

## June 2008 Annual Update

# Mirvac Tourist Park Fund

ARSN 108 243 947

## Welcome to the June 2008 Annual Update for Mirvac Tourist Park Fund (the Fund).

Established in March 2004, the Fund invests in the real estate component of tourist parks throughout Australia that are strategically located to benefit from growth in the sector.

During the first half of the year the Fund performed well due to investment in the parks, high occupancy generated by the lessee and strong property and economic fundamentals reflected in revaluations.

During the year the strategic options for the Fund were reviewed, taking into account the escalating risks in the general operating environment, prospects for further growth of the Fund, the Fund's debt and equity position, and asset specific risks.

Escalating debt costs and the urgent need to upgrade the sewerage plant at the FreeSpirit Resort Darwin has affected the Fund's performance in the second half of the year, culminating in the retention of the fourth quarter distribution in order to provide for the new sewerage plant.

### Change in senior management

Andrew Butler has been appointed to the newly created position of Director, Listed and Unlisted Funds. Andrew, who has held various roles within Mirvac over the past 13 years, is responsible for overseeing the management of all listed and unlisted retail funds business activities including Mirvac Tourist Park Fund. Andrew's responsibilities will also encompass overseeing retail distribution networks and involvement in capital transactions for the Fund.

In addition, Chris Packett was appointed Director, Real Estate Equity Funds. Chris has worked with Mirvac Funds Management since early 2006 and has been responsible for the portfolio management and investment performance of a number of unlisted property funds. He is responsible for the strategic direction of the Mirvac Tourist Park Fund.

### Capital expenditure impacts Fund performance

On 21 August 2008 the manager notified Investors of the need to provision for major capital expenditure which is required to increase the capacity of the sewerage plant at the FreeSpirit Resort Darwin (further details below), necessitating the retention of the distribution for the quarter ended 30 June 2008.

The full year distribution to 30 June 2008 was 7.625 cents per unit representing an annualised distribution yield of 7.63 per cent on the original issue price of \$1.00 and 7.19 per cent on the new issue price of \$1.06, underperforming the PDS forecast of 11.5 cents per unit.

Due to positive revaluations on the property assets during the year, the Fund's net tangible assets (NTA) increased from \$0.97 per unit to \$1.20 per unit, an uplift of 23.7 per cent compared to the previous year.



## Portfolio information

The Fund's property assets are weighted 67 per cent to the Northern Territory market and 33 per cent to the Queensland market.

The three portfolio leases, which include two leases to FreeSpirit Resorts Pty Limited and a lease to Australian Fuel Distributors Pty Limited, have a weighted average expiry of 7.6 years.

Property	State	Ownership %	Acquisition date	Independent valuation date	Independent valuation (\$m)	Book value (\$m)	Capitalisation rate (%)	Area (hectares)
Fraser Lodge, Harvey Bay	QLD	100	Nov 2005	31 Dec 2007	11.750	11.879	8.85	3.186
FreeSpirit Resort, Darwin	NT	100	Mar 2004	31 Dec 2007	23.500	22.454	8.5	11.250

### Valuations policy

All valuations of investment properties are conducted in strict accordance with the Corporations Act and the Mirvac Group Real Property Valuation Policy, which is available on Mirvac's website: [www.mirvac.com.au](http://www.mirvac.com.au).

Valuation information is disclosed in the half-year and full year financial statements for the Fund which are available from the Fund's website. The information provided in these financial statements surrounding valuations includes: the valuation date, the valuation amount, the valuer used, the valuer's name and their qualifications and the method used for valuation.

## Park upgrades

During the year the upgrade of the two parks by the operator FreeSpirit progressed in line with budget and largely to program.

At Fraser Lodge the six new cabins installed during the upgrade have been well received by visitors.

The Darwin park upgrade is now complete, adding additional accommodation, and enhancing the presentation and functionality of the park.

## Occupancy levels remain steady

### Fraser Lodge Hervey Bay

Fraser Lodge's operator FreeSpirit, reported that occupancy levels for the year were in line with the prior year across all accommodation types.

Trading during the last quarter of the 2008 financial year was negatively affected by the timing of the Easter holidays, poor weather and a general slowdown in tourism in the Hervey Bay area. Anecdotal evidence suggests that the inbound tourism market is being affected by the high Australian dollar. However the coming whale watching season is expected to be strong and revenue is projected to be up on the previous year, partly driven by the recently installed new cabins and cabin refurbishment.

Management has continued with cost containment and profitability for the year was above the previous year.

### FreeSpirit Resort Darwin

FreeSpirit report that occupancy levels at Darwin were up on the prior year, partly due to increased itinerant worker accommodation demand which was satisfied by the additional accommodation. During the dry season the resort continues to trade at full occupancy.

Revenue for the last quarter was ahead of budget and up on the prior year. During the year the capital expenditure program was finalised and completed within budget. The full year profit result was also ahead of last year.

## Major capital expenditure requirement for sewerage plant at FreeSpirit Resort Darwin

As noted above and communicated previously to Investors, FreeSpirit, the operator of the Darwin park, advised Mirvac that the on site sewerage plant was not coping with the demand of the peak season. FreeSpirit has been working closely with the Northern Territory Department of Health to ensure that there is no health or safety risk to guests or employees.

Mirvac immediately engaged an independent consultant (Arup) to assess the plant, its state of repair and its capacity. Arup's initial report indicated that the plant is inadequate for the park's capacity. The plant will require immediate upgrading and that costs in the range of \$350,000 to \$1.0 million may be needed depending on the final assessment of the sewage requirements.

The planned distributions for the June 2008 quarter of approximately \$250,000 have been retained and will be used to assist in funding the costs associated with the sewerage plant.

Arup will provide further information for the Fund's review by the end of September 2008.

## BP service station lease Darwin

During the year the lease over the service station at the Darwin park was extended by eight years and will now expire on 29 December 2022.

## Gearing

The Fund is close to its maximum loan to value ratio of 64 per cent. Also, the Fund's debt hedging falls away in December 2008 and April 2009. This will increase the amount of the loan subject to variable rates and depending on interest rates, increase the cost of debt. The Fund's existing facilities expire in April 2009 and September 2010.

## Forecast for 30 June 2009

The current forecast distribution for the year ending 30 June 2009 is 8.5 cents per unit excluding any potential adjustment for the costs associated with the capital expenditure required at FreeSpirit Resort Darwin, which are to be confirmed and approved.

Once these costs have been finalised, Investors will be advised of the revised forecast distribution for the year ending 30 June 2009.

## Economic and property market outlook

A volatile global financial market flowing on from the subprime mortgage crisis in the United States has put considerable pressure on the Australian financial sector. Credit spreads have widened sharply, sharemarket volatility has spiked and inter-bank debt markets are experiencing low liquidity. As stability returns we expect to see some retraction of credit spreads from current extreme levels, although it is unlikely there will be a return to the tight spreads prevailing in early 2007.

At the same time, growth in Asia will continue to underwrite global trade and commodity prices, with positive implications for the Australian economy.

The Australian economy is forecast to grow between 3.0 and 3.25 per cent in 2008. Business investment, rising export volumes and a modest recovery in dwelling construction will be major contributors.

## Asset values and property returns

Rising interest rates, wider credit spreads and the end of capitalisation rate compression all signal a more challenging property investment environment through 2008 and beyond. High quality assets, supported by low levels of debt, stable cash flow and experienced management, will continue to command market support. Valuations will be under pressure across markets for assets that fail to meet these three criteria.

Looking beyond the current period of adjustment, Investors and lenders can look forward to higher investment yields, though lower capital growth. Debt providers will require a greater level of pre-commitment before approving projects, thus constraining supply.

The Fund's parks are high quality assets in this Tourism sector and have relatively high yields compared with other property sectors.

## Tourism market outlook

Tourist numbers into Australia continue to rise, with short term arrivals growing 3.3 per cent in the year to May 2008. However, as was experienced in the late part of 2007, more Australian tourists are now travelling overseas affecting domestic tourism visitation numbers. This is attributable to a strong Australian dollar, which has been consistently over the US\$0.90 mark. The increasing cost of petrol/oil has become a major issue set to affect tourist travel by air and road transport.

The market for domestic tourism remained stable through the year to March 2008. The number of domestic overnight visitors grew slightly at 1.7 per cent, although the number of nights stay remained flat. In the year ending March 2008 Queensland experienced strong growth in domestic visitors with a 6.1 per cent gain, whilst the Northern Territory recorded marginal growth of 0.5 per cent. For caravan parks demand nationally increased approximately 2.7 per cent, with Queensland and the Northern Territory above this rate both at 3.4 per cent. In the longer term domestic tourism will face increasing pressures from rising fuel costs and continued competition from overseas destinations.

## Looking ahead

High interest rates, wider credit spreads and lack of available debt funds signaled the end of capitalisation rate compression which has driven asset value growth over the last few years. Fraser Lodge and FreeSpirit Resort Darwin are high quality tourist parks subject to leases with FreeSpirit, an experienced operator with management rights over other quality parks.

However Fund returns are expected to come under pressure from increased interest costs and softening in capitalisation rates. Growing the Fund accretively through acquisition will continue to prove difficult.

Taking into account the investment environment, the investment strategy and outlook for the Fund, the manager has commenced investigating options which we believe are in the best interests of Investors.

The strategic direction of Mirvac Funds Management Limited (MFML) has been reviewed and Management of tourist park funds has become a non-core component of Mirvac's unlisted real estate funds management strategy, which is to establish and manage funds closely aligned to Mirvac's core activities.

Accordingly, MFML believes that the interests of Investors would be better served by a responsible entity whose core competencies lie in the management of tourist parks funds.



## Key financial statistics

Year ended	30 June 2008	30 June 2007
Fund size (\$m)	36.8	32.5
Net tangible assets (NTA) per unit (\$)	1.20	0.97
Borrowings (\$m)	20.6	17.4
Gearing ratio (%) <sup>1</sup>	59.9	58.0
Interest cover (x) <sup>2</sup>	2.04	2.57
Annualised distribution yield (%)		
Original Investors – unit issue price \$1.00	7.6	11.0
New Investors – unit issue price \$1.06	7.2	10.4
Management fee (%)	0.65	0.46
<b>Distributions (cents per unit)</b>		
September 2007	2.875	2.750
December 2007	2.875	2.750
March 2008	1.875	2.750
June 2008	–	2.750
<b>Total distribution</b>	<b>7.625</b>	<b>11.00</b>

1 Gearing ratio = (bank borrowings / investment properties). The gearing ratio indicates the extent to which the Fund's assets are funded by borrowings.

2 Interest cover = (Adjusted earnings (a) + interest) expense / interest expense Interest cover indicates the extent to which the Fund is able to meet its interest payment from earnings.

(a) Earnings have been adjusted to reflect, revaluation of properties, performance fees and provision for sewage works

## Investor information

### Complaints

Mirvac Funds Management Limited (MFML) has an established policy for dealing with complaints. Investors wishing to complain should write to:

Mirvac Tourist Park Fund  
c/- Computershare Investor Services Pty Limited  
GPO Box 2975  
Melbourne VIC 3001

or

Manager, Investor Relations  
Mirvac Funds Management Limited  
Level 26, 60 Margaret Street  
SYDNEY NSW 2000

MFML is a member of an independent dispute resolution, the Financial Ombudsman Service (FOS).

### Privacy

The responsible entity collects personal information to enable us to tailor our service to the needs of our customers. We only collect personal information directly from customers, for example through application or enquiry forms, letters and visits to our website or our office. If Investors discover that personal information we hold is inaccurate, incomplete or out-of-date, or if they no longer wish to receive material from the responsible entity, they should contact our Privacy Officer on the numbers listed below.

### Mirvac Tourist Park Fund

#### Responsible Entity

Mirvac Funds Management Limited

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#### Board of Directors

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