



daVinci

AUSTRALIA

accountants guide

FOR QUANTUMWARRANTS &
QUANTUM PROPERTY FUNDS

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1. INTRODUCTION

To Accountants, Advisers and Investors,

daVinci has prepared this reference guide to assist with the administration of QuantumWarrants and Quantum Property Funds. Demand for a resource such as this has been driven by strong growth in the number of investors in these products, and their accountants and advisers wishing to understand more about these products.

In particular this guide is designed to assist with:

- > Preparation of financial statements; and
- > Preparation of tax returns.

It is assumed throughout this guide that the investor is:

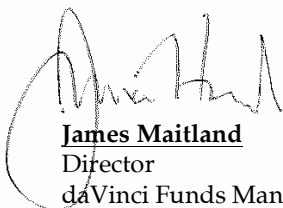
- > An individual who:
 - (a) Is not a trader in these products; and
 - (b) Holds the products acquired on capital account; or
- > A complying superannuation fund.

If you would like further information or assistance please:

1. Visit quantumgroup.com.au/syndicates or quantumwarrants.com.au for information;
2. Email investors@quantumgroup.com.au if you have a question; or
3. Call (02) 8823 5222 to speak to one of our investor relations representatives

I hope you find this guide useful and easy to understand. We welcome any feedback you have to improve it.

Yours sincerely



James Maitland
Director
daVinci Funds Management Ltd
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2. QUANTUMWARRANTS

Eligible for Self Managed Super Funds

Instalment warrants have become a very popular investment tool for self managed superannuation funds. Reasons for this include:

1. They are one of the few investments which can, in appropriate circumstances, provide a super fund with leverage without breaching the borrowing restrictions imposed by the SIS Act;

APRA provides guidance on this issue in its Superannuation Circular No. II.D.4 entitled "Borrowing by Superannuation Entities" which can be found on the APRA website at www.apra.gov.au/Superannuation/Superannuation-Circulars.cfm. In paragraph 19 of this Circular examples are given of amounts which generally would not constitute borrowings for the purposes of the SIS Act. QuantumWarrants are covered by this paragraph because:

- > They involve the purchase of property where the ownership of the property passes to the trustee before the instalments are finalised;
 - > The Completion Payment is not compulsory because the loan is limited in recourse to the underlying property;
 - > The holder received the value of the instalments (less handling or sales costs) on default or sale of the property.
2. While the fund only outlays a portion of the cost of the underlying property, it is still entitled to the full taxation benefits from interest deductions which may be used to offset any income tax liability.

While instalment warrants do not constitute a borrowing under the SIS Regulations Act, the interest charge associated with instalment warrants may still be allowable as a tax deduction.

2.1. ACCOUNTING IMPLICATIONS

This section provides examples to assist in preparing financial statements for both individuals and self managed superannuation funds. It also addresses the question of whether the Completion Payment represents a liability which needs to be accounted for.

WORKED EXAMPLE

A self managed superannuation fund ("SMSF") had approximately an additional \$200,000 to invest and wished to acquire a property in Melbourne worth \$365,000. The Trustees of the SMSF decided to acquire this property using a QuantumWarrant.

On or about 22 June 2006 the SMSF applied for a QuantumWarrant via the PDS. The amount paid was \$136,291 (First Amount). The Security Trustee then acquired the selected property using the First Amount and the Loan Amount provided by QuantumWarrants Pty Ltd on the same day.

Details of the QuantumWarrant contained in the Quote and/or the Investment Certificate were as follows:

Issue Date	22 June 2006
Completion Payment (Loan Amount)	\$273,750
First Amount (<i>initial payment, includes amounts below</i>)	\$136,291
Borrowing Fee (<i>included in First Amount</i>)	\$5,201
Interest Amount (<i>included in First Amount</i>)	\$21,489
Annual Reset Date	22 June each year

Accounting Entries

The following entries should be made on the date of purchase:

	DR	CR
DR- Investments- QuantumWarrant (\$136,291-\$5,201-\$21,489)	\$109,601	
DR- Prepaid Interest & Borrowing Fees (\$5,201+\$21,489)	\$26,690	
CR- Cash		\$136,291

Borrowing fees are generally amortised over a 5 year period or the life of the loan. Prepaid interest is generally expensed over the period to the next annual reset date. Journal entries for each month are:

DR- Interest expense ($\$5,201 / (5 * 365) * \text{number of days}$)	\$86.68	
DR- Interest expense ($\$21,489 / 365 * \text{number of days}$)	\$1,790.75	
CR- Prepaid Interest & Borrowing Fees		\$1,877.43

The loan associated with a QuantumWarrant is netted off with the underlying property due to the contractual relationship of the QuantumWarrant where the settlement will always be made on a net basis.

Accounting Entries (continued)

Now consider the following three scenarios at the next Annual Reset Date (the investor will be advised of these options, and will choose one at each Annual Reset Date).

1. *The SMSF elects to retain the QuantumWarrant by paying the interest due on the loan (Annual Reset Payment). The Annual Reset Notice sent to the investor contains the following information:*

Annual Interest	\$20,435
Net Income	\$9,816
Annual Reset Payment (cash payment)	\$10,618
Completion Payment (Loan Amount)	\$273,750
Annual Reset Date	22 June 2007

The following accounting entries should be made on the Annual Reset Date

	DR	CR
DR- Prepaid Interest & Borrowing Fees	\$20,435	
CR- P&L- QuantumWarrants Income		\$9,816
CR- Cash		\$10,618

2. *The SMSF elects to retain the QuantumWarrant by paying the interest due on the loan (Annual Reset Payment) and repaying \$50,000 of the loan.*

DR- Prepaid Interest & Borrowing Fees	\$20,435	
DR- Investments- QuantumWarrant	\$50,000	
CR- P&L- QuantumWarrants Income		\$9,816
CR- Cash		\$60,618

3. *The SMSF elects to pay the completion payment, and take delivery of the property.*

DR- Investments- QuantumWarrant	\$273,750	
CR- P&L- QuantumWarrants Income		\$9,816
CR- Cash		\$263,934

2.2. TAXATION IMPLICATIONS

The analysis of the tax consequences of an investment in a QuantumWarrant should be read together with the PDS under which the QuantumWarrant was offered and in particular the Australian Taxation Office Product Ruling (PR2005/27). Remember the taxation treatment for an investor will depend on their individual circumstances and investors are encouraged to seek their own advice.

Interest Amounts

Interest on the Loan Amount should, generally, be allowed as a deduction because it is incurred in respect of an investment acquired to gain or produce assessable income (eg rent) other than capital gains. Prepayments of interest will be deductible in full for an individual tax payer not engaged in business or a Simplified Tax System taxpayer, where they are prepaying interest for a period not exceeding 12 months.

For other taxpayers (including trusts, superannuation funds, and individuals excluded from the above) interest deductions will be spread over the term to which the interest relates.

Borrowing Fees

The borrowing fees relate to the cost of Quantum making the loan available to the investor. As the loan funds are used for income producing purposes and the loan term is 10 years, any borrowing fee charged will be deductible over 5 years under section 25-25.

Annual Tax Statements for QuantumWarrants

After the end of each financial year Quantum will send to clients who have held a QuantumWarrant an Annual Tax Statement containing a summary of all transactions for the year including the following information relevant to their tax return:

- > Assessable income including rental income and interest income;
- > Deductible interest expense;
- > Other deductions including investment expenses, capital works deductions and depreciation allowances;
- > Current property cost base (for information purposes only); and
- > Current loan amount (Completion Payment).

3. QUANTUM PROPERTY FUNDS

Quantum Syndicate Management Ltd is a licenced responsible entity with the ASIC, and operates Managed Investment Schemes (“Funds”). These Funds are offered to investors via a Product Disclosure Statement, and this guide should be read in conjunction with the PDS. Remember the taxation treatment for an investor will depend on their individual circumstances and investors are encouraged to seek their own advice.

The following is a table of the current Funds operated by Quantum and refer to the relevant section of this guide for further information:

Fund Name	Established	Status	Reference Section
Quantum Property Syndicate No.4	29/06/2000	Closed, all capital should be redeemed	3.1
Quantum Property Syndicate No.8	30/06/2002	Asset sold during the year and equity been redeemed	3.2
Quantum Property Trust No.8	30/06/2002	Asset sold during the year and equity been redeemed	3.1
Quantum Property Syndicate No.9	29/06/2003	Active	3.2
Quantum Property Trust No.9	29/06/2003	Active	3.1
Quantum Property Syndicate No.11	27/06/2004	Active	3.2
Quantum Property Trust No.11	27/06/2004	Active	3.1
Quantum Property Syndicate No.12	21/12/2004	Active	3.2
Quantum Property Trust No.12	21/12/2004	Active	3.1
Quantum Property Syndicate No.14	31/10/2005	Active	3.2
Quantum Property Trust No.14	31/10/2005	Active	3.1
Quantum Property Syndicate No.15	30/06/2006	Active- equity raised during the year	3.2
Quantum Property Syndicate No.16	05/10/2006	Active- equity raised during the year	3.2
Quantum Property & Opportunity Fund	30/06/2006	Active- equity raised during the year	3.3
Quantum Mortgage Trust- A-W Class	30/06/2001	Active- equity raised during the year	3.4

3.1. QUANTUM PROPERTY TRUSTS (“Trust”)

This section provides examples to assist in preparing financial statements for both individuals, trusts and self managed superannuation funds. Generally, Trusts invest in other Quantum Property Funds, from which they generate their revenue, as well as from short to medium term loans.

WORKED EXAMPLE

On or about January 2005 a self managed superannuation fund (“SMSF”) applied for 100,000 units in a Trust via the PDS. The amount paid was \$100,000. The following transactions were also recorded during the financial year ended 30 June 2006:

- > \$2,500 cash received by the SMSF in September, December, March & June;
- > Tax statement received showing taxable income of \$13,000; and
- > Published net asset backing of the trust was \$1.05.

Accounting Entries

The following entries should be made on the date of purchase:

	DR	CR
DR- Investments- Quantum Trusts	\$100,000	
CR- Cash		\$100,000

The following entries should be made during the financial year ending 30 June 2006, to record the cash received

DR- Cash	\$2,500	
CR- Accrued Quantum Trust Distribution		\$2,500

The following entries should be made to record the tax statement. The balance of the Accrued distributions account would be \$3,000 at year end.

DR- Accrued Quantum Trust Distribution	\$13,000	
CR- P&L- Quantum Trust Income		\$13,000

The following entries should be made to record the increase in net asset backing

DR- Investments- Quantum Trusts	\$5,000	
(100,000*\$1.05 - \$100,000)		
CR- P&L- Unrealised Gain on Investments		\$5,000

Important Note- Accrued Distributions

Generally Quantum Property Trusts distribute 100% of their taxable income to unit holders. However, often the Trust will reinvest part of this income in new and current Trust assets (for more information you should refer to the PDS for the particular Trust). These accrued distributions will be held in “trust” for each unit holder, and paid when the Trusts assets have been sold and are in cash.

A unit holder may receive an amount each year which is less than that shown on the tax statement. This is an integral part of the Trust investment structure. You are required to disclose the full amount shown in the tax statement in your taxation return, not the actual amount received in cash during the year.

3.2. QUANTUM PROPERTY SYNDICATES (“Syndicates”)

This section provides examples to assist in preparing financial statements. Generally Syndicates hold a direct interest in real property- either passive or development. As there is some component of borrowings, therefore the Syndicates are usually not suitable for SMSF. A Syndicate is structured to be a tax effective investment, which usually generates income tax deductions during the investment period and capital gains at completion of the investment period.

These borrowings are from an external financier in the investors names, arranged by Quantum under the power of attorney granted by each investor. These borrowings are limited recourse, and the financier does not have any further recourse to each investor, other than their interest in the Syndicate.

Therefore each investors share of the net profit from the Syndicate investment will be applied towards the cost of borrowing (interest on their share of the finance). The cost of borrowings is usually greater than the net profit from the Syndicate, and additional borrowing are used to fund this difference.

WORKED EXAMPLE

On or about December 2004 an individual applied for 391,148 interest in a Syndicate via the PDS. The amount paid on application was \$89,523. Details of the Syndicate contained in the PDS and/or the Investment Certificate were as follows:

Interest Issued	\$391,148
Finance	\$343,750
Total Cash Paid for Investment	\$89,523

Accounting Entries

The following entries should be made on the date of purchase:

	DR	CR
DR- Investments- Quantum Property Syndicate (\$391,148-\$343,750)	\$47,398	
DR- Prepayments- Interest, Borrowing Fees & Property Interest (\$89,523-\$47,398)	\$42,125	
CR- Cash		\$89,523

Important Note- Apartment Syndicates

Investors in Syndicate numbers 14, 15 & 16 are investors in apartment syndicates. An apartment syndicate is a group of investors who come together to pool their resources to develop a strata apartment property, once the development of the building is finished, the investors take title to apartments chosen by them at the time when application to the syndicate is made.

Investors must make a final payment to the syndicate in return for the title to their completed apartment. The final payment is usually calculated as the share of the total cost of the completed apartment (including costs associated with the operation of the syndicate) less the first amount, net of any prepayments that have been used during the operation of the syndicate eg. Interest costs.

Year 1

Now consider the following information provided on the annual tax statement and statement of borrowing costs for year 1:

Taxable Income (label A)	\$2,023
Tax Deferred Income (label E)	\$3,009
Other Expenses Relating to Distribution (label H)	(\$41,667)

Accounting Entries

The following entries should be made to record the tax statement and statement of borrowings:

	DR	CR
DR- P&L- Borrowing Costs	\$41,667	
CR- Prepayments- Interest, Borrowing Fees & Property Interest (\$42,125-\$2,023-\$3,009)		\$36,635
CR- P&L- Syndicate Income		\$2,023
CR- P&L- Syndicate Income		\$3,009

Year 2

Now consider the following information provided on the annual tax statement and statement of borrowing costs for year 2:

Taxable Income (label A)	\$14,150
Tax Deferred Income (label E)	\$11,313
Other Expenses Relating to Distribution (label H)	(\$44,667)

Accounting Entries

The following entries should be made to record the tax statement and statement of borrowings:

	DR	CR
DR- P&L- Borrowing Costs	\$44,667	
CR- Prepayments- Interest, Borrowing Fees & Property Interest (\$42,125-\$36,635)		\$5,490
CR- Investments- Quantum Property Syndicate (\$44,667-\$5,490-\$14,150-\$11,313)		\$13,714
CR- P&L- Syndicate Income		\$14,150
CR- P&L- Syndicate Income		\$11,313

The shortfall between the net income of the Syndicate and the borrowing costs is funded with further borrowings, and hence should reduce the value of the initial investment.

The loan associated with a Syndicate is netted off with the underlying property due to the contractual relationship of the Syndicate investment where the redemption of capital will always be made on a net basis.

Taxation Considerations

The analysis of the tax consequences of an investment in a Syndicate should be read together with the PDS under which the Syndicate was offered. The taxation treatment for an investor will depend on their individual circumstances and investors are encouraged to seek their own advice.

- > Taxable income (label A on tax statement)- is the investors share of the net profit/(loss) of the Syndicate and should be included in their taxation return under non primary production in the partnerships and trusts section.
- > Tax deferred income (label E on tax statement)- is sheltered by depreciation allowances and does not need to be reported in an investors taxation return. These amounts will reduce the cost base of your investment for the purpose of capital gains tax.
- > Other expenses relating to distribution (label E on tax statement)- is the investors share of the interest paid during the financial year, and their share of the amortised finance establishment costs. It is fully deductible for an individual tax payer not engaged in business or a Simplified Tax System taxpayer. This amount should be included in their taxation return under non primary production in the partnerships and trusts section, under the other deductions heading.

3.3. QUANTUM PROPERTY & OPPORTUNITY FUND (“QPOF”)

This section provides examples to assist in preparing financial statements for both individuals and self managed superannuation funds.

The QPOF is classified as a public trading trust, and is taxed as a company. Therefore distributions are paid on an after tax basis, and are franked to an appropriate extent having regard to available franking credits.

WORKED EXAMPLE

On or about January 2005 a self managed superannuation fund (“SMSF”) applied for 100,000 units in the QPOF via the PDS. The amount paid was \$100,000. The following transactions were also recorded during the financial year ended 30 June 2006:

- > \$2,500 cash received by the SMSF in September, December, March & June; and
- > Tax statement received showing franking credits of \$4,285.

Accounting Entries

The following entries should be made on the date of purchase:

	DR	CR
DR- Investments- QPOF	\$100,000	
CR- Cash		\$100,000

The following entries should be made during the financial year ending 30 June 2006, to record the cash received

DR- Cash	\$2,500	
CR- P&L- QPOF Income		\$2,500

Taxation Considerations

The analysis of the tax consequences of an investment in the QPOF should be read together with the PDS under which the QPOF was offered. The taxation treatment for an investor will depend on their individual circumstances and investors are encouraged to seek their own advice.

For Investors who are individuals, complying superannuation funds, or companies, a distribution received will be included in assessable income. Where the distribution is partly or wholly franked, the amount received will be grossed up to reflect the level of franking. A tax offset equal to the gross-up will be available to offset the tax otherwise payable on the Investor’s taxable income. An individual or a complying superannuation fund will be entitled to a tax refund to the extent that the tax offsets exceed the total tax payable on its taxable income. A company will be able to convert any such excess into an equivalent grossed-up tax loss available for carry forward. A company will also obtain a franking credit in its franking account for an amount equal to the gross-up.

3.4. QUANTUM MORTGAGE TRUST (“QMT”)

This section provides examples to assist in preparing financial statements for both individuals and self managed superannuation funds. Units in the QMT are issued in different classes (represented by a letter of the alphabet eg. “A Class Units”), each class relating to a specific loan, with a specific term.

Interest revenue generated by the QMT can be paid in advance or arrears, monthly, quarterly or annually, and this frequency will represent the distribution payment frequency to investors.

WORKED EXAMPLE

On or about January 2005 a self managed superannuation fund (“SMSF”) applied for 100,000 D Class Units in the QMT via the PDS. The amount paid was \$100,000. The following transactions were also recorded during the financial year ended 30 June 2006:

- > \$2,500 cash received by the SMSF in September, December, March & June; and
- > Tax statement received showing taxable income of \$10,000.

Accounting Entries

The following entries should be made on the date of purchase:

	DR	CR
DR- Investments- Quantum Mortgage	\$100,000	
CR- Cash		\$100,000

The following entries should be made during the financial year ending 30 June 2006, to record the cash received

DR- Cash	\$2,500	
CR- Accrued Quantum Mortgage Distribution		\$2,500

The following entries should be made to record the tax statement.

DR- Accrued Quantum Mortgage Distribution	\$10,000	
CR- P&L- Quantum Mortgage Income		\$10,000