APNIC EC Meeting Minutes

Teleconference
Thursday 13 December 2007

***Meeting Start**: 3:02 pm (UTC +1000)*

Present

Akinori Maemura (Chair)
Che-Hoo Cheng
Vinh Ngo
Kuo-Wei Wu
Kusumba Sridhar
Ming-Cheng Liang
Paul Wilson

Geoff Huston (Executive Secretary)
Irene Chan
Connie Chan
Richard Brown

Apologies

Mao Wei

Agenda

1. Roll Call and Agenda bashing
2. Minutes of Last Meeting and Matters Arising
3. Finance Report
4. Director-General's Report
5. APNIC 2008 Budget
6. EC Nomination of AC member for 2008
7. Approval of APNIC Policy Proposal 049 (ASN Blocks to RIRs)
8. Property Investment Report
9. AOB

The agenda was completed, with all meeting papers and documents circulated to the EC, on the 10th of December.

Minutes

1. Roll Call and Agenda bashing

Agenda Item 8 (Property Investment Report) was considered as the first item of business for the meeting.

2. Minutes of Last Meeting and Matters Arising

The minutes from the meeting of 21 November 2007 were approved.

Action ec-07-047: Secretariat to publish minutes of 21 November 2007 meeting

Review of action items:

Action ec-07-032:	EC to consider Phase 2 of the KPMG study following completion of the 2008 budget process **outstanding**
Action ec-07-033:	Secretariat to add IPv6 per address fee to the APNIC 25 Policy SIG agenda **outstanding**
Action ec-07-038:	Secretariat to publish minutes of 11 October 2007 meeting **completed**
Action ec-07-039:	Secretariat to publish minutes of 16 October 2007 meeting **completed**
Action ec-07-040:	Secretariat to prepare a property investment briefing to the EC **completed**
Action ec-07-041:	Executive Secretary to report to the EC on the status of adoption of the recommendations contained in the EC Review. **completed**
Action ec-07-042:	Procedures for the conduct of business to be published as part of the APNIC corporate document collection. **completed**
Action ec-07-043:	EC members to provide nominations for AC member to the Executive Secretary prior to next EC meeting **completed**
Action ec-07-044:	DG to inform the NRO EC of the APNIC approval of the draft exchange of letters between the NRO and ICANN **completed**
Action ec-07-045:	Executive Secretary to draft EC response to the Sig Chairs request. **completed**
Action ec-07-046:	Executive Secretary to prepare EC Candidate nomination material describing the roles, responsibilities and obligations of individual members of the EC. **outstanding**

3. Finance Report

The EC considered the financial reports for the month ending November 2007 (attached).

The EC approved the financial report.

4. Director-General's Report

The DG noted that the annual report on APNIC's activities for 2007 was being prepared.

The DG proposed a number of matters for detailed EC consideration for 2008:

- A review of the procedures for electronic voting
- The adoption of procedures for the conduct of the Members' Meetings
- The formation of a EC Finance and Audit Subcommittee
- The continuation of the study on APNIC fee structure and the agenda for the Fees WG. Some enumeration of specific objectives and whether further advice from KPMG that would assist in this activity
- Consideration of the procedures relating to recognition of an NIR and the financial and logistical issues relating to NIR establishment
- Consideration of IP address issues, relating specifically to the state of IPv6 promotion by APNIC in the region and further study of the situation regarding IPv4 unallocated address pool exhaustion.
- Consideration of the further development of the eco-APNIC initiative through the adoption of a carbon-neutral approach to activities and the purchase of carbon credits to offset the carbon implications of business activities

The EC determined to continue the preparation of a set of 2008 activities on the mailing list.

With respect to the voting procedures used at member meetings, the EC advised against the continued use of "bulk" ballots in the same manner as used at APNIC 24..

Action ec-07-048: Executive Secretary to consult EC on matters for consideration for 2008

5. APNIC 2008 Budget

The EC resumed consideration of the draft APNIC Budget for 2008 (attached).

The EC passed a motion providing the Secretariat with expenditure authority to the amount of AUD $10,498,170 for operational expenditure and AUD $1,000,500 for the purchase of capital assets to support the operations of APNIC for 2008.

6. EC Nomination of AC member for 2008

The DG declared a conflict of interest, and did not participate in the consideration of this item.

The EC selected Toshiyuki Hosaka as the APNIC Executive Council appointment on the NRO for the term 1 January 2008 until 31 December 2008.

Action ec-07-049: Secretariat to inform NRO of the appointment of Toshiyuki Hosaka to the NRO Number Council for 2008.

7. Approval of APNIC Policy Proposal 029 (ASN Blocks to RIRs)

The EC reviewed APNIC Policy Proposal 049, a global policy proposal relating to the distribution of Autonomous System Number blocks from the IANA to the RIRs.

The EC endorsed this policy proposal for APNIC.

Action ec-07-050: Secretariat to inform NRO Number Council of APNIC endorsement of policy proposal 049.

8. Property Investment Report

The EC reviewed the report on APNIC property investment options (attached).

The EC decided to resume consideration of this item at the EC meeting at APNIC 25.

9. AOB

No additional items were raised at the meeting.

10. Next meeting

17 January 2008 (Teleconference)

Meeting closed: *5:32 pm (UTC+1000)*

Action items

Action ec-07-032: EC to consider Phase 2 of the KPMG study following completion of the 2008 budget process

Action ec-07-033: Secretariat to add IPv6 per address fee to the APNIC 25 Policy SIG agenda

Action ec-07-046: Executive Secretary to prepare EC Candidate nomination material describing the roles, responsibilities and obligations of individual members of the EC.

Action ec-07-047: Secretariat to publish minutes of 21 November 2007 meeting

Action ec-07-048: Executive Secretary to consult EC on matters for consideration for 2008

Action ec-07-049: Secretariat to inform NRO of the appointment of Toshiyuki Hosaka to the NRO Number Council for 2008.

Action ec-07-050: Secretariat to inform NRO Number Council of APNIC endorsement of policy proposal 049.

Attachment

3. Finance Report

November Financial Report

APNIC

Monthly financial report (in AUD)

For the month ending November 2007

Asia Pacific Network Information Centre

1. Balance Sheet

Statement of Financial Position (AUD)					
	30/11/2007	% of Total Asset or	% change from 31/12/2006	Year-End 2006	Year-End 2005
Exchange rate(*)	***0.8916(1)***	**Liab+Equity**	*12.30%*	*0.7938(2)*	*0.7363(2)*
CURRENT ASSETS					
Cash	**6,719,579**	**45%**	18.0%	**5,696,300**	**5,173,256**
Term deposit investment	**2,800,000**	**19%**	-15.2%	**3,300,000**	**3,300,000**
Receivables	**1,166,816**	**8%**	-30.3%	**1,673,458**	**1,209,551**
Advance payment (Prepayment, Deposit, etc)	**115,165**	**1%**	-13.6%	**133,331**	**117,361**
Others	**16,275**	**0%**	9.0%	**14,937**	**5,269**
TOTAL CURRENT ASSETS	**10,817,835**	**72%**	**0.0%**	**10,818,026**	**9,805,436**
NON-CURRENT ASSETS					
Other financial assets	**1,226,018**	**8%**	6.8%	**1,148,369**	**1,020,778**
Property, plant and equipment	**1,684,518**	**11%**	12.7%	**1,494,461**	**1,319,499**
Long term deposit investment	**1,200,000**	**8%**	-40.0%	**2,000,000**	**2,000,000**
TOTAL NON-CURRENT ASETS	**4,110,536**	**28%**	**-11.5%**	**4,642,830**	**4,340,277**
TOTAL ASSETS	**14,928,372**	**100%**	**-3.4%**	**15,460,856**	**14,145,713**
CURRENT LIABILITIES					
Accrued expenses	**905,247**	**6%**	-37.9%	**1,458,382**	**1,078,411**
Provisions	**768,874**	**5%**	8.6%	**707,834**	**531,283**
Unearned revenue	**4,326,420**	**29%**	1.3%	**4,271,275**	**3,675,909**
TOTAL LIABILITIES	**6,000,541**	**40%**	**-6.8%**	**6,437,490**	**5,285,602**
EQUITY					
Share capital	**1.00**	**0%**	0.0%	**1.00**	**1.00**
Reserves	**73,641**	**0%**	-48.7%	**143,620**	**158,167**
Retained earnings	**8,854,188**	**59%**	-0.3%	**8,879,745**	**8,701,943**
TOTAL EQUITY	**8,927,830**	**60%**	**-1.1%**	**9,023,366**	**8,860,111**
TOTAL LIABILITIES & EQUITY	**14,928,372**	**100%**	**-3.4%**	**15,460,856**	**14,145,713**

(*) The exchange rates used in this report are official average rates provided by the Australia Taxation Office (ATO)
(1) ATO official monthly average rate for November 2007
(2) ATO official spot rate for 31 Dec 2006 and 31 Dec 2005 respectively.

2. Profit and Loss Statement

2.1 Expenses

EXPENSES (AUD)	Nov-07 Actual	YTD Actual	YTD %	Projected Actual 2007	Budget 2007	Projected Year End Budget Variation	Projected Budget Variation %
Bank charges	**5,519**	63,765	0.8%	*69,562*	**59,154**	10,408	17.6%
Communication expenses	**17,084**	202,111	2.6%	*220,485*	**157,298**	63,187	40.2%
Computer expenses	**8,621**	128,848	1.6%	*140,561*	**156,798**	(16,237)	-10.4%
Depreciation expense	**50,883**	513,784	6.5%	*560,492*	**553,966**	6,526	1.2%
Donation/ Sponsorship	**0**	75,245	1.0%	*92,972*	**94,302**	(1,330)	-1.4%
Doubtful debt expenses	**0**	1,940	0.0%	*14,303*	**14,303**	0	0.0%
ICANN contract fee	**0**	243,540	3.1%	*243,540*	**273,846**	(30,307)	-11.1%
Meeting and training expense	**2,489**	149,245	1.9%	*162,813*	**188,001**	(25,188)	-13.4%
Membership fees	**4,159**	49,336	0.6%	*53,821*	**75,231**	(21,410)	-28.5%
Miscellaneous expenses	**44**	3,837	0.0%	*4,186*	**9,707**	(5,521)	-56.9%
Office operating expenses	**6,233**	190,651	2.4%	*207,983*	**190,458**	17,525	9.2%
Personnel expenses	**63,219**	527,469	6.7%	*596,269*	**549,049**	47,221	8.6%
Postage & delivery	**6,091**	39,539	0.5%	*43,134*	**45,663**	(2,529)	-5.5%
Printing & photocopy	**1,009**	35,191	0.4%	*38,390*	**42,053**	(3,663)	-8.7%
Professional fees	**40,000**	373,177	4.7%	*437,102*	**488,141**	(51,040)	-10.5%
Publicity expense	**39,622**	62,921	0.8%	*68,641*	**68,141**	500	0.7%
Recruitment	**6,217**	83,315	1.1%	*95,901*	**82,062**	13,839	16.9%
Rent and outgoings	**47,232**	418,391	5.3%	*456,427*	**412,280**	44,147	10.7%
Salaries	**292,233**	3,319,193	42.0%	*3,830,600*	**4,081,493**	(250,893)	-6.1%
Staff Training/conference	**3,221**	75,714	1.0%	*82,598*	**73,811**	8,787	11.9%
Tax expense	**14,905**	174,484	2.2%	*215,346*	**333,858**	(118,511)	-35.5%
Translation Expenses	**3,342**	11,520	0.1%	*26,520*	**58,001**	(31,481)	-54.3%
Travel expenses	**111,386**	1,153,667	14.6%	*1,165,667*	**1,037,770**	127,897	12.3%
TOTAL EXPENSES	**723,509**	**7,896,885**	**100.0%**	***8,827,313***	**9,045,387**	**(218,074)**	**-2.4%**

2.2 Revenue

REVENUE (AUD)	Nov-07 Actual	YTD Actual	YTD %	Projected Actual 2007	Budget 2007	Projected Year End Budget Variation	Projected Budget Variation %
Interest income	**52,981**	401,895	5.2%	*581,895*	**546,577**	35,317	6.5%
IP Resource application fees	**67,551**	711,892	9.2%	*776,610*	**717,914**	58,696	8.2%
Membership fees	**511,829**	5,593,249	72.2%	*6,101,726*	**5,948,589**	153,137	2.6%
Non-members fees	**11,443**	132,143	1.7%	*144,155*	**98,578**	45,577	46.2%
Per Allocation fees	**93,450**	1,219,534	15.7%	*1,330,401*	**917,140**	413,261	45.1%
Reactivation fees	**1,055**	11,854	0.2%	*12,932*	**6,319**	6,613	104.7%
Sundry income	**(16,859)**	203,096	2.6%	*205,096*	**186,883**	18,214	9.7%
Realised foreign exchange gain/(loss)	**(329,098)**	(521,946)	-6.7%	*(521,946)*	**0**	(521,946)	0.0%
TOTAL REVENUE	**392,351**	**7,751,717**	**100.0%**	***8,630,869***	**8,421,999**	**208,870**	**2.5%**

2.3 Operating Profit/ Loss – against budget

Revenue and Expenses (AUD)	Nov-07 Actual	YTD Actual	YTD %	Projected Actual 2007	Budget 2007	Projected Year End Budget Variation	Projected Budget Variation %
Total Revenue	**392,351**	7,751,717	100.0%	*8,630,869*	**8,421,999**	208,870	2.5%
Total Expenses	**723,509**	7,896,885	100.0%	*8,827,313*	**9,045,387**	(218,074)	-2.4%
OPERATING PROFIT/ (LOSS)	**(331,158)**	**(145,167)**		**(196,444)**	**(623,388)**		

2.4 Operating Position – after foreign exchange adjustment

Revenue and Expenses (AUD)	YTD Actual	Projected Actual 2007
Total Revenue	7,751,717	*8,630,869*
Unrealised foreign exchange gain/(loss)	119,611	*(220,078)*
Total Expenses	7,896,885	*8,827,313*
OPERATING PROFIT/ (LOSS)	**(25,557)**	**(416,522)**

Note:

Accounts are projected to the end of the year based on the following method:

- where the line item is based on activity spread across the year , a pro-rata estimate is made using the average monthly rate as the basis of the prediction, or
- if the expenditure or revenue is based on a single transaction, or a small number of transactions, the year to date figures will be used if further expenses or revenues are not expected, or
- updated information provided by area managers.

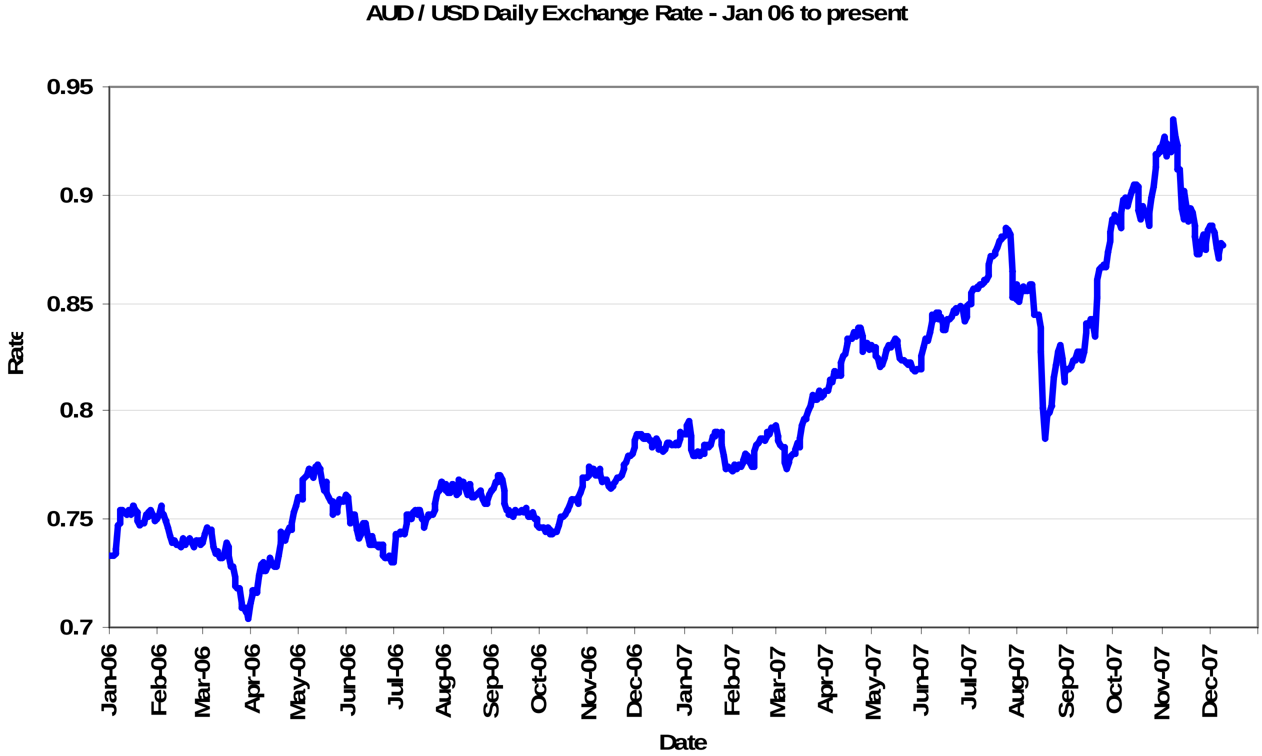
3. Foreign Exchange

The AUD / USD exchange rate has fluctuated across a 7% band of variation across the month of November. The opening rate was 0.94225 at the start of November, and 0.89415 on 1 December.

The AUD / USD currency exchange rate figures for November 2007 are:

ATO official monthly average rate for November 2007	0.9043
ATO average exchange rate for Jan to Nov 2007	0.84189
NAB Foreign Exchange Outlook 2007 average rate for Jan – Dec 2007	0.8524
Budget average exchange rate for 2007	0.7889
Exchange rate as of 30 November 2007	0.8916
Projection for the exchange rate used for 1 January 2008	0.9000

The chart below shows the daily AUD / USD exchange rate for the period since 1 January 2006.



4. Membership

By the end of November 2007, APNIC had a total of 1,571 members serving 51 economies. There is a net gain of 19 members, with 28 new members, 10 closed members, and one member reactivated. Economies in which APNIC have the highest members are Australia (418 members), India (187 members), and Hong Kong (141 members).

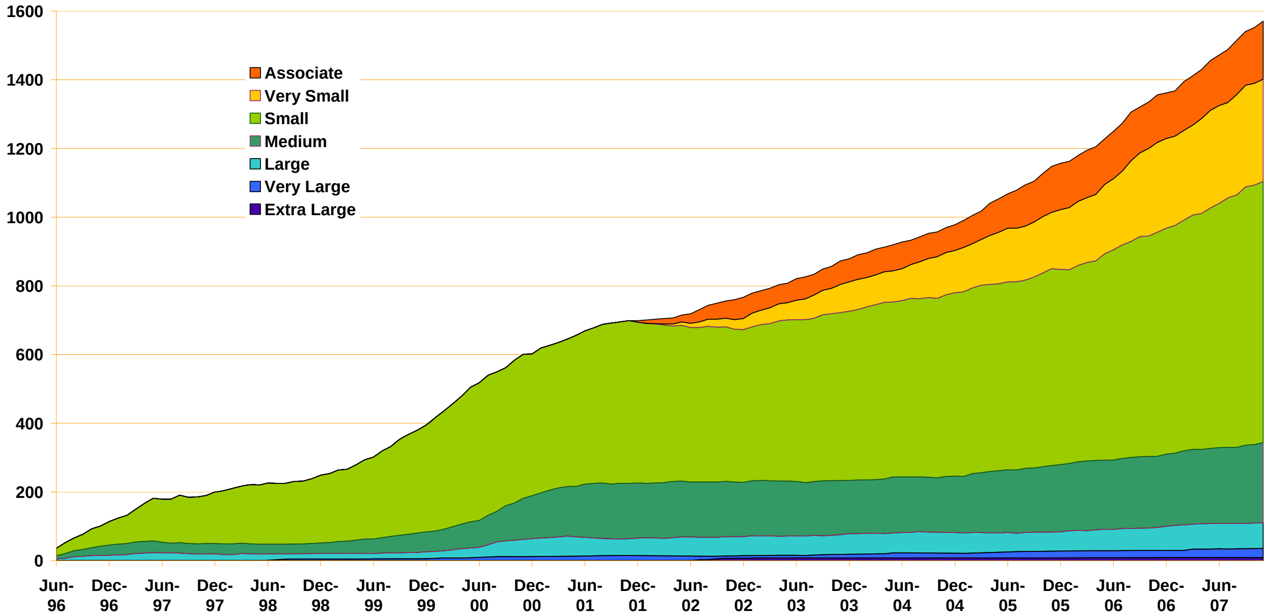
The following table shows the monthly membership changes, and the analysis of membership tier of APNIC.

Membership	**Total Oct-07**	**New Nov-07**	**Reactivated Nov-07**	**(Closed) Nov-07**	**Size Change Nov-07**	**Total YTD Nov-07**	**Total YTD (%) Nov-07**
Extra Large	**9**	0	0	0	0	**9**	**1%**
Very Large	**26**	0	0	0	1	**27**	**2%**
Large Member	**75**	0	0	0	0	**75**	**5%**
Medium	**228**	1	0	0	4	**233**	**15%**
Small	**755**	5	1	(5)	4	**760**	**48%**
Very Small	**297**	8	0	(3)	(4)	**298**	**19%**
Associate	**162**	14	0	(2)	(5)	**169**	**11%**
TOTAL	**1552**	**28**	**1**	**(10)**	**0**	**1571**	**100%**

Table below compares actual growth of membership till the end of November 2007 with the budgeted growth on a pro-rata basis.

Membership	**Actual Total EOY 2006**	**Actual Total YTD Nov-07**	**Actual Growth YTD 2007**	**Budgeted Total EOY 2007**	**Budgeted Growth EOY 2007**	**Budgeted Growth YTD (*)**	**Variation Actual vs. Budget (*)**
Extra Large	**9**	**9**	0	10	1	1	-1
Very Large	**21**	**27**	6	22	1	1	5
Large Member	**70**	**75**	5	84	14	13	-8
Medium	**210**	**233**	23	224	14	13	10
Small	**658**	**760**	102	748	90	83	20
Very Small	**261**	**298**	37	348	87	80	-43
Associate	**133**	**169**	36	131	-2	-2	38
TOTAL	**1362**	**1571**	**209**	**1567**	**205**	**188**	**21**

The graph below illustrates the historical figures for total memberships since the establishment of APNIC's membership system in 1996; the membership is growing steadily with an underlying trend model that is stronger than a linear growth. The monthly net change in membership is shown in the following graph.



Attachment

5. APNIC 2008 Budget

APNIC Budget - Financial Year 2008

Approved: 13 Dec 2007

1. Summary

This budget is prepared for the APNIC financial year January to December 2008. It includes revenue, expense and cash flow projections based on the planned activity profile for APNIC for 2008, projected membership growth and other financial factors including projected cost index movement and cash interest rates.

The purpose of this paper is to allow the Executive Council of APNIC to approve an expenditure level for 2008, in the manner as described in the APNIC ByLaws:

> "to establish the basis for the budget of APNIC and determine, in the light of the decisions taken by the Members on the reports referred to in by-law 5(b) above, a ceiling for the expenditure of APNIC until the next AGM after considering all relevant aspects of the work of APNIC in that period" [*APNIC ByLaws30(g)*]

The operational expenditure for APNIC for 2008 is proposed to be **AUD $10,498,170**, the projected revenue for 2008 is **AUD $10,992,248**, and the anticipated operating surplus for the year is **AUD $494,077**.

The capital asset outlay for 2008 is proposed to be **AUD $1,000,500.**

Formal EC approval has been provided by resolution of the EC for expenditure authority to the amount of AUD $10,498,170 for operational expenditure and AUD $ 1,000,500 for the purchase of capital assets to support the operations of APNIC for 2008.

2. Budget Preparation Notes

2.1. Data Sources

The APNIC 2008 budget has been prepared on the basis of expenditures forecast to support the APNIC in undertaking membership services and support functions for 2008.. The data sources used to prepare this budget are:

- The APNIC member survey has been used to prepare departmental activity programs for 2008 which have been assembled into projections for line item expenditure forecasts as reported in the APNIC General Ledger accounting system.
- The APNIC organizational structure provides data concerning the staff establishment level.
- The forecasts of expenditure use trend and variability estimates based on financial data drawn from the APNIC annual financial reports from 2003 to 2006, and the projected financial outcome for 2007, as of the October 2007 monthly financial report.
- The Financial Outlook report for 2008 produced by the National Bank of Australia has been used for interest rate and Consumer Price Index (CPI) forecast information.
- The APNIC Asset Registry provides data concerning the line item for depreciation.
- Financial advice has been provided by APNIC's accountants concerning APNIC's taxation liability.
- Revenue data has been adjusted to take into account the 2008 APNIC fee schedule and the use of the AUD for membership fee and service payments.

2.2. Currency

2008 will be the first year that APNIC will use a single currency for both invoicing and expenses, and these budget figures use the Australian Dollar for all 2008 budget projections.

2.3. Trend Analysis and Variance

The APNIC 2008 budget has been prepared using a scenario of a projected outcome and variance levels that reflect the level of predicted certainty of the forecast amount represented as 'low' and 'high' bounds. The 'low' outlook reflects a lower bound on the probable income and expenditure projections, while the 'high' outlook reflects a higher probability bound on the underlying business activity level projections. These bounds reflect the anticipated range of variance of overall activity levels within the business.

The calculation of these trend projections is based on a statistical analysis of APNIC financial data over the period 2003 – 2007. The annual historical expenditure and revenue data has been analyzed on a per-line item basis to generate a weighted mean annual variation for all line items for each year. The weighting is an exponential decay distribution, placing a higher relative weight on the most recent data and a reduced weight on older data, and the particular approach used here is calculated by placing 50% weight on the 2006 – 2007 variation and 30% weight on the 2005 – 2006 variation, 20% weigh on the 2004 - 2005 variation, and 10% weight on the 2003 – 2004 variations.

For the membership numbers, where the historical data has underlying trend characteristics of compound growth rather than linear growth, the weighted mean is applied to the annual growth ratio series, using the same relative weightings as the weighted mean annual variation.

The variability of each line item is calculated as one mean standard deviation of the data from the weighted mean, producing confidence bounds of the projected expenditure or revenue for that line item.

2.4. Projection Techniques

The preparation of the APNIC 2008 budget is based on a number of projection techniques:

- Where there is a calculated outcome that can be based on known data, existing contracts or known financial arrangements, that value has been used. For example, the line item relating to office rent is based on the amount specified in the office lease contract.

- Where the expenditure line item relates to the supply of goods or services, a calculated net cost based index has been used. This cost base index is calculated using 50% of the projected Consumer Price Index movement for 2008, 50% of the relative membership increase projected for 2008 and discounting these two factors by a projected activity productivity level factor.

- In other cases the trend analysis approach is used, where the weighted mean annual variation of the line item for the period 2003 - 2006 is used as the basis for the projection.

- Where additional information is available to modify these projections, the adjustments have been made to the line item.

The 2008 APNIC revenue projection has been prepared by firstly projecting the 2008 membership levels, using the weighted mean variation of the annual growth ratios for the past 5 years, as described above. These membership levels have been converted into a projected revenue stream be applying the 2008 APNIC membership fee schedule to the projected membership numbers, assuming a uniform spread of new members across the 2008 calendar year. Variation in this projection is based on the mean standard deviation of the weighted mean.

The projections for APNIC revenue line items have been prepared by using the weighted mean variation technique as applied to the 2003 – 2007 USD revenue financial data to produce 2008 USD revenue projections for each line item in order to eliminate the superimposition of the effects of a shifting AUD / USD exchange rate on this financial data. These projected revenue amounts for 2008 have then been converted to AUD using the conversion rate of 0.7889, as per the EC decision of October 2007. Variation is based on a mean standard deviation of the weighted mean.

Interest revenue projections have been adjusted to account for the use of higher Australian interest rates over US rates, and further adjusted to account for the National Australia Bank’s higher interest rate outlook for AUD cash securities for 2008.

The 2008 expenditure projection has been prepared by gathering budget forecasts from each APNIC department based on activity plans that support the priorities as listed in the APNIC member survey. These budget forecasts have been combined with known financial commitments, projected net cost base movement for 2008, and the weighted mean of the expenditure variation over the 2003 – 2007 period, and projections have been made on a per line-item basis for each line item in the APNIC financial reporting system.

3. 2008 Membership Projection

The APNIC membership profile for the period 2000 to 2007 is indicated in the following table.

Membership	2000	2001	2002	2003	2004	2005	2006	2007 (est)
X-Large	0	0	7	8	8	8	9	9
V-Large	12	15	8	11	14	20	21	27
Large	52	51	55	60	60	56	70	76
Medium	125	160	158	155	164	196	210	233
Small	413	468	445	493	534	568	658	780
V-Small	0	0	32	85	123	174	261	305
Assoc	0	5	62	67	75	135	133	171
Total	602	699	767	879	978	1157	1362	1601
		16%	10%	15%	11%	18%	18%	18%

* based on a pro rata growth projection using APNICmembership numbers as of 31 October 2007

The weighted mean annual variance and mean standard deviation of relative annual member levels for the period 2003 – 2007 is indicated below.

Mean Annual Compound Growth	Weighted Avg Compound Growth (2003 - 2007) *	Mean Std Dev
X-Large	1.03	0.06
V-Large	1.25	0.13
Large	1.10	0.11
Medium	1.11	0.04
Small	1.15	0.05
V-Small	1.33	0.15
Assoc	1.28	0.27
Total	1.17	

* based on an exponential decay weighted mean ratio of 2003 - 2007 variance (5,3,2,1)

Applying the weighted mean variation to the 2007 membership level provides the following projection of membership levels for 2008.

		2008 Projection		
Membership	2007 (est)	2008 (Low)	2008 (Med)	2008 (High)
X-Large	9	9	9	10
V-Large	27	30	34	37
Large	76	75	83	92
Medium	233	248	259	269
Small	780	857	894	932
V-Small	305	360	405	451
Assoc	171	172	219	266
Total	1601	1751	1903	2057
Variation	18%	9.37%	18.86%	28.48%

This projection provides a growth model for membership levels for 2008.

To convert this to a projected revenue stream the model takes into account the accrual accounting approach (which has been required by the APNIC auditors), where 50% of the receipts from membership fees for 2007 are carried forward into 2008. As the 2007 membership fees were paid in USD this model also takes into account the practice of converting the fees to USD at the time of the invoice.

The accrual accounting model also implies that on average only 50% of the AUD income in the 2008 year is available for the 2008 budget, while the remainder is carried forward to 2009.

Accordingly, the membership population as of the end of 2007 is projected forward into 2008 using one half of the actual membership fee income converted to AUD at the time of raising the invoice. According to this approach, this membership population will renew their membership in 2008 using the AUD fee schedule, so fee revenues for these renewals are calculated as one half of the annual AUD membership fee amount (it is neutral within this model whether the renewal is an actual renewal or a closure and a new membership, so the entire end-of-year membership is assumed to be renewing). Additional memberships for 2008 are valued at 50% of the AUD fee schedule, as, assuming an even distribution of new membership processing across 2008, one half of the incremental 2008 membership revenue will be booked in the 2008 budget year and one half of this amount is carried forward into the 2009 budget.

The implication of the accrual accounting approach to membership revenues is that the full effect of the AUD fee change will not be realized until the 2009 financial year.

This model predicts that 82% of the membership will be contributing one half of their 2007 fees to the 2008 budget, using an average exchange rate of 0.84, which is 6% lower than the 2008 fee schedule in AUD terms, and the 19% of total members that are new members in 2008 will only be contributing one half of their 2008 fees to the 2008 budget. For this reason the net impact on the membership fees for 2008 is projected to be only 14% higher than 2007, in AUD terms.

The AUD projection for membership fee revenue for 2008 is shown in the following table.

Membership Fee Revenue	**2007 (est)**	**2008 (Low)**	**2008 (Med)**	**2008 (High)**
X-Large	417,086	442,452	442,452	467,803
V-Large	625,628	701,705	752,408	790,436
Large	880,514	927,726	978,430	1,035,471
Medium	1,349,735	1,479,357	1,514,215	1,545,905
Small	2,259,213	2,518,618	2,577,244	2,637,454
V-Small	441,705	512,142	547,793	584,236
Assoc	123,822	131,749	150,367	168,984
Membership Fees (AUD)	6,097,704	6,713,748	6,962,908	7,230,290
Variation from 2007		**10.10%**	**14.19%**	**18.57%**

4. 2008 Revenue Projection

The method used to project the 2008 revenue is one that is intended to eliminate the factors of the movement of the shifting AUD / USD exchange rate over the period 2003 to the present. The projection has taken the APNIC revenue levels, excluding membership dues, in USD, and used this data to generate weighted mean annual variance in each revenue line item, and then converting this amount into AUD using the exchange rate used for the determining the 2008 APNIC fees, namely 0.7889. The revenue history for APNIC for the past seven years is indicated in the following table.

Revenue (USD)	2000	2001	2002	2003	2004	2005	2006	2007 (est)
Interest	125,861	153,764	139,993	195,950	282,928	327,818	428,215	450,846
IP Application Fees		17,297	293,459	351,845	351,188	532,901	583,655	659,084
non-members Fees	47,099	37,037	66,105	80,994	27,686	73,801	90,971	123,462
Per-Allocation Fees	477,164	527,567	422,543	418,275	635,180	636,720	795,127	1,151,849
Reactivation Fees					2,876	957	8,630	11,046
Sundry	30,277	92,181	20,674	31,319	78,007	135,570	183,638	154,808
Startup Fees	238,548	135,014						
Membership Fees	1,715,473	2,472,532	2,871,724	3,409,078	3,510,392	3,733,776	4,159,073	5,197,683
Total	**2,634,422**	**3,435,392**	**3,814,498**	**4,487,461**	**4,888,257**	**5,441,543**	**6,249,309**	**7,748,778**
Variation		**30%**	**11%**	**18%**	**9%**	**11%**	**15%**	**24%**

The weighted average growth (in USD) in revenue is as follows:

Annual Variation (USD)	2004	2005	2006	2007 (est)	Weighted Avg Growth	STD	Variations
Interest	86,978	44,890	100,397	22,631	53,737	33886	65000
IP Application Fees	-657	181,713	50,754	75,429	81,107	52096	20277
non-members Fees	-53,308	46,115	17,170	32,491	22,990	26014	20000
Per-Allocation Fees	216,905	1,540	158,407	356,722	225,347	134837	76337
Reactivation Fees	2,876	-1,919	7,673	2,416	3,103	3240	
Sundry	46,688	57,563	48,068	-28,830	14,715	39900	

Because of the shift to AUD fees and AUD accounts there are a number of one-off adjustments that need to be made to this projection model prior to converting the amounts back into AUD. Prevailing interest rates in AUD are some 2% higher than USD interest levels and this gap is predicted to increase in 2008 due to further rises in the AUD interest rate that are expected in 2008. Accordingly, a further USD 65,000 is added to the interest growth for 2008 to account for this relative change of interest rates between the two currencies.

The shift to AUD fees and an increasing level of resource allocation activity implies that the IP application fee variance projection is low by some 25%. This projection has been adjusted upward by USD 20,277, making a projected increase of USD 101,384, or 34% over the 2007 growth level for IP application fees for 2008.

An adjustment has been made to the non-member fee variation of USD 10,000 to align it to the 2006 – 2007 variation, due to the expectation of continued high levels of allocation activity in the remaining period of IPv4 address availability.

A similar adjustment has been made to the per-address allocation fee revenue amount, of USD 131,375, to align the projected variation to the 2006 – 2007 variation, due to the expectation of continued high levels of allocation activity in the remaining period of IPv4 address availability.

This data has been used to generate a 2008 revenue model by adding the weighted average USD variance to the 2007 line items, adding the adjustments noted above, and then converting the data to AUD using the exchange rate associated with the APNIC 2008 AUD fee schedule rate, namely 0.7889.

The projected revenue for APNIC for 2008 is shown in the following table. In comparing the projections to the 2006 and 2007 revenue numbers the exchange rate variations are included in the variation comparison. The variation in exchange rates has been removed in the Rate Corrected variation amounts.

APNIC 2008 Revenue Projection

Revenue (AUD)	2006	2007 (est)	2008 (Low)	2008 (Med)	2008 (High)	Variation
Interest	565,375	528,914	679,043	721,997	764,950	37%
IP Application Fees	770,603	773,210	897,924	963,960	1,029,996	25%
non-members Fees	120,110	144,840	165,341	198,316	231,290	37%
Per-Allocation Fees	1,049,811	1,351,301	1,741,329	1,912,246	2,083,163	42%
Reactivation Fees	11,394	12,959	13,828	17,936	22,044	38%
Sundry	242,458	181,614	164,308	214,885	265,462	18%
Membership Fees	5,491,250	6,097,704	6,713,748	6,962,908	7,230,290	14%
Total Revenue (AUD)	**8,251,002**	**9,090,542**	**10,375,522**	**10,992,248**	**11,627,195**	21%
Variation		10%	14%	21%	28%	
Rate Corrected variation		**24%**	6%	12%	18%	

5. 2008 Expense Projection

The expense history (in AUD) for APNIC from 2000 is indicated in the following table.

EXPENSES (AUD)	2000	2001	2002	2003	2004	2005	2006	2007 (est)
Bank charges	21,655	18,631	19,682	22,120	22,560	41,665	56,336	69,895
Communication expenses	80,670	82,244	162,831	213,862	143,539	164,567	125,248	222,032
Computer expenses	23,460	51,095	48,213	54,550	74,713	88,819	151,993	144,272
Depreciation expense	115,189	135,872	216,858	438,010	454,957	467,607	521,466	555,482
Donation/ Sponsorship	84,269	88,897	94,914	55,728	106,037	54,341	110,707	120,801
Doubtful debt expenses	4,563	0	21,348	-11,887	13,778	-3,884	4,727	14,303
ICANN contract fee	117,175	179,473	225,393	176,846	233,082	298,515	245,405	243,540
Meeting and training expense	162,999	256,897	121,192	107,088	92,920	113,202	119,676	176,107
Membership fees	107,666	122,147	116,854	48,504	126,786	144,592	77,423	54,212
Miscellaneous expenses	8,664	5,159	24,899	17,975	19,035	20,470	7,623	4,552
Office operating expenses	39,629	54,812	53,354	114,538	124,633	163,914	176,639	201,302
Personnel expenses	108,127	177,909	277,516	311,774	422,182	394,885	486,979	583,786
Postage & delivery	23,690	27,117	35,177	64,325	55,063	58,902	44,829	40,138
Printing & photocopy	13,371	4,557	44,051	37,527	47,581	38,337	38,696	41,018
Professional fees	141,551	271,597	349,223	419,251	559,642	506,585	422,464	423,177
Recruitment	60,584	47,461	40,311	68,902	61,922	66,240	87,699	87,062
Rent and outgoings	105,505	240,759	280,739	354,403	377,675	370,321	397,254	445,392
Salaries	1,095,983	1,955,466	2,209,949	2,539,879	2,857,459	3,110,795	3,538,164	3,881,574
Staff Training/conference	23,661	49,224	87,917	77,417	65,915	47,655	61,014	73,811
Tax expense	125,262	239,050	99,914	116,193	150,379	179,179	178,803	239,579
Translation Expenses		1,579	3,206	12,059	18,835	13,982	35,281	58,001
Travel expenses	161,453	296,266	623,859	789,610	708,882	788,129	952,703	1,142,282
TOTAL EXPENSES (AUD)	**2,625,127**	**4,306,212**	**5,157,401**	**6,028,674**	**6,737,575**	**7,128,818**	**7,841,129**	**8,822,319**
variation		64%	20%	17%	12%	6%	10%	13%

The cost base variation factors used in this projection are based on the Australian Consumer Price Index projection and the projected activity level increase that is based on membership growth, both factored by 50% to account for the variation across the full year, and a reduction by an estimated productivity improvement factor of 6.5% across APNIC's expense base in terms of service delivery to members. The net cost base movement is estimated to be 4% for the year.

2008 Cost Variation Factors	
CPI Movement (+)	2.9%
Membership Growth (+)	18.9%
Productivity Factor (-)	6.5%
Net Cost Base Movement	**4%**

Both the weighted mean growth and the cast base movement factors for each expense line item are shown as follows.

Annual Variation	2004	2005	2006	2007 (est)	Weighted Mean	STD	Cost Base Variance
Bank charges	440	19,105	14,671	13,559	13,678	4,643	3,070
Communication expenses	-70,323	21,028	-39,319	96,784	30,700	65,322	9,751
Computer expenses	20,163	14,106	63,174	-7,721	18,118	29,333	6,336
Depreciation expense	16,947	12,650	53,859	34,016	33,991	14,727	24,395
Donation/ Sponsorship	50,309	-51,696	56,366	10,094	15,135	37,413	5,305
Doubtful debt expenses	25,665	-17,662	8,611	9,576	5,823	12,025	628
ICANN contract fee	56,236	65,433	-53,110	-1,865	1,677	42,825	10,695
Meeting and training expense	-14,168	20,282	6,474	56,431	29,816	25,748	7,734
Membership fees	78,282	17,806	-67,169	-23,211	-18,515	41,800	2,381
Miscellaneous expenses	1,060	1,435	-12,847	-3,071	-4,542	5,398	200
Office operating expenses	10,095	39,281	12,725	24,663	22,741	9,660	8,840
Personnel expenses	110,408	-27,297	92,094	96,807	74,194	48,082	25,638
Postage & delivery	-9,262	3,839	-14,073	-4,691	-6,114	6,092	1,763
Printing & photocopy	10,054	-9,244	359	2,322	387	5,202	1,801
Professional fees	140,391	-53,057	-84,121	713	-19,502	62,076	18,584
Recruitment	-6,980	4,318	21,459	-637	5,713	10,047	3,823
Rent and outgoings	23,272	-7,354	26,933	48,138	30,005	20,246	19,560
Salaries	317,580	253,336	427,369	343,410	347,583	58,659	170,463
Staff Training/conference	-11,502	-18,260	13,359	12,797	5,095	13,031	3,241
Tax expense	34,186	28,800	-376	60,776	35,867	25,487	10,521
Translation Expenses	6,776	-4,853	21,299	22,720	15,870	10,722	2,547
Travel expenses	-80,728	79,247	164,574	189,579	138,126	79,867	50,165

For each line item in the expenditure table the projection methods described earlier have been applied.

Where the expenditure line item relates to the supply of goods or services, a calculated net cost based movement has been used. Where there are contracts or other fixed payment arrangements in place, the associated payment amounts are used. Where there are known additional factors that impact expenditure in 2008, these factors have been added to the projected expenditure variation. The 2008 budget variations as predicted are indicated in the following table, including a brief explanation of the projection for each line item.

Projected Variation by Line Item	Variation	Remarks
Bank charges	13,678	weighted mean increase
Communication expenses	9,751	cost base
Computer expenses	18,118	weighted mean increase
Depreciation expense	85,998	asset registry amount
Donation/ Sponsorship	70,082	expansion of sponsorship program and meeting publicity expenses
Doubtful debt expenses	5,823	weighted mean increase
ICANN contract fee	41,460	estimated increase in 2008 contribution
Meeting and training expense	7,734	cost base
Membership fees	15,284	cost base
Miscellaneous expenses	982	estimate
Office operating expenses	8,840	cost base
Personnel expenses	94,194	superannuation payments and LSL accrual
Postage & delivery	-3,552	continued cost reduction
Printing & photocopy	-9,492	continued cost reduction
Professional fees	120,995	Phase II KPMG consultancy, and resumption of R&D grant program
Recruitment	3,441	weighted mean increase
Rent and outgoings	220,853	new office rental contract
Salaries	612,681	fill establishment positions, incl 2 exec posns and 5% base increment
Staff Training/conference	10,494	weighted mean increase
Tax expense	35,867	estimated from taxable expenditures
Translation Expenses	15,870	weighted mean increase
Travel expenses	296,751	weighted mean plus surcharge factor

The significant factors in the 2008 expenditure budget are:

- An increase in the office rental to $420 per sq/m per year for 2008, representing a net increase in the rental line item of $220,853 per year.

- An increase in the salary costs of $612,681, representing the filling of 2 executive area manager positions which have been unfilled for 2007 and filling a further 2.5 fill time equivalent positions which have been unfilled for 2007, and the inclusion of provision for an average salary movement of 5% for 2008.

- Travel expenses are estimated to rise by 25% in 2008 due to the anticipated APNIC travel schedule, coupled with the anticipation of continued real upward movement in air ticket prices due to the impact of continued upward movement in the price of oil across 2008.

- Donations and Sponsorship includes explicit provision of meeting publicity expenses as well as some provision for expansion of the sponsorship program, including a resumption of the platinum level membership of ISOC.

- Professional Fees for 2008 includes provision for Phase II of the KPMG consultancy and a resumption of the R&D grants program that was suspended in 2007.

These projected changes are applied to the 2007 expenditure estimates for each line item to produce the 2008 budget. The low and high bounds of the projection are also shown, calculated by using a mean standard deviation from the weighted mean of the past 4 years financial data.

APNIC 2008 Expense Projection

EXPENSES (AUD)	2007 (est)	2008 (Low)	2008 (Med)	2008 (High)	Variance	
Bank charges	69,895	78,930	83,573	88,216	13,678	20%
Communication expenses	222,032	166,461	231,783	297,105	9,751	4%
Computer expenses	144,272	133,057	162,390	191,723	18,118	13%
Depreciation expense	555,482	626,753	641,480	656,207	85,998	15%
Donation/ Sponsorship	120,801	153,470	190,883	228,296	70,082	58%
Doubtful debt expenses	14,303	8,101	20,126	32,151	5,823	41%
ICANN contract fee	243,540	242,175	285,000	327,825	41,460	17%
Meeting and training expense	176,107	158,093	183,841	209,589	7,734	4%
Membership fees	54,212	27,696	69,496	111,296	15,284	28%
Miscellaneous expenses	4,552	136	5,534	10,932	982	22%
Office operating expenses	201,302	200,482	210,142	219,803	8,840	4%
Personnel expenses	583,786	629,898	677,980	726,062	94,194	16%
Postage & delivery	40,138	30,494	36,586	42,678	-3,552	-9%
Printing & photocopy	41,018	26,324	31,526	36,728	-9,492	-23%
Professional fees	423,177	482,096	544,172	606,248	120,995	29%
Recruitment	87,062	80,455	90,503	100,550	3,441	4%
Rent and outgoings	445,392	645,999	666,245	686,491	220,853	50%
Salaries	3,881,574	4,435,596	4,494,255	4,552,914	612,681	16%
Staff Training/conference	73,811	71,274	84,305	97,336	10,494	14%
Tax expense	239,579	262,702	275,446	288,190	35,867	15%
Translation Expenses	58,001	63,149	73,871	84,593	15,870	27%
Travel expenses	1,142,282	1,359,166	1,439,033	1,518,900	296,751	26%
Expenses (AUD)	8,822,319	9,882,507	10,498,170	11,113,833	1,675,852	
Variance	13%	12%	19%	26%		

This results in a projected expenditure for APNIC for 2008 of **AUD $ 10,498,170**.

6. 2008 Cash Projection

The 2008 projected cash position adds the forecast capital purchases of equipment, software, furniture and fittings and improvements to the expenditure projections, and subtracts the non-cash expenses. The total cash outflow projections for 2008 are indicated in the following table.

EXPENSES (AUD)	**9,882,507**	**10,498,170**	**11,113,833**
Capital Purchases			
Equipment	843,963	**848,500**	864,930
Software	98,135	**100,000**	100,573
Furniture	12,078	**12,000**	12,378
Improvement	40,261	**40,000**	41,261
Total Capital Purchases	**994,437**	**1,000,500**	**1,019,142**
Non-Cash Expenses			
Bad/ doubtful debt expense	**8,101**	**20,126**	**32,151**
Depreciation expense	626,753	641,480	656,207
Employment entitlements	157,475	169,495	181,515
Loss on dispose of asset	8,861	**8,804**	9,081
Total Non-Cash Expenses	**801,190**	**839,905**	**878,954**
TOTAL CASH OUTFLOW	**10,075,754**	**10,658,765**	**11,254,021**
Total expenditure - capital and operational	**10,876,944**	**11,498,670**	**12,132,975**

7. 2008 Projected Operating Outcome

According to this budget, the operating position for 2008 for APNIC is forecast as follows

Operating Position (AUD)	2007 (est)	2008 (Low)	2008 (Med)	2008 (High)
Expenses	8,822,319	9,882,507	10,498,170	11,113,833
Revenue	9,090,542	10,375,522	10,992,248	11,627,195
Net Outcome	268,223	493,014	494,077	513,362
Year End Exchange Rate	0.9300			
FX Component	-818,723			
Net Operating position	-550,500	493,014	494,077	513,362

The forecast cash reserve position is that the median projection indicates that at the end of 2008 the cash and deposit holdings will be at a level of 92% of the initial 2009 predictions of expenditure, as indicated in the following table. This is not in compliance with the EC's fiscal policy of maintaining a 1 year capital reserve, and that situation has resulted from the impact on current reserves of the projected losses for 2007. It is proposed that APNIC should aim to regain the full 12-month reserve through operating surpluses within the next 3 years.

Cash Reserve Forecast	2008 (Low)	2008 (Med)	2008 (High)
Cash Position 1 Jan 2008	6,666,398	6,666,398	6,666,398
Projected Cash Receipts	10,375,522	10,992,248	11,627,195
Projected Cash Disbursements	10,075,754	10,658,765	11,254,021
Net change in Cash Position	299,767	333,482	373,174
Cash Position 31 Dec 2008	6,966,165	6,999,880	7,039,572
Term Deposit Investments	4,000,000	4,000,000	4,000,000
Cash and Deposits 31 Dec 2008	10,966,165	10,999,880	11,039,572
2009 budget variance	12%	15%	17%
2009 expenditure forecast	11,070,100	12,030,903	13,025,413
2009 Projected Relative Cash holdings	99%	91%	85%

Attachment

8. Property Investment Report

APNIC Office Property Investment

APNIC EC Briefing Note
Draft V2.0
6th December, 2007

Summary

This report demonstrates the financial viability of investing in the commercial property market in Brisbane against continuing to maintain APNIC's existing lease arrangements. The report proposes that the APNIC EC provide the appropriate authority for investment in commercial office property for APNIC's accommodation to an amount of up to $7.5M.

It is proposed that the Chair of the APNIC EC charter a Property Investment Subcommittee, with a subcommittee membership of the Chair, the Treasurer and the Director-General, and delegate this expenditure authority to this subcommittee of the EC. The subcommittee is chartered for an initial period of 12 months. The term of this delegation is for the same period of 12 months.

Background

APNIC has been examining potential investment opportunities in office accommodation in the Brisbane area for the past 2 years. The overall objective of this activity is to convert a portion of the cash reserves into a suitable property investment that would diversify APNIC's investment portfolio, remove the office rental expense from APNIC's budget, and potentially substitute escalating office rental costs with corresponding capital gain opportunities available in the property market. The limited amount of available office space in the city fringe region of Brisbane, combined with strong growth in economic activity is increasing the levels of demand and improving yields in commercial property in this area. This is currently being expressed in rental cost escalation, where, for example, the new lease for the current APNIC office accommodation, effective in April 2008, represents an increase of net rental of over 28% over the previous lease contract.

The EC has previously reviewed this investment initiative, and reviewed reports of potential property investments. The EC has agreed that the Director-General should continue this search for suitable properties in the Brisbane area.

As part of its consideration of the appropriate delegations and authorities associated with an APNIC property purchase, the EC has requested the preparation of a briefing note on property investment.

Current APNIC Office Accommodation

APNIC occupies approximately 50% of the first floor of 33 Park Road, Milton.

The current accommodation includes 1,138 m² of office space, and 27 car parking spaces, this lease expires on 31 March 2008. In October, APNIC committed to a five year extension to this lease which will expire on 31 March 2013. APNIC's establishment level is currently 56 staff, with some expectation of further growth required for the expansion in APNIC services. This office space contains a dedicated equipment room, 3 phase power, fibre optic connections, 2 meeting rooms and a staff kitchen and amenities area. The building is close to rail, bus and river public transport and located on the fringe of Brisbane's CBD.

The current annual lease is $269 (plus GST) per m² and $320 (plus GST) per month for each parking space. Rental charges contained in the new 5 year lease, effective 1 April 2008, will rise to $344 (+GST) and $410(+GST) per parking space. The rental component of this lease will increase by 4% per year for the term of the lease, while parking costs are negotiated with a third party operator. This increase in rents in the new leasing contract is indicative of the robust conditions in the city fringe commercial property market. An option to renew the lease was executed in October and final terms and conditions are currently being negotiated. APNIC will ensure that it maintains the right to sublet these premises should APNIC wish to relocate to other accommodation before the expiry of the lease in 2013.

Financial Summary

It is projected that the APNIC's investing activities of cash reserves will generate a return of around 5% after tax in 2008. A tightening of monetary policy by the Reserve Bank has improved the market rates for cash deposits from those seen over the last few years, but it is difficult to predict whether this trend will continue.

If APNIC were to purchase and occupy its own building this would eliminate a recurrent rental expense of $400,112 AUD per annum, or around 3.8% of the total APNIC expenses budget.

The analysis below illustrates the financial impact of APNIC buying its own building against the costs related to the current leasing arrangements. The most significant saving is the reduction of Income Tax that is payable at 30% on investment income. To develop a reliable model that illustrates the financial effect of leasing vs. buying, a property at 2 Mayneview Street, Milton was used as a benchmark. The marketing agents for this property expect that offers approaching $7M will secure the property. The property is of similar size(1,100 m^2) and location to APNIC's existing premises and has recently been refurbished. The table below compares the economic benefit of purchasing a similar property against APNIC's current lease commitments. The results support the decision to purchase a similar property to accommodate APNIC even when the capital growth of the property is set at a conservative compounding rate of 4% per year for the five years in this analysis.

Current Lease Agreement

Description		2008/2009	2009/2010	2010/2011	2011/2012	2012/2013	Total
Occupancy Costs							
Lease Costs		$ 391,472	$ 407,131	$ 423,416	$ 440,353	$ 457,967	$ 2,120,339
Parking Expenses		$ 8,640	$ 11,480	$ 12,782	$ 14,214	$ 15,790	$ 62,906
General Outgoings		$ 86,488	$ 89,948	$ 93,545	$ 97,287	$ 101,179	$ 468,447
Cash Flow In/(Out)		**($486,600)**	**($508,558)**	**($529,743)**	**($551,854)**	**($574,935)**	**($2,651,691)**
NPV of Future Cash Flows **	**8.50%**	**($486,600)**	**($468,717)**	**($449,993)**	**($432,051)**	**($414,858)**	**($2,252,220)**

Buy Option

Description		2008/2009	2009/2010	2010/2011	2011/2012	2012/2013	Total
Costs related to Purchase of Property							
Capital cost of Building & Land*		$7,000,000	$0	$0	$0	($8,519,000)	($1,519,000)
Stamp Duty		$285,698	$0	$0	$0	$0	$285,698
Fitout Costs		$500,000	$0	$0	$0	$0	$500,000
Legal Fees & Transfer Costs		$20,000	$0	$0	$0	$0	$20,000
Relocation		$100,000	$0	$0	$0	$0	$100,000
Total Purchase Costs		**$7,905,698**				**($8,519,000)**	**($613,303)**
Investment Costs/Savings							
Expense Savings:							
Tax on Interest Income		$ 161,241	$ 168,859	$ 178,040	$ 187,711	$ 197,895	$ 893,746
Lease & Parking Costs		$ 400,112	$ 418,611	$ 436,198	$ 454,567	$ 473,756	$ 2,183,244
Opportunity Costs:							
Tax savings related to Depreciation		$ 2,071	$ 2,071	$ 2,071	$ 2,071	$ 2,071	$ 10,355
Forgone Interest Income Before Tax:		$ 537,469	$ 562,864	$ 593,468	$ 625,702	$ 659,651	$ 2,979,154
(Based on Purchase Price @ Estimated Returns)							
Other Associated Costs:							
Revised Outgoings		$ 48,850	$ 50,804	$ 52,836	$ 54,950	$ 57,148	$ 264,587
Land Tax		$ 7,950	$ 8,586	$ 9,273	$ 10,015	$ 10,816	$ 46,639
Depreciation(Capital Allowance) - Buildings		$ 84,000	$ 84,000	$ 84,000	$ 84,000	$ 84,000	$ 420,000
Depreciation - Office Fitout		$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 125,000
Total Investment New (Costs)/Savings		**($143,987)**	**($145,855)**	**($152,410)**	**($159,460)**	**($167,034)**	**($768,745)**
Cash Flow Including Opportunity Costs/Savings(Out/In)		**($7,940,685)**	**($36,855)**	**($43,410)**	**($50,460)**	**$8,460,966**	**$389,557**
NPV of Investment Cash Flows Inc Opp Cost **	**8.50%**	**($7,940,685)**	**($33,968)**	**($36,875)**	**($39,505)**	**$6,105,216**	**($1,945,817)**
Purchase vs. Lease Cash Flow (Loss)/Gain		**(7,454,085)**	**434,750**	**413,119**	**392,546**	**6,520,074**	**306,404**

Sesitivity Analysis - Cash Flow		2008/2009	2009/2010	2010/2011	2011/2012	2012/2013	Total
Capital Growth of Buildings & Land	**0**	($7,940,685)	($33,968)	($36,875)	($39,505)	$5,009,144	($3,041,888)
Over 5 Years	**10%**	($7,940,685)	($33,968)	($36,875)	($39,505)	$5,514,246	($2,536,786)
	20%	($7,940,685)	($33,968)	($36,875)	($39,505)	$6,019,348	($2,031,684)
	40%	($7,940,685)	($33,968)	($36,875)	($39,505)	$7,029,552	($1,021,480)
	60%	($7,940,685)	($33,968)	($36,875)	($39,505)	$8,039,756	($11,276)

** For this analysis it is estimated that market value of the property after 5 years has increased by 21.6%.*
*** A conservative rate of 8.5% has been used in the discounted cash flow calculation.*

Considerations

By purchasing its own Office building, APNIC will no longer be exposed to the following:

- Being forced to vacate the building at the end of the lease term and required to find an alternative location that may not be fit for purpose
- Be forced to bear the cost of returning accommodation to original state when vacating
- Being forced to accept significant increase in rents at the end of lease term, 28% this time
- Missing out on potential capital gains that commercial property is forecast to achieve in the next 5-10 years

The marketing agents propose that the rental income generated from the building at 2 Mayneview Street, Milton would generate approximately $571,500 AUD per annum gross, including outgoings that would amount to $48,850 AUD. Income of this level from a similar property would provide a competitive return until the existing leases expired and APNIC could relocate its operations to the new premises.

Market Analysis

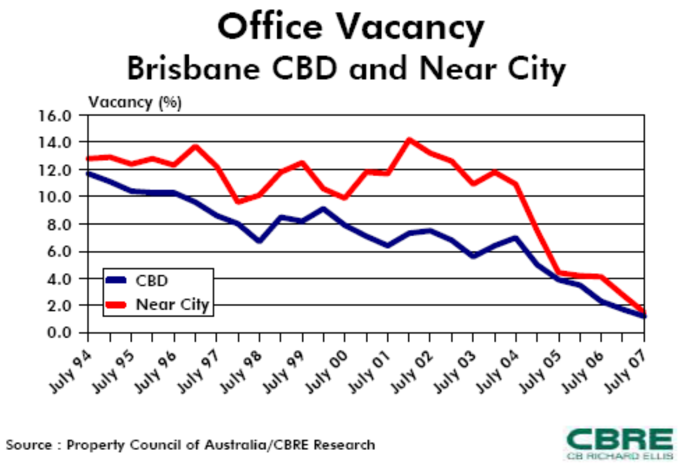
To understand the current state of the commercial property market it is important to understand the factors that are driving growth in capital values and increases in leasing costs. The following pages are the latest market reports from a number of established commercial estate agencies which provide a comprehensive analysis of the market indicators.

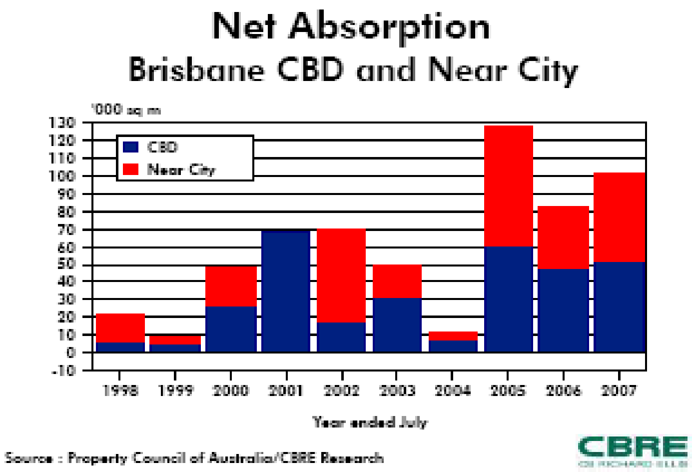
Brisbane Office Market Overview supplied by Marketing Agents CB Richard Ellis.

Brisbane's CBD and Near City office markets have performed exceptionally well in recent times. Vacancy rates are at record lows with net absorption over the last three (3) years averaging 104,000sqm per annum. Effective rents have surged, while over $1 billion worth of major assets changed hands during 2006.

Queensland's economy has outperformed the nation for much of the past decade, expanding by 3.8% in the 2005-06 financial year, again exceeding national growth (2.7%). The Queensland Budget forecasts growth to strengthen to 5.25% in 2006-07, more than double the estimated national growth of 2.25%. The composition of growth is expected to shift, with business and public investment to replace households as the main drivers. Unemployment remains at 30-year lows (3.4% at June 2007). Queensland accounted for 35% jobs created nationally over 2006-07. Business confidence remains high and investment is expanding capacity across sectors.

Fundamentals driving the CBD office market have had a flow-on impact in the Near City, with a record low vacancy rate of 1.3% recorded at July 2007. Net absorption over the 2006-07 year totalled 49,200sqm, with new supply quickly occupied and much of the existing vacant space taken up.



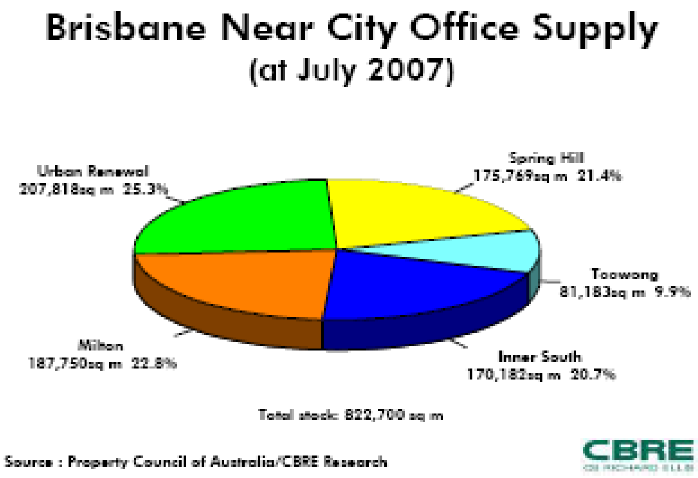


As has been the case in the CBD, effective rents have increased significantly over the past year – by up to 40% - with incentives dropping to below 10%. Conditions are expected to continue to support strong rental growth going forward.

Also mirroring the CBD, investor demand has been strong. Private investors, developers, wholesale funds and syndicates have been the most active purchasers. With CBD stock tightly held and in demand, larger funds are now looking more seriously at Near City opportunities. Prime yields are in the 6.25% to 7.00% range, with secondary yields ranging from 7.00% to 7.75%.

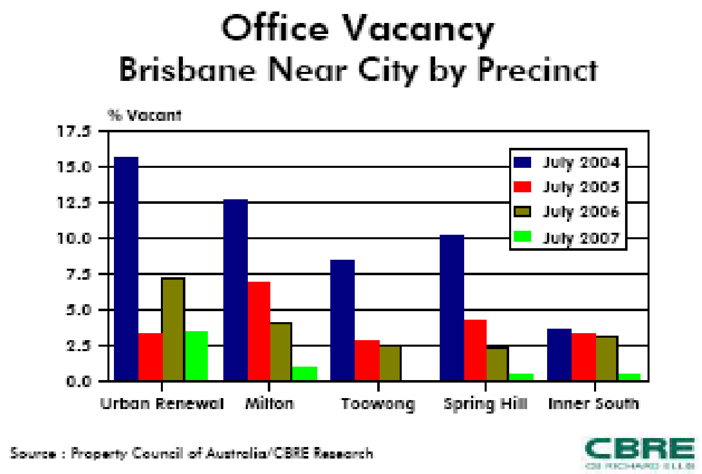
Milton Overview

Milton currently supports 187,800 sq m of office space, 23% of the Near City total and the second largest Near City market after the Urban Renewal precinct (centred on Fortitude Valley).



Supply additions have been scarce in recent years. There are still key development opportunities, however, primarily additional buildings at Coronation Drive Office Park and a transit oriented development above Milton Railway Station. In-fill development is occurring on the few vacant parcels available in Graham Street and surrounds.

Vacancy in Milton was sitting at just 0.9% at July 2007. This represented just 1,700 sq m of available space. Vacancy has fallen from over 16% at the start of 2004, with almost 22,000 sq m of net absorption over this period.



Commentary provided by CBRE and Jones Lang LaSalle

The Brisbane Fringe market is mirroring the conditions seen in the CBD, with the vacancy rate reaching yet another record low in the June quarter. High levels of tenant demand have translated into strong rental growth over the past 12 months, which is expected to continue in the short-term. Fringe assets continue to attract considerable attention from investors, with Prime yields continuing to firm over the past year to now range between 6.75% and 7.00%.

Brisbane Fringe: Key Indicators

	End-June 2007	12-Month Outlook
Total Stock (million sqm)	0.86	↗
New Supply (sqm) (last 12 months)	29,500	↗
Net Absorption (sqm) (last 12 months)	31,000	↗
Vacancy	1.1%	→
Rents (AUD per sqm)*		
Prime Gross Face	$445	↗
Secondary Gross Face	$412	↗
Yields (Prime)	6.75-7.00	↘

The strong momentum of the Queensland economy in 2006 has continued into 2007, with the state managing to growth at pace only matched by Western Australia. The booming resources sector has undoubtedly played a significant role in recent growth, but so too has ongoing strong levels of population growth and the highest level of infrastructure spending of any state. As a result of this general economic strength, the Queensland labour market is as tight as it has ever been, despite a steadily rising participation rate. As such, pressure on labour availability and costs will be a challenge for the state in the short-term, as will pressure on construction resources.

The outlook for the Queensland economy is positive and the economy is expected to outperform the national economy, underpinned by on-going strength in the resources sector, but more broadly, by continued stronger-than-average population growth. Queensland's domestic economy is projected to remain exceptionally strong, especially over 2007 and 2008. Employment growth is expected to remain solid, while the unemployment rate should stay below 5%.Average Weekly Earnings are forecast to be solid in line with the robust economic conditions and retail turnover is gaining momentum. Overall, Queensland remains a 'growth' state and will continue to attract high levels of investment.

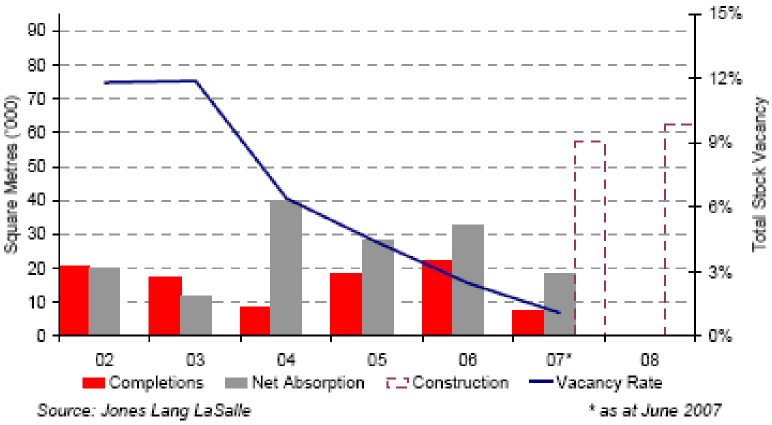
Supply

The June quarter saw just one completion in the Brisbane Fringe, being the 7,225sqm office tower at 601 Coronation Drive. This brings the total of stock additions for the fringe over the last 12 months to 29,500sqm.

The remainder of 2007 will tell a different story as the first completions of a massive construction cycle begin to reach the market. Some 132,000sqm of office space is presently under construction in the Fringe, of which half is expected to complete by year's end. Projects due in the remainder of 2007 include the 17,000sqm Green Square South Tower, the 12,000sqm 199 Grey Street and the 10,000sqm Emporium Stage 4.

The next 12-18 months will see completion levels well above the average yearly level of the last five years as the construction cycle hits full swing.

Additionally, there is considerable stock already in the proposed/planning stages or mooted in the Fringe by the end of 2010.



Demand and Vacancy

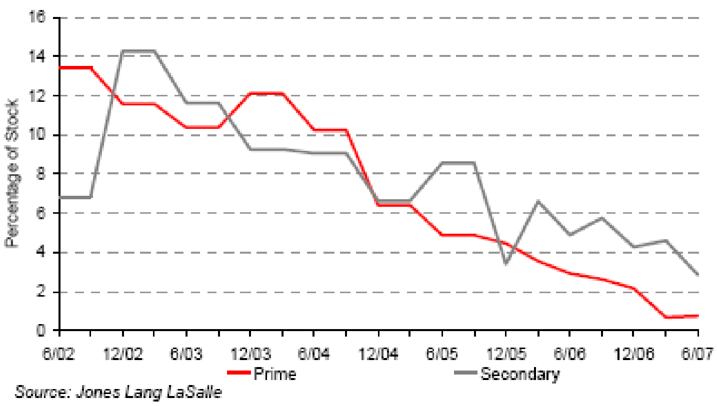
The limited number of tenant moves over 2007 reflects the severe lack of space currently available for lease in the Fringe. In the June quarter, the major move recorded over 1,000sqm was the 1,390sqm taken by Virgin Blue at 518 Brunswick Street.

The June quarter also saw Betta Electrical vacating 2,100sqm at 97 School Street, as a result of the company closing business operations. This space has subsequently been taken by the State Government, but the take-up will take effect in Q3.

The Fringe market conditions have mirrored those of the CBD, with strong tenant demand and extremely limited supply levels. Consequently, these conditions have resulted in the overall Fringe vacancy rate dropping to yet another new low of 1.1% in the June quarter. The prime vacancy rate now sits at 0.7%. By precinct; Fortitude Valley's vacancy rate is currently 2.1%,

Milton's 0.5%, South Brisbane's 0.3%, Spring Hill's 0.5% and Toowong's 0.8%. The overflow from unsatisfied CBD demand and the state's economic prosperity will continue to support strong demand levels in the Fringe over the next 12-18 months. Queensland's aggressive infrastructure investment program will also continue to generate demand from sectors traditionally based in the Fringe; including construction and engineering firms seeking project space.

Although there is a considerable amount of stock in the Fringe supply pipeline over the next 12-18 months, much of this is already pre-committed. Subsequently, vacancy rates are expected to remain near historical lows in the short-term and the market will remain firmly in favour of landlords

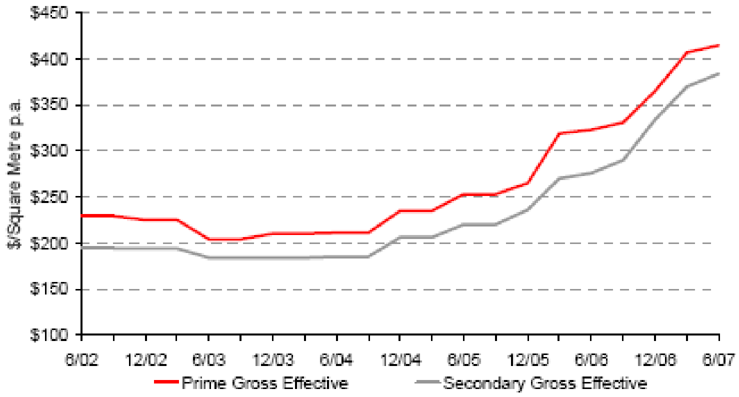


Rents

Rental growth in the Fringe was more subdued over the June quarter than recent quarters, with average prime gross effective rents increasing by around 2%. This follows two quarters of prime rental growth in excess of 10%. Gross effective rents for Milton now sit at $415/sqm and $397/sqm in Spring Hill.

Secondary gross effective rents grew by 3.8% over the June quarter, continuing their catch-up to prime rents. Secondary gross effective rents for Milton currently sit at $384/sqm. The extremely tight market conditions are allowing secondary landholders to continue capitalising on high levels of underlying tenant demand.

Incentive levels for existing stock have not moved from the levels seen in March quarter. Leases are being struck at an incentive levels of below 10%, which is approximately half that offered a year ago.



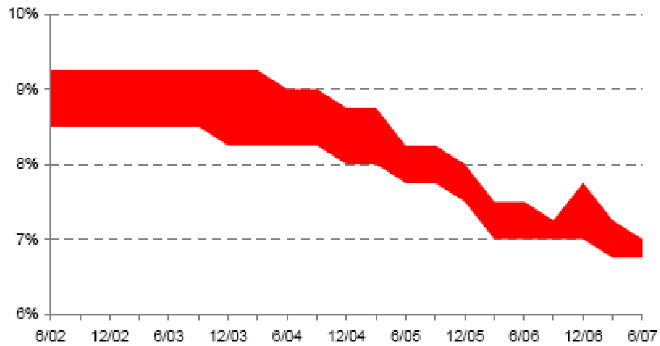
Source: Jones Lang LaSalle

Yields and Sales Activity

The Brisbane Fringe market continues to attract high levels of private and institutional investment interest, on the back of Queensland's buoyant economic conditions and the potential for future rental growth. The push for urban consolidation is also making the Fringe area more attractive to investors as an increasing number of blue chip tenants choose to call the Fringe home.

Major sales of the June quarter included the $100 million purchase of the Synergy Building @ Kelvin Grove Urban Village on at initial yield of 6.75% by the Cromwell Diversified Property Trust and the purchase of the Computer Power Building at 200 Creek Street by Valad Core Plus Fund (V Plus) for the sum of $36 million.

In total, 5 transactions were recorded over the quarter, totalled $170 million. Reflecting the high level of interest in the Brisbane CBD market, prime yields tightened over the quarter and now currently sit between 6.75% and 7.00%. Yield compression should continue over the next 12 months, driven by the sheer weight of funds chasing assets and the increasing popularity of fringe locations.



Source: Jones Lang LaSalle

With the construction cycle now beginning to hit full speed, the remainder of 2007 will see substantial levels of new supply enter the Fringe market, though this is unlikely to be sufficient to satisfy high levels of pent-up tenant demand. Consequently, vacancy rates are expected track to remain historically low over the next 6-12 months, providing a strong platform for rental growth.

The Fringe will continue to benefit from the record low CBD vacancy rate and the exodus of smaller tenants seeking alternative and more affordable space. as well as continuing demand from tenants traditionally favouring Fringe locations.

The high levels of rental growth seen in the past year are unlikely to be repeated, though rental growth will remain strong, driven by the lack of available space in the market.

Strong competition for assets will provide the scope for a further tightening of yields over the next 18 months as Queensland remains a magnet for investment activity.

Research

Knight Frank

Brisbane Near City

Office Market Report • May 2007

Contents

Executive Summary

- Office vacancy levels within the Brisbane Near City precincts have fallen to extreme lows with a measured vacancy rate of 2.8% as at January 2007. This has resulted in a surge of new accommodation under construction or mooted to come to the market. There is the prospect of over 350,000m² of office accommodation which may come to the market between now and the end of 2010. Additional supply is also likely to eventuate from projects which are in early planning or mooted, due to the quicker delivery time for Near City assets. Of the 160,000m² of new space expected to enter the market during 2007 and 2008 over 50% of this is pre-committed, thus encouraging commencement of further developments.
- According to PCA data, the Brisbane Near City market recorded net absorption of 42,523m² over the 12 months to January 2007, well above the ten year average of 24,726m². Net absorption for the Near City precincts is expected to remain above the historical average over the coming three years, as the continued strong business conditions and the quantum of available accommodation combines to result in good space absorption.
- Rents within the Near City are growing strongly, as the demand for accommodation is outstripping current supply. With pre-commitment rents remaining sub-$450/m² on a gross effective basis, the rent for existing accommodation is expected to continue to grow, at moderating levels through the next three years to be in the order of $450/m² gross effective in the middle of 2009. At this time, there is not expected to be any fall in effective rents for the Near City in the medium term, unlike the CBD.
- Investment demand is high and growing with the Near City's recent performance and forecast stability in rental conditions providing confidence to investors seeking further diversification. The increased depth and maturity of the Near City market continues to be attractive to institutional investors. Current equivalent yields for prime Near City assets are between 6.75% - 7.5%, indicating strong investor acceptance.

Overview of the Precincts

The Brisbane Near City is made up of five discrete sub-markets, which are surveyed separately by the PCA in its office market occupancy survey. In the past these markets tended to have different characteristics and attracted different types of users. However, in the past two years these markets have become more aligned. As accommodation becomes available, each of these precincts are equally considered by tenants.

Milton Precinct predominantly covers the area between the River and Milton Road

Milton Total Stock: 187,750m² Vacancy Jan 07: 3.7%

The Milton office precinct emerged as an alternative market during the late 1980s and into the early 1990s as the Kings Row Office Park and Coronation Drive Office park first stages were completed, providing a base of high quality office accommodation in the region. At the time the strong 'executive residential belt' to the west of the city and the relatively higher carparking ratio assisted the establishment of the precinct, with high acceptance of a Near City location not requiring the decision-makers to cross the CBD to reach their office. Residential accommodation has intermingled with the commercial buildings over the past five years, increasing the diversity of the region, but limiting future available development sites. While there is an established commercial precinct to the north of Milton Road, the primary focus remains in the area between Coronation Drive and Milton Road.

Urban Renewal Total Stock: 199,207m² Vacancy Jan 07: 4.2%

The Urban Renewal precinct covers the commercial hubs across the suburbs of Fortitude Valley, Newstead and Bowen Hills. As such it covers one of the largest areas of all the precincts, and also has the greatest recorded NLA of the precincts. However much of the older office accommodation is B grade or lower, with only the space constructed in the past few years considered on a par with the accommodation offered in the more traditional Near City areas of Spring Hill and Milton. The Urban Renewal precinct, as the name suggests, is still in a transitional phase of gentrification from light industrial to commercial, retail and residential uses. The precinct has the highest amount of proposed new commercial accommodation and will shortly contain a sizeable pool of A grade commercial space, changing the nature of the precinct.

"The Urban Renewal precinct, as the name suggests, is still in a transitional phase of gentrification from light industrial to commercial, retail and residential uses."

Inner South Total Stock: 166,129m² Vacancy Jan 07: 2.0%

The Inner South market contains the commercial accommodation located within the suburbs of South Brisbane (including South Bank), West End and Woolloongabba/East Brisbane. This, largely diverse, precinct is dominated by relatively new commercial accommodation constructed in South Brisbane and South Bank over the past five years. Further commercial accommodation is proposed in the South Brisbane/West End regions, following increased density in the Local Plan amendments. Going forward there remains scope for further high rise development, with remaining industrial users facing eventual relocation. Similar to the Milton region, the South Brisbane/West End areas, particularly close to the Brisbane River, will continue to face competition between residential and commercial users as sites become available.

Inner South Precinct, located across the River from the CBD

Toowong Total Stock: 74,195m² Vacancy Jan 07: 2.1%

The smallest of the commercial precincts is Toowong, which largely covers the buildings located within proximity of the Toowong Train Station and within the High Street retail/commercial precinct. Development sites within that area are limited; however some redevelopment of under-utilised sites is expected within the next five years, such as the Woolworths site at High & Sherwood Streets.

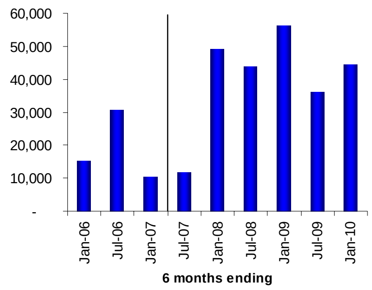
Spring Hill Total Stock: 175,769m² Vacancy Jan 07: 1.3%

The original Near City market, Spring Hill abuts the CBD to the north. With a large proportion of the major office buildings constructed in the office supply boom of 1980 – 1990, the Spring Hill market is facing increased competition from the emerging, modern accommodation in the other precincts. Conveniently located, but with limited development opportunities, the focus for the Spring Hill market is expected to lie with refurbishment projects in the near term.

New Supply

Figure 1

Brisbane Near City Potential Supply square metres

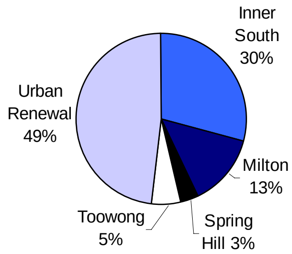


Source: PCA/Knight Frank

"Total anticipated supply between now and the end of 2010 equates to just over 350,000m².”

Figure 2

Brisbane Near City Proposed new supply by region 2007 - 2010



Source: BCC/Cordells/Knight Frank

"At this time, just over half of the new supply to come to the market during 2007 and 2008 is pre-committed.”

Major Brisbane Near City proposed commercial developments 2007 - 2009

Project	Precinct	Bld Area m²	Commitments	Status
2007				
601 Coronation Dr	Toowong	7,258	100%	Construction
Emporium Stage 2	Urban Renewal	9,680	-	Construction
10 Browning St	Inner South	7,500	66%	Construction
503 St Pauls Tce Stage 1	Urban Renewal	17,000	100%	Construction
199 Grey St	Inner South	12,000	63%	Construction
2008				
108 Wickham St	Urban Renewal	9,783	7%	Construction
35 Boundary St	Inner South	8,980	Confidential	Construction
503 St Pauls Tce Stage 2	Urban Renewal	23,000	35%	Construction
Petrie Barracks	Milton	10,400	100%	Approved
56 Edmondstone St	Urban Renewal	12,800	100%	Construction
CDOP Site 4	Milton	16,585	50%	Application
SW1 – Stage 2	Inner South	17,785	-	Application
2009				
Waterloo Hotel – Stage 1	Urban Renewal	4,895	-	Application
19 Lang Pde	Milton	6,851	-	Application
Verge, Montpelier Rd	Urban Renewal	7,500	-	Application
512 Wickham St – Stg 1	Urban Renewal	c14,000	-	Mooted
209 Grey St – Collins Place	Inner South	15,000	-	Pre-approval
Longland St	Urban Renewal	10,000	-	Mooted
James & Arthur Sts	Urban Renewal	8,000–9,000	-	Mooted
High St & Sherwood Rd	Urban Renewal	c 15,000	-	Mooted

In line with the Brisbane CBD, the Brisbane Near City market is on the cusp of an increased supply cycle. However, given the generally shorter lead times for construction in the Near City, the first wave of additional supply is expected to be completed late 2007/2008 rather than from 2009, as is the case with the CBD. The anticipated supply between now and the end of 2010 equates to just over 350,000m², additional mooted supply beyond that time takes the total identified potential supply to over 410,000m².

Despite only one major commercial office completion anticipated for the first half of 2007; the 7,258m² 601 Coronation Drive, forecast supply accelerates from the second half of 2007 and into 2008 and 2009. Total anticipated completions for the next three years are 2007 – 60,000m²; 2008 – 100,000m² and 2009 – 85,000m². Further projects such as the 14,400m² development at the Milton Train Station keeps the supply chain high into 2010 and beyond. At this time, just over half of the new supply to come to the market during 2007 and 2008 is pre-committed. Beyond that, the only major commitment is the new Energex Headquarters of 24,800m² in 2010.

Proposed supply for the near term is dominated by the Urban Renewal precinct encompassing Fortitude Valley, Newstead and Bowen Hills, with almost half of the proposed total accommodation located within that region. This is largely due to the higher site availability in this area, as lower density light industrial development is being replaced by higher order uses. Another area still in a phase of urban renewal is the Inner South, which accounts for 31% of the proposed commercial development. The Milton, Spring Hill and Toowong markets have lower levels of proposed new development, largely due to the greater difficulty in sourcing redevelopment sites. The availability of land and overflow demand from the CBD appears to be driving the traditional Near City markets into a short-term supply surge. In the medium to longer term, the focus of new supply is anticipated to drift further to suburban nodes, as the cost of land and limited available opportunities reduce the cost effective development opportunities in the Near City.

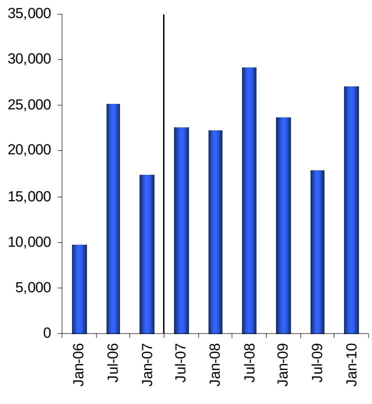
Net Absorption & Tenant Demand

"Compared with the ten-year average annual net absorption of 24,726m², during the past three years the average has been 80% higher at 45,556m²."

The net absorption level in the Brisbane Near City market was 42,523m² in the year to January 2007 and continued the trend of strong absorption over the past three years. Compared with the ten-year average annual net absorption of 24,726m², during the past three years the average has been 80% higher at 45,556m². These higher levels of absorption are forecast to continue into the near term, with the three year forecast net absorption averaging 47,578m² per annum. This high performance is expected to derive from continued strong business conditions and the associated high white collar employment growth, combined with increasing occupation opportunities as significant supply is added to the Near City market during this time.

Larger corporate users who do not need to be within the CBD, such as engineering firms and mining companies, are increasingly seeking to locate out of the CBD into the modern Near City developments. This is particularly the case where a company can be the dominant or single tenant for the development. The appeal also derives from the emerging generation of Near City office buildings, which are typically featuring a more campus style of accommodation with the associated larger floorplates and flexible work zones.

Figure 3
Brisbane Near City Net Absorption
Square metres



Source: PCA/Knight Frank

Major Tenant Requirements Near City or Near City/CBD

Tenant	Approx Area	Timing
IBM	3,000m²	2007/08
Evans & Peck	2,000m²	2007/08
Microsoft	1,600m²	2007/08
Technology One	5,000m²	2008
FACSIA	3,000m²	2008
ABC	6,000m²	2008
Sinclair Knight Merz	6,000m² - 8,000m²	2008
Ergon	7,500m²	Tba
Connell Wagner	9,000m²	2009
Maunsell	8,000m²	2009
Anglo Coal	8,000m²	2010

A selection of major tenants currently seeking commercial accommodation in the Brisbane Near City or would consider Near City/CBD is shown in the table above. A portion of these are understood to have reached agreement or are close to securing their accommodation. As stated earlier, in the order of 50% of accommodation due to come to the market for the remainder of this year and during 2008 is pre-committed. A selection of recent leasing pre-commitments is shown in the table below. There has been, and is expected to continue to be, some leakage of smaller tenants from the CBD to Near City locations as their sensitivity to higher rental rates in the CBD grows over time.

601 Coronation Drive, Toowong. Fully pre-committed and approaching completion May 2007

Major Tenant Pre-commitments to the Near City

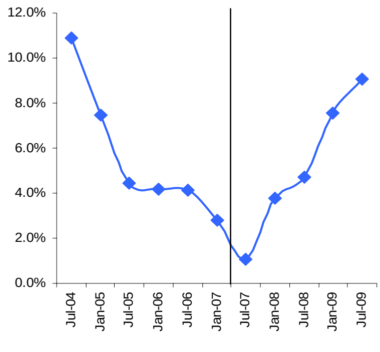
Address	Est Face Rental	Area	Developer	Tenant	Date
165 Ipswich Rd, Woolloongabba	$385 g	4,500	Bennelong	Queensland Health	Q4 06
Murri Lane, Fortitude Valley	$415 g	3,845	Anthony John Group	John Holland	Q4 06
601 Coronation Drive, Milton	$430 g	1,247	Ray White Invest	Golder & Assoc	Q2 07
601 Coronation Drive, Milton	$420 g	1,247	Ray White Invest	Indue	Q2 07
601 Coronation Drive, Milton	$420 g	1,247	Ray White Invest	MWH Australia	Q2 07
Green Square South, FV	$445 g	17,000	Leighton	Brisbane City Council	Q3 07
10 Browning St, South Bris	$425 g	2,500	SSI	Thiess	Q4 07
199 Grey Street, South Bris	$465 g	7,573	Stockwell	KBR	Q4 07
Petrie Barracks, Petrie Tce	$445 g	9,505	Property Sol.	Hatch	Q3 08
56 Edmonstone St, Bowen Hills	$400 g	12,800	Sunland	Virgin Blue	Q4 08
Green Square Nth, FV	-	7,700	Leighton	CMC	Q2 08
Gasworks @ Newstead	$420 n eff	24,800	FKP	Energex	2010

Vacancy and Rents

Figure 4

Brisbane Near City Vacancy Rate

% vacancy



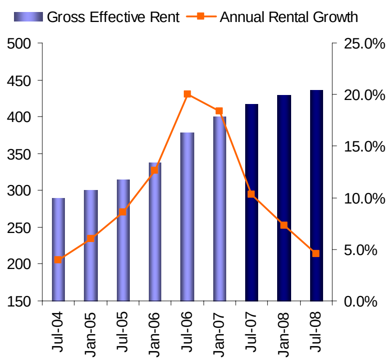
Source: PCA/Knight Frank

"With limited supply added to the market in the first half of 2007, the vacancy rate is expected to dip towards 1% before the supply additions begin to stabilise the vacancy levels back up in the region of 4% during 2008."

Figure 5

Brisbane Near City Av Prime Rents

$/m² gross effective rent



Source: Knight Frank

"This greater depth of quality Near City accommodation and the expected increased depth and quality of Near City tenants will create a maturing of the market and more stable rental conditions across the Near City"

Stock and Vacancy Levels for the Near City Markets – January 2007

Precinct	Stock m²	Vacancy m²	Vacancy %	6 mth net absorption
A Grade	243,945	1,170	0.5%	4,911
B Grade	363,889	12,972	3.6%	7,120
C Grade	173,198	8,453	4.9%	5,366
D Grade	22,018	0	0	0
Milton	187,750	6,986	3.7%	1,154
Spring Hill	175,769	2,255	1.3%	1,257
Urban Renewal	199,207	8,440	4.2%	8,249
Toowong	74,195	1,588	2.1%	795
Inner South	166,129	3,344	2.0%	5,942
TOTAL	803,050	22,595	2.8%	17,397

Source: Property Council of Australia January 2007

The Brisbane Near City market vacancy rate has fallen dramatically over the past two years, to be 2.8% as at January 2007. With limited supply added to the market in the first half of 2007, the vacancy rate is expected to dip towards 1% before the supply additions begin to stabilise the vacancy levels back up in the region of 4% during 2008. Despite the higher than average net absorption forecast for the Near City over the next three years, the current expectation of surging new supply may see the vacancy rate head towards 9% by mid-2009.

Backfill space within the Near City market will provide some lower cost opportunities as the market adjusts to the additional office supply. At this time there are a few buildings which are expected to be fully vacated by their existing tenant, examples are 152 Wharf Street (Hatch – 4,613m²), 12 Cribb Street (Maunsells 3,300m²) and potentially 443 Leichhardt Street, if Connell Wagner relocate.

Rental growth for the Near City was modest prior to 2005, with the major spike in rental growth starting about a year after the CBD rents began their run, with the growth rate reaching 20% in mid-2006. Due to the quicker supply response time and availability of development sites, the Near City is expected to see a shorter period of high rental growth, with the rate of growth forecast to be below 10% by 2008. Across a relatively small pool of A grade, Near City buildings, the average current prime gross effective rental was $400/m² as at Jan 07. Further strong growth is expected to see that figure at $415/m² by July 07 (representing 10.3% p.a growth). Some incentives remain in the market at this time, largely for areas in excess of 500m², at a diminished rate of generally less than 5%. Over the past two years the average prime gross effective rental rate has climbed from $300/m² as at January 2005 to be $400/m² as at January 2007 – an increase of 33% over the two year period.

A good proportion of the larger leases which have recently been negotiated, or are currently under negotiation, are for accommodation which is proposed or under construction. These pre-commitment rents are generally negotiated on different parameters than the rents for current vacancies within existing accommodation. Similar to the Brisbane CBD, these rents largely remain below the current market negotiation parameters. Negotiated major pre-commitments with delivery pre-2010 indicate face rents of $400 – $475/m² gross. Incentives of 10% - 18% bring the rents to a range of $380 - $420/m² on a gross effective basis.

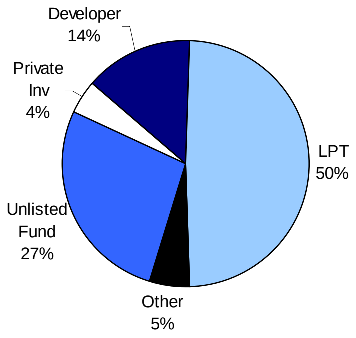
Based on the anticipated moderate to high level of supply within the Near City market and the relatively quick release of the pressures associated with an extremely low vacancy, the upswing in the rental growth rates is expected to moderate to be within the 3% - 5% band from mid 2008 – 2010. Longer term the increase in new, A grade accommodation in the Near City will fundamentally change the dynamics of the market. From an A grade stock of under 250,000m² the anticipated 240,000m² of new additions over the next three years, virtually doubles the stock of 'prime' Near City accommodation. This greater depth of quality Near City accommodation and the expected increased depth and quality of Near City tenants, will create a maturing of the market and more stable rental conditions across the Near City.

Investment & Yields

Figure 6

Brisbane Near City Purchaser Profile

Sales over $10million 12 months to April 2007



12 sales
$275.6 million

Source: Knight Frank

Investment demand for Near City assets is increasingly of a similar strength to the demand currently evident in the Brisbane CBD market, with transaction levels likely to increase in the short term. Increased institutional investor interest in the Brisbane Near City market is evident from the listed (50%) and unlisted (27%) sector accounting for 77% of the transaction value of major commercial sales during the past 12 months. This is a factor of the weight of funds seeking diversified commercial assets and the recent rental growth and yield compression pushing the capital value of more and more assets into the target zone for these major investors.

Yields have continued to firm within the Near City, with prime equivalent yields in the range of 6.75% - 7.50%, indicating a median of 7.13%. This represents a tightening of 87 basis points (bps) over a two year period. In comparison, yields in the CBD have firmed by 125bps over the same period. The current yield gap of 63bps between the prime median yield of 6.5% for the CBD and the 7.13% for the Near City is in line with market expectations and indicates a degree of risk pricing between the two markets. Yields for the Near City have some scope for further tightening, highly dependent on quality tenants and a prime location. Unlike the CBD, where some moderation of effective rents is expected within a five year timeframe, the Near City rental forecasts show positive, although moderating rental growth over the next three to five years. This remains supportive of a slight firming trend in prime yields in the short term for the relatively limited pool of prime Near City assets.

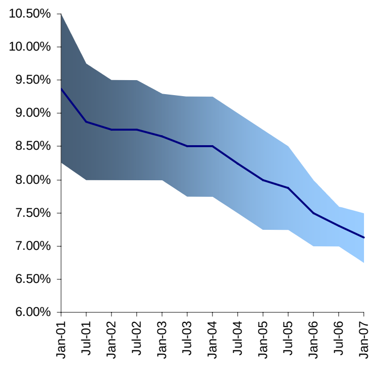
"Yields have continued to tighten with the median prime equivalent yield now in the order of 7.1% in the relatively narrow yield range of 6.75% – 7.5%."

Recent investment sales have included the purchase of 200 Creek Street, Spring Hill by the Valad Core Plus Fund, for $36 million. This sale, on the boundary of the CBD and Near City shows an improved rate of $4,691/m², a passing yield of 6.1% and an equivalent yield of 7.64%. With the level of positive rental reversions increasing all the time, the passing yields are becoming less relevant. On a rate per square metre of NLA, investment sales have tested and then broken the $5,000/m² barrier in the past 12 months. The first, 555 Coronation Drive, Milton which was purchased by AMP Capital in June 2006 for $28.5 million or $4,855/m² - although a high car parking ratio inflated this measure to a degree. 121 Wharf Street, Spring Hill traded for $22.225million or $5,057/m² in September 2006 and 518 Brunswick Street, Fortitude Valley was purchased by Domaine Funds Management for $16.9 million, reflecting $5,565/m² of NLA. Further recent major sales are detailed on page 7 of this report.

Figure 7

Brisbane Near City Median Prime Yield

Equated yield



Source: Knight Frank

Vacant possession sales, whether for refurbishment and re-leasing or for owner occupation, have also been an active part of the capital market over the past year. Predominantly in the sub-$10 million price bracket, the majority of sales have been within the Spring Hill and Fortitude Valley regions. Examples include Australand's purchase of 97 School Street, Spring Hill for $9.15 million ($4,026/m² on current NLA) and the purchase of a former car showroom at 388 Wickham Street for $8.0 million ($2,936/m²) by a private investor. Improved rates of close to $5,000/m² have been achieved for smaller properties with vacant possession and with the intention of owner occupation. An example is 95 Leichhardt Street, Spring Hill, where a 445m² former banking chamber, with development upside was purchased for $2million by an engineering firm who will occupy the space.

The current undersupply of office accommodation and the anticipated new construction surge in the Near City, has also increased the number and value of development site transactions. A selection of recent commercial, Near City site transactions is shown on page 7 of this report. The prices paid for these development sites vary greatly with the location, potential GFA, existing improvements/income and timeframe to redevelopment. Recent sales have ranged from the sub-$2,000/m² of site area for properties such as 35 Boundary Street, South Brisbane and 35 Montpelier Road, Bowen Hills, through to sites with holding income and development potential where the price paid on the site area was in excess of $3,000/m². The initial Waterloo Hotel redevelopment site, which contains the trading hotel, purchased by Watpac, shows a rate per square metre of site of $3,308/m² and adjoining sites have been purchased in the range of $2,900/m² - $3,000/m² of site area.

Transactions

200 Creek Street, recently purchased for the Valad Core Fund for $36 million

Major Sales Activity

Address	Precinct	Price ($ mill.)	Equivalent Yield (%)	NLA (sq m)	$/m² NLA	Purchaser	Sale Date
200 Creek St	SH	36.0	7.64%	7,675	4,691	Valad Core Plus Fund	Apr 07
55 Wyandra St	UR	12.08	6.15% ^	2,250	5,369	Private Investor	Mar 07
400 Wickham St	UR	8.0	VP	2,700	5,529	Private Investor	Dec 06
97 School St	SH	9.15	VP	2,273	4,026	Australand	Dec 06
518 Brunswick St	UR	16.9	7.5%	3,037	5,565	Domaine Funds Mgt	Dec 06
318 Brunswick St	UR	18.5	9.8%^	3,921	4,718	MFS	Oct 06
121 Wharf St	SH	22.23	7.7%	4,395	5,057	GE Real Estate	Sept 06
57 Coronation Dr	M	9.5		3,297	2,881	FKP Core Plus Fund	Sept 06
555 Coronation Dr	T	28.5	6.9%	5,870	4,855	AMP Capital	Jun 06

^passing yield

8 level building under construction on 35 Boundary Road, South Brisbane

Major Near City Site Sales

Address	Precinct	Price $m	Site Area	$/m² Site	Purchaser	Date
512 Wickham St	UR	25.0	9,707	2,575	Leightons	Mar 07
435 St Pauls Tce*	UR	14.25	5,393	2,642	Watpac	Mar 07
25 Montpelier Rd	UR	6.85	3,752	1,826	Watpac	Dec 06
35 Boundary Rd	IS	2.75	1,567	1,755	Ray White Invest Sydn	Sept 06
4 Commercial Rd	UR	20.0	6,046	3,308	Watpac (Waterloo Hotel)	Sept 06
1021 Ann St	UR	1.5	500	3,000	Watpac (Waterloo Hotel)	Nov 06
1033 – 1047 Ann St	UR	8.0	2,780	2,878	Watpac (Waterloo Hotel)	Dec 06
45 Commercial Rd	UR	4.73	1,905	2,483	PJP Properties	May 06

* three separate transactions

Kings Row Office Park – recent leases at circa $420/m² g

Major Recent Leases

Address	Precinct	Area	Est Rental	Term	Tenant	Date
518 Brunswick St	UR	3,037	$500 g	5	Betchel Australia	Mar 07
Murri Lane	UR	3,500	$415 g	10	John Holland	Oct 06
143 Coronation Dr	M	2,584	$400 g	6	Leighton Contractors	Mar 07
215 Coronation Dr	M	2,100	$420 g	10	Bateman Minerals & Metals	Nov 06
215 Coronation Dr	M	2,108	$417 g	8	Cement Australia	Jul 06
200 Creek St	SH	1,137	$395 g	5	Southern Regional Pipeline	Feb 07
57 Coronation Dr	M	800	$400 n	5	ABC	Mar 07
190 Montpelier Rd	UR	1,015	$360 n	5	Walton Constructions	Mar 07
140 Melbourne St	IS	3,527	$350 g	5	Leighton/Balderstone	Oct 06
83 Castlemaine St	M	1,632	$340 g		Trackstar Alliance	Feb 07
527 Gregory Tce	UR	1,105	$325 n	3	Mission Australia	Jul 06

Precinct Key: M = Milton; UR = Urban Renewal; SH = Spring Hill; IS = Inner South; T = Toowong

Research

Outlook

- The Brisbane Near City market is fast approaching the first stages of a significant supply addition cycle, in response to the extremely low commercial vacancies in both the CBD and Near City. With forecast net absorption at record levels over the next three years, the market will undergo a fundamental change as the amount of A grade space within the Near City virtually doubles over the next three years. This supply cycle is expected to absorb many of the larger development sites in the Urban Renewal and Inner South areas, giving greater impetus to the suburban markets as the site of future, cost effective commercial development in the years beyond 2010.
- Rental rates climbed by 18% in the 12 months to the start of 2007 and scarcity will continue to push these rents higher until the supply wave and associated backfill space come to the market late this year and through into 2008 and 2009. With a shorter lead time to construction, the Near City will benefit from the unrequited demand from CBD tenants and the net absorption levels are expected to match those achieved in the CBD in the short term.

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Knight Frank

Brisbane Fringe Office

SUMMER 2007

Brisbane

Forecast (6 months)

Overall Performance: ↑
Supply: ↑
Tenant Demand: ↑
Vacancy: ↓
Incentives: ↓
Effective Rents: ↑
Capital Values: ↑
Yields: ↓

Key Facts:

- Average net absorption more than doubles net supply over the past 2 years
- Vacancy rate remains a historical low 4.2% in July 2006
- Contiguous space over 1,000m² almost impossible to procure
- The exceptionally tight leasing market has increased prime rents by 28% over the past 2 years
- Strong capital growth and yield compression as investors focus on properties rent reversion potential
- Modest construction pipeline over the next 3 years however tenant demand should keep vacancies low

Tremendous Activity in Such a Tight Market

Brisbane's near city office market is continuing to demonstrate incredible strength feeling the full squeeze of the vacancy shortage in Brisbane's CBD. Due to an extreme lack of vacant space, investors are enjoying tremendous rental growth as properties deliver exceptional returns.

Primarily fuelled by the Asian market, the positive commodity boom, particularly coal and metalliferous ore exports, has significantly contributed to Queensland's buoyant economy. Queensland's availing economy continues to service the fringe market benefiting from expanding business and financial sectors. Strong business performance and expansion along with the rise in large infrastructure projects has stimulated an increase in white collar employment which recorded a positive 5.5% growth. While resources and engineering are the main industries that have been able to take advantage of this opportunity to expand, the professional services sector is also enjoying strong flow on effects heavily contributing to Brisbane's strong tenant requirements.

The most recent Property Council of Australia figures reported a strong leasing uptake in the near city office market, with absorption of 19,626m² in the half year period to July 2006, with 20,293m² of additional supply added over the same period. Since the PCA figures were released, the fringe market has continued to tighten with the majority of new supply fully leased. Supply in Brisbane's fringe has long been insufficient to meet the demands of growing businesses unable to lease vacant quality space in the CBD. Alternatively businesses are vacating to prime stock within the fringe. 78% of Brisbane's fringe office space absorption was in A-Grade buildings.

Plummeting vacancies has created fierce competition among tenants underpinning tremendous growth in prime rents up to as much as 28% over the past 24 months. Average incentives have reduced to between 0 – 15% while it is not uncommon for deals with no incentive to be in place.

The exceptionally tight leasing market is continuing to support an extremely strong investment market where new capital values and yield benchmarks are consistently being set. This extreme growth in rental income has translated into strong capital gains for commercial property owners, further enhanced by solid yield compression as investors focus on "total return" rather than initial yield, whereby purchasers are paying low initial yields for the prospect of future rental growth and reversion opportunities. After a slow start to the year a number of major deals have taken place with substantial increases in value by as much as 68% within 12 months of purchasing. Many investors are holding on to their assets to profit from the additional rental growth that is anticipated to continue, however those who have sold have enjoyed significant gains in the intense purchaser market, resulting in tremendous capital growth on their original purchase.

Exceptional rental growth and a closed gap in prime stock between market and economic rents has improved development feasibilities after years of prohibitive construction costs restricting supply. Due to strong market fundamentals there has been an immense increase in development activity with a variety of office projects scheduled over the next 2 to 3 years.

Brisbane Fringe Office Market Indicators

Region	Stock (m²)	Vacancy Rate (%)	Ave Gross Face Rents ($/m²)		Incentive (%)	Ave Capital Value ($/m²)		Ave Market Yield (%)	
			Low	High		Low	High	Low	High
Total	**790,439**	**4.2%**	**Low**	**High**	**0 – 15%**	**Low**	**High**	**Low**	**High**
Spring Hill	176,353	2.3%	$270	$400	0 – 15%	$3,300	$5,000	7%	7.75%
Milton	187,350	3.6%	$280	$425	0 – 15%	$3,250	$3,900	6.9%	7.75%
Toowong	74,195	2.0%	$280	$420	0 – 15%	$3,000	$4,850	6.4%	8%
Inner South	157,064	3.6%	$250	$405	0 – 15%	$3,000	$5,300	7.15%	7.9%
Urban Renewal	195,577	6.5%	$250	$400	0 – 15%	$3,250	$4,200	6.85%	7.9%

Source: Colliers International Research

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Brisbane Fringe Office

Brookes Street Commercial 100 Brookes Street, Fortitude Valley

The four level commercial building is currently under construction and will encompass 10,000m² of NLA

Market Overview

Spring Hill

- Office supply: 176,253m^2
- Proportion of market 22.3%
- Vacancy: 2.3%

Spring Hill is one of Brisbane's largest fringe office markets providing a near city alternative to the CBD. The area is characterised by a lot of older office and residential buildings. Over recent years a number of successful refurbishments have changed the façade of pockets in Spring Hill. Proximity and links with the city are key attractions of the market with much of the suburb within walking distance of the Brisbane's CBD and central railway station

Milton

- Office Supply: 187,350m^2
- Proportion of market: 23.7%
- Vacancy: 4.1%

Milton is Brisbane's most established and concentrated fringe office market. Many of Milton's buildings were constructed during the 1980's and 1990's, when Milton's expansion was driven by service, engineering and technology companies moving from the CBD to the fringe. Most of Milton's office buildings have views of the Brisbane River resulting in Milton long being regarded as Brisbane's premier fringe office market.

Toowong

- Office supply: 74,195m^2
- Proportion of market: 9.4%
- Vacancy: 3.2%

Toowong is a relatively small and tightly held fringe office market. With its excellent proximity to the CBD, the Brisbane River and transport infrastructure including trains, buses and ferries, Toowong is a thriving mixed-use precinct including retail, commercial and residential unit developments.

Inner South

- Office Supply: 157,064m^2
- Proportion of market: 19.9%
- Vacancy: 3.6%

The Inner South incorporates the diverse suburbs of West End, South Brisbane, Woolloongabba, East Brisbane and Kangaroo Point, all of which have excellent access to Brisbane's CBD. In recent years the Brisbane City Council sponsored the Urban Renewal Task Force to expand into the Inner South, instigating large scale urban renewal and assisting the market's emergence as a mixed-use precinct with a significant office component. The recently released West End-Woolloongabba Local Plan draft is set to further drive the market's expansion as a popular office location.

Urban Renewal

- Office supply: 195,577m^2
- Proportion of market: 24.7%
- Vacancy: 6.7%

The Urban Renewal precinct skirts the northern side of the Brisbane River to the east of the CBD, comprising the suburbs of New Farm, Teneriffe, Fortitude Valley, Bowen Hills and Newstead. The precinct is more geographically dispersed than other large office markets such as Milton and Spring Hill. The Urban Renewal Task force, established in 1991, has been encouraging redevelopment across wide stretches of riverfront in this precinct with the conversion of many former industrial sites into lively residential and commercial areas.

Brisbane Fringe Office

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Milton Station Re-Development Milton Road, Milton

One of Brisbane's first transport oriented project. FKP have plans to integrate the railway with 13,200m² of office, 3,024m² retail, 192 residential apartments and119 hotel rooms

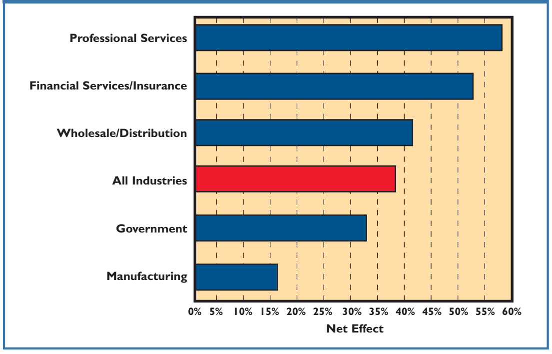
Key Market Indicators

Queensland Sentiment Softens

The Hudson Employment Expectations Report conducts quarterly analysis of Australia's permanent employment expectations over the forthcoming quarter. The report delivers a key social-economic indicator based on the premise that the expectation to increase or decrease net staffing levels represents an indication of employers' optimism for the growth of their organisations and thus demand for office accommodation.

The October – December 2006 Hudson employment expectations report surveyed 7,410 employers in 19 core industry groups on a national basis. While Queensland sentiment still remains high, it softened slightly over the quater dropping 5.8% resulting in a net positive 38.9% of employers intending to increase permanent employment (this figure remains at a higher level than last years corresponding period). Growth in investment businesses has created a high demand for lending, funds and wealth management which corresponds with Queensland's Financial and Insurance services recording net positive 52.8% employer optimism. Professional sectors topped all industries recording a positive 58.8% employment optimism with a significant demand in all categories of staff, particularly accountants, lawyers and consultants.

QLD Permanent Employment Expectations (October – December 2006): By Industry

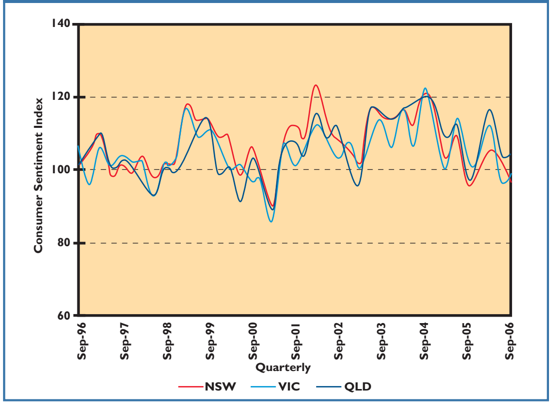


Source: Hudson Report October - December 2006

Unemployment Steady but Healthy

Queensland experienced its lowest monthly unemployment trend with a static 4.6%, remaining under the nation's historical low of 4.8%. Queensland's prosperous Overseas merchandise exports rose 29.3% totalling a $36 billion turnover in the 12 months to August 2006. This segment of the market is the major force underlining Queensland's healthy employment rate. Mining and metal manufacturing investments continue to support the positive commodity outlook that heavily relies on Asia's strong demand. Helping keep Queensland's vibrant economy, the Government has sponsored a number of major electrical and transport projects, immensely increasing the number of contracting/temporary workforce positions.

Consumer Sentiment Index



Source: Colliers International Research, ABS September 2006

Brisbane Fringe Office

SUMMER 2007

Toowong Tower
9 Sherwood Road, Toowong

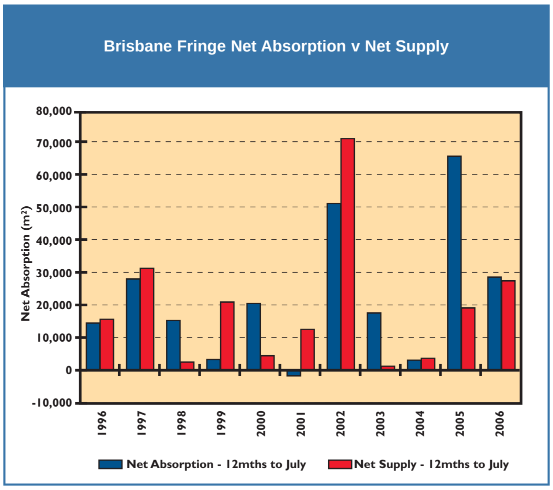
The 13 level building comprises of 15,000m² NLA which is fully occupied

Key Market Indicators

Net Absorption v Supply

White collar employment growth has emerged from the central CBD Office hub to Brisbane's outer fringe regions. The effect of Brisbane's record low CBD office vacancy is evident as large corporations are struggling to find available CBD office accommodation creating a migration to A-Grade buildings in the fringe regions. The past 12 months to July 2006, Brisbane's fringe market recorded 78% of net absorption in A-Grade stock. This pent up demand for A-Grade space has precipitated new rental benchmarks throughout Brisbane's near city precincts.

According to the PCA, over the previous 2 years to July 2006, Brisbane's office fringe has recorded a solid 96,099m² net absorption against only 48,139m² of net supply. This supply and demand imbalance has been a result of high construction costs and insufficient market rents deterring developers from new office projects. The situation has recently changed with cumulative rental growth over the past 24 months and a diminishing gap that is almost non existence in prime stock, between effective and face rents. With strong demand and substantial rental growth, Brisbane's fringe has a number of new projects underway and more to commence in the short to medium term. Much of the advertised supply, approximately 198,844m², is likely to hit the market in 2008-2009 fully or partially leased.



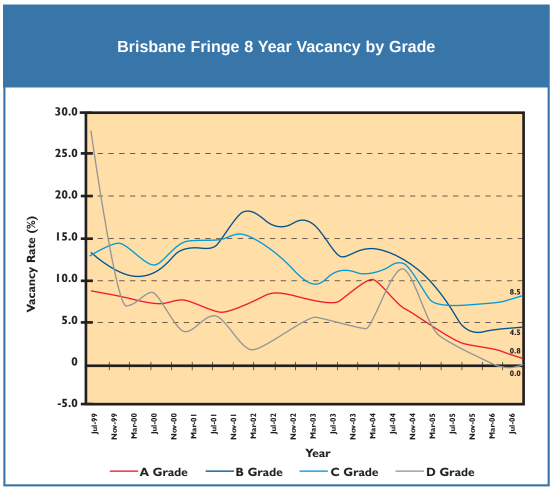
Source: Source: Colliers International Research, PCA July 2006

Vacancy Rates

According to the latest PCA report of July 2006, while Brisbane's fringe office market has not seen a drop in the total vacancy figure, the fringe precinct has been feeling the full effects of Brisbane's CBD vacancy shortage. Remaining unchanged at 4.2%, Brisbane's fringe market incorporated 28,407m² of additional net supply over the 12 months to July 2006.

A-Grade buildings recorded the most significant decline in available office space dropping from 2.0% to a record low 0.8% vacancy factor representing 15,307m² of absorbed office space compared to 12,919m² of additional net supply.

The constrained supply has underpinned significant rental growth to a level where developers have progressively shifted their interests into office construction. Brisbane fringe currently has a strong development pipeline awaiting which will alleviate the tightness in 2008 – 2009 but until then the strong market conditions are set to continue.



Source: Source: Colliers International Research, PCA July 2006

Brisbane Fringe Office

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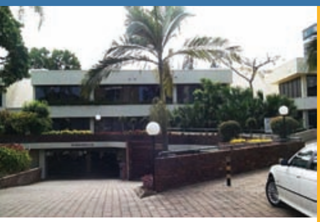


19 Lang Parade, Milton

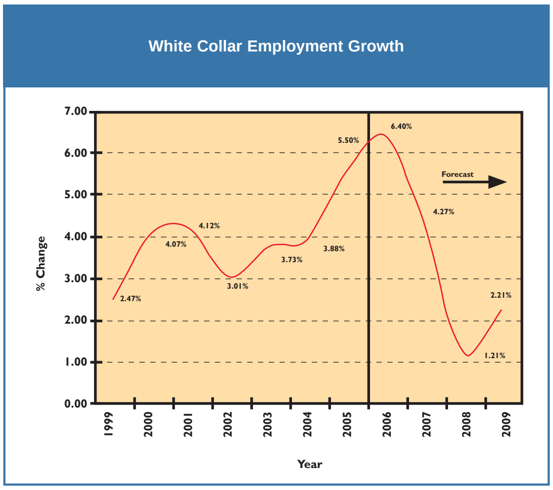
At an initial yield of 7.36% the building sold for $14.1 million

Key Market Indicators

White Collar Growth

Consistent positive white collar employment growth is a major force behind Brisbane's extraordinarily tight market. According to Access Economics, Brisbane's fringe has averaged annual white collar growth of 4% since September 2000 underpinned by strong unemployment fundamentals and the current confidence of Queensland's business sector.

Asia and India's commodity demand is yet to slow and Brisbane, a port city, has benefited as the capital of a mineral rich state providing easy access to international demands. As a result of strong business expansion and continual interstate migration to South East Queensland, Brisbane's near city employment experienced a positive 5.5% component change in white collar employment growth and is expecting a further 6.2% increase over 2006-2007. Brisbane's statistical white collar growth is well above the rest of the nation followed by Sydney's CBD at 4.6%.



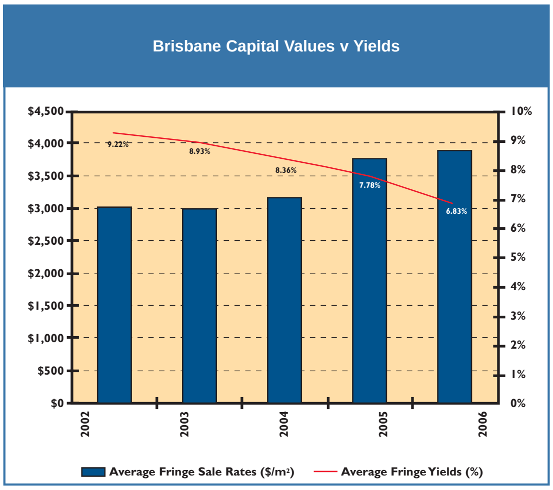
Source: Access Economics September 2006, Colliers International Research

Capital Values on the Rise

With strong trading in 2005 through to mid 2006, many investors have decided to hold onto their investments and benefit from strong rental growth. Brisbane's CBD is a thriving investment market with tight leasing conditions and solid market fundamentals which has naturally flown through the fringe precinct driving capital values to break new barriers.

Yields have tightened across all grades and record prices are continuing to be achieved as capital values continue to rise.

Major sales are recording solid yield compressions as investors are focusing on 'total return' rather than initial yields. It is becoming increasingly common for investors to acquire prime stock on sub 7% yields and prime stock with capital values around $5,000m². Interest rates have not had any noticeable effect on the investment market to date, however with the Reserve Bank recently announcing the third interest rate rise of the year, building owners may feel a pinch in average market yields. With minimal stock available in 2007, investors are focusing on the strong total return by paying tighter yields for properties offering strong rental growth prospects.



Source: Colliers International Research

Brisbane Fringe Office

Spring Hill

67 St Pauls Terrace, Spring Hill

The mining company Lagoona Creek Resources, leased 221m² on the 4th floor at $290/m² over a 3 year period with the option of a further 3 years

Tightest Market in Fringe

Traditionally known as the preferred location for Brisbane's engineers, Spring Hill has been a historically consistent region over the 14 years PCA have recorded vacancy rates. Over the past 12 months to July 2006, Spring Hill absorbed 7,940m² of office space becoming Brisbane's tightest fringe precinct reducing vacancy from 3.3% to 2.3%. As Spring Hill is feeling the squeeze of limited tenancy options, it is virtually impossible to lease contiguous space over 500m² in a region that represents only 3,996m² of available space.

With vacancy tight, major leasing deals have been limited as contiguous space diminishes. The last major deal to be negotiated was in 200 Creek Street where McConnell Dowell and Abigroup leased 1,136m² on the 5th and part of the 6th level at an effective rate of $350/m². The most significant transaction to occur since 200 Creek took place in July when Hatch Associates agreed to locate into 338 Turbot Street with a net effective rate of $385/m² over two years. The inequality of supply and demand has driven rental growth 12.5% reaching new rental benchmarks across all grades.

Spring Hill investment activity has been subdued with many of the major office buildings having already been transacted in the past 2-3 years. 121 Wharf Street is Spring Hill's only major transaction in 12 months after Aria Securities purchased the asset in September 2005 for $13.25 million and resold recently to GE Real Estate. Aria Securities acquired the property in 2005 with an initial yield of 9.07% reflecting the assets short weighted average lease term of 1.3 years. Aria improved the buildings profile by securing new tenants and conducting internal and external refurbishments. GE Real Estate recently exchanged ownership with Aria Securities when purchasing the property in September 2006 for $22.25 million, a $9 million (68%) increase in value approximately 12 months after the initial purchase.

Analysis of a Deal

121 Wharf Street, Spring Hill

Purchaser: GE Real Estate
Vendor: Ara Securities
Price: $22,250,000
Date of Sale: September 2006
NLA: 4,395
Capital Value: $5,063/m²
Yield: 6.97%
Comment: Aria Securities purchased the property in September 2005 for $13.25 million, an initial yield of 9.07%. Aria Securities improved the leasing profile and conducted an internal and external refurbishment, they resold the building 12 months after purchasing the property for $22.25 million, an initial yield of 6.97%.

New Development Update

Project/Location	Suburb	Total Area (m^2)	Status	Estimated Completion Date	Comments
Oxygen - 150-170 Leichardt Street	Spring Hill	2,600	Completed	2005	Office component fully leased to Qld Transport prior to completion

Source: Colliers International Research

Brisbane Fringe Office

SUMMER 2007

57 Coronation Drive, Milton

In an off market deal FKP purchased the 2,976m^2 NLA property for $9.5 million

Milton

After maintaining vacancy rates of between 10% and 20% since PCA records began in January 1992, Milton has seen a dramatic tightening in the leasing market over the past 6 months reducing the vacancy rate to a record 4.1% representing only 5,691m^2 of remaining office space.

18 months prior, Milton had seen little movement in office space, consecutively recording the highest sub-market vacancy rates for three and half year periods to January 2006. Milton's vacancy rate has dramatically fallen as a flurry of recent deals have been struck in the market. As expansion options are diminishing, tenants are picking up their efforts to secure available banks of space. The PCA reported Milton absorbing a solid 7,208m^2 of office space over a 6 month period. Predominantly made up of A-Grade stock, Milton's average gross face rents have increased 17.5% in just 6 months. Bateman Engineering was Milton's most notable deal in 2006, leasing 2,108m^2 of prime stock in 215 Coronation Drive in August. The construction and engineering firm negotiated a gross rate of $425/$m^2$ for a 10 year period. Prior to Bateman engineering's transaction, Queensland cement leased 2008m^2 in 215 Coronation Drive for a $415/$m^2$. These deals emphasis how tight conditions in fringe have increased rental rates.

Milton accommodates a large proportion of mining and engineering companies that are greatly influenced by the resource boom and are having to expand into alternative regions. Currently it is not possible to obtain 2000m^2 of contiguous office space in Milton and such space will not be available until the September 2007.

On the development front, AMP's long held DA for two additional stages to Coronation Drive Office Park, has been resubmitted with the intention to increase the 10,500m^2 stage to 16,000m^2. Although the DA has not officially been approved, the new development is estimated for completion in 2008. AMP is currently negotiating with various tenants groups on current market rentals of $440/$m^2$ representing a 25% increase since the first quarter of 2006.

There has been a further delay in one of Brisbane's first transport orientated project which has a estimated completion date to 2010+. FKP has plans to integrate Milton railway station with a 30 storey building comprising 192 residential apartments, a 119 room hotel on Railway Terrace and a 13,200m^2 office podium fronting Milton Road. It also includes facilities such as a gym, library, childcare facilities and retail shops.

In addition to strong tenancy demand, investors have been active in the Milton market with 3 major sales all supporting market trends of increased capital growth and yield compression. Mdev Property Group invested $14.1 million in the purchase of 19 Lang Parade in August 2006 with an initial yield of 7.36%. The Reserve Bank of Australia sold the asset which refects $12.1 million for the existing improvements and an additional $2 million for the 1,800$m^2$ adjoining development site equalling $14.1 million. FKP Property Group purchased 57 Coronation drive for $9.5 million with an initial yield of 6.27% and earlier this year in May, 189 Coronation Drive sold in an off market deal for $10 million at a 7% initial yield.

Analysis of a Deal

215 Coronation Drive, Milton

Tenant: Bateman Engineering
Area Leased: 2108m^2
Commencing: August 2006
Term: 10 years
Rent: $425
Comments: Bateman engineering negotiated a 10 year lease at $425/$m^2$ gross.

New Development Update

Project/Location	Suburb	Total Area (m^2)	Status	Estimated Completion Date	Comments
CDOP - (Site 4)	Milton	16,000	DA - Resubmitted	2008	Pre-commitment required
CDOP - (Site 8)	Milton	4,822	DA	2008	Pre-commitment required
Milton Station Redevelopment	Milton	10,000	Mooted	2010+	Pre-commitment required
Paddington Barracks	Milton	8,735	DA Lodged	2008	Pre-commitment required

Source: Colliers International Research

Brisbane Fringe Office

Toowong

601 Coronation Drive, Toowong

OAMPS Insurance Brokers leased 3000m² at $420/m²

Toowong makes up the smallest component of Brisbane's fringe and due to its relatively tight conditions, the predominately prime precinct is closely held by investors. The suburb represents 9.4% of the total fringe market and has emerged as a mixed-use precinct, including retail, commercial and residential units. Toowong experienced 7,338m² of additional supply which in effect increased the PCA vacancy factor 0.4% from 2.8% to 3.2% for the half year to July 2006.

Each year there are very few if any investments sales in the tightly held market. This year there were two major sales both of which emphasised the trend of falling yields and growing capital values. 18 months after the last sale in the market, 555 Coronation drive and 80 Jephson Street sold in the month of June. GE Real Estate sold 555 Coronation Drive for $28.5 million with 98.5% occupancy reflecting a low 6.39% yield. 80 Jephson Street was purchased by Stockland with a 12 months rental guarantee over 177m² of vacant space. The 5 level office building encompassed 6,390m² of net lettable area and sold for $23 million.

With one floor remaining, the Toowong pool site development is well under construction and on target for completion in the 3rd quarter of 2007. The multi level stand alone office building with exposure to Coronation Drive and views of the Brisbane River and CBD, has been the main source of leasing activity in the Toowong area. The $34 million six-level office complex set new rental benchmarks when earlier this year OAMPS insurance Brokers leased $3,000m² at $420/m² over an 8 years term. MWH Australia also leased space in the building paying $420/m² for 1,274 of space.

Analysis of a Deal

555 Coronation Drive, Toowong

Purchaser: AMP Capital Investors
Vendor: GE Real Estate
Price: $28,500,000
Date of Sale: June 2006
NLA: 5,870
Capital Value: $4,855/m²
Yield: 6.39%
Comment: A 3 level office building with 178 car bays sold with 98.5% occupancy, the 85m² of vacant space is used for storage.

New Development Update

Project/Location	Suburb	Total Area (m²)	Status	Estimated Completion Date	Comments
601 Coronation Drive	Toowong	7,200	Under construction	2007	Pre-committed to OAMPS and MWH Australia

Source: Colliers International Research

Brisbane Fringe Office

Inner South

Tribune
199 Grey Street, South Brisbane

Construction commenced on the 12,452m² building in May 2006, and is estimated for completion in 2007

The inner South is an emerging office market that has become extremely popular with tenants and developers alike. Since the Urban Renewal Task Force (URTF) included West End, South Bank and Woolloongabba into the Inner South precinct, it has transformed into one of Brisbane's premier fringe office markets. Much awaited development activity has stimulated the Inner South as one the fastest emerging precincts, particularly in South Brisbane as a number of high quality office buildings have recently been completed or are under construction.

The official PCA vacancy rate marginally fell 0.1% from 3.7% to 3.6% over 12 months to July, however a total net supply of 10,864m² entered the market partisan to the emerging precinct, the Inner South absorbed net 10,626m² of office space over the same period. The fully occupied and recent completion of SWI in June 2006 provided 16,250m² of office accommodation that was not incorporated in the PCA report. If the figures had been included the vacancy factor would have declined to 3.2% in 157,064m² of office space.

Over recent years the Inner South has matured as an office precinct and is now home to some major companies such as Mojo Partners, Mirvac, Stockland, IAG and Thiess. Strong market activity has seen new rental benchmarks set in SW1 achieving $405/m² gross face rent.

Due to the success of SW1's first two towers, Property Solutions are currently negotiating with South Bank Corporation to construct a further two commercial towers fronting Russell Street. Grey Street has been extremely active with several office projects taking place. The 10 storey 11,043m² 'Thiess centre' building was constructed in 1999 at 179 Grey Street. In September 2004, the adjoining site at 189 Grey Street was developed to house a 13 storey building with 12,637m² of office space. The two A-Grade buildings are soon to be adjoining a multi level commercial office building offering views of the CBD and Brisbane River at 199 Grey Street. Due for completion in October 2007, the new development will provide 12,452m² of office space.

After a frenzy of investment sales in 2004 - 2005, Inner South investment activity has slowed as investors assertively hold onto their assets and take advantage of tight conditions. SW1 was the last major transaction in the Inner South, purchased by Domaine Property Funds in an 'off the plan sale' for $96 million in September 2005.

Analysis of a Deal

100 Melbourne Street, South Bank

Tenant: State of Government
Area Leased: 2,748
Commencing: July 2006
Term: 5+
Rent: $400/m²
Comments: State of Government has leased the magority of the builing over a five year term at $400/m².

New Development Update

Project/Location	Suburb	Total Area (m²)	Status	Estimated Completion Date	Comments
SWI (1st Stage)	South Brisbane	16,520	Completed	2006	100% committed
199 Grey Street	South Brisbane	12,452	Under Construction	2007	Construction commenced May 2006
Collins Place	South Brisbane	10,500	Mooted	2010	Anthony Johns Group has acquired the site
Precinct 2	South Brisbane	7,600	DA	2007	Under construction

Source: Colliers International Research

Brisbane Fringe Office

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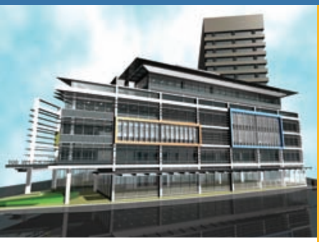

Centenary Square
108 Wickham Street,
Fortitude Valley,

Centenary Square will be built adjacent to 108 Wickham Street. Currently a vacant site, Fortus Funds Management will develop 12,000m² of NLA over 5 levels

Urban Renewal

PCA research found the urban renewal office vacancy rate increased to 6.5% in July 2006 accounting for 8,545m² of additional supply added over a 12 month period.

Well into its construction cycle, the Urban Renewal precinct has a modest 3 year development pipeline which is expected to contribute approximinately 102,415m² of additional office space. The second stage of the mixed-use Emporium comprises residential apartments, hotel accommodation, retail and two commercial office towers. The Murri Way (Emporium) office building is the latest supply addition providing 3,845m² GFA to enter the precinct.

Trafalgar Corporate Group and Lainge O'Rourke Australia have offloaded 108 Wickham Street 11 months after purchasing the asset from the Uniting Church. In November 2005 the joint venture partners paid $50 million with an initial yield of 7.97% for the fully leased building with an approved DA for a 6 storey office building on the adjoining site. Fortius Funds Management have since purchased the building with the intention of developing the site into the proposed 12,000m² Centenary Square. The 'off market' transaction included the novation of a fixed price building cost with Laing O'Rourke for the approved office development. The $66 million sale was apportioned with approximately $11.9 million ($100/m² of NLA) attributed to the potential development land and approximately $54.1 million to the 14 storey office tower. Trafalgar Group has accounted a strong profit from the sale with an equity IRR of 69.9%.

Analysis of a Deal

Centenary Square
108 Wickham Street, Fortitude Valley

Purchaser: Fortius Funds Management
Vendor: Trafalgar Corporate Group and Laing O'Rourke Australia
Date of Sale: September 2006
NLA: 13,212m²
Parking: 132 bays
Capital Value: 4,095/m²
Initial Yield: 6.85%
Comments: The sale of 108 Wickham Street emphasis the strength of the Brisbane market. The property sold with a 32% increase in value 12 months after being purchased in September 2005. The adjoining site has an approved DA for a 6 level office building including retail outlets and a showroom.

New Development Update

Project/Location	Suburb	Total Area (m²)	Status	Estimated Completion Date	Comments
Murri Way	Fortitude Valley	3,850	Completed	2006	Leased to John Holland Group
Green Square (North Tower)	Fortitude Valley	21,000	DA	2008	Pre-commitment required
Green Square (South Tower)	Fortitude Valley	17,000	Under Construction	2007	Pre-committed to the BCC
Portal Stage III	Newstead	4,300	DA	2008	Pre-commitment required
106 Brookes Street	Fortitude Valley	10,000	Under Construction	2007	Construction commenced without pre-commitment
108 Wickham Street Development Site	Fortitude Valley	12,000	DA	2008	Construction commenced without pre-commitment
Newstead Riverpark	Newstead	9,000	Mooted	2009	Contamination site works ongoing
45 Commercial Road	Newstead	4,265	DA	2008	Pre-commitment required
56 Edmondstone Road	Bowen Hills	12,000	DA	2007/2008	Staged development
Water Loo Hotel	Fortitude Valley	9,000	DA Lodged	2008	Pre-commitment required

Source: Colliers International Research

189 Coronation Drive, Milton

Valad Property Group purchased the 4 storey building in May 2006 for $10 million

Recent Fringe Office Market Activity

Fringe Office Leasing Activity

Address	Suburb	Start Date of Lease	Area Leased (m^2)	Gross Face Rent ($\$/m^2$)	Tenant
Milton					
215 Coronation Drive	Milton	Aug-06	2,108	$425	Bateman Engineering
215 Coronation Drive	Milton	Jun-06	2,008	$415	Queensland Cement
339 Coronation Drive	Milton	May-06	1,447	$315	Origin Energy
303 Coronation Drive	Milton	Apr-06	320	$350	Nautils Minerals
33 Park Road	Milton	Aug-06	194	$315	EDC Wealth Management
47 Park Road	Milton	Aug-06	315	$300	Elderslie Financial Corp
Toowong					
601 Coronation Drive	Toowong	Apr-06	3,000	$420	OAMPS Insurance Brokers
601 Coronation Drive	Toowong	Apr-06	1,274	$420	MWH Australia
80 Jephson Street	Toowong	Jun-06	603	$285	Webb Australia
Spring Hill					
338 Turbot Street	Spring Hill	Jul-06	523	$385	Hatch Associates
131 Liechardt Street	Spring Hill	May-06	52	$355	AEC
200 Creek Street	Spring Hill	Jan-06	1,136	$350	McConnell Dowell & Abiggroup
80 Petrie Terrace	Spring Hill	Jul-06	523	$350	Challenge Recruitment
541 Boundary Street	Spring Hill	Feb-06	137	$265	ACER
Inner South					
SW1	South Bank	Apr-06	2,748	$400	State of Qld
SW1	South Bank	Apr-06	1,381	$395	AXA Australia
SW1	South Bank	Apr-06	5,299	$392	Roche Mining
433 Logan Road	Stones Corner	May-06	300	$325	Bank of Qld
25 Donkin Street	West End	May-06	283	$275	Hometrader
99 Melbourne Street	South Bank	Jul-06	530	$360	Pan Australian Resources
Urban Renewal					
1000 Ann Street	Fortitude Valley	Jun-06	3,600	$405	John Holland Construction
3 Breakfast Creek	Newstead	Feb-06	235	$400	Boss Property Group
42 McLachlan Street	Fortitude Valley	Sep-06	888	$300	Credit Smart Group

Source: Colliers International Research

Fringe Office Investment Activity

Address	Suburb	Sale Date	Purchase Price	Building Area (m^2)	Capital Value ($\$/m^2$)	Initial Yield (%)	Vendor	Purchaser
Milton								
57 Coronation Drive	Milton	Aug-06	$9,500,000	1,940	$3,192	6.27%	De Luca Group	FKP
19 Lang Parade	Milton	Aug-06	$14,100,000	6,986	$3,110	7.36%	Reserve Bank of Australia	Mdev Property Group
189 Coronation Drive	Milton	May-06	$10,000,000	1,804	$3,564	7.00%	Greg Poole	Valad Property Group
Toowong								
555 Coronation Drive	Toowong	Jun-06	$28,500,000	3,104	$4,855	6.39%	GE Real Estate	AMP Capital Investors
80 Jephson Street	Toowong	Jun-06	$23,000,000	4,118	$3,599	6.90%	James Fielding Direct	Stockland
Spring Hill								
121 Wharf Street	Spring Hill	Sep-06	$22,250,000	4,395	$5,063	6.97%	Aria Securities	GE Real Estate
Urban Renewal								
108 Wickham Street	Fortitude Valley	Sep-06	$66,000,000	13,212	$4,095	6.85%	Trafalgar & Laing O'Rourke	Fortius Funds Management
318 Brunswick Street	Fortitude Valley	Sep-06	$18,500,000	3,921	$4,718	9.80%	POD Developments/ Watpac	MFS Trust
117 McLachlan Street	Fortitude Valley	May-06	$7,350,000	1,845	$3,984	6.90%	Leasing Solutions	Private Investor

Colliers International Research

COLLIERS INTERNATIONAL MARKET INDICATORS

Brisbane Fringe Office

SUMMER 2007

Newstead River Park, Longland Street, Newstead

241 Offices Worldwide

130 Americas
- 98 United States
- 18 Canada
- 14 Latin America

72 Europe, Middle East & Africa

39 Greater Asia

54 Countries on 6 Continents

Argentina	Macau
Australia	Mexico
Austria	N. Ireland
Baltic States	Netherlands
Belgium	New Zealand
Brazil	Norway
Bulgaria	Peru
Canada	Philippines
Caspian Region	Poland
Chile	Portugal
China	Romania
Colombia	Russia
Costa Rica	Serbia & Montenegro
Croatia	Singapore
Czech Republic	Slovakia
Denmark	South Africa
France	Sweden
Germany	Switzerland
Greece	Taiwan
Hong Kong	Turkey
Hungary	Ukraine
India	United Arab Emirates
Indonesia	United Kingdom
Ireland	United States
Italy	Venezuela
Japan	Vietnam
Korea	

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Outlook

The fundamentals of the Brisbane fringe office market are extremely positive with Queensland's economy booming, historically low unemployment and positive sentiment in the business community.

The scarcity of vacant office accommodation has forced tenants to compete fiercely for available accommodation driving exceptional rental growth and reduction in incentives. Prospective tenants are left with fewer choices and landlords have begun to hold back on incentives contributing to a thriving investment market. Initial yields have considerably tightened as the prospect of future rental growth and reversion has shifted purchasers focus to the total returns achievable from their commercial investments.

A combination of strong business expansion and consistent population growth has ensured Brisbane's white collar workforce continues to expand. These factors have combined to create a stronger than usual tenant demand with net absorption averaging 48,049m^2 over the past 2 years against net supply additions averaging just 21,569m^2 over the same period. The fringe vacancy levels are particularly tight in Milton and Spring Hill which experienced large amounts of absorption.

While the construction of new and refurbished projects in the fringe has rapidly picked up as a result of strong rental growth, only few smaller or fully pre-committed projects have recently been completed and the market remains exceptionally tight with demand far outweighing supply. The Fringe is embracing larger national companies as Brisbane's CBD fails to accommodate space requirements. This in effect has triggered a large amount of negotiation to pre-commit new office supply scheduled for completion in 2008 and 2009. Considering the immense tenant demand, net absorption through 2007 is expected to outweigh supply. This notation is supported by the fact that most projects due for completion in 2007 are substantially pre-committed. Even into 2008 as a variety of new office projects are estimated for completion, tenant demand should be strong enough to ensure vacancy rates remain low.

Looking forward, China, India, South Korea and Japan remain very strong trading partners forecasting a positive future for Queensland's commodity boom, (in particular coal and base metals) which should maintain Queensland's healthy economy into the medium-term future. Tight vacancies and further rental growth should result in commercial properties retaining their status as highly sought after investment assets. The market should begin to stabilise over the long-term future as Brisbane fringe's modest new development pipeline comprising 198,844m^2 of approved office space enters the market over the coming 3 years. Despite the increase of new stock entering the market, solid white collar drivers look set to sustain the high levels of tenant demand meaning vacancy rates should remain historically low. Both the leasing and investment fundamentals are extremely positive and will maintain the momentum of Brisbane's commercial fringe market into 2007.