriate and adequate control, monitoring, and reporting mechanisms are in place.

The Board 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 business of the Fund is managed under the direction of the Board, with management of day to day operations formally delegated to the Managing Director and executive management.

The names of the directors of the Responsible Entity in office at the date of this Statement are set out in the Directors' Report. The Board currently consists of 3 executive directors.

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. 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.
- 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.

**PEPPERCORN INVESTMENT FUND  
CORPORATE GOVERNANCE STATEMENT  
FOR THE YEAR ENDED 30 JUNE 2004**

---

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.

**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.

**PRINCIPLE 2: BOARD STRUCTURE**

The Board currently consists of 3 executive directors. The names of the directors of the Responsible Entity in office at the date of this Statement are set out in the Directors' Report.

The Board has established an independent Compliance Committee to monitor the Responsible Entity and the Fund's compliance with the Corporations Act 2001, the Fund Constitution and the Compliance Plan.

**PRINCIPLE 3: ETHICAL STANDARDS**

**Ethical Standards**

All directors, managers and employees are expected to act lawfully, in a professional manner, and with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Fund and the Responsible Entity.

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

**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 year. The Board has developed procedures to assist directors to disclose potential conflicts of interest.

**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 requires that trading in the units of the Fund by directors or employees (and their associates) of the Responsible Entity be prohibited immediately prior to an ASX announcement and restricted to a period of two weeks immediately after the release of each of the Fund's half-yearly results. In addition, Fund policy prohibits directors of the Responsible Entity from dealing in Fund units whilst in possession of price sensitive information. 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.

**PEPPERCORN INVESTMENT FUND  
CORPORATE GOVERNANCE STATEMENT  
FOR THE YEAR ENDED 30 JUNE 2004**

---

**PRINCIPLE 4: FINANCIAL REPORTING**

**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 Fund's 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 Member, Mr. P Short – Independent Member, and Mr. J Frayne – Independent Member.

The Audit Committee operates in accordance with a Charter. 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;
- 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 reviews the performance of the external auditors on an annual basis and meets with them during the year as follows:

- to finalise half-year and annual reporting;
- review the results and findings of the audit, the adequacy of accounting and financial controls, and to monitor the implementation of any recommendations made;
- review the draft financial report and the audit report and to make the necessary recommendation to the Responsible Entity for the approval of the financial reports;
- as required, to organise, review and report on any matters deemed necessary by the Board.

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

**PEPPERCORN INVESTMENT FUND  
CORPORATE GOVERNANCE STATEMENT  
FOR THE YEAR ENDED 30 JUNE 2004**

---

**Corporate reporting**

The Managing Director and Chief Financial Officer have made certifications to the Board that:

- the Fund's financial reports are complete and present a true and fair view, in all material respects, of the Fund's financial conditions and operational results and are in accordance with relevant accounting standards.

**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 Compliance Committee are Mr. A Fraser (Chairman) – Independent Member, Mr. P Short – Independent Member, Mr. J Frayne – Independent Member, and Mr. P Lockhart - Director.

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.

**PRINCIPLE 5: MATERIAL DISCLOSURE**

The Responsible Entity's Board is committed to ensuring that information that is expected to have a material effect on the price or value of the Fund's units is immediately notified to the ASX for dissemination to the market in accordance with the continuous disclosure requirements of the Corporations Act and ASX Listing Rules.

**PRINCIPLE 6: UNITHOLDER COMMUNICATION**

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. The financial statements are sent to all Unitholders.
- Proposed major changes in the Fund which may impact on Unitholders' rights are submitted to a vote of Unitholders.

**PEPPERCORN INVESTMENT FUND  
CORPORATE GOVERNANCE STATEMENT  
FOR THE YEAR ENDED 30 JUNE 2004**

---

**PRINCIPLE 7: RISK MANAGEMENT**

The board has constantly sought to identify, monitor and mitigate risk. Internal controls are monitored on a continuous basis and, wherever possible improved. Review takes place at both Committee level (Audit Committee and Compliance Committee), and at Board level.

**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, Peppercorn Management Group, 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.

**Corporate reporting**

The Managing Director and Chief Financial Officer have made certifications to the Board that:

- the statement given in accordance with best practice recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control; and
- the Fund's risk management and internal compliance and control system is operated efficiently and effectively in all material respects.

**PRINCIPLE 8: RESPONSIBLE ENTITY PERFORMANCE**

The Responsible Entity's Board acknowledges that performance can always be enhanced and will continue to seek and consider ways of further enhancing performance.

**PEPPERCORN INVESTMENT FUND  
CORPORATE GOVERNANCE STATEMENT  
FOR THE YEAR ENDED 30 JUNE 2004**

---

**PRINCIPLE 9: REMUNERATION**

Remuneration of the Responsible Entity is dealt with comprehensively in the Fund's Constitution. Refer to note 18 of the financial statements for details regarding remuneration of the Responsible Entity.

**PRINCIPLE 10: STAKEHOLDER INTERESTS**

**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.

**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.

**ASX GUIDELINES ON CORPORATE GOVERNANCE**

Pursuant to ASX Listing Rules the Fund must provide a statement disclosing the extent to which the ASX best practice recommendations have not been followed during the reporting period. Below the Responsible Entity provides an explanation of any areas where the Fund does not presently comply with ASX best practices.

No member of the Responsible Entity's Board is an independent director under the ASX definition of independent, and the Chairman is not an independent director.

The Board is satisfied that it has addressed this issue by the establishment of a Compliance Committee for the Fund which has a majority of independent members and has an independent member as Chairman.

The recommendation to form a Remuneration Committee has not been adopted as the Fund's Constitution prescribes the Fund's remuneration arrangement with the Responsible Entity.

The recommendation to form a nomination committee has also not been adopted due to the size of the Responsible Entity.

The Fund is not required to hold an annual general meeting under the Corporations Act and the Fund's Constitution, therefore the recommendation to request the attendance of the external auditor at the annual general meeting is not relevant to the Fund.

The ASX guidelines also prescribe that the Fund should maintain a dedicated corporate governance information section on its website. Such a dedicated section is not presently available on the Fund's website, although the annual financial report will be posted to the website and the Statement of Corporate Governance can be viewed there.

## **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 8 September 2004.

### **2. On-market buy-back**

There is no current on-market buy-back.

### **3. Distribution of unitholders (as at 8 September 2004)**

---

<b>Number of units held</b>	<b>Number of Unitholders</b>
1 - 1,000	148
1,001 - 5,000	971
5,001 - 10,000	1,037
10,001 - 100,000	1,146
100,001 and over	72
<b>Total</b>	<b>3,374</b>

---

There were 54 unitholders holding less than a marketable parcel at 8 September 2004.

### **4. Classes of units and voting rights**

At 8 September 2004, there were 3,374 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 8 September 2004)

Name	Number of ordinary units held	Percentage of capital held %
M F Custodians Ltd	3,638,400	4.89
J P Morgan Nominees Australia Limited	1,714,362	2.30
Sandhurst Trustees Ltd <Aust Ethical Equities A/C>	1,619,325	2.18
Perpetual Trustee Company Limited	1,520,000	2.04
Feng Holdings Pty Ltd	1,400,000	1.88
Mutual Trust Pty Ltd	1,211,769	1.63
J & L Nominees Pty Ltd	1,185,786	1.59
National Nominees Limited	1,009,369	1.35
ANZ Nominees Limited	831,161	1.11
Mr Roderick Hollonds	815,110	1.09
Sandhurst Trustees Ltd <Aust Ethical Large Co A/C>	730,947	0.98
Bond Street Custodians Limited	687,370	0.92
Mr Warren Arthur Castray and Ms Denyse Ann Castray	680,000	0.91
Mr Ean Keith Youd & Mrs Margaret Maud Youd	600,000	0.80
Talkikids Pty Ltd	592,893	0.79
Bastiaan Enterprises Pty Ltd	567,575	0.76
Sandhurst Trustees Ltd <Aust Ethical Balanced A/C>	556,150	0.74
ANZ Nominees Limited	535,647	0.72
Hillstowe Pty Ltd	515,181	0.69
Mr Lyndon Campbell Macmillan & Mrs Jennifer St John Macmillan	500,000	0.67
	20,911,045	28.15

## PEPPERCORN INVESTMENT FUND DIRECTORY

---

Registered office of Responsible Entity and Principal place of business of the Fund	<b>DDH Graham Limited</b> 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	<b>Peppercorn Holdings No 4 Pty Ltd</b> Level 6 232 Adelaide Street Brisbane Qld 4000
Auditors	<b>William Buck</b> Level 16 William Buck Centre 120 Edward Street Brisbane Qld 4000
Taxation Advisors	<b>PricewaterhouseCoopers</b> Level 17 Waterfront Place 1 Eagle Street Brisbane Qld 4000
Custodian	<b>Trust Company of Australia Limited</b> 213-217 St Paul's Terrace Spring Hill Qld 4006
Unit Registry	<b>ASX Perpetual Registrars</b> Level 22, 300 Queen Street Brisbane QLD 4000
Stock Exchange	The Trust is listed on the <b>Australian Stock Exchange</b> . The Home Exchange is <b>Brisbane</b> . <b>ASX Code: PIV</b>