



MFS LIVING AND LEISURE GROUP

Comprising:

MFS Living and Leisure Trust

(Responsible Entity: MFS L & L Management Limited
ABN 60 101 634 315 AFSL 280985) and

MFS Living and Leisure Limited

ABN 92 107 863 445

ASX AND MEDIA ANNOUNCEMENT – ANNUAL FINANCIAL REPORT

MFS Living and Leisure Group are pleased to present the attached Annual Financial Report for the year ending 30 June 2005.

The Annual Financial Report is consistent with the announcement of 23 August 2005, Appendix 4E Preliminary Final Report.

Marshall Vann
Chief Executive Officer
MFS Living and Leisure Group

MFS Living and Leisure Group

Annual Financial Report

30 June 2005

This is Annexure A of 44 pages referred to in Form 388 "Copy of financial statements and reports".



Signed

31 August 2005

Date

MFS Living and Leisure Group

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MFS Living and Leisure Group

Responsible Entity of the Trust

MFS L&L Management Limited
ACN 101 634 315

Directors of the Responsible Entity and The Company

Philip William Adams
Spencer Martin Young
Michael Christodoulou King
Michael Gordon Hiscock
Paul Joseph Manka
Rolf Julian Krecklenberg
Marshall Ronald Vann
Anthony Kevin Smith
Julanne Mary Shearer.

Secretaries of the Responsible Entity and The Company

David Mark Anderson
Kim Lee Anne Kercher

Corporate Secretarial Manager - Schemes

Francine Wan Sim Hoo

Auditors of the Trust and The Company

KPMG
161 Collins Street
MELBOURNE VIC 3000

Security Registry Office

ASX Perpetual Registrars
Level 22, HSBC Building, 300 Queen Street, Brisbane
Queensland, Australia, 4000

ASX Listing

This Group is listed on the Australian Stock Exchange, ASX Code being "MPY".

Registered Office

MFS House
5 Hicks Street
SOUTHPORT QLD 4215

MFS Living and Leisure Group

Directors' Report for the year ended 30 June 2005

The Directors of MFS Living and Leisure Limited ("the Company") and MFS L&L Management Limited ("the Responsible Entity"), the Responsible Entity for the MFS Living and Leisure Trust ("the Scheme") present their combined report for the year ended 30 June 2005 and the auditor's review report thereon. The stapling of Units in the Scheme to Shares in the Company form the stapled group called the MFS Living and Leisure Group ("the Group"). The shares and units cannot be traded or dealt with separately. The stapled securities were listed on the Australia Stock Exchange ("ASX") on 6 July 2004, under the code MPY.

The Responsible Entity

The Responsible Entity of the Scheme is MFS L&L Management Limited. MFS L&L Management Limited was appointed Responsible Entity of the Scheme upon the retirement of McLaughlins Financial Services Limited on 10 February 2005.

The Directors of MFS L&L Management Limited ("MLLM") as Responsible Entity, and of MFS Living & Leisure Limited, at any time during or since the end of the financial year are:

| Name, qualification and independence status | Age | Experience and special responsibilities |
|-------------------------------------------------------------------------------------------------|------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Philip William Adams Dip.Law Executive Chairman | 50 | Director since 8 August 2002 (MLLM), and 4 February 2004 (the Company). Philip Adams and Michael King founded MFS in 1999. Philip has extensive experience in the banking, finance and property industries having been employed by the Commonwealth Bank of Australia in various executive and lending positions, as well as acting as an in-house legal counsel for the bank. Philip has also worked extensively with a national law firm and was the in-house corporate lawyer for a publicly listed property company specialising in property syndications |
| Michael Christodoulou King, LLB Managing Director | 41 | Director since 8 August 2002 (MLLM), and 4 February 2004 (the Company). Prior to establishing MFS with Philip Adams, Michael was the managing partner of a law firm, principally practising in commercial property litigation. His extensive experience in debt recovery and mortgagee property sales brings a valuable dimension to the Board's expertise. Michael has been instrumental in the growth and development of MFS, its proud record of investor service, and its quality of staff. |
| Paul Joseph Manka, MBA, CFP ASIA Independent Non-Executive Director (resigned 24/3/05) | 44 | Director since 15 May 2003 (MLLM), and 4 February 2004 (the Company) Member of audit and risk committee. Paul joined the financial services industry in 1985, holds a Masters in Business Administration, is a Certified Financial Planner and an associate of the Securities Institute of Australia. Paul has held a range of positions within the financial services sector, including various board and management positions, and continues to provide financial advice to a broad range of clients. |

MFS Living and Leisure Group

Directors' Report for the year ended 30 June 2005

| Name , qualification and independence status | Age | Experience and special responsibilities |
|----------------------------------------------------------------------------------------------------------|------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Michael Gordon Hiscock, B.Bus, CFP ASIA Independent Non-Executive Director (resigned 24/3/05) | 45 | Director since 15 May 2003 (MLLM), and 4 February 2004 (the Company) Michael is a partner in a large Sydney-based financial planning practice. He has provided investment and broader financial planning advice to clients since 1986. Michael is a Director of Avenue Capital Management Ltd and has previously held various management positions and directorships in both large and small financial planning businesses. Michael is a Certified Financial Planner and an Associate of The Securities Institute of Australia. |
| Spencer Martin Young B.Eng, MBA (Harvard) Independent Non-Executive Director (resigned 24/3/05) | 44 | Director since 15 May 2003 (MLLM), and 4 February 2004 (the Company). Spencer has more than 15 years of investment and management experience gained both domestically and internationally across all aspects of property, private equity and venture capital investing. He is a former executive Director of Rothschild Australia Capital Investors Limited and senior executive with Lend Lease Corporation Limited. |
| Julanne Shearer LLB, B.Com Independent Non-Executive Director (appointed 24/3/05) | 60 | Director since 24 March 2005 Chair of audit and risk committee. Julanne is a partner in a Gold-Coast based law firm and has extensive experience in the financial services, managed investments and property sector, including board positions. |
| Marshall Ronald Vann Chief Executive Officer (appointed 24/3/05) | 46 | Director since 24 March 2005 Marshall is the CEO of the MFS Living and Leisure Group. Marshall has extensive senior management experience in the managed investments and banking industry. |
| Anthony Kevin Smith Independent Non-Executive Director (appointed 24/3/05) | 39 | Director since 24 March 2005 Anthony is one of the founders of a prominent Australian resort management company and has extensive experience in the financial services sector, including management and board positions. |
| Rolf Julian Krecklenberg Independent, Non-Executive Director (appointed 24/3/05) | 39 | Director since 24 March 2005 Rolf is the CEO of a prominent Australian resort company and has extensive experience in the financial services sector, including management and board positions. |

MFS Living and Leisure Group

Directors' Report for the year ended 30 June 2005

The registered office of the Responsible Entity is MFS House, 5 Hicks Street, Southport, Queensland, 4215.

Company Secretary

David Anderson – B.Com FCA IP MICM CFA
Chief Financial Officer

David was appointed Company Secretary of MFS L&L Management Limited on 8 August 2002 and 4 February 2004 for MFS Living and Leisure Limited. David is responsible for the treasury and financial structuring roles throughout the MFS Limited businesses and oversees the financial reporting function. David joined MFS in 2002 after 20 years in the accounting profession having practised in Australia, Europe, Asia and the South Pacific. David is an ex partner of KPMG Australia where his clients included major banks and financial institutions.

Kim Kercher - C.A, BBus(Acc), Grad Dip Applied Corp Gov, ACIS
Chief Governance Officer

Kim was appointed to the position of Company Secretary of MFS L&L Management Limited on 25 September 2003 and 4 February 2004 for MFS Living and Leisure Limited. Kim joined the MFS group of companies in 2001 and also acts as Company Secretary of the ultimate parent entity and a number of subsidiary entities within the group. Prior to joining MFS, Kim was a manager with KPMG specialising in assurance and advisory services. Kim has thirteen years experience in accounting, compliance, regulatory and financial reporting.

The directors of the retired Responsible Entity, McLaughlins Financial Services Limited during the period 1 July 2004 to 10 February 2005 were:

Philip William Adams

Michael Christodoulou King

Paul Joseph Manka

Michael Gordon Hiscock,

Spencer Martin Young

MFS Living and Leisure Group

**Directors' Report
for the year ended 30 June 2005**

Directors meetings

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

McLaughlins Financial Services Limited (1 July 04 to 9 February 2005):

| | Executive Board Meetings | | Full Board Meetings | | Audit Meetings | |
|--------------------|--------------------------|----|---------------------|---|----------------|----|
| | A | B | A | B | A | B |
| Mr Philip Adams | 13 | 13 | 7 | 9 | | |
| Mr Spencer Young | | | 5 | 9 | | |
| Mr Michael King | 13 | 13 | 9 | 9 | | |
| Mr Michael Hiscock | | | 9 | 9 | 13 | 13 |
| Mr Paul Manka | | | 9 | 9 | 13 | 13 |

MFS L&L Management Limited (10 February to 30 June 2005):

| | Executive Board Meetings | | Full Board Meetings | | Audit Meetings | |
|---------------------------------------------|--------------------------|---|---------------------|---|----------------|---|
| | A | B | A | B | A | B |
| Mr Philip Adams | | | 1 | 2 | | |
| Mr Spencer Young (resigned 24/3/05) | | | 1 | 1 | | |
| Mr Michael King | | | 2 | 2 | | |
| Mr Michael Hiscock (resigned 24/3/05) | | | 1 | 1 | | |
| Mr Paul Manka (resigned 24/3/05) | | | 0 | 1 | 1 | 1 |
| Mr Rolf Krecklenberg (appointed 24/3/05) | | | 1 | 1 | | |
| Mr Marshall Vann (appointed 24/3/05) | | | 1 | 1 | | |
| Mr Anthony Smith (appointed 24/3/05) | | | 0 | 1 | | |
| Ms Julanne Shearer (appointed 24/3/05) | | | 1 | 1 | 1 | 1 |

A = Number of meetings attended

B = Number of meetings held

MFS Living and Leisure Group

Directors' Report for the year ended 30 June 2005

Principal activities

The Scheme

The Scheme is a registered managed investment scheme domiciled in Australia.

The Scheme's principal activity for the year was the ownership and management of investment properties.

The Scheme did not have any employees during the year.

There have been no significant changes in the nature of those activities during the year.

The Company

This is the second financial year in which the Company has operated. It became operational on 4 February 2004.

Review of operations

Results

| | The Group |
|---------------------------------------------------------------|---------------------|
| | Year ended |
| | 30 June 2005 |
| | \$ |
| Net operating profit/(loss) | 370,109 |
| Distributions/dividends paid and payable for the period | - |

The 2005 result for the Group includes profit on sale of the Rockhampton Hotel of \$422,946.

The operating expenses of the investment properties, which include rates, taxes and repairs and maintenance, are reasonably comparable to last year after adjusting for the sale of the Toowoomba Hotel that occurred on 20 January 2004, and the Rockhampton Hotel on 8 November 2004

State of affairs

On 6 July 2004, the stapling of Units in the Scheme to Shares in the Company was effected to form the stapled group called the MFS Living and Leisure Group. A total of 4,221,955 stapled securities have been issued as at the date of this report. The shares and units cannot be traded on the Australian Stock Exchange ("ASX") or dealt with separately.

The sale of the Mercure Inn Leichhardt Hotel in Rockhampton was completed on 8 November 2004, after review of the Group's assets deemed the property not consistent with the Group's overall objectives. Proceeds from the sale were used to reduce debt and meet selling costs.

A review of the depreciable assets held within the Group was undertaken during the financial year, and as a result additional depreciation costs of \$44,465 have been incurred on the Mercure Alice Springs Hotel, for assets no longer in existence, or of minimal value.

The Group entered into a new loan agreement with the MFS Premium Income Fund, a Scheme managed by MFS Investment Management Limited ("MFSIM") (a wholly owned subsidiary of MFS Limited), on 19 May 2005. This loan agreement provides a total of \$6,366,030 of which only \$4,789,210 has been drawn down as at the date of this report. The additional funds provide working capital to fund future hotel refurbishment costs. The drawn down amount incorporates repayment of the two existing loans, and loan variation fees of \$100,000.

MFS Living and Leisure Group

Directors' Report for the year ended 30 June 2005

In the opinion of the current Responsible Entity, there were no other significant changes in the state of affairs of the Group that occurred during the period under review.

Environmental regulation

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

Likely developments

The Group will continue to hold investment properties.

Events subsequent to balance date

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

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

Interests of the Responsible Entity

MFS L&L Management Limited (current responsible entity) held no stapled securities or options in the MFS Living and Leisure Group at 30 June 2005 (2004: Nil).

McLaughlins Financial Services Limited (previous responsible entity) held 78,034 options and no shares or units in the Company or scheme respectively as at 30 June 2005 (2004: 78,034 units in the Trust). The options held by McLaughlins Financial Services Limited have an exercise price of \$1.50.

The MFS Living and Leisure Trust owed \$4,789,210 by way of loans from the MFS Premium Income Fund, a Scheme managed by MFS Investment Management Limited, at 30 June 2005.

MFS Living and Leisure Group

Directors' Report for the year ended 30 June 2005

Responsible Entity's remuneration

In accordance with the Scheme Constitution, the Responsible Entity is entitled to receive:

- (i) a management fee of 0.5%p.a. of the Gross Asset Value of the Scheme, payable monthly in arrears;
- (ii) an incentive fee of 3.5% of any distribution of revenue made by the Scheme (in accordance with clause 9.2 and 9.3 of the Scheme's Constitution);

Set out below are the fees paid or payable by the Scheme to the Responsible Entity and their associates during the year:

| | | 2005 |
|----------------------------------------|-----|-------------|
| | | \$ |
| McLaughlins Financial Services Limited | (1) | 33,525 |
| MFS L&L Management Limited | (2) | 19,695 |

(1) from July 04 – Jan 05

(2) from Feb 05 – June 05

Securities on Issue

The number of interests in the Group as at the end of the financial year is 4,221,955 stapled securities (2004: 4,221,955 units).

The Group had total assets valued at \$9,635,052 as at 30 June 2005 (2004: \$12,398,838). The basis for valuation of the assets is disclosed in Note 1 to the financial statements.

The Group did not issue any further stapled securities during the period to and including the date of this directors' report.



MFS Living and Leisure Group

**Directors' Report
for the year ended 30 June 2005**

**LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE
CORPORATIONS ACT 2001**

To: The Directors of the Responsible Entity, MFS L&L Management Limited, and the Directors of MFS Living & Leisure Limited:

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2005 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

DM Scammell
Partner

Place: Melbourne

Date: 31 August 2005

MFS Living and Leisure Group

**Directors' Report
for the year ended 30 June 2005**

Indemnities and insurance premiums for Officers or Auditors

Indemnification in relation to the Trust

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

The Scheme has not indemnified any auditor of the Scheme.

Insurance Premiums in relation to the Trust

No insurance premiums are paid out of Scheme assets in relation to insurance cover for the Responsible Entity, its officers and employees, the Compliance Committee or the auditors of the Scheme.

Indemnification in relation to the Company

The Company has not indemnified or made an agreement for indemnifying against a liability, any person who is or has been an officer of the Company, or an auditor of the Company.

Insurance Premiums in relation to the Company

MFS Administration Pty Ltd, a related entity has paid or agreed to pay in respect of the Company, premiums in respect of directors and officers' liability and legal expenses insurance contracts for the period ended 30 June 2005. Such insurance contracts insure against certain liability (subject to specific exclusions) for persons who are or have been the Directors or executive officers of the Company.

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

Signed in accordance with a resolution of the directors of the current Responsible Entity – MFS L&L Management Limited, and of MFS Living & Leisure Limited.



31 August 2005

Director

Date

MFS Living and Leisure Group

Corporate Governance Statement

Outlined below are the main corporate governance practices that were in place throughout the year, which comply with the ASX Corporate Governance Council recommendations, unless otherwise stated.

Commitment to Unitholders and an Informed Market

MFS strives to undertake its duties with honesty, integrity and diligence in accordance with the law and in a manner that reflects the highest standards of corporate governance.

MFS is committed to the promotion of investor confidence by ensuring that trades in the Scheme's securities take place in an efficient, competitive and informed market.

MFS recognises that forthright communications are the key to building value and maintaining Unitholder confidence. MFS acknowledges that for the Group to prosper and achieve growth MFS must be forthright in its communications and consistently deliver on its commitments.

MFS is committed to ensuring compliance with its continuous disclosure obligations contained in the ASX Listing Rules. In keeping with this commitment, MFS ensures that all information that has a material effect on or may lead to a substantial movement in the price or value of the Scheme's securities is disclosed.

In addition to its market disclosures, MFS ensures that Unitholders are kept informed through a variety of other means. Principal communications to Investors are through the provision of the Annual Report, financial statements, newsletters, market announcements and Unitholder meetings. Unitholders may also gain access to information about the Group including accounts and annual reports via the website at www.mfsgroup.com.au.

Further details regarding the communication with unitholders is outlined at page 17.

Board of Directors

The Role of the Board

The management and control of the Group is vested in the Board of Directors. The Board's primary role is the protection and enhancement of long-term unitholder value. The Board sets strategic direction, approves performance targets, monitors management achievements and ensures that policies and procedures for corporate governance and risk management are in place so as to ensure Unitholder funds are prudently managed. There is a clear division between the responsibility of the Board and Management. The Board has delegated responsibility for operations and administration to the Chief Executive Officer and executive management. Responsibilities are delineated by formal authority delegations.

The Chief Executive Officer is accountable to the Board for all authority delegated to executive management. The Board has also delegated some responsibilities to committees.

The Responsible Entity is responsible for the overall corporate governance of the Scheme, including protection of unitholders interests, developing strategic direction and monitoring the performance of management.

MFS Living and Leisure Group

Corporate Governance Statement

Board Processes

The Responsible Entity must exercise its powers and perform its obligations in accordance with the provision of the Scheme's constitution and the Corporations Act. The Responsible Entity's primary duties and obligations include:

- Exercising all due diligence and vigilance in carrying out its' duties and protecting the rights and interest of the unitholders and in performing the functions and exercising its powers under the Scheme's constitution in the best interest of all unitholders;
- Keeping or causing to be kept proper books of accounts;
- Causing the financial report to be audited annually by a registered auditor and sending the annual financial report and a copy of the auditors' report to unitholders each year;
- Ensuring that the Scheme is carried on and conducted in a proper manner;
- Ongoing research and selection of property investments;
- Managing the Scheme's property portfolio;
- Managing of all equity and debt raising; and
- Preparation of all notices and reports issued to unitholders.

Under the Scheme's constitution the Responsible Entity is responsible for the day to day operations of the Scheme.

The Board schedules ten meetings per year and meets as and when required outside the scheduled times. The agenda is prepared by the Company Secretary in conjunction with the Managing Director and the Chairman. Standing items include Managing Director's report, reports from each Scheme manager regarding Scheme performance, Governance report and Compliance reports. Board papers are circulated in advance of the meeting and contain all relevant information to ensure the Board are informed of all matters relating to the performance of the Scheme.

The Responsible Entity has established three permanent committees that have been established to assist in the execution of the Board's responsibilities.

To assist in the execution of its responsibilities, the board has established a number of permanent board committees including an audit and risk management committee, a compliance committee and an investment committee. All of the permanent committees have established charters which govern their roles, responsibilities and duties. The majority of the permanent committee members for both the Audit Committee and the Compliance Committee are either non-executive independent directors or external members who are not involved in the management of the Scheme or MFS.

From time to time special/specific purpose committees are formed by the Board to deal with specific matters.

The board nomination and remuneration committee function is performed at the ultimate parent entity level rather than as separate committees of the Responsible Entity. The group remuneration committee is governed by a remuneration charter. The Board of the Responsible Entity consider any recommendations made by the group remuneration committee. The committees established at the Responsible Entity level are focused on enhancing the corporate governance function of the Group.

The Responsible Entity has also established a governance framework which includes internal controls, business risk management and the establishment of appropriate ethical standards and code of business conduct.

MFS Living and Leisure Group

Corporate Governance Statement

Directors Education

The Responsible Entity has a formal process to educate new directors about the nature of the business, current issues, the corporate strategy and the expectations of the Responsible Entity concerning the performance of directors. The Responsible Entity also has a formal process to ensure directors perform relevant training and continuous education activities required as a result of their position.

Independent Professional Advice

Each director has the right of access to all relevant information and to the Company's executives and, subject to prior consultation with the Chairman, may seek independent professional advice at the Company's expense.

Composition of the board

The composition of the Board is reviewed on an annual basis to ensure that the Board has the appropriate mix of expertise and experience. When a vacancy exists, through whatever cause, or where it is considered that the Board would benefit from the services of a new member with particular skills, the Board selects a panel of candidates with the appropriate expertise and skill.

The composition of the Board is determined using the following principles:

- The Board should comprise of at least 5 directors. This number may be increased where it is felt that additional expertise is required in specific areas, or when an outstanding candidate is identified.
- The Board should have enough directors to serve on various committees of the Board, without overburdening the directors or making it difficult for them to fully discharge their responsibilities.
- The Board should be comprised of members with a broad range of expertise and skills.
- The Board will meet on a regular basis and as required to keep abreast of all pertinent business developments and issues, the companies operations and performance and approve all strategic decisions relating to future direction.
- The terms and conditions of the appointment and retirement of members of the Board are from 1 July 2003 set out in writing. The appointment letter is to cover the following matters:
 - the manner in which remuneration is determined;
 - fellow Directors;
 - the term of the appointment, subject to member approval;
 - the powers & duties of a Director;
 - the expectations of the Board in relation to preparation for and attendance at all Board meetings;
 - the expectations regarding committee work;
 - confidentiality requirements;
 - the procedures for dealing with conflicts of interest;
 - the requirement to disclose Directors interest and any matter that may affect Directors independence;
 - the availability of independent professional advice;
 - insurance arrangements;

MFS Living and Leisure Group

Corporate Governance Statement

- procedures for the provision of a copy of the Constitution of the Company;
- procedures for the provision of a copy of the Constitution and Compliance Plan for each Scheme / Syndicate managed by the Company; and
- copy of the trading policy regarding securities.

The Board recognises that independent directors are important in assuring unitholders that the Board is properly fulfilling its role and is diligent in holding management accountable for its performance.

The Board have adopted the following criteria for determining the independence of its Board Members. A director is an independent non-executive director, if the director:

- Is not a substantial shareholder of the Company or an executive officer of the Company;
- Within the last three years has not been employed in an executive capacity by the Company or any subsidiary of the Company, or been a director after ceasing to hold any such employment;
- Within the last three years has not been a principal of a material professional adviser or a material consultant to the Company or any subsidiary of the Company, or an employee materially associated with the service provided;
- Is not a material supplier or customer of the Company or any subsidiary of the Company, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- Has no material contractual relationship with the Company or a subsidiary of the Company other than as a director of the Company;
- Has not been a Board Member for a period, which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company; and
- Is free from any interest and any business or other relationship, which could, or could reasonably be perceived to materially interfere with the director's ability to act in the best interests of the Company.

The test of whether a relationship or transaction is 'material' will be based on the nature and circumstances of the transaction being reviewed with regard to the guidelines outlined above. As a guideline, where the director has an affiliation with a business which transacts with the Company in the ordinary course of business on an arms length basis and which, during the last three years account for less than 3% of the director related business revenue, the transaction will be considered to be immaterial.

Based on the above criteria, the Board membership consisted of a majority independent non-executive directors throughout the year. The Board have resolved that the board's composition should continue to have a majority of Non-Executive Directors and that the Chairman and Managing Director should be exercised by separate people. The Board elects the chair based on the person the Board believes is the best candidate to fulfil the role. The Chair is currently performed by an executive director. The directors assess the position of Chair each year. The Board is comprised of directors with a wide range of experience, further details as to the experience and expertise of directors is included at page 1 of the directors' report.

The Responsible Entity has instituted a process whereby the performance of all directors is reviewed by the Chairman each year.

Audit Committee and Risk Management

The role of this Committee is to assist the Board in establishing and maintaining a framework of risk management, internal controls and ethical standards for the management of the Scheme and to monitor the quality of financial information released to the market. The Audit Committee has responsibility for:

MFS Living and Leisure Group

Corporate Governance Statement

- Ensuring code of ethics is established and periodically renewed;
- Reviewing the performance, independence and effectiveness of the external auditors;
- Ensuring finance reports are prepared in accordance with applicable Australian Accounting Standards and pronouncements, generally accepted accounting principles and all other statutory requirements;
- Reviewing and approving the audit plan;
- Monitoring the implementation and maintenance of the risk management framework;
- Monitoring the establishment of an appropriate internal control framework; and
- Ensuring appropriate management processes and policies are implemented.

The duties, responsibilities and reporting obligations of the audit and risk committee are outlined in the audit and risk committee charter.

The board has determined that the audit committee should comprise members who do not have any executive capacity within the wholly-owned group and accordingly, the current audit committee comprises two non-executive independent directors. The company secretary acts as secretary to the audit committee.

Compliance Committee

MFS is not required by the Corporations Act to establish and appoint a Compliance Committee for the Scheme. Nevertheless, the Board has recognised the importance and benefit to MFS of having an Independent Compliance Committee to oversee and monitor compliance.

The Compliance Committee Charter sets out the duties and responsibilities of the Compliance Committee.

The functions of the Compliance Committee include:

- Monitoring the extent of the Responsible Entity's compliance with the Scheme's Compliance Plans and reporting its findings to the Board as they think fit or as the Board requires;
- Reporting to the Board any breaches of the Corporations Act or a provision of the Scheme's Constitution of which it becomes aware;
- Reporting to ASIC if the Compliance Committee is of a view that the Responsible Entity does not propose to take responsible action with respect to any matter reported to the Board;
- Assessing at regular intervals whether the Compliance Plan is adequate, and reporting to and making recommendations to the Board about amendments to the Compliance Plans; and
- Ensuring management systems are monitored and reviewed to achieve high standards of performance and compliance.

The Compliance Committee operates under a written charter.

Investment Committee

The Investment Committee has been established by the Board to manage and oversee the approval of major investments. The role of the Investment Committee is to ensure that:

- Investments are aligned with agreed strategies and values;
- All risks are identified and evaluated;
- Appropriate risk management strategies are pursued; and

MFS Living and Leisure Group

Corporate Governance Statement

- Investments are fully optimised to produce maximum value within an acceptable risk framework.

The Investment Committee is chaired by the Chief Executive Officer and operates under a written charter.

Remuneration

Directors and executives are remunerated by the Responsible Entity in accordance with the Responsible Entity remuneration policies.

The Responsible Entity is remunerated in accordance with the terms in the Scheme's constitution or as otherwise agreed with the unitholders.

Risk Management

Review of Effectiveness

During the year, the Board conducts regular reviews of the effectiveness of the compliance function and internal control environment. These reviews include financial operations, compliance controls and risk assessment.

Risk management and compliance and control

The Responsible Entity's Board is responsible for the overall internal control framework, however recognises that no cost effective internal control system will preclude all errors and irregularities. To assist in discharging its responsibilities, the Board has instigated an internal control framework that can be described under the following headings.

Quality and integrity of personnel

MFS's policies and procedures are detailed in Manuals. Written confirmation of compliance with policies is obtained from all staff members. Training and development and appropriate remuneration and incentives with regular performance reviews create an environment of co-operation and constructive dialogue with employees and senior management. Formal appraisals are conducted annually for all employees.

Financial reporting

There is a comprehensive budgeting system. Monthly actual results are reported against budget and revised forecasts for the year are prepared regularly. The Scheme Finance Manager and General Manager declare in writing as to the accuracy and completeness of financial information presented and confirms that the Corporations Act and applicable accounting standards and pronouncements have been complied with in the preparation of the annual financial report. A comprehensive certification system has been implemented which must be signed off by the Finance Manager, Asset Manager and General Manager of the Scheme prior to submitting the financial reports to the audit committee for review. The General Manager and Finance Manager of the Scheme also provide quarterly certifications regarding compliance with internal compliance, risk management and relevant other policies adopted by the Responsible Entity.

Convergence with Australian equivalents to International Financial Reporting Standards (AIFRS) is a key current financial reporting project and the board has established a formal project, monitored by a steering committee, to ensure a smooth transition to AIFRS reporting, beginning with the half-year ended 31 December 2005.

Details of the progress of the implementation project and the expected impact of transition to AIRFS on the financial report for the year ended 30 June 2005 are included in Note 21.

The consolidated entity is expected to be in a position to fully comply with the reporting requirements of AIFRS for the 30 June 2006 financial year.

MFS Living and Leisure Group

Corporate Governance Statement

Investment appraisal

MFS has clearly defined guidelines for capital expenditure. These include annual budgets, detailed appraisal, and review procedures, levels of authority and due diligence requirements where businesses are being acquired or divested.

Functional specialty reporting

A number of key areas have been identified which are subject to regular reporting to the Board, such as Treasury, Governance, Legal and Compliance.

Compliance plan

The compliance plan and associated operational policies set out the policies and procedures that ensure management of the Group is conducted effectively and efficiently. The Responsible Entity has appointed compliance officers who are responsible for performing periodic reviews of the Responsible Entity's compliance with the requirements of the Compliance Plan.

Ethical Standards

Code of Business Conduct

MFS has a *Code of Business Conduct* which sets out the ethical standards in accordance with which each director, manager and employee of MFS is expected to act. The requirement to comply with these ethical standards is communicated to all employees. The Code deals with the following main areas:

- Professional, legal and ethical conduct;
- Dealing with Stakeholders;
- Workplace Harassment and Violence;
- Conflicts of Interest;
- Confidential Information and Insider Trading;
- Reputation;
- Environment;
- Security; and
- Fraud.

All directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of MFS. Every employee has a nominated supervisor to whom they may refer any issues arising from their employment.

Conflict of Interest

In accordance with the Corporations Act 2001 and MFS' constitution, Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the Board believes that a significant conflict exists the Director concerned is not to be present at the meeting whilst the item is considered.

MFS Living and Leisure Group

Corporate Governance Statement

Trading in Group securities by directors and personnel

Directors and personnel are allowed to acquire units in the Group provided they comply with the provisions of the MFS Trading Policy. Directors and personnel must seek approval to acquire units in the Group, even where the acquisition is within the guidelines of the trading policy. The trading policy prohibits anyone trading in the Scheme's securities where they are in possession of price sensitive information which is not generally available and outside a period of seven days of the lodgement of a price sensitive announcement with the market, unless express approval is received from the Board (personnel) or from the Chairman (directors).

Directors must notify the Company Secretary of any acquisition or disposal of units in the Group and advise the ASX of any transactions conducted by them in relation to the units in the Group. Personnel are required to notify Human Resources Manager of any acquisition or disposal of units in the Group. A related party register is maintained which records all holdings of units in the Scheme by personnel and directors.

Communication with unitholders

The Board provides unitholders with information using a comprehensive Continuous Disclosure Policy which identifies matters and procedures to ensure all information which may have a material effect on the price of the Group's securities is notified to the unitholders and the market.

A summary of the pertinent matters contained within the Continuous Disclosure Policy and communications with unitholders are outlined below:

- The General Manager of the Group is responsible for ensuring all pertinent matters are communicated to the Company Secretary of the Responsible Entity to facilitate communications with the ASX.
- An annual report is distributed to all unitholders (unless a unitholders has specifically requested not to receive the annual report), including relevant information about the operations of the Group during the year, changes in the state of affairs and details of future developments.
- A half year report containing summarised financial information and review of the performance and financial position of the Group during the period is prepared and reviewed by the external auditors of the Group. The half-year financial report is lodged with the Australian Securities and Investment Commission and the ASX, and sent to any unitholders who request a copy of the report.
- Proposed major changes which may impact on unitholders rights are submitted to the vote of unitholders.
- All announcements made to the market are placed on the Responsible Entity's website after they are released to the ASX.

The Responsible Entity encourages full participation of unitholders at General Meetings, to ensure a high level of accountability.

MFS Living and Leisure Group

**Statement of financial performance
for the year ended 30 June 2005**

| | Note | 2005 |
|--------------------------------------------------------------|-------------|------------------|
| Revenue from ordinary activities | | \$ |
| Lease revenue | | 1,494,162 |
| Gross proceeds on sale of investment property | | 3,252,447 |
| Interest | | 13,054 |
| Other revenue | | 31 |
| Total revenue | | <u>4,759,694</u> |
| Expenses from ordinary activities | | |
| Borrowing costs | | 702,188 |
| Rates, taxes and other property outgoings | | 500,562 |
| Responsible Entity fees | 15 | 53,220 |
| Depreciation – Furniture, Plant and Equipment | | 144,591 |
| Other expenses from ordinary activities | 2(b) | 159,523 |
| Carrying value on sale of investment property | 2(c) | <u>2,829,501</u> |
| Total Expenses | | <u>4,389,585</u> |
| Profit / (loss) from ordinary activities | | <u>370,109</u> |
| | | |
| Basic earnings/(loss) per unit/share (cents per unit/share)* | 5 | <u>8.77</u> |

* The options on issue at 30 June 2005 are not dilutive in nature. The Scheme and the Company have reasonable belief that the options will not be exercised at any time in the near future, as the exercise price is considerably higher than the current market price.

MFS Living and Leisure Group

**Statement of financial position
as at 30 June 2005**

| | | The Group | |
|----------------------------------------------|------|-------------------------|--------------------------|
| | Note | 2005 \$ | 2004 \$ |
| Current assets | | | |
| Cash and cash equivalents | | 90,612 | 131,363 |
| Receivables | 6 | 114,941 | 129,052 |
| Other | 7 | 46,846 | 42,220 |
| Total current assets | | <u>252,399</u> | <u>302,635</u> |
| Non-current assets | | | |
| Investment properties | 8 | 8,554,589 | 10,830,751 |
| Furniture, plant and equipment | 9 | 793,692 | 1,212,501 |
| Deferred establishment fees | | 34,372 | 52,951 |
| Total non-current assets | | <u>9,382,653</u> | <u>12,096,203</u> |
| TOTAL ASSETS | | <u>9,635,052</u> | <u>12,398,838</u> |
| Current liabilities | | | |
| Payables | 10 | 65,690 | 345,444 |
| Total current liabilities | | <u>65,690</u> | <u>345,444</u> |
| Non-current liabilities | | | |
| Interest bearing liabilities | 11 | 4,789,210 | 7,643,351 |
| Total non-current liabilities | | <u>4,789,210</u> | <u>7,643,351</u> |
| TOTAL LIABILITIES | | <u>4,854,900</u> | <u>7,988,795</u> |
| NET ASSETS | | <u>4,780,152</u> | <u>4,410,043</u> |
| Equity | | | |
| Contributed equity | 12 | 15,967,103 | 15,967,103 |
| Distributions in excess of net profit/(loss) | 3 | (956,357) | (956,357) |
| Accumulated losses | 16 | (10,230,594) | (10,600,703) |
| TOTAL EQUITY | | <u>4,780,152</u> | <u>4,410,043</u> |

The statement of financial position is to be read in conjunction with the notes to the financial statements.

MFS Living and Leisure Group

**Statement of cashflows
for the year ended 30 June 2005**

| | Note | 2005 |
|------------------------------------------------------------|-------------|--------------------|
| | | \$ |
| Cash flows from operating activities | | |
| Cash receipts in the course of operations | | 1,657,745 |
| Cash payments in the course of operations | | (1,089,549) |
| Interest revenue received | | <u>13,054</u> |
| Net cash provided by/(used in) operating activities | 17(a) | <u>581,250</u> |
| Cash flows from investing activities | | |
| Proceeds from the sale of investment property | | 3,252,447 |
| Cost of sale of investment property | | (265,621) |
| Payments for fixed assets | | (13,500) |
| Repayment of loans by related entity | | <u>42,220</u> |
| Net cash provided by/(used in) investing activities | | <u>3,015,546</u> |
| Cash flows from financing activities | | |
| Borrowing costs paid | | (783,406) |
| Proceeds from borrowings | | 4,789,210 |
| Repayment of borrowings | | <u>(7,643,351)</u> |
| Net cash provided by/(used in) financing activities | | <u>(3,637,547)</u> |
| Net increase/(decrease) in cash held | | (40,751) |
| Cash at the beginning of the financial period | | <u>131,363</u> |
| Cash at the end of the financial period | 17(b) | <u>90,612</u> |

The statement of cashflows is to be read in conjunction with the notes to the financial statements.

MFS Living and Leisure Group

Notes to the financial statements For the period ending 30 June 2005

1. Statement of significant accounting policies

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

(a) *Basis of preparation*

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

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

The accounting policies have been consistently applied and except where there is a change in accounting policy, and are consistent with those of the previous financial year.

(b) *Income and Expenses*

Lease revenue

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

Interest revenue

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

Sale of non-current assets

The gross proceeds of asset sales are included as revenue of the Trust when control of the asset passes to the purchaser.

The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal (including incidental costs).

Property expenses

Property expenses consist of rates, taxes and other property outgoings in relation to investment properties where such expenses are the responsibility of the Scheme.

Responsible Entity's remuneration

Under the Scheme Constitution, the Responsible Entity is entitled to a fee amounting to 0.5% per annum of the Gross assets of the Scheme.

MFS Living and Leisure Group

Notes to the financial statements For the period ending 30 June 2005

1. Statement of significant accounting policies (continue)

(b) Revenue and expenditure recognition (continue)

Hotel Manager's remuneration

In accordance with each of the property leases, the Hotel Manager retains a percentage per property of both gross revenue (2% to 2.5%) and net operating revenue (7.5% to 9%). The Hotel Manager's remuneration is deducted before lease revenue is paid to the Scheme and as a result is not included as an expense in these financial statements.

All other expenses are brought to account on an accrual basis.

(c) Investment properties

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

Valuation method

Under the provisions of the Scheme Constitution, the Responsible Entity shall cause a valuation to be carried out on all or any of the investments of the Scheme when required to do so by the Corporations Act 2001, and may cause a valuation to be carried out at any time.

The valuations are based on the price at which the property might reasonably be expected to be sold at the date of valuation, assuming:

- (a) a willing, but not anxious, buyer and seller;
- (b) a reasonable period within which to negotiate the sale, having regard to the nature and situation of the property and the state of the market for the property of the same kind;
- (c) that the property will be reasonably exposed to the market;
- (d) that no account is taken of the value or other advantage or benefit, additional to market value, to the buyer incidental to ownership of the property being valued;
- (e) that the Scheme has sufficient resources to allow a reasonable period for the exposure of the property for sale; and
- (f) that the Scheme has sufficient resources to negotiate an agreement for the sale of the property.

Revaluation increments are credited directly to the asset revaluation account. Revaluation decrements are taken to the asset revaluation account to the extent that such losses are covered by amounts previously credited to the account and still available in that account. Revaluation decrements in excess of amounts available in the account are charged to the Statements of Financial Performance.

Subsequent revaluation increments that recover amounts previously charged to the Statement of Financial Performance are to that extent, credited to the Statement of Financial Performance and then transferred to the asset revaluation account. In any particular year increments and decrements are netted off.

MFS Living and Leisure Group

Notes to the financial statements For the period ending 30 June 2005

1. Statement of significant accounting policies (continue)

(c) *Investment properties (continue)*

The gain or loss on disposal of re-valued assets is calculated as the difference between the carrying amount of the asset at the time of disposal and the proceeds on disposal and is included in the results in the year of disposal.

Any related revaluation increments standing in the asset revaluation account at the time of disposal is transferred to retained earnings.

In determining the increment or decrement on revaluation, no account has been taken of the potential impact on Unitholders of taxation resulting from any capital gain which may arise on the subsequent sale of the Investment.

(d) *Recoverable amount of non-current assets valued on a cost basis*

The carrying amounts of all non-current assets are valued on a cost basis to determine whether they are in excess of their recoverable amount at balance date. If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to the lower amount. In assessing recoverable amounts of non-current assets, the relevant cash flows have not been discounted to their present value.

(e) *Income tax*

Under current income tax legislation, the Group is not liable for income tax, provided that the taxable income is fully distributed to Unitholders. Tax allowances for building and plant and equipment depreciation are distributed to Unitholders in the form of tax deferred components of distributions.

(f) *Loan establishment fees*

Costs incurred in respect of obtaining finance are deferred and are written off over the term of the loan.

(g) *Capital expenditure*

Refurbishment costs are capitalised and included in the investment value. Integral plant and equipment which is disposed of as part of ongoing refurbishments is written off and the investment value reduced accordingly.

(h) *Issue costs*

Costs incurred directly in connection with the issue of units are netted against the funds raised to determine Unitholders' equity.

(i) *Depreciation*

In accordance with accounting standard AASB 1021: Depreciation, investment properties (including buildings and integral plant) are not depreciated. The properties are subject to continued maintenance and regularly re-valued on the basis in Note 1(d). Taxation allowances for buildings, plant and equipment depreciation are claimed by the Group and are declared as tax deferred components of distributions.

MFS Living and Leisure Group

Notes to the financial statements For the period ending 30 June 2005

1. Statement of significant accounting policies (continue)

(i) Depreciation (continue)

Items of furniture, fixtures and fittings not integral to the buildings are carried at cost and depreciated on a straight line basis over their estimated useful lives. Depreciation rates used for each class of assets are as follows:

- Furniture, fixtures and fittings 13% - 20%
- Motor Vehicles 20%
- Plant and Equipment 17% - 27%

Assets are depreciated from the date of acquisition.

(j) Borrowing costs

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

(k) Receivables

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

(l) Payables

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

(m) Interest bearing liabilities

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

(n) Goods and services tax

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

Receivables and payables are stated with the amount of GST included.

MFS Living and Leisure Group

Notes to the financial statements For the period ending 30 June 2005

1. Statement of significant accounting policies (continue)

(n) Goods and services tax (continue)

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

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

(o) Distributable revenue

Under the provisions of the Scheme Constitution, Distributable Revenue is defined as Net Taxable Income together with any capital amount arising from the net proceeds of realisation of investments (to the extent that it is not included in Net Taxable Income) or representing other capital of the Scheme howsoever arising or representing amounts deducted for depreciation. Where the Net Accounting Income exceeds the Net Taxable Income, Distributable Revenue will be the Net Accounting Income or some amount greater than the Net Taxable Income but less than the Net Accounting Income.

(p) Earnings Per Unit

Basic earnings per unit ("EPU") is calculated by dividing the net profit attributable to the unitholders of the parent entity for the reporting period, after excluding any costs of servicing equity (other than ordinary units and converting preference units and deferred units classified as ordinary shares for EPU calculation purposes), by the weighted average number of ordinary units of the Trust, adjusted for any bonus issue.

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

(q) Comparatives

The stapled securities were listed on the Australian Stock Exchange ("ASX") on 6 July 2004.

Accordingly there is only comparative information for the Statement of Financial Position which reflects the scheme's operations only; and none for the Statement of Financial Performance and Statement of Cash flows.

MFS Living and Leisure Group

**Notes to the financial statements
For the period ending 30 June 2005**

| | The Group 2005 |
|------------------------------------------------------------------------------|---------------------------|
| 2. Profit/(loss) from ordinary activities | \$ |
| (a) Individually significant items in profit from ordinary activities | |
| Revaluation increment/(decrement) of investment properties | - |
| (b) Other expenses | |
| Auditor's remuneration (KPMG Australia) | |
| - Audit services | 15,428 |
| - Other services (compliance plan audits) | 4,869 |
| - Taxation services | 5,386 |
| ASX fees | 4,880 |
| Bank fees | 789 |
| Consultants | 23,791 |
| Custodian's requirements | 19,080 |
| Legal fees | 60,642 |
| Responsible Entity's outlays | 1,833 |
| Sundry expenses | 16,521 |
| Unit registry fees | 6,304 |
| | <u>159,523</u> |
| (c) Carrying value on sale of investment property | |
| Carrying value of investment property | 2,276,162 |
| Carrying value of Furniture, plant & equipment | 287,718 |
| Selling costs | 265,621 |
| | <u>2,829,501</u> |
| | The Group 2005 |
| 3. Distributions/dividends in excess of net profit/(loss) | \$ |
| Balance at the beginning of the financial year | (956,357) |
| Distributions/dividends paid or payable | <u>-</u> |
| Balance at the end of the financial year | <u>(956,357)</u> |

For accounting purposes, distributions exceeding accounting profit represent a return of capital.

4. Distributions

No distributions were provided for or paid by the Group during the financial year ended 30 June 2005.

MFS Living and Leisure Group

**Notes to the financial statements
For the period ending 30 June 2005**

| | The Group | |
|---------------------------------------------------------------------------------|------------------|-----------|
| | 2005 | |
| 5. Earnings per security | | |
| Profit/(loss) from ordinary activities | | \$370,109 |
| Basic earnings/(loss) per security (cents per security) | | 8.77 |
| Weighted average number of ordinary securities on issue used in the calculation | | 4,221,955 |

The Group does not have any potential ordinary units that are dilutive on issue.

| | The Group | |
|---------------------------------|------------------|----------------|
| | 2005 | 2004 |
| | \$ | \$ |
| 6. Receivables | | |
| Lease revenue receivable | 113,881 | 111,328 |
| Other debtors | 288 | - |
| Prepayments | 750 | 4,167 |
| GST receivable | 22 | 13,557 |
| | <u>114,941</u> | <u>129,052</u> |
| 7. Other current assets | | |
| Deferred loan establishment fee | 45,828 | - |
| Inter-entity recoverable | 1,018 | 42,220 |
| | <u>46,846</u> | <u>42,220</u> |

MFS Living and Leisure Group

**Notes to the financial statements
For the period ending 30 June 2005**

8. Investment Properties

Details of the individual properties comprising "Investment Properties" are set out below:

| Description | Acquisition Date | Cost at Acquisition \$ | Valuation date | Valuation ** \$ | Book value 2005 \$ | Book value 2004 \$ |
|---------------------------------------|------------------|---------------------------|----------------|--------------------|-----------------------|-----------------------|
| Mercure Inn, Leichhardt, Rockhampton* | 31.01.97 | 4,643,886 | 15.04.03 | 3,200,000 | - | 2,276,162 |
| Mercure Inn Burke & Wills, Mt Isa | 31.01.97 | 3,468,912 | 15.04.03 | 3,250,000 | 3,113,096 | 3,113,096 |
| Mercure Inn Diplomat, Alice Springs | 15.05.98 | 4,031,380 | 15.04.03 | 4,300,000 | 3,471,052 | 3,471,052 |
| Mercure Inn Outback, Mt Isa | 20.12.99 | 2,778,534 | 15.04.03 | 2,000,000 | 1,970,441 | 1,970,441 |
| | | | | <u>12,750,000</u> | <u>8,554,589</u> | <u>10,830,751</u> |

* Property sold on 8 November 2004.

** Independently valued by Mr SC Trewin from the firm SC Trewin Pty Ltd

The investment properties have been recorded at recoverable amount at 30 June 2005 in the accounting records, based on the valuations above.

The properties were valued on a fair market value basis. Fair value is defined as the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

| Reconciliation of movements | The Group | |
|--------------------------------------|--------------------|--------------------|
| | 2005 \$ | 2004 \$ |
| Carrying amount at beginning of year | 10,830,751 | 15,260,756 |
| Additions | - | 13,710 |
| Valuation increment/(decrement) | - | (1,141,792) |
| Disposals | <u>(2,276,162)</u> | <u>(3,301,923)</u> |
| | <u>8,554,589</u> | <u>10,830,751</u> |

MFS Living and Leisure Group

**Notes to the financial statements
For the period ending 30 June 2005**

| | The Group | |
|-------------------------------------------|------------------|--------------------|
| | 2005 | 2004 |
| | \$ | \$ |
| 9. Furniture, Plant and Equipment | | |
| Furniture, plant and equipment at cost | 1,767,198 | 2,300,596 |
| Accumulated depreciation | <u>(973,506)</u> | <u>(1,088,095)</u> |
| | <u>793,692</u> | <u>1,212,501</u> |
| <i>Reconciliation of movements</i> | | |
| Carrying amount at beginning of year | 1,212,501 | 1,435,366 |
| Additions | 13,500 | 61,114 |
| Depreciation | (144,591) | (161,002) |
| Disposals | <u>(287,718)</u> | <u>(122,977)</u> |
| Carrying amount at end of year | <u>793,692</u> | <u>1,212,501</u> |
| 10. Payables | | |
| Current trade creditors | 13,820 | 207,847 |
| Accruals | 38,328 | 137,597 |
| GST Payable | 12,524 | - |
| Inter-entity payable | <u>1,018</u> | <u>-</u> |
| | <u>65,690</u> | <u>345,444</u> |
| 11. Interest bearing liabilities | | |
| <i>Non-current</i> | | |
| Loans – secured | <u>4,789,210</u> | <u>7,643,351</u> |
| | <u>4,789,210</u> | <u>7,643,351</u> |

The loan of \$4,789,210 with MFS Premium Income Fund is secured by a registered first mortgage over all investment properties. The loan facility provides for a further \$1,576,820 in working capital to a total loan approved amount of \$6,366,030. This loan is a rolling facility used to meet the long-term working capital needs of the scheme which is due for expiry on 18 May 2006. The loan is rolled forward at the discretion of the scheme and bears interest at 10.5% per annum

MFS Living and Leisure Group

**Notes to the financial statements
For the period ending 30 June 2005**

| | The Group | |
|----------------------------------------------------------------------------------------|---------------------|---------------------|
| | 2005 | 2004 |
| | \$ | \$ |
| 12. Contributed equity | | |
| 4,221,955 stapled securities (2004: 4,221,955 stapled securities at issue price) | 16,959,529 | 16,959,529 |
| Less issue costs | <u>(992,426)</u> | <u>(992,426)</u> |
| | <u>15,967,103</u> | <u>15,967,103</u> |
| Movements in ordinary securities | | |
| Balance at the beginning of the financial year | 15,967,103 | 15,917,103 |
| Units/shares issued pursuant to stapling | - | 50,000 |
| Issue/(Reduction) of capital (restructure) | <u>-</u> | <u>-</u> |
| | <u>15,967,103</u> | <u>15,967,103</u> |
| | 2005 | 2004 |
| | No. of Units | No. of Units |
| Movements in units | | |
| Opening balance | 4,221,955 | 20,943,114 |
| (5:1 capital reduction)/new issue | <u>-</u> | <u>(16,754,492)</u> |
| Number of stapled securities after reduction/issue | <u>4,221,955</u> | <u>4,188,622</u> |
| Securities issued to RE | <u>-</u> | <u>33,333</u> |
| Closing balance of stapled securities/units | <u>4,221,955</u> | <u>4,221,955</u> |

Subject to the Corporations Act, the Listing Rules and approval by a Special Resolution of unitholders and the shareholders in the Company, the Responsible Entity and the Company may determine the stapling provisions of the Trust Constitution will cease to apply. If this unstapling occurs, each unit ceases to be stapled to a share and the Responsible Entity and the Company must do all things necessary to procure that each unit is unstapled.

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

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

MFS Living and Leisure Group

**Notes to the financial statements
For the period ending 30 June 2005**

| 13. Net tangible assets | The Group | |
|---------------------------------------------------------|-------------|-------------|
| | 2005 | 2004 |
| Net tangible assets | \$4,734,213 | \$4,314,872 |
| Stapled securities/units | 4,221,955 | 4,221,955 |
| Net tangible asset backing (at book value) per security | \$1.113 | \$1.022 |

14. Segment Reporting

The Group's revenues are entirely derived from the ownership and leasing of hotels. All operations and assets are based in Australia.

15. Related Parties

Responsible Entity

Current

The current Responsible Entity of MFS Living and Leisure Trust is MFS L&L Management Limited, which has been the Responsible Entity since 10 February 2005 when, on a resolution by Unitholders, it was appointed Responsible Entity. The change in Responsible Entity came about as a result of the former Responsible Entity, McLaughlins Financial Services Limited, requesting to retire as Responsible Entity. Both the former and current Responsible Entities are wholly owned subsidiaries of MFS Limited.

The directors of MFS L&L Management Limited since appointment as Responsible Entity, and of MFS Living & Leisure Limited are:

MFS L&L Management Limited

| Name | Period of Appointment | |
|----------------------|------------------------------|-----------------|
| | Appointed | Resigned |
| Mr Phil Adams | 8 August 2002 | |
| Mr Michael King | 8 August 2002 | |
| Mr Spencer Young | 15 May 2003 | 24 March 2005 |
| Mr Michael Hiscock | 15 May 2003 | 24 March 2005 |
| Mr Paul Manka | 15 May 2003 | 24 March 2005 |
| Mr Rolf Krecklenberg | 24 March 2005 | |
| Mr Marshall Vann | 24 March 2005 | |
| Mr Anthony Smith | 24 March 2005 | |
| Ms Julianne Shearer | 24 March 2005 | |

MFS Living and Leisure Group

**Notes to the financial statements
For the period ending 30 June 2005**

15. Related Parties (continue)

MFS Living and Leisure Limited

| Name | Appointed | Period of Appointment |
|----------------------|------------------|------------------------------|
| | | Resigned |
| Mr Phil Adams | 8 August 2002 | |
| Mr Michael King | 8 August 2002 | |
| Mr Spencer Young | 15 May 2003 | 24 March 2005 |
| Mr Michael Hiscock | 15 May 2003 | 24 March 2005 |
| Mr Paul Manka | 15 May 2003 | 24 March 2005 |
| Mr Rolf Krecklenberg | 24 March 2005 | |
| Mr Marshall Vann | 24 March 2005 | |
| Mr Anthony Smith | 24 March 2005 | |
| Ms Julianne Shearer | 24 March 2005 | |

The registered office of MFS L&L Management Limited, the Scheme, and MFS Living & Leisure Limited at the date of this report is MFS House, 5 Hicks Street, Southport, Queensland, 4215.

Former

The Responsible Entity of the Scheme from 1 July 2004 to 9 February 2005 was McLaughlins Financial Services Limited.

The directors of McLaughlins Financial Services Ltd, during or since the end of the previous financial year to 9 February 2005, were:

| Name | Period of directorship |
|-------------------------------|-------------------------------|
| Mr Philip William Adams | Appointed 15 July 1999 |
| Mr Spencer Martin Young | Appointed 15 July 1999 |
| Mr Michael Christodoulou King | Appointed 7 October 1999 |
| Mr Michael Gordon Hiscock | Appointed 15 July 1999 |
| Mr Paul Joseph Manka | Appointed 15 July 1999 |

The related party transactions which have been identified by the current Responsible Entity are set out below.

MFS Living and Leisure Group

**Notes to the financial statements
For the period ending 30 June 2005**

15. Related Parties (continue)

Remuneration of Directors of the Responsible Entity

The directors are not directly remunerated by the Group itself. Directors are not entitled to any equity interests in the Group, or any rights to or options for equity interests in the Group, as a result of the remuneration provided by MFS Limited or any of its entities.

The directors of the Responsible Entity and the previous Responsible Entity, are remunerated by a subsidiary of the Responsible Entity's ultimate parent company, MFS Limited. MFS Limited is a large ASX listed group with operations in Australia and New Zealand in a number of business segments. In addition to their roles as Directors of the Responsible Entity, all of the Directors, with the exception of Julianne Shearer who is an independent Director, hold roles within the MFS Limited corporate group, either as non-executive directors, executive directors or as executives, not associated with the activities of the Responsible Entity.

Given the number and variety of entities operated by the Responsible Entity's ultimate parent, MFS Limited, the Responsible Entity does not consider that there is any direct correlation between the level of remuneration provided to directors of the Responsible Entity and the management fees paid by the Scheme to the Responsible Entity in accordance with the Scheme Constitution and Product Disclosure Statements.

Total remuneration as paid by the MFS Limited has been disclosed, as a reasonable basis of allocation across each MFS Limited controlled entity and scheme managed by an MFS Limited entity does not exist.

There are no executives employed by the scheme or the Responsible Entity.

| | | Primary benefits | | | Post-employment | | Total remuneration |
|--------------------|-------------------------|---------------------|-------------|-----------------------------|-------------------------------|---------------------------|--------------------|
| | | Salary & fees \$ | Bonus \$ | Non-monetary benefits \$ | Superannuation benefits \$ | Prescribed benefits \$ | \$ |
| Directors | | | | | | | |
| Michael King | | 488,609 | - | 71,893 | 10,793 | - | 571,295 |
| Philip Adams | | 450,175 | - | 70,000 | 13,441 | - | 533,616 |
| Anthony Smith* | Appointed 24 March 2005 | 18,298 | - | - | 1,646 | - | 19,944 |
| Julanne Shearer* | Appointed 24 March 2005 | 20,308 | - | - | - | - | 20,308 |
| Marshall Vann* | Appointed 24 March 2005 | 67,052 | - | - | 3,119 | - | 70,171 |
| Rolf Krecklenberg* | Appointed 24 March 2005 | 116,120 | - | - | 5,207 | - | 121,327 |
| Spencer Young** | Resigned 24 March 2005 | 298,129 | - | - | 9,169 | - | 307,298 |
| Paul Manka** | Resigned 24 March 2005 | 45,500 | - | - | 4,095 | - | 49,595 |
| Michael Hiscock** | Resigned 24 March 2005 | 56,168 | - | - | 5,055 | - | 61,223 |
| | | 1,560,359 | - | 141,893 | 52,525 | - | 1,754,777 |

* represents remuneration earned post 24 March 2005

** represents remuneration earned up to 24 March 2005

MFS Living and Leisure Group

Notes to the financial statements For the period ending 30 June 2005

15. Related Parties (continue)

Responsible Entity's remuneration

As a result of the stapling process, and the Responsible Entity is now entitled to receive:

- (iii) a management fee of 0.5%p.a. of the Gross Asset Value of the Scheme, payable monthly in arrears;
- (iv) an incentive fee of 3.5% of any distribution of revenue made by the Scheme (in accordance with clause 9.2 and 9.3 of the Scheme's Constitution);

This fee takes the place of the previous management fee structure of 0.125% per quarter of the Total Tangible Assets of the Trust

Set out below are the fees paid or payable by the Scheme to the Responsible Entity and their associates during the year:

| | | 2005 |
|----------------------------------------|-----|---------------|
| | | \$ |
| McLaughlins Financial Services Limited | (1) | 33,525 |
| MFS L&L Management Limited | (2) | 19,695 |
| | | <u>53,220</u> |

(1) from July04 - Jan05

(2) from Feb05 – June05

Balances owed to the Responsible Entity

The following amounts (including GST) are included in payables as owed to the Responsible Entity and its associates and the former Responsible Entity at balance date.

| | 2005 |
|----------------------------------------|-------------|
| | \$ |
| MFS L&L Management Limited | 4,489 |
| McLaughlins Financial Services Limited | - |
| DDH Graham Limited | - |

Responsible Entity's holding of units

MFS L&L Management Limited

MFS L&L Management Limited (current responsible entity) held no stapled securities or options in the MFS Living and Leisure Group at 30 June 2005 (2004: Nil).

McLaughlins Financial Services Limited

McLaughlins Financial Services Limited (previous responsible entity) held 78,034 options and no shares or units in the Group as at 30 June 2005 (2004: 78,034 units in the Trust).

MFS Living and Leisure Group

**Notes to the financial statements
For the period ending 30 June 2005**

15. Related Parties (continue)

MFS Investment Management Limited

The MFS Living and Leisure Trust owed \$4,789,210 by way of loans from the MFS Premium Income Fund, a Scheme managed by MFS Investment Management Limited, at 30 June 2005.

No distributions were paid during the period.

| | 2005 |
|---------------------------------------------------------|----------------------------|
| | \$ |
| 16. Accumulated losses | |
| Accumulated losses at beginning of year | (10,600,703) |
| Profit/(loss) from ordinary activities after income tax | <u>370,109</u> |
| Accumulated losses at end of year | <u>(10,230,594)</u> |

| | 2005 |
|---------------------------------------------------------------------------------------------|-----------------------|
| | \$ |
| 17. Notes to the statement of cash flows | |
| (a) Reconciliation of net cash provided by operating activities to net profit/(loss) | |
| Profit/(loss) from ordinary activities | 370,109 |
| <i>Add/(less) items classified as investing or financing activities:</i> | |
| - Borrowing costs | 691,479 |
| <i>Add/(less) non-cash items:</i> | |
| Revaluation increment of investment properties | - |
| Depreciation | 144,591 |
| (Gain)/Loss on sale of investment property | (422,949) |
| Amortised deferred loan costs | 63,660 |
| <i>Change in assets and liabilities</i> | |
| Decrease/(increase) in debtors | 10,694 |
| Decrease/(increase) in prepayments | 3,417 |
| Increase/(decrease) in payables | <u>(279,751)</u> |
| Net cash provided by operating activities: | <u>581,250</u> |

(b) Reconciliation of cash

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

| | |
|----------------|---------------|
| Cash at bank | 90,612 |
| Bank overdraft | - |
| | <u>90,612</u> |

MFS Living and Leisure Group

**Notes to the financial statements
For the period ending 30 June 2005**

18. Additional financial instruments disclosure

(a) Interest rate risk

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

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

| 2005 | Note | Weighted average interest rate | Floating interest rate | Fixed interest rate maturing with 1 year or less | Non-interest bearing | Total |
|------------------------------|------|--------------------------------|------------------------|--------------------------------------------------|----------------------|-----------|
| | | % | \$ | \$ | \$ | \$ |
| Financial assets | | | | | | |
| Cash and cash equivalents | | 5.98 | 90,612 | - | - | 90,612 |
| Receivables | 6 | - | - | - | 114,941 | 114,941 |
| | | | 90,612 | - | 114,941 | 205,553 |
| Financial liabilities | | | | | | |
| Borrowings | 12 | 10.5 | - | 4,789,210 | - | 4,789,210 |
| Payables | 11 | - | - | - | 63,872 | 63,872 |
| | | | - | 4,789,210 | 63,872 | 4,853,082 |
| 2004 | | | | | | |
| 2004 | Note | Weighted average interest rate | Floating interest rate | Fixed interest rate maturing with 1 year or less | Non-interest bearing | Total |
| | | % | \$ | \$ | \$ | \$ |
| Financial assets | | | | | | |
| Cash and cash equivalents | | 0.03 | 131,363 | - | - | 131,363 |
| Receivables | 6 | - | - | - | 129,052 | 129,052 |
| | | | 131,363 | - | 129,052 | 260,415 |
| Financial liabilities | | | | | | |
| Borrowings | 12 | 10.5 | - | 7,643,351 | - | 7,643,351 |
| Payables | 11 | - | - | - | 345,444 | 345,444 |
| | | | - | 7,643,351 | 345,444 | 7,988,795 |

(b) Foreign Exchange Risk

The Group does not have any foreign exchange exposures.

(c) Liquidity and Cash Flow Risk

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

(d) Credit Risk Exposures

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted. The total credit risk for financial instruments contained in the Statement of Financial Position is limited to the amount disclosed on the Statement of Financial Position.

MFS Living and Leisure Group

Notes to the financial statements For the period ending 30 June 2005

18. Additional financial instruments disclosure (continue)

(e) *Net fair values of financial assets and liabilities*

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

(f) *Off-Balance Sheet Financial Instruments*

The Group has no off-balance sheet financial instruments.

19. Events Subsequent to Balance Date

There has not arisen in the interval between the end of the financial period, and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Responsible Entity, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

20. Likely developments

The Group will continue to hold investment property.

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

21. Impact of adopting International Financial Reporting Standards

From 1 July 2005, the Group must comply with Australian equivalents to International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board.

This financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements (Australian GAAP) applicable for reporting periods ended 30 June 2005.

Transition management

The Group has established a formal project to achieve transition to IFRS reporting and to be in compliance with AIFRS reporting for the financial year commencing 1 July 2005. The group is expected to be in a position to fully comply with the requirements of AIFRS for the 30 June 2006 financial year. The project consists of three phases:

Assessment and planning phase

The assessment and planning phase generated a high level overview of the impacts of conversion to AIFRS on existing accounting and reporting policies and procedures, systems and processes, business structures and staff. This phase included high level identification of the key differences in accounting policies and disclosures that are expected to arise from adopting AIFRS.

MFS Living and Leisure Group

Notes to the financial statements For the period ending 30 June 2005

21. Impact of adopting International Financial Reporting Standards (continue)

Design phase

The design phase formulated the changes required to existing accounting policies and procedures and systems and processes in order to transition to AIFRS.

Implementation phase

The implementation phase includes implementation of identified changes to accounting and business procedures, processes and systems and operational training for staff and enables the Group to generate the required reconciliations and disclosures of AASB 1 *First Time Adoption of Australian Equivalents to International Financial Reporting Standards*.

The impact of transition to AIFRS including the transitional adjustments disclosed in the reconciliations from current Australian GAAP to AIFRS, and the selection and application of AIFRS accounting policies, are based on AIFRS standards that management expect to be in place, or where applicable, early adopted, when preparing the first complete AIFRS financial report.

There is a significant amount of judgement involved in the preparation of the reconciliations from current Australian GAAP to AIFRS, consequently the final reconciliations presented in the first financial report prepared in accordance with AIFRS (being the half year ending 31 December 2005) may vary materially from the reconciliations provided below.

Revisions to the selection and application of the AIFRS accounting policies may be required as a result of:

- changes in financial reporting requirements that are relevant to the Group's first complete AIFRS financial report arising from new or revised accounting standards or interpretations issued by the Australian Accounting Standards Board subsequent to the preparation of the 30 June 2005 financial report;
- additional guidance on the application of AIFRS in a particular industry or to a particular transaction; or
- changes to the Group's operations.

Where the application or interpretation of an accounting standard is currently being debated, the accounting policy adopted reflects management's current assessment of the likely outcome of those deliberations. The uncertainty relating to the accounting guidance is disclosed in the relevant accounting policy note and where practicable, the expected impact of the alternative interpretation is also disclosed.

The rules for first time adoption of AIFRS are set out in AASB 1 *First Time Adoption of Australian Equivalents to International Financial Reporting Standards*. In general, AIFRS accounting policies must be applied retrospectively to determine the opening AIFRS balance sheet as at transition date, being 1 July 2004. The Standard allows a number of exemptions to this general principle to assist in the transition to reporting under AIFRS. AASB 1 provides an election not to restate comparatives for AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement*. The Group has elected, not to restate comparatives, therefore there will be no impacts in relation to these standards for the AIFRS transition date balance sheet (1 July 2004) or the AIFRS comparative period income statement (year ended 30 June 2005) as the Group will continue to apply current Australian GAAP for the AIFRS comparative year.

The significant changes in accounting policies expected to be adopted in preparing the AIFRS reconciliations and the elections made under AASB 1 are set out below:

MFS Living and Leisure Group

Notes to the financial statements For the period ending 30 June 2005

21. Impact of adopting International Financial Reporting Standards (continue)

a) Financial Liabilities and change in net asset value attributable to unitholders

The entity expects to take advantage of the election in AASB 1 to not restate comparatives for AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement*. There are no expected adjustments in relation to these standards for 1 July 2004 or the financial year ended 30 June 2005 as current Australian GAAP is expected to continue to apply.

The entity has followed Australian GAAP in accounting for financial liabilities and change in net asset value attributable to unitholders within the scope of AASB 132 and AASB 139 as described in Note 1 Statement of significant accounting policies.

As at 1 July 2005 the expected adjustments are:

- In accordance with AASB 132, unitholders funds are "puttable instruments" and expected to be no longer classed as equity but rather as debt. Therefore, a liability must be recognised for the fair value which is redeemable as at reporting date and the changes in value recognised in the Income Statement. Unitholders funds will be disclosed as, "Net assets attributable to unitholders" measured at an amount equal to the number of units on issue multiplied by redemption price as at reporting date and the transaction costs incurred by the scheme in meeting the financial liability to unitholders. The adjustment that would be required as 1 July 2005 is expected to be a decrease in equity of \$4,780,152 and an increase in liabilities of \$4,780,152.
- Unitholders funds are expected to be classed as debt under AIFRS, and it will be necessary to recognise "distribution expense to unitholders" and "change in net asset value attributable to unitholders" in the Income Statement as an expense rather than as a change in unitholders equity.

The constitution of the scheme is currently being reviewed to establish whether if changes are made to the constitution, it will allow for unitholders' funds to be recognised as equity and that distributions made to unitholders will be recognised as a change in unitholders equity.

b) Changes in the fair value of Investment Properties

The entity expects to take advantage of the election under AASB 1, at transition date, for AASB 140 *Investment Property* to be recognised at deemed cost, being a revalued amount prior to transition date that approximates the fair value as at the date of transition. There are no expected adjustments in relation to these standards for 1 July 2004 or the financial year ended 30 June 2005 as current Australian GAAP revaluation is considered to be the deemed cost at the date of transition to Australian equivalents to IFRS. The entity has followed Australian GAAP in accounting for changes in the fair value of investments within the scope of AASB 140 as described in Note 1 Statement of significant accounting policies.

As at 1 July 2005 the expected adjustments are:

- The gain or loss on the disposal of investment properties and furniture, plant and equipment will be recognised on a net basis as a gain or loss rather than separately recognising the consideration received as revenue. For the Group an amount of \$2,829,501 is expected to be reclassified from expenses to revenue for the financial year ended 30 June 2005.

MFS Living and Leisure Group

**Notes to the financial statements
For the period ending 30 June 2005**

21. Impact of adopting International Financial Reporting Standards (continue)

c) Deferred loan establishment fees

Deferred loan establishment fees are no longer capitalised as a separate asset under AIFRS. These balances will be reclassified against the outstanding loan balance and amortised over the life of the loan.

Summary of transitional adjustments:

Overall adjustments in relation to AIFRS will be reclassifications and there will be no material impact on the Statement of Financial Performance or Statement of Financial Position.

MFS Living and Leisure Group

Director's Declaration

In the opinion of the Directors of MFS Living & Leisure Limited and MFS L&L Management Limited, the Responsible Entity of MFS Living and Leisure Trust:

- (a) the financial statements and notes set out on pages 18 to 39 are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the Group as at 30 June 2005 and of its performance, as represented by the results of its operations and its cash flows for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australian and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors of MFS Living & Leisure Limited and MFS L&L Management Limited.



31 August 2005

Director

Date

MFS Living and Leisure Group

Independent audit report to the members

Scope

The financial report comprises the statement of financial performance, statement of financial position, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for the combined MFS Living and Leisure Trust ("the Scheme") and MFS Living & Leisure Limited ("The Group") for the year ended 30 June 2005.

The directors of the responsible entity, MFS L&L Management Limited, and MFS Living & Leisure Limited, are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the unitholders of the Group. Our audit was conducted in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Scheme and the Company's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

MFS Living and Leisure Group

Independent audit report to the members

Audit opinion

In our opinion, the combined financial report of MFS Living and Leisure Trust and MFS Living & Leisure Limited for the year ended 30 June 2005 is in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Group's financial position as at 30 June 2005 and of its performance for the financial year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.



KPMG



D M Scammell
Partner

Place: Melbourne

Date: 31 August 2005

MFS Living and Leisure Group

ASX Additional Information

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

Additional information pursuant to the Listing Rules

Number of Security Holders as at 15 August 2005

| Range | Members | | Quantity | Percent % | |
|-----------------|--------------|-----------|----------|-----------|---------|
| | Numbers | Percent % | | | |
| Category | | | | | |
| 1 | - 1,000 | 257 | 56.61% | 160,585 | 3.80% |
| 1,001 | - 5,000 | 116 | 25.55% | 294,356 | 6.97% |
| 5,001 | - 10,000 | 30 | 6.61% | 252,033 | 5.97% |
| 10,001 | - 100,000 | 47 | 10.35% | 1,691,743 | 40.07% |
| 100,001 | - 99,999,999 | 4 | .88% | 1,823,238 | 43.19% |
| <i>Total</i> | | 454 | 100.00% | 4,221,955 | 100.00% |

*Note: Total investors as at 15 August 2005 is 454.

At 15 August 2005 there were 168 securityholders holding less than a marketable parcel of \$500.00

At 12 August 2004 there were 137 securityholders holding less than a marketable parcel of \$500.00.

MFS Living and Leisure Group

ASX Additional Information

Twenty largest securityholders as at 15 August 2005

| Rank | Name | Quantity | % of Total Holdings |
|-------------|---------------------------------------------------------------------------------------|------------------|----------------------------|
| 1 | Tahl Northern Hotels Pty Ltd <The Northern Hotels Unit A/c> | 827,000 | 19.59% |
| 2 | MFS Investment Management Limited | 754,759 | 17.88% |
| 3 | Ross Anthony Cutts & Judith May Cutts <Vecon (Qld) S/F No. 1 A/c> | 137,202 | 3.25% |
| 4 | Christaview Pty Ltd <Marf Property Management A/c> | 104,277 | 2.47% |
| 5 | Mr Joseph Baggio & Mrs Marija Baggio | 95,636 | 2.27% |
| 6 | Desmond Keith Reck & Valmai Mary Reck <Reck Farms Super No. 2 A/c> | 91,468 | 2.17% |
| 7 | Mrs Rene Pamela Cockerill & Mr Desmond Henry Cockerill <Cockerill Super Fund A/c> | 90,000 | 2.13% |
| 8 | Mr Spencer Scott Grammer & Mrs Jan Grammer <Haulmark M/fing S/F No. 2 A/c> | 89,670 | 2.12% |
| 9 | Gerns Investment Corporation Pty Ltd <Gerns Family Property A/c> | 85,068 | 2.01% |
| 10 | Mr Clive Antony Armitage | 77,473 | 1.84% |
| 11 | MR Michael Crompton & Mrs Grenita Leonora Crompton <Roundhead Super Fund A/c> | 75,000 | 1.78% |
| 12 | Mr Malcolm Henderson Murray & Mrs Elizabeth Joy Murray <Malchel Invest S/F No. 2 A/c> | 74,355 | 1.76% |
| 13 | Mr Laurence Leslie Dunn | 61,280 | 1.45% |
| 14 | Mr Andrew John Kelly & Mrs Clementina Jane Kelly <AJ Kelly Pty Ltd S/F A/c> | 59,400 | 1.41% |
| 15 | Terraform Pty Ltd <Kempnich Super Fund No. 2 A/c> | 59,400 | 1.41% |
| 16 | Mr Robert Samuel Conn & Mrs Leonie Adrienne Conn <Valley Ethicals S/F No. 4 A/c> | 56,764 | 1.34% |
| 17 | Wayne Stanley Spencer & Anne Spencer <Wayne Spencer & Family Superannuation Fund A/c> | 54,450 | 1.29% |
| 18 | Shen Investments Pty Limited | 52,920 | 1.25% |
| 19 | Beverley Park Pastoral Company Pty Ltd <Beverley Park Inv S/F A/c> | 47,240 | 1.12% |
| 20 | Ms Christine Montague | 41,059 | 0.97% |
| | TOTAL: | 2,934,421 | 69.50% |

All securities carry identical voting rights.