2002 tax information

Tax consequences arising from the stapling of **Colonial First State Property Trusts**

On 17 December 1999, it was decided by investors in the:

- Colonial First State Industrial Property Trust
- Colonial First State Commercial Property Trust
- Colonial First State Retail Property Trust and
- Colonial First State Development Trust ('the trusts')

that these trusts would be merged to form the Colonial First State Property Trust Group (CFT). This merger was effective from 20 December 1999, creating one of Australia's largest diversified property trusts listed on the Australian Stock Exchange.

This guide has been designed primarily for those investors who held units in one or more of the four original trusts prior to the merger date of 20 December 1999. It will help you understand the impact of the merger process on the calculation of capital gains on your investment in the Trust and may assist you to calculate your taxation position in the future. While we provide examples of how capital gains tax can be calculated on your investment in the Trust, we do not comment on either the treatment of those gains in your tax return or indexation. The information that we provide is not tax advice. If you are unsure of how the trust merger impacts on your tax position, we strongly recommend you take this guide and your investment information to your financial adviser or accountant to receive advice relevant to your personal situation.

Please note that this guide has been developed for continuing investors who remain Australian residents for tax purposes and is for investors holding units on capital account who acquired those units after 19 September 1985. Investors who acquired their units prior to 20 September 1985 should seek professional advice as there are different implications for units acquired prior to 20 September 1985 and this guide does not apply to their special circumstances.

Give your accountant this guide.

Colonial First State Property

Information for investors who held units in the trusts prior to 20 December 1999

To understand how capital gains tax may be calculated on your investment in the trusts, it is first important to understand the merger process itself, and how your unit balance was calculated in consolidating the four trusts.

1. Consolidating the trusts

To consolidate the four property trusts into CFT, a ratio was required to determine how many units in CFT you would be entitled to, based on your existing investment. The following ratios were created for this purpose.

Underlying trust	Consolidation ratio
Colonial First State Industrial Property Trust	0.950
Colonial First State Commercial Property Trust	0.965
Colonial First State Retail Property Trust	0.585
Colonial First State Development Trust	1.025

2. Special distribution to provide investors with units in each of the other trusts

Once this calculation was made and your number of units in the new CFT determined, an adjustment was required to allow you to hold units in each of the other trusts which now form part of CFT. This is because although the four original trusts were merged to form CFT, they do still exist. It is simply that every unit in one trust is 'stapled' or tied to one similar unit in each of the other three trusts. In other words, each unit you hold in CFT represents a unit in each of the four trusts within it.

A special distribution of 3 cents per unit was made according to the number of newly consolidated units you held. Rather than being paid to investors, this distribution was used to purchase the corresponding number of units in each of the trusts at a price of one cent per unit. This ensured that you held the same number of units across each trust and allowed us to 'staple' the units of the four trusts together.

The special distribution was not subject to income tax in the hands of the unitholder. This does not mean that the distribution had no tax consequences. The three cent distribution reduced the cost base of the original units held for capital gains tax purposes.

3. Understanding the 'cost base 'of your investment for capital gains tax purposes

Given the merger process described above, the 'cost base' (ie the value that your investment was deemed to be purchased at for capital gains tax purposes) will differ between the units in one or more of the trusts that you held before the merger and those that you received in the other trust or trusts following the merger process.

The 3 cents special distribution made to investors as described above was a capital distribution. As a result, the cost base for the units that you held prior to the merger will reduce by 3 cents per unit. For example, if you had 1,000 units in the Colonial First State Industrial Property Trust prior to the merger, you would now hold 950 of the consolidated units in CFT (using the ratios shown in section 1), representing an investment in each of the industrial, commercial, retail and development trusts within CFT. If you had originally paid $1,558 for the 1,000 units in the Colonial First State Industrial Property Trust prior to the merger, the cost base for your investment in the industrial units of CFT would now be $1.61 per unit ($1,558 divided by 950 units less the 3 cents special distribution). A similar 3 cents per unit reduction in cost base would apply regardless of which trust you originally invested in.

The units in the other trusts (that you had no prior investments in) that were purchased for you at the time of the merger were purchased at an initial cost of 1 cent per unit. This is the cost base for the portion of your investment held in these trusts.

A full worked example showing how the cost base of your investment is calculated is shown in the next section.

Alex's original investment	Alex's investment after the merger process			
	950 units in the consolidated CFT			
1,000 units in pre-merger Colonial First State Industrial Property Trust =	950 Industrial units	950 Commercial units	950 Retail units	950 Development units
Cost base before merger	$1.558 per unit			
Cost base post merger	$1.61 per unit[1]	$0.01 per unit	$0.01 per unit	$0.01 per unit

[1] *Allowing for the 3 cents per unit special distribution, explained in section 2 ($1,558 divided by 950 units less the 3 cents per unit special distribution.)*

4. Calculating the capital gain on your investment, should you sell units in CFT

When you choose to sell some (or all) of your units in CFT, you will effectively be selling an equal number of units in each of the four trusts that combined to make CFT. Although you will sell your units in CFT at one price, the proceeds of your investment must be spread across each of the underlying types of units to calculate your capital gain amount. Also, the cost base of the portion of your investment in each of the trusts will depend on the price at which they were purchased, either before or at the time of the merger (as discussed above). Consider the example overleaf showing an investment made by Alex in the Colonial First State Industrial Property Trust in July 1999 (ie prior to the merger) where Alex sells his units in CFT, in June 2002 (ie after the merger), for $2.20 per unit.

When the units in CFT are sold at $2.20, this value should be spread across the four different types of underlying units in a way that reflects their Net Tangible Asset Value. This break down will be provided by us every six months with your June and December quarter statements. Using the June 2002 ratio that was supplied in the June 2002 taxation statement as an example, the $2.20 sale price is applied to Alex's investment in the proportion of Industrial units: 29.24%, Commercial units: 25.59%, Retail units: 32.48%, Development units: 12.69% as shown below.

The sale of units in the trust or trusts originally held by a unitholder will almost always result in a loss for capital gains tax purposes, which may be offset against other capital gains. The cost base of units in the trust or trusts not originally held will be zero for capital gains tax purposes. This is because the units were acquired for one cent. Tax-deferred distributions have been received since acquisition and these have reduced this cost base to nil – see below. Therefore from June 2001 onwards the proceeds received in respect of the other trusts will be subject to tax under the capital gains provisions.

The capital loss in the trust or trusts originally held by a unitholder will mean the unitholder will not be entitled to claim indexation to increase the cost base of the original trust units held.

In the example of Alex's investment of 1,000 units in the pre-merger Colonial First State Industrial Property Trust above, the capital loss made on the Industrial units portion can be offset by the gains made on the other stapled units to give an overall gain of $0.5600 per unit on the investment ($0.553 + $0.705 + $0.269 - $0.967).

Sale proceeds	$0.643 per unit	$0.563 per unit	$0.715 per unit	$0.279 per unit
Gain/(loss) for capital gains tax purposes	‹$0.967› per unit	$0.553 per unit	$0.705 per unit	$0.269 per unit

Note: *For the purposes of simplicity of presentation, the example above has been prepared on the basis that indexation has no effect. Further, the above example does not explain the effect on investors who acquired units pre 20 September 1985. It is recommended that pre 20 September 1985 investors seek professional advice.*

5. Taking into account distributions from your investment

While the example of Alex above takes into account the special distribution which was made at the time of the merger, it does not take into account any normal distributions that you may have received in the period since that time.

Distributions generally comprise three types of income – 'taxable income', 'tax-deferred income' and 'distributed capital gain'. Each of these are described below to help you take account of them in your tax return.

Taxable income

Taxable income represents the income that the trust has earned during the financial year that needs to be assessed as taxable income in your annual tax return. Your quarterly distribution statements and annual tax statement will clearly show this amount. The merger process did not have any special implications for the treatment of taxable income.

Tax-deferred income

You will not normally pay income tax on the 'tax-deferred' component of a distribution however it will reduce the cost base of your investment for the purpose of calculating capital gains. If you have received 'tax-deferred income', you will need to subtract this from the original cost base of your investment before any capital gain amount can be calculated. This should be done in each of the underlying trusts. Some of the units you own originally had a very small cost base, one cent. These are the units from the trusts you did not originally hold, which were acquired via the special 3 cents distribution during the merger process. The cost base on these units were reduced to nil during 2001. Therefore any future distributions of tax-deferred amounts are immediately subject to tax under the capital gains provisions. Components that were previously referred to as tax-free are now included within tax-deferred for all distributions paid after 30 June 2001 as consistent with legislation.

For example, for the investor Alex, introduced earlier.

Alex's original investment	Alex's investment after the merger process			
1,000 units in pre-merger Colonial First State Industrial Property Trust =	950 units in the consolidated CFT			
	950 Industrial units	950 Commercial units	950 Retail units	950 Development units
Cost base before merger	$1.558 per unit			
Cost base post merger	$1.61 per unit[1]	$0.01 per unit	$0.01 per unit	$0.01 per unit
Tax-deferred distributions received (Jul 2001 – Jun 2002)	1.85 cents per unit	1.84 cents per unit	2.58 cents per unit	1.12 cents per unit
Tax-deferred distributions received (Jul 2000 – Jun 2001)	0.64 cents per unit	1.25 cents per unit	1.24 cents per unit	1.09 cents per unit
Tax-deferred distributions received (Jan 2000 – Jun 2000)	0.74 cents per unit	0.46 cents per unit	0.98 cents per unit	0.04 cents per unit
Tax-deferred distributions received (Jul 1999 – Dec 1999)	2.26 cents per unit	nil	nil	nil
Adjusted cost base	$1.5551 per unit	nil *	nil *	nil *
Proceeds of sale at $2.20	$0.643 per unit	$0.563 per unit	$0.715 per unit	$0.279 per unit
Notional gain/(loss) for capital gains tax purposes	‹$0.9121› per unit	$0.563[2] per unit	$0.715[2] per unit	$0.279[2] per unit

[1] *Allowing for the 3 cents per unit special distribution, explained in section 2.*

[2] *The capital gain on disposal of units not held pre-merger relates only to the sale. Additional capital gains need to be included in your tax return for tax-deferred distributions where the cost base of these units is reduced to nil.*

Note: *For the purposes of simplicity of presentation, the example above has been prepared on the basis that indexation has no effect. Further the above example does not explain the effect on investors who acquired units pre 20 September 1985. It is recommended that pre 20 September 1985 investors seek professional advice.*

It can be seen that by the end of the 2001 financial year the total of the tax-deferred distributions received in each of the trusts will have fully offset the one cent cost base of units acquired under the merger process. Therefore all future tax-deferred distributions attributable to that underlying trust (which has passed that threshold) will be subject to capital gains tax in the year of receipt.

It can further be seen that the treatment of tax-deferred distributions has changed the overall capital gains position if Alex was to sell at $2.20. The overall capital gain has increased from $0.56 per unit to $0.6449 ($0.563 + $0.715 + $0.279 - $0.9121).

* The original cost base has been reduced to zero. Additional tax-deferred distributions are taxable capital gains.

Tax-free income

As consistent with recent legislation, components previously referred to as tax-free income are now included within tax-deferred balances.

Distributed capital gains

Any taxable capital gains that the Trust realises during the course of any year will be distributed to you as a unitholder in the Trust. These capital gains will need to be included in your annual income tax return. There were no capital gains in any of the underlining CFT Trusts for 2002.

DISCLAIMER

The taxation information contained in this brochure is of a general nature and does not take into account investors individual circumstances. You should consult with your own taxation or financial adviser regarding your specific circumstances.

Investments in Colonial First State Property Trust Group (CFT) are offered by CFS Managed Property Limited ABN 13 006 464 428, a wholly owned (but not guaranteed) subsidiary of the Commonwealth Bank of Australia ABN 48 123 123 124. The information contained in this taxation guide takes into account the taxation laws of Australia current as at the date of publication. Changes to taxation laws may alter this information for the future. Whilst all care has been taken in the preparation of this taxation guide, neither CFS Managed Property Limited, the Commonwealth Bank of Australia, nor any related party accepts any liability for any loss howsoever caused through reliance on this information by any person.

Information for investors who have bought units in CFT after the merger on 20 December 1999

If you have invested in CFT after the four trusts had merged, you will own equal numbers of units in each of the underlying 'stapled' trusts. The cost base for these units should be calculated using those proportions of NTA each trust represents of the combined CFT, that we will provide, which are closest to the investment date. This NTA proportion will be provided every six months. Should you sell any units in CFT the NTA proportion used to split sales proceeds will be the one provided closest to the sales date.

For example, you held 48,000 units in CFT and participated in the Distribution Reinvestment Plan in respect of your September 2001 quarter distribution of 4.525 cents per security. The DRP price was $2.03 per security. Your distribution entitlement is 48,000 units x 4.525c per security. The number of units issued under the DRP would be ($2,172/$2.03) = 1.069. The cost base for this investment could be calculated according to the NTA proportions given at June 2001.

Acquisition of 1,069 units in CFT

	Industrial units	Commercial units	Retail units	Development units
Merger NTA proportions	29.6%	25.9%	31.1%	13.4%
Cost base ($2,172 spread across each type of unit according to the percentages shown)	$642.91	$562.55	$675.49	$291.05

Consider then, if you sold these units in CFT some time in June 2002 for $2.20 per security, the proceeds need to be spread in a similar way across each of the four underlying trusts. In this case the NTA proportions as at 30 June 2002 would apply. You should apply the most recent proportions available which we will provide to you on the June and December quarter distribution statements.

	Industrial units	Commercial units	Retail units	Development units
30 June 2002 NTA proportions	29.24%	25.59%	32.48%	12.69%
Sale proceeds ($2,351.80 spread across each type of unit according to the percentages shown)	$687.67	$601.83	$763.86	$298.44
Capital gain	$44.76	$39.28	$88.37	$7.39

Total capital gain on Note:
1,069 units = $179.80 ($44.76 + $39.28 + $88.37 + $7.39).
For the purposes of simplicity of presentation, the example above has been prepared on the basis that indexation has no effect.
Adjustments should then also be made if you have received tax-deferred distributions (see Section 5 for details).

More information

For more information about the tax treatment of your investment in CFT, you can refer to the original Explanatory Memorandum which was mailed to you in November 1999 as part of the merger process. We do, however, strongly recommend that you speak with your accountant or tax adviser for detailed information which can be tailored to your individual circumstances. If you have questions in relation to the information you have received from us, please contact our Investor Services Representatives on 1300 360 636.