

A person with their back to the camera is writing '2006 ANNUAL REPORT' on a chalkboard. The chalkboard is filled with faint, illegible chalk markings. The person is wearing a white t-shirt and has their hair in a ponytail.

2006 ANNUAL REPORT

AUSTRALIAN SOCIAL INFRASTRUCTURE FUND

ARSN 112 307 114

Responsible Entity

Ceramic Funds Management Limited

ABN 29 094 185 092

AFS Licence No 238506

CERAMIC
FUNDS MANAGEMENT

Corporate Directory

Responsible Entity

Ceramic Funds Management Limited
ABN 29 094 185 092
AFS Licence No: 238506

Registered Office

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Directors and Executive

Non-Executive Chairman

Trevor B Moyle

Managing Director

Rodney M Keown

Executive Director – Asset Mgt

Robert A de Vos

Non-executive Director

Peter J Dickson

Company Secretary

John J Farlow

Funds Administration

Jennifer Buckley
Carmen Prosenik

Custodian

Trust Company of Australia Limited
ABN 59 044 027 749
Level 4, 35 Clarence Street
SYDNEY NSW 2000

Auditor

Horwath Melbourne
Level 30, 525 Collins Street
MELBOURNE VIC 3000

Registrar

Ceramic Funds Management Limited

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Readers of this Annual Report should note that the information contained in it takes no account of any particular investor's individual needs, investment objectives or financial situation.

If you require advice, you should consult with your financial adviser.

This report also contains information about past investment performance.
Past performance is not an indication of likely future performance.

About the Fund

What is the Australian Social Infrastructure Fund?

The Australian Social Infrastructure Fund (the Fund, ASIF) is a public unit trust that was established by Ceramic Funds Management Limited (Ceramic) in March 2001 after an underwritten initial public offering (IPO), in which units were offered to Australian investors at \$2.00 each.

The Fund's investment program focusses on the ownership of assets and the acquisition of interests in entities that own assets from which services are provided to the community.

It is proposed that the Fund's units will, at an appropriate time, be listed on a market in order that they may be bought and sold on such a public medium by unitholders and other investors.

The Fund distributes income monthly by electronic credit. Investors may reinvest their income entitlement in additional units through the Fund's distribution reinvestment plan (DRP).

The Fund provided unitholders with a total return of 19.67% during the twelve months to 30 June 2006 and has had an internal rate of return of 15.74% since inception.

As at 30 June 2006 the value of an investment of \$50,000 made under the Fund's IPO prospectus, where the unitholder is participating in the DRP, is estimated to be \$118,540. This is an increase since the Fund was established of approximately 137%. The original unitholding would have been 25,000 units (issue price \$2.00) and the number of units held and entitled to at 30 June this year 41,593 which, at the DRP price of units for FY07 (\$2.85), equate to the above value. No estimate of taxation that would have been paid on the reinvested income was made when calculating this figure.

The Fund settled the acquisition of its seed assets on 16 March 2001. These assets were the freehold titles of 25 modern long daycare centres located in Queensland and Victoria, which were acquired with the proceeds of its IPO and a five year fixed-interest loan facility that was provided by its bank.

The purchase price of that portfolio was \$22.97 million.

The Fund leased the acquired centres to ABC Learning Centres Limited (ABC) on a fully repairing portfolio lease agreement for 20 years. Under this lease, rentals are payable monthly in advance by a single payment and revised annually by reference to the Consumer Price Index (CPI).

The centres that the Fund owns and leases to ABC are referred to in this report as ABC Centres.

ABC, which commenced operating with one centre in 1988 has traded profitably since that time.

The listing of ABC's shares on the Australian Stock Exchange coincided with the Fund's acquisition of its initial assets. ABC's shares listed at \$2.00 and at 30 June 2006 were, after a 5:1 split that was effected during the FY03 financial year, trading at \$6.40 (a pre-split equivalent of \$32.00) which gave the company a market capitalisation of \$2.45 billion.

During the FY06 financial year, ABC became the largest listed provider of childcare in the world when it acquired the operations of the third largest US childcare centre provider (Learning Care Group Inc) which currently operates 460 centres. This acquisition took the total number of ABC operated centres world-wide to approximately 1,200.

The Fund's first monthly income distribution was made on 21 April 2001.

Each distribution of income made by the Fund since inception has been at a rate that equaled or exceeded the rate forecast in each of its three prospectuses (refer Investment Performance section of the Financial Report on page 10).

In June 2001 the Fund acquired a 15% interest in its sister fund, the CIB Fund. The CIB Fund is a special purpose, unlisted, wholesale fund established and managed by Ceramic to acquire nine modern 24-hour police stations and two substantial law court complexes that a company controlled by the State of Victoria tendered for sale at that time on the basis of a 15 year lease back with annual CPI reviews of rental.

The balance of the CIB Fund's units are held by four other substantial public investment entities.

The purchase price of the CIB Fund portfolio was \$46.7 million. Those properties are currently valued at \$60.15 million.

Details of that portfolio are shown on page 11 of this report.

The CIB Fund has provided unitholders, including ASIF, with an internal rate of return of 14.45% since inception.

In January 2002, the Fund issued its second prospectus (the 2002 Prospectus) which offered units to existing and new unitholders at \$2.10 each. That offer was approximately 50% over-subscribed and raised \$17.46 million. The proceeds of that capital raising were used to retire the loan facility that the Fund had drawn down to acquire its interest in the CIB fund and finance the acquisition of eleven further ABC Centres.

In September 2002 the Fund issued its third prospectus (the 2003 Prospectus) which offered units to existing and new unitholders at \$2.20 each. That offer was approximately 40% over-subscribed and raised \$24.25 million. The proceeds of that capital raising were applied to the further retirement, and extension, of the fixed term period of the Fund's borrowings; the acquisition of an additional 26 ABC Centres and an increase in its cash reserves.

In June 2004 the Fund purchased Guardian Storage's flagship self-storage facility in Glen Iris (Vic) for \$9.04 million using a mixture of borrowings and equity.

In August 2005 the Fund completed the purchase of a newly developed multi-disciplinary medical centre leased to Primary Healthcare on a site adjacent to the Melton police station (a property which is owned by the CIB Fund).

As at June 2006 the Fund's weighted average lease expiry was 15.1 years.

During the FY06 financial year the Fund:

- completed the development of the Fund's second ABC Centre at Darwin which is located on the Delfin Fairway Waters estate at Palmerston;
- sold three of its original ABC Centres; and
- owned assets that, for the first time, had a gross value of over \$100 million.

For the detail of the Fund's FY06 year refer to the Report of the Directors of the Responsible Entity section of the Financial Report on page 8.

What is Social Infrastructure?

Social infrastructure is a very wide asset class, the predominant categories are the fixed assets from which services are delivered to the community by governments, not-for-profit organisations and corporations.

In Australia, until the 1990s, most social infrastructure assets were owned by the service providers.

A high proportion of the sector is represented by properties that provide education, health and welfare and transport services such as schools, universities, hospitals, medical centres, aged care facilities and public car parks.

Increasingly in Australia as:

- the private sector assumes roles that used to be the province of governments such as the operation of universities, airports and hospitals; and
- governments and corporations decide that whilst they may want to control the fixed assets from which they deliver community services, they do not necessarily need to own them and therefore social infrastructure will be sold to, and developed and held by, private investors such as the Fund. These investors want to enjoy the long-term income stream that is generated from the asset class but do not want to have involvement in, or take the risks associated with, the provision of the services being delivered from such assets.

What is the Objective of the Fund?

The objective of the Fund is to provide investors with a secure, high-yielding investment that has a low level of volatility through its investment in assets that have long-term net cash flows that can be expected to maintain real value and generate distributions to unitholders that have a tax advantaged component. In order that unitholders are not exposed to exchange rate risk the Fund only acquires assets that are located in Australia or interests in entities that only invest in Australia.

Financial Report

for the year ended 30 June 2006

including the Report of the Directors of the Responsible Entity

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Report of the Directors of the Responsible Entity

The Directors of the Responsible Entity, Ceramic Funds Management Limited (Ceramic), are pleased to present their report for the financial year ended 30 June 2006 (2005 figures in brackets).

Directors

The names of directors in office at any time during or since the end of the year are:

Rodney M Keown (appointed 31 August 2000)

Peter J Dickson (appointed 8 May 2003)

Robert A de Vos (appointed 14 August 2003)

Jonathan L Addison (retired 27 February 2006)

Edgar Y K Hung (retired 28 July 2006)

Lewis N Johnson (retired 7 November 2005)

Trevor B Moyle (appointed 8 September 2005)

David B G McCusker (retired 28 July 2006)

Principal Activities

The principal activities of the Fund during the financial year was investment in income producing social infrastructure assets.

No significant change in the nature of these activities occurred during the financial year.

Operating Results

The profit attributable to unitholders of the Fund, under the Australian International Financial Reporting Standards (AIFRS) was \$11,127,704 (2005: \$14,285,032).

Due to AIFRS and a change in the Fund's Constitution, distributions paid to unitholders, were classified as finance costs (\$2,093,176) and appropriations of equity (\$4,210,552). Distributable income was \$6,041,268, and total distributions paid to unitholders was \$6,303,728 (refer Note 5 of the Financial Statement).

Distributions

The distributions paid and provided since the start of the financial year are as follows:

Distribution Period Ending	Date Paid	Amount (\$)	Cents per Unit
July 2005	21 August	522,522.62	1.8841
August 2005	21 September	523,027.97	1.8841
September 2005	21 October	523,546.60	1.8841
October 2005	21 November	524,079.05	1.8841
November 2005	21 December	524,570.52	1.8841
December 2005	21 January	525,072.74	1.8841
January 2006	21 February	525,583.28	1.8841
February 2006	21 March	526,101.16	1.8841
March 2006	21 April	526,577.75	1.8841
April 2006	21 May	527,056.44	1.8841
May 2006	21 June	527,547.51	1.8841
June 2006	21 July	528,042.84	1.8841
		6,303,728.48	22.6092

Financial Summary

	Period to 30 June	
	2006	2005
Gross assets that comprise securities in:	\$101.65 M	\$93.75 M
• Freehold ownership of:		
– 57 ABC Centres, (2005: 60)	\$73.50 M	\$70.31 M
– Guardian Storage, Glen Iris, Victoria	\$10.80 M	\$9.50 M
– Primary Health Care (plus adjoining site), Melton, Victoria	\$7.25 M	\$6.70 M
• 15.00% interest in CIB Fund	\$5.24 M	\$5.20 M
• Cash and other current assets	\$4.86 M	\$2.04 K
Borrowings	\$24.40 M	\$24.30 K
Gearing	23.98 %	25.97 %
Net assets	\$76.44 M	\$68.44 M
Unit NTA	\$2.73	\$2.47
Operating profit (excluding revaluation adjustments)	\$6.04 M	\$5.62 M
Tax deferred income component	45.04 %	38.96 %
Distributions	\$6.30 M	\$6.08 M
Internal rate of return since inception (March 2001)	15.74 %	15.98 %

The Fund's audited financial statements form part of this Financial Report.

Report of the Directors of the Responsible Entity

continued

Investment Performance

The Fund provided unitholders with a total return of 19.67% during the twelve months to 30 June 2006 which comprised NTA growth of 10.52% and income (calculated on unit NTA at start of the year) of 9.15%. The Fund has had an internal rate of return of 15.74% since inception.

The table below compares the actual distributions made by the Fund since inception with the forecasts contained in its IPO Prospectus:

Actuals to 30 June	2001	2002	2003	2004	2005	2006	
Distribution – cents per unit	20.60c ⁽¹⁾	20.64c	21.00c	21.53c	22.06c	22.61c	
Yield on unit issue price:							
• IPO Prospectus	\$2.00	10.30% ⁽¹⁾	10.32%	10.50%	10.76%	11.03%	11.31%
• 2002 Prospectus	\$2.10		9.83%	10.00%	10.25%	10.51%	10.77%
• 2003 Prospectus	\$2.20			9.55%	9.78%	10.03%	10.28%
• Tax deferred portion of distribution		21.08%	25.05%	43.08%	33.85%	38.96%	45.04%

Past performance is not a reliable indicator of future performance.

(1) Annualised

Fund Borrowings

The interest rate that applies to the Fund's borrowings is fixed through a five year bill facility that is current until 30 June 2008. The Fund's gearing as at 30 June 2006 was 23.98%.

Ceramic continues to regard this gearing rate as materially less than optimal in the present interest rate environment and continues to seek out good quality assets for the Fund which will provide it with a positive gearing spread and therefore use its substantial unused borrowing capacity to more effectively utilise the resource of its presently under-gearred balance sheet to maximise net operating income.

Portfolio Summary

ABC Centres

(See Note: 9 for property details)

Locations	Number
Queensland	45
Western Australia	5
New South Wales	3
Northern Territory	2
South Australia	1
Victoria	1
Total	57

Current book value \$73.50 million

Victorian Police Stations and Law Court Complexes

Assets of the CIB Fund in which ASIF has a 15% interest

Location	Address	Site Area m ²	Building Area m ²	Purchase Price ⁽³⁾ \$	Valuation \$
Craigieburn	155 Craigieburn Rd	4,006	⁽¹⁾ 1,283	1,659,900	1,920,000
Dandenong	34 Langhorne St	17,458	⁽¹⁾ 4,321 ⁽²⁾ 2,915	12,725,200	16,300,000
Frankston	15 Fletcher Rd	11,914	⁽¹⁾ 4,683 ⁽²⁾ 2,156	9,766,750	12,400,000
Keilor Downs	Sunshine Ave	5,000	⁽¹⁾ 1,669	2,416,900	2,870,000
Melton	243 Station Rd	7,959	⁽¹⁾ 2,153	2,880,650	3,610,000
Mill Park	151 Centenary Drv	6,173	⁽¹⁾ 2,052	2,781,700	3,610,000
Moorabbin	1011 Nepean Hwy	9,070	⁽¹⁾ 4,208	8,034,375	9,800,000
Narre Warren	4 Lauderdale Rd	3,619	⁽¹⁾ 1,824	2,589,400	3,700,000
Wangaratta	1 Handley St	8,103	⁽¹⁾ 3,766	4,042,500	5,940,000
Totals				46,897,375	60,150,000

(1) Police station

(2) Law court complex

(3) Acquisitions settled 6 June 2001

The CIB Fund properties have a term certain residual lease balance of 9 years and five months.

Report of the Directors of the Responsible Entity

continued

Guardian Storage – self storage facility

2 York Street, Glen Iris, Victoria

Land Area	6,815 m ²
Gross Area of Improvements	7,350 m ²
Lease Term	15 years plus two five year options
Acquisition Price (June 04)	\$9,036,144
Valuation (June 06)	\$10,800,000
Net Annual Rental	\$807,772 + GST

Primary Healthcare Clinic

249 Station Road, Melton, Victoria

Land Area	12,930 m ² (includes currently un-utilised adjoining land area of 5,700 m ²)
Gross Area of Improvements	2,363 m ²
Lease Term	10 years plus three five year options
Acquisition Price (September 04)	\$5,700,000 (plus \$650,000 for adjoining 5,700 m ²)
Valuation (June 06)	\$7,250,000
Net Annual Rental	\$483,528 + GST

2005/06 Investment and Divestment Programs

The Fund had a low level of acquisition/divestment activity during the year which was reflective of the general level of transactional activity in the Australian social infrastructure sector except for the child care sector.

Ceramic considers that the investment property markets continue to be fully priced and therefore prefers to wait and not to expend the Fund's not inconsiderable latent borrowing capacity on acquisitions that may not be viable in the longer term.

Three Divestments

The Fund divested three ABC Centres that were located in regional Queensland at prices that were materially above both those that were originally paid and their prevailing book values.

The Fund continues to own 57 ABC centres.

A Construction Completion

The Fund's latest ABC centre development was completed in June 2006.

The asset is a 75 place centre located on the Delfin Fairway Waters estate at Palmerston, NT which is approximately 20 kilometres east of the Darwin central business district.

International Financial Reporting Standards

The Fund's financial reports are presented in accordance with the Australian equivalent of international financial reporting standards (AIFRS).

AIFRS does not impact the Fund's:

- investment strategy or operations;
- net cash flows; or
- debt obligations in any material way.

Whilst the introduction of AIFRS has no doubt been convenient for the relatively few Australian reporting entities which operate and were (prior to the adoption of the International Financial Reporting Standards) required to report in a number of countries in accordance with local reporting requirements, the introduction of AIFRS has in some instances resulted in the obscuration of the underlying trading performance of a wide cross-section of Australian reporting entities.

In many instances entities which hold non-current assets at "fair value", financial reporting in accordance with AIFRS enhances what would otherwise be considered an ordinary trading result, in other instances good trading results on a reporting period comparison basis appear to be mediocre.

This distortion is principally caused by the requirement that under AIFRS the dollar differences (both up and down) that occur during a reporting period in unrealised asset valuations are blended with operating revenues in the "Income Statement" (previously "Statement of Financial Performance").

Report of the Directors of the Responsible Entity

continued

The consequences of this is that in a year in which an entity has a high level of asset growth its “revenues” may appear to have increased at an extraordinary rate when in fact the underlying net income (traditionally operating revenues less operating expenses) may be little changed from, or even less than the previous period. The converse situation (i.e. where there is a diminution of asset value because of, for instance, increasing capitalisation rates applying to property net revenue streams) can make an otherwise good trading result appear, on a period by period comparative basis, to be weak.

As a consequence of this investors who are wanting to get a clearer picture of period-on-period actual trading performance of most entities that use the “fair value” method of accounting measurement will need to do some deconstructing of Income Statements by deleting (in the case of asset value increases) or adding (in the case of asset value decreases) those changes in asset values that now appear in the “Income Statement”.

Further disclosure in Note 2: Explanation of Transition to AIFRS.

Fund Objectives for 2006/07 Financial Year

Ceramic’s objectives for the Fund for the forthcoming financial year are:

- to increase the asset and geographic spread of its portfolio;
- to manage the Fund’s portfolio so that it continues to provide a distribution that maintains its real value and the real value of unitholder capital; and
- when a suitably substantial additional asset, or group of assets, has been acquired by the Fund to arrange for its units to be quoted on a market in order that unitholders and other investors may buy and sell units whilst at the same time maintaining its stable capital base.

Significant Changes in State of Affairs

No significant changes in the Fund’s state of affairs occurred during the financial year.

Post Balance Date Events

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Fund, the results of those operations, or the state of affairs of the Fund in future financial years.

Future Developments

Likely developments in the operations of the Fund and the expected results of those operations in future financial years are included in Fund Objectives for 2006/07 above.

Environmental Issues

The environment, health and safety are of fundamental consideration in all Fund operations.

The directors are not aware of any matter or circumstance occurring in the financial year that would bring rise to a breach of any Commonwealth, State or Territory environmental regulation or legislation.

Information about Directors

Trevor B Moyle – Non-Executive Chairman

Mr Moyle has a Bachelor of Commerce degree and is an Associate Chartered Accountant (NZ) and Cost and Management Accountant (NZ).

He has over thirty years experience in line management and advisory roles in the banking, financial and investment sectors which included positions with ANZ Securities, Pratt Group, AIFC and Westpac.

Mr Moyle is also the non-executive chairman of Orchard Investment Management Limited which is the responsible entity for the Timbercorp Orchard Trust and Timbercorp Agribusiness Trust.

Rodney M Keown – Managing Director

Mr Keown is the founding managing director of the company.

He has a Bachelor of Arts degree and Diploma in Real Estate Management. He is a Fellow of the Australian Property Institute and a licensed real estate agent.

He has been engaged full time in the Australian investment property and property funds management sectors since 1972.

Report of the Directors of the Responsible Entity

continued

Robert A de Vos – Executive Director

Mr de Vos has Diplomas of Property Operations and Financial Markets and is a licensed real estate agent with a background in building compliance matters.

He has been involved in the Australian investment property industry full-time since 1993 and is a member of the Securities Institute of Australia and the Property Council of Australia (PCA). He is a member of Victorian Asset and Technical Management Committee of the PCA.

He has acted for major financial institutions, property developers and State and local governments in various roles including tenant representation, acquisition and divestment due diligence, budgeting and cash flow management, leasing and facilities management.

Mr de Vos is responsible for the day-to-day asset management of Ceramic's funds.

Peter J Dickson

Mr Dickson has a Bachelor of Arts and Bachelor of Laws degree and is a member of the Law Institute of Victoria and Australian Taxation Institute.

He is a partner of Deacons and specialises in property law and related taxation areas.

Company Secretary

John J Farlow

Mr Farlow has a Bachelor of Business Studies (Accounting Major) degree, is a CPA and is an affiliate member of Chartered Secretaries Australia.

His career has spanned accounting and management roles, computer software design, development and implementation.

He has operated his own software development company for the past 15 years, his client base included several major companies such as NAB, ANZ, Western Mining, Alcoa, SEC, Boral Gas, Shell, RTA, Fly Buys and Emerson Process Management. Systems developed over this time include exempt market trading platforms for financial products and registry databases.

Interests Held by the Responsible Entity or Related Parties

The following persons are related to the Responsible Entity or directors of the Responsible Entity and held interests in the scheme throughout or during parts of the financial period:

- ANZ Nominees Limited
- Claire de Vos
- Elizabeth Collins Pty Ltd
- Golgara Nominees Pty Ltd
- JP Morgan Nominees Australia Ltd
- Rufus R Keown
- Noel North and Gillian North
- de Vos Nominees Pty Ltd

The number of interests held are disclosed in Note 15 – Related Party Transactions.

Fees Paid to the Responsible Entity or Related Parties

All fees paid are disclosed in Note 15 – Related Party Transactions.

Indemnifying Officers or Auditor

During or since the financial year Ceramic has paid premiums in respect of a contract insuring all the directors of Ceramic against costs incurred in defending any legal proceedings arising out of their conduct while acting in the capacity as a director of Ceramic. In accordance with normal commercial practice, disclosure of the total amount of premium paid, and the nature of liabilities covered by, the insurance contract is prohibited by a confidentiality clause in the contract.

Options

No options over units in the Fund were granted during or since the financial year and there were no options outstanding at the date of this report.

Proceedings on behalf of the Fund

No person has applied for leave of Court to bring proceedings on behalf of the Fund or intervene in any proceedings to which the Fund is a party for the purpose of taking responsibility on behalf of the Fund for all or any part of those proceedings.

The Fund was not a party to any such proceedings during the financial year.

Report of the Directors of the Responsible Entity

continued

Interests in the Fund Issued During the Year

320,677 units were issued during the year under the Fund's distribution reinvestment plan.

Interests in the Fund

The number of units on issue at 30 June 2006 is 28,026,158 (2005: 27,705,481).

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under Section 307C of the Corporations Act 2001 is attached.

Signed in accordance with a resolution of the Board of Directors.



Rodney M Keown
Director

Dated this 21st day of September 2006

Income Statement

for the year ended 30 June 2006

	Note	2006 \$	2005 \$
Revenue			
Rental		8,505,043	8,302,110
Interest	3(a)	123,683	150,403
Distributions	3(b)	331,630	333,806
Changes in fair value of investment properties	9	7,179,612	8,664,621
Net gains on sale of investment properties		756,102	230,017
Net gain on disposal of available-for-sale financial assets		56,132	–
Total revenue		16,952,202	17,680,957
Expenses			
Direct property expenses		(634,693)	(617,334)
Administration expenses			
– Responsible entity's fee	15	(961,256)	(837,250)
– Other administration expenses	4	(366,707)	(260,759)
Finance costs (excluding distribution to unitholders)	4	(1,768,666)	(1,680,582)
Profit before distributions to unitholders		13,220,880	14,285,032
Finance costs attributable to unitholders			
Distributions to Unitholders	5	(2,093,176)	–
Profit attributable to unitholders		11,127,704	14,285,032

The accompanying notes form part of these financial statements.

Balance Sheet

as at 30 June 2006

	Note	2006 \$	2005 \$
Current Assets			
Cash and cash equivalents	6	814,896	604,083
Receivables	7	4,045,347	1,431,738
Total Current Assets		4,860,243	2,035,821
Non-Current Assets			
Available-for-sale financial assets	8	5,244,525	5,207,850
Investment properties	9	91,542,404	86,510,707
Total Non-Current Assets		96,786,929	91,718,557
Total Assets		101,647,172	93,754,378
Current Liabilities			
Payables	10	299,023	457,122
Provisions	11	528,040	509,310
Total Current Liabilities		827,063	966,432
Non-Current Liabilities			
Interest-bearing liabilities	12	24,379,185	24,345,825
Total Non-Current Liabilities		24,379,185	24,345,825
Total Liabilities		25,206,248	25,312,257
Net Assets		76,440,924	68,442,121
Equity			
Contributed equity	13	57,068,096	56,193,120
Available-for-sale reserve		1,577,025	1,370,350
Distribution reserve		17,795,803	10,878,651
Total Equity		76,440,924	68,442,121

The accompanying notes form part of these financial statements.

Statement of Changes in Equity

for the year ended 30 June 2006

	Units Issued \$	Available- for-sale Reserve \$	Distri- bution Reserve \$	Total \$
2006				
Balance at 1 July 2005	56,193,120	1,370,350	10,878,651	68,442,121
Profit on sale of available-for-sale financial assets	–	(56,132)	–	(56,132)
Changes in fair value of available-for-sale financial assets	–	262,807	–	262,807
Profit attributable to unitholders	–	–	11,127,704	11,127,704
Total income and expense for the year	–	206,675	11,127,704	11,334,379
Units issued during the year	874,976	–	–	874,976
Distributions paid	–	–	(4,210,552)	(4,210,552)
Balance at 30 June 2006	57,068,096	1,577,025	17,795,803	76,440,924

	Units Issued \$	Available- for-sale Reserve \$	Distri- bution Reserve \$	Total \$
2005				
Balance at 1 July 2004	55,403,778	208,384	2,672,703	58,284,865
Changes in fair value of available-for-sale financial assets	–	1,161,966	–	1,161,966
Profit attributable to unitholders	–	–	14,285,032	14,285,032
Total income and expense for the year	–	1,161,966	14,285,032	15,446,998
Units issued during the year	789,342	–	–	789,342
Distributions paid	–	–	(6,079,084)	(6,079,084)
Balance at 30 June 2005	56,193,120	1,370,350	10,878,651	68,442,121

The accompanying notes form part of these financial statements.

Cash Flow Statement

for the year ended 30 June 2006

	Note	2006 \$	2005 \$
Cash Flows from Operating Activities			
Rental receipts		8,501,123	9,845,915
Distributions received		331,941	–
Payments to suppliers		(2,087,395)	(1,549,550)
Interest received		123,683	150,403
Finance costs		(1,768,666)	(1,647,983)
Net cash provided by operating activities	17	5,100,686	6,798,785
Cash Flows from Investing Activities			
Proceeds from sale of investment properties		981,102	1,410,017
Payments for investment properties		(687,085)	(7,458,020)
Proceeds from sale of available-for-sale financial assets		226,132	–
Net cash provided by/(used in) investing activities		520,149	(6,048,003)
Cash Flows from Financing Activities			
Proceeds from borrowings		–	2,500,000
Finance costs – distribution to unitholders		(5,410,022)	(5,260,195)
Net cash used in financing activities		(5,410,022)	(2,760,195)
Net cash increase (decreases) in cash and cash equivalents		210,813	(2,009,413)
Cash and cash equivalents at beginning of year		604,083	2,613,496
Cash and cash equivalents at end of year	17	814,896	604,083

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

for the year ended 30 June 2006

Note 1: Statement of Significant Accounting Policies

Basis of Preparation

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

The financial report is for the entity The Australian Social Infrastructure Fund ('the Fund') as an individual entity. The Australian Social Infrastructure Fund is an unlisted Fund established and domiciled in Australia. The Responsible Entity of The Australian Social Infrastructure Fund is Ceramic Funds Management Limited.

The financial report has been prepared on an accruals basis and is based on historical costs. It does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

Compliance with IFRSs

Australian Accounting Standards include Australian Equivalents to International Financial Reporting Standards ('AIFRS'). Compliance with AIFRS ensures that the financial statements and notes of the Fund comply with International Financial Reporting Standards ('IFRS').

First-time Adoption of AIFRS

As this is the first annual financial report prepared under AIFRS, the accounting policies applied are inconsistent with those applied in the 30 June 2005 financial report as this report was presented under previous Australian Accounting Standards ('AGAAP'). Accordingly, a summary of the significant accounting policies under AIFRS has been included below. A reconciliation of previously reported equity and profit and loss between previous AGAAP and AIFRS has been prepared per Note 2.

In accordance with the requirements of AASB 1: First-time Adoption of Australian Equivalents to International Financial Reporting Standards, adjustments to the financial report resulting from the introduction of AIFRS have been applied retrospectively to 2005 comparative figures.

Notes to the Financial Statements

continued

Accounting Policies

(a) Investment Properties

Investment properties are carried at fair value determined by the directors or independent valuers. Changes to fair value are recorded in the income statement as income. Investment properties are not depreciated.

The fair value of investment properties excludes any accrued operating lease income recognised as a separate asset in accordance with AASB 117: Leases, as detailed in Note 1(b).

(b) Revenue

Lease income from operating leases is recognised as income on a straight-line basis over the lease term. Where a lease has fixed annual increases, the total rent receivable over the operating lease is recognised as revenue on a straight-line basis over the lease. This results in more income being recognised early in the lease term and less late in the lease term compared to the lease conditions. The difference between the lease income recognised and actual lease payments received is included in receivables.

Interest income is recognised in the income statement using the effective interest rate method.

Distribution income is recognised when the right to receive a distribution has been established.

Rental income is recognised when the Fund has a right to receive the rent in accordance with the lease agreement.

All income is stated net of the amount of goods and services tax (GST).

(c) Financial Instruments

From 1 July 2004 to 30 June 2005

The Fund has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 only from 1 July 2005. The Fund has applied previous AGAAP to the comparative information on financial instruments within the scope of AASB 132 and AASB 139. For further information on previous AGAAP refer to the financial report for the year ended 30 June 2005.

Adjustments on transition at 1 July 2005.

The nature of the main adjustments to make this information comply with AASB 132 and AASB 139 are that issued units, retained profits and reserves at 30 June 2005 would be classified as a financial liability, titled net assets attributable to unitholders. Accordingly, the Fund would have no equity and distributions payable to unitholders would be treated as a finance cost in the income statement (refer below under issued units).

From 1 July 2005

Financial assets and financial liabilities are recognised on the Fund's balance sheet when the Fund becomes a party to the contractual provisions of the instrument.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Available-for-sale Financial Assets

Available-for-sale financial assets are initially recognised at fair value plus transaction costs and are subsequently measured at fair value. Changes in fair value are recognised directly in net assets available to unitholders.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in net assets available to unitholders are included in the income statement as gains and losses.

Financial Liabilities and Equity

Financial liabilities and equity instruments issued by the Fund are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Issued Units

The Fund had a fixed termination clause until the Constitution was amended in November 2005 to remove the fixed termination clause. As a result the Fund has distributions payable to unitholders from 1 July 2005 to 31 October 2005 treated as a Finance cost.

Notes to the Financial Statements

continued

Borrowings

Interest-bearing loans and overdrafts are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost, using the effective interest rate method.

(d) Finance Costs

Finance costs – distribution to unitholders, represents amounts distributed to unitholders based upon their unitholding during the financial period and are recognised when a distribution is declared by the Fund.

Finance costs (excluding distributions to unitholders), are recognised using the effective interest rate applicable to the financial liability.

(e) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. 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 in the balance sheet are shown inclusive of GST.

(f) Income Tax

Under current legislation the Fund is not liable for income tax provided its taxable income is fully distributed to unitholders.

(g) Critical Accounting Estimates and Judgments

(i) Critical Accounting Estimates and Judgments

The Directors of the Responsible Entity evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Fund and Responsible Entity. Key estimates and critical judgments are discussed below.

(ii) Critical Judgments in Applying the Accounting Policies – Available-for-sale Financial Assets

The Fund follows the guidance in AASB 139: Financial Instruments: Recognition and Measurement in classifying investments in other property schemes as available-for-sale financial assets rather than the alternative of designating these as at fair value through profit or loss. This classification requires significant judgment. In making this judgment the Responsible Entity considers how these investments are managed and their performance is evaluated.

(iii) Fair Value Estimation

Information on the determination of fair value of available-for-sale financial assets is included in Note 8 and of investment properties is included in Note 9.

Notes to the Financial Statements

continued

	Note	Previous AGAAP \$	Effect of transition to AIFRS \$	AIFRS \$
Note 2: Explanation of Transition to AIFRS				
(a) Reconciliation of equity reported under previous AGAAP to equity under AIFRS				
At the date of transition to AIFRS: 1 July 2004				
Current Assets				
Cash and cash equivalents		2,613,496	–	2,613,496
Receivables	(f)	2,227,817	333,427	2,561,244
Other	(f)	598,696	(598,696)	–
Total Current Assets		5,440,009	(265,269)	5,174,740
Non-Current Assets				
Available-for-sale financial assets		4,045,884	–	4,045,884
Investment properties	(e)	71,736,831	(168,745)	71,568,086
Total Non-Current Assets		75,782,715	(168,745)	75,613,970
Total Assets		81,222,724	(434,014)	80,788,710
Current Liabilities				
Payables		289,331	–	289,331
Provisions		491,257	–	491,257
Total Current Liabilities		780,588	–	780,588
Non-Current Liabilities				
Interest bearing liabilities	(f)	22,000,000	(265,269)	21,734,731
Total Non-Current Liabilities		22,000,000	(265,269)	21,734,731
Total Liabilities		22,780,588	(265,269)	22,515,319
Net Assets		58,442,136	(168,745)	58,273,391
Equity				
Contributed equity		55,403,778	–	55,403,778
Available-for-sale reserve	(e)	3,401,560	(3,193,176)	208,384
Distribution reserve	(e)	(363,202)	3,024,431	2,661,229
Total Equity		58,442,136	(168,745)	58,273,391

	Note	Previous AGAAP \$	Effect of transition to AIFRS \$	AIFRS \$
(b) Reconciliation of equity reported under previous AGAAP to equity under AIFRS				
At the end of the last annual reporting period under previous AGAAP: 30 June 2005				
Current Assets				
Cash and cash equivalents		604,083	–	604,083
Receivables	(f)	1,017,818	413,920	1,431,738
Other	(f)	568,095	(568,095)	–
Total Current Assets		2,189,996	(154,175)	2,035,821
Non-Current Assets				
Available-for-sale financial assets		5,207,850	–	5,207,850
Investment properties	(e)	86,976,712	(466,005)	86,510,707
Total Non-Current Assets		92,184,562	(466,005)	91,718,557
Total Assets		94,374,558	(620,180)	93,754,378
Current Liabilities				
Payables		457,122	–	457,122
Provisions		509,310	–	509,310
Total Current Liabilities		966,432	–	966,432
Non-Current Liabilities				
Interest bearing liabilities	(f)	24,500,000	(154,175)	24,345,825
Total Non-Current Liabilities		24,500,000	(154,175)	24,345,825
Total Liabilities		25,466,432	(154,175)	25,312,257
Net Assets		68,908,126	(466,005)	68,442,121
Equity				
Contributed equity		56,193,120	–	56,193,120
Available-for-sale reserve	(e)	13,706,424	(12,336,074)	1,370,350
Distribution reserve	(e)	(991,418)	11,870,069	10,878,651
Total Equity		68,908,126	(466,005)	68,442,121

Notes to the Financial Statements

continued

	Note	Previous AGAAP \$	Effect of transition to AIFRS \$	AIFRS \$
Note 2: Explanation of Transition to AIFRS (continued)				
(c) Reconciliation of profit under previous AGAAP to profit under AIFRS				
Reconciliation of profit or loss for the year ended 30 June 2005				
Revenue				
Rental		8,302,110	–	8,302,110
Interest		150,403	–	150,403
Distributions		333,806	–	333,806
Changes in fair value of investment properties	(e)	–	8,664,621	8,664,621
Net gain on sale of investment property		1,410,017	(1,180,000)	230,017
Total income		10,196,336	7,484,621	17,680,957
Expenses				
Direct property expenses		(617,334)	–	(617,334)
Administration expenses				
– Responsible Entity's fee		(837,250)	–	(837,250)
– Other administration expenses		(260,759)	–	(260,759)
Carrying value of investment properties sold		(1,180,000)	1,180,000	–
Finance costs (excluding distributions to unitholders)		(1,680,582)	–	(1,680,582)
Net operating income		5,620,411	8,664,621	14,285,032
Net profit		5,620,411	8,664,621	14,285,032

(d) Reconciliation of cash flow statement for the year ended 30 June 2005

The adoption of AIFRS has not resulted in any material adjustment to the cash flow statement.

(e) Notes to the reconciliations – Investment Properties

Under the previous AGAAP the Fund carried investment properties at cost or fair value depending upon the date of acquisition. At the date of transition the Fund made the decision to recognise investment properties at fair value in accordance with AASB 140: Investment Property. The effect of this is as follows:

(i) At 1 July 2004

A decrease in investment properties by \$168,745 a decrease in the revaluation reserve of \$3,193,176 and an increase in the distribution reserve of \$3,024,431.

(ii) At 30 June 2005

A decrease in investment properties by \$466,005 a decrease in the revaluation reserve of \$12,336,074 and an increase in the distribution reserve of \$11,870,069.

(iii) For the year ended 30 June 2005

An increase in revenue by \$8,664,621.

(f) Notes to the reconciliations – Receivables, Other Assets and Interest Bearing Liabilities

Under the previous AGAAP the unamortised balance of transaction costs relating to interest bearing liabilities were recognised as a separate other asset. Under AASB 139: Financial Instruments Recognition and Measurement, financial liabilities are to be initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost. In addition to the above the remaining other assets which comprise prepayments are classified as receivables under AASB 101: Presentation of Financial Statements. The effect of this is as follows:

(i) At 1 July 2004

An increase in receivables by \$333,427, a decrease in other assets of \$598,696 and a decrease in interest bearing liabilities of \$265,269.

(ii) At 30 June 2005

An increase in receivables by \$413,920, a decrease in other assets of \$568,095 and a decrease in interest bearing liabilities of \$154,175.

Notes to the Financial Statements

continued

	Note	2006 \$	2005 \$
Note 3: Revenue			
Revenue includes:			
(a) Interest from:			
– other entities		123,683	150,403
(b) Distributions from:			
– other schemes managed by the Responsible Entity or its affiliates		331,630	333,806

Note 4: Expenses

Profit before distributions to unitholders includes the following expenses:

Finance costs (excluding distributions to unitholders):

– other entities		1,768,666	1,680,582
– custodian fees		49,570	44,003
– other		317,137	216,756
Total other administration expenses		366,707	260,759

Note 5: Distributions Paid to Unitholders

Total amounts paid to unitholders are comprised as follows:

Finance costs – distributions to unitholders	2,093,176	–
Distributions paid	4,210,552	6,079,084
	6,303,728	6,079,084

Note 6: Cash and Cash Equivalents

Cash at bank	814,896	604,083
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Cash carries a weighted average effective interest rate of 4.25% (2005: 4.25%)

	Note	2006 \$	2005 \$
Note 7: Receivables			
Current			
Other debtors		29,535	–
Amounts receivable from:			
– other schemes managed by the Responsible Entity or its affiliates		27,506	27,817
Prepayments		388,306	413,921
Receivable from the sale of investment property		3,600,000	990,000
		4,045,347	1,431,738

Note 8: Available-for-sale Financial Assets

Non-Current

Units in other unlisted property trusts managed by the Responsible Entity or its affiliates

– at directors' valuation	5,244,525	5,207,850
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Unlisted securities are not traded in active markets. Units are measured at fair value and determined by reference to the underlying properties and other net assets of the trusts. The method of valuation of investment properties held by the trusts and schemes is determined by the method outlined in Note 9(d) below.

Note 9: Investment Properties

(a) Valuation

– at independent valuation	55,590,000	67,260,000
– at directors' valuation	35,952,404	19,250,707
	91,542,404	86,510,707

Notes to the Financial Statements

continued

	Note	2006 \$	2005 \$
Note 9: Investment Properties (continued)			
(b) Movements during the financial year			
Opening balance at 1 July		86,510,707	71,568,086
Acquisitions		687,085	7,458,000
Disposals		(2,835,000)	(1,180,000)
Changes in fair value of investment properties		7,179,612	8,664,621
Closing balance at 30 June		91,542,404	86,510,707
(c) Amounts recognised in profit and loss for investment properties			
Rental income		8,505,043	8,302,110
Direct operating expenses from properties that generated rental income		(634,693)	(617,334)
		7,870,350	7,684,776

All direct property operating expenses related to those that generated rental income during the period.

(d) Valuation basis

The basis of the valuation of investment properties is fair value, being the amounts for which the properties could be exchanged between willing parties in an arm's length transaction. The determination of fair value is based on factors including the present value of net future cash flows, the capitalisation of future rental income and comparable market evidence. The Fund's property valuation policy provides for biennial revaluations. The independent revaluations, which conform to Australian Valuation Standards, were based on assessments made by a member of the Australian Property Institute with recent experience in the relevant location and category of the investment properties being valued.

Location	Address	Acquisition Date	Independent Valuation \$ 2006	Directors' Valuation \$ 2006	Independent Valuation \$ 2005	Directors' Valuation \$ 2005
Albany Creek (QLD)	640 Albany Creek Rd	10 Jan 2002	1,100,000	–	990,000	–
Anna Bay (NSW)	10 Clark Street	13 Sep 2002	720,000	–	625,000	–
Ashgrove (QLD)	22 Trout Street	16 Mar 2001	–	2,000,000	2,000,000	–
Aspley (QLD)	792 Zillmere Road	16 Mar 2001	–	1,060,000	1,060,000	–
Dalby (QLD)	58 Condamine Street	12 Dec 2002	–	SOLD	900,000	–
Baldivis (WA)	Lot 10 Eighty Road	16 Apr 2003	–	1,025,000	1,025,000	–
Bargara (QLD)	115 Hughes Road	28 Jun 2002	1,030,000	–	940,000	–
Beaudesert (QLD)	17 Brisbane Street	17 Dec 2002	–	SOLD	960,000	–
Beaudesert (QLD)	40 Eaglesfield Street	17 Dec 2002	–	SOLD	975,000	–
Boondall (QLD)	73 Zillmere Road	16 Mar 2001	–	2,250,000	2,250,000	–
Boondall (QLD)	2345 Sandgate Road	12 Dec 2002	1,230,000	–	1,060,000	–
Bribie Island (QLD)	20 Orara Avenue	18 Sep 2002	1,180,000	–	1,050,000	–
Burleigh (QLD)	2 Silvabank Drive	16 Mar 2001	–	1,180,000	1,180,000	–
Burpengary (QLD)	10 Station Road	16 Mar 2001	–	1,900,000	1,900,000	–
Canning Vale (WA)	145 Campbell Road	27 Sep 2002	1,465,000	–	1,295,000	–
Capalaba (QLD)	13 Alimara Street	30 Aug 2002	1,350,000	–	1,150,000	–
Capalaba (QLD)	39 Holland Court	16 Mar 2001	–	1,000,000	1,000,000	–
Carindale (QLD)	86 Bridgnorth Street	12 Jul 2002	1,130,000	–	930,000	–
Crestmead (QLD)	1 Third Avenue	16 Mar 2001	–	1,850,000	1,850,000	–
Darwin (NT)	2 Bishop Street	12 Dec 2002	1,145,000	–	1,020,000	–
Douglas, Townsville (QLD)	248 Riverside Blvd	18 Sep 2002	1,640,000	–	1,420,000	–

Notes to the Financial Statements

continued

Location	Address	Acquisition Date	Independent Valuation \$ 2006	Directors' Valuation \$ 2006	Independent Valuation \$ 2005	Directors' Valuation \$ 2005
Eight Mile Plains (QLD)	81 Holmead Road	16 Mar 2001	–	1,100,000	1,100,000	–
Ellen Grove (QLD)	10 Forest Lake Blvd	15 Feb 2002	2,225,000	–	1,900,000	–
Eltham (VIC)	816 Main Road	16 Mar 2001	–	1,765,000	1,765,000	–
Fairway Waters (NT)	Lot 1 Fairway	29 Apr 2004	–	1,072,404	–	385,319
Forest Gdns, Cairns (QLD)	Lot 700 Benjamina St	18 Sep 2002	1,620,000	–	1,400,000	–
Gaven (QLD)	2 Manra Way	6 Mar 2002	1,820,000	–	1,500,000	–
Gaven (QLD)	54 Santa Isobel Drive	10 Jan 2002	1,790,000	–	1,550,000	–
Gladstone (QLD)	1 Beak Street	4 Nov 2002	1,120,000	–	980,000	–
Glen Iris (VIC)	2A York Rd	7 Jun 2004	10,800,000	–	–	9,500,000
Gunnedah (NSW)	103 Bloomfield Street	13 Dec 2002	760,000	–	650,000	–
Helensvale (QLD)	111 Mildura Drive	16 Mar 2001	–	900,000	900,000	–
Helensvale (QLD)	106 Helensvale Road	16 Mar 2001	–	1,100,000	1,100,000	–
Hilton (WA)	299 South Street	27 Sep 2002	1,110,000	–	1,020,000	–
Inala (QLD)	55 Poinsettia Street	28 Jun 2002	1,750,000	–	1,500,000	–
Indooroopilly (QLD)	26 Witton Road	16 Mar 2001	–	1,430,000	1,430,000	–
Jindalee (QLD)	102 Burrendah Road	28 Jun 2002	1,100,000	–	950,000	–
Kallangur (QLD)	52 Duffield Road	16 Mar 2001	–	1,360,000	1,360,000	–
Kallangur West (QLD)	1517 Anzac Avenue	16 Mar 2001	–	950,000	950,000	–
Kirwan, Townsville (QLD)	14 Burnda Street	16 Mar 2001	–	1,950,000	1,950,000	–
Kirwan, Townsville (QLD)	104 Golf Links Drive	16 Mar 2001	–	1,050,000	1,050,000	–
Labrador (QLD)	120 Olsen Avenue	16 Mar 2001	–	1,160,000	1,160,000	–

Manly West (QLD)	186 Preston Road	12 Dec 2002	1,160,000	–	–	1,025,000	–
Mawsons Lake (SA)	Lot 5 Cnr Sanderling & Avocet Dve	30 Jun 2003	–	1,025,000	–	1,025,000	–
Melton (VIC)	247 Station Road	13 Sep 2004	7,025,000	–	–	–	6,708,275
Midvale (WA)	33 Beaconsfield Ave	12 Dec 2002	1,250,000	–	–	1,120,000	–
Monterey Keys (QLD)	182 Monterey Keys Drv	16 Mar 2001	–	990,000	–	990,000	–
Morayfield (QLD)	1 Riddegarden Drive	16 Mar 2001	–	1,000,000	–	1,000,000	–
North Lakes (QLD)	Lot 710 Discovery Dve	16 Mar 2001	–	1,350,000	–	1,350,000	–
North Lakes (QLD)	Lot 723 College Street	13 Nov 2003	1,725,000	–	–	–	1,127,810
Pullenvale (QLD)	18 Bainbridge Drive	29 May 2003	1,200,000	–	–	1,050,000	–
Redcliffe (QLD)	39 Ashmole Road	25 Jul 2003	1,200,000	–	–	–	891,583
Redcliffe (QLD)	33 William Street	25 Jul 2003	840,000	–	–	–	637,720
Regents Park (QLD)	18 Redgum Drive	12 Jul 2002	1,030,000	–	–	925,000	–
Tarragindi (QLD)	43 Pope Street	16 Mar 2001	1,000,000	–	–	1,000,000	–
Thornlands (QLD)	39 Osprey Drive	16 Mar 2001	1,000,000	–	–	1,000,000	–
Tingalpa (QLD)	18 Bognor Street	26 Jul 2002	1,320,000	–	–	1,120,000	–
Upper Coomera (QLD)	10 Jemima Place	5 Apr 2002	2,755,000	–	–	2,375,000	–
Victoria Point (QLD)	116 Benfer Road	16 Apr 2003	–	1,430,000	–	1,430,000	–
Wagga Wagga (NSW)	20 Avocet Drive	7 May 2003	–	460,000	–	460,000	–
Warnbro (WA)	26 Okehampton Rd	23 Jan 2003	–	595,000	–	595,000	–
Wishart (QLD)	6 Boyanda Street	16 Mar 2001	–	1,000,000	–	1,000,000	–
			55,590,000	35,952,404	67,260,000	19,250,707	

* Sold at 2005 independent valuation.

Notes to the Financial Statements

continued

	Note	2006 \$	2005 \$
Note 9: Investment Properties (continued)			
Total Investment Properties			
– At independent valuation		55,590,000	67,260,000
– At directors' valuation		35,952,404	19,250,707
Total Value of Investment Properties		91,542,404	86,510,707

The borrowings of the Fund are secured by a registered first mortgage over 43 of the Investment Properties above and a registered charge over Fund assets.

Note 10: Payables

Current

Unsecured liabilities

Amounts payable to:

– the Custodian	12,228	10,721
– director related entities	8,898	2,715
– the Responsible Entity	–	1,035
Sundry creditors and accruals	192,594	109,895
Unearned income	85,303	332,756
	299,023	457,122

	Note	2006 \$	2005 \$
Note 11: Provisions			
Distribution payable to unitholders		528,040	509,310
Movements in provision for income distribution:			
Opening balance		509,310	491,257
Distributions recognised for the financial year		6,303,728	6,079,084
Cash payment of distributions during the financial year		(5,410,022)	(5,260,195)
Payments of distributions through distribution reinvestment plan (DRP)		(874,976)	(800,836)
Closing balance		528,040	509,310

Note 12: Interest Bearing Liabilities

Non-Current

Secured liabilities

– Commercial bills	24,500,000	24,500,000
– Less unamortised transaction costs	(120,815)	(154,175)
Closing balance	24,379,185	24,345,825

The commercial bills and loans are secured by a registered first mortgage over the investment properties. The commercial bills and loans from NAB carry a weighted average effective interest rate of 6.87% (2005: 6.75%) and comprise several bills and loans with maturity dates ranging from 1 to 3 months that are expected to be renewed or rolled over. The Fund has the right to renew or roll over these under a facility agreement.

The carrying amounts of non-current assets pledged as security are:

First registered mortgage	91,542,404	86,510,707
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Notes to the Financial Statements

continued

	Note	2006 \$	2005 \$
Note 13: Issued Capital			
Movements during the financial year:			
- Opening balance 27,705,481 units (2005: 27,380,269)		56,193,120	55,403,778
- 320,677 units issued during the year (2005: 325,212)		874,976	789,342
Closing balance 28,026,158 ordinary units fully paid (2005: 27,705,481)		57,068,096	56,193,120

As stipulated in the Fund's constitution, each unit represents a right to an individual unit in the Fund and does not extend to a right to the underlying assets of the Fund. There are no separate classes of units and each unit has the same rights attaching to it as all other units of the Fund.

Note 14: Financial Instruments

(a) Interest rate risk

The Fund has exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities. The interest rate risks are disclosed in the notes to the financial statements.

(b) Credit risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets is the carrying amount of those assets, net of any provisions for doubtful debts, as disclosed in the balance sheet and notes to the financial report.

The Fund does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the Fund.

(c) Net fair values

The aggregate net fair values and carrying amount of financial assets and financial liabilities are disclosed in the balance sheet and in the notes to the financial report.

Note 15: Related Party Transactions

Responsible Entity

The Responsible Entity of The Australian Social Infrastructure Fund is Ceramic Funds Management Limited.

	Note	2006 \$	2005 \$
Responsible Entity's fees and other transactions			
Under the terms of the constitution, the Responsible Entity is entitled to receive fees in accordance with the product disclosure statement.			
Fees for the year paid by the Fund:			
Registry fees		50,000	55,007
Administration fees		13,400	20,029
Accounting fees		50,000	50,235
Acquisition/disposal of assets fees		113,677	117,931
Management of the Fund		961,256	837,250
		1,188,333	1,080,452

Amounts Payable:

– Aggregate amounts payable to the Responsible Entity at reporting date	–	1,035
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Transactions and balances with schemes which are associated with the Responsible Entity or its affiliates

Amounts Receivable:

– Aggregate amounts receivable from other schemes managed by the Responsible Entity or its affiliates at reporting date	27,506	27,817
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Notes to the Financial Statements

continued

Note	2006 \$	2005 \$
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Note 15: Related Party Transactions (continued)

Distributions:

– Distributions received from other schemes managed by the Responsible Entity or its affiliates during the year	331,630	333,806
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Custodian fees and other transactions

Under the terms of the constitution, the custodian is entitled to receive fees in accordance with product disclosure statement

– Fees for the year paid by the Fund	49,570	44,003
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Amounts Payable:

– Aggregate amounts payable to the custodian at reporting date	12,228	10,721
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Investments

The Fund held investments in the following schemes managed by the Responsible Entity or its affiliates:

	2006	2005
<i>CIB Fund</i>		
– Number of units held	3,667,500	3,827,877
– Interest % held	15%	15%
– Number of units bought back	(160,377)	–
– Distributions received by the Fund	331,630	333,806
– \$ value of units bought back	(226,132)	–
– Net fair value of investment	5,244,525	5,207,850

Unitholdings

Other schemes managed by the Responsible Entity held units in the Fund as follows:

Api Fund

– Number of units held	395,099	72,705
– Interest % held	1%	1%
– Number of units acquired	322,394	72,705
– Distributions paid by the Fund	(73,850)	(2,673)
– Net fair value of investment	1,086,267	181,763

Key management personnel disclosures

Directors

The names of directors of the Responsible Entity at any time during the financial year were as follows:

Rodney M Keown	(appointed 31 August 2000)
Peter J Dickson	(appointed 8 May 2003)
Robert A de Vos	(appointed 14 August 2003)
Jonathan L Addison	(retired 27 February 2006)
Edgar Y K Hung	(retired 28 July 2006)
Lewis N Johnson	(retired 7 November 2005)
Trevor B Moyle	(appointed 8 September 2005)
David B G McCusker	(retired 28 July 2006)

Other key management personnel

There are no other key management personnel.

Key management personnel compensation

Notes to the Financial Statements

continued

Name 2006	Short-term employee benefits Cash salary, fees and short-term compensated absences \$	Post-employment benefits Superannuation contributions \$	Total \$
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Note 15: Related Party Transactions (continued)

Directors

Non-Executive

Trevor B Moyle	7,500	675	8,175
Peter J Dickson	–	–	–
Edgar Y K Hung	–	–	–
David B G McCusker	–	–	–
Jonathan L Addison	–	–	–
Lewis N Johnson	–	–	–

Executive

Rodney M Keown	60,000	5,400	65,400
Robert A de Vos	45,000	4,050	49,050
Total	112,500	10,125	122,625

2005

Directors

Non-Executive

Peter J Dickson	–	–	–
Jonathan L Addison	–	–	–
Edgar Y K Hung	–	–	–
Lewis N Johnson	–	–	–
Marek V Petrovs	1,363	–	1,363

Executive

Rodney M Keown	65,250	–	65,250
Robert A de Vos	37,700	–	37,700
Total	104,313	–	104,313

The Responsible Entity remunerates directors and other key management personnel in accordance with their experience, skills and involvement with the operations of the Responsible Entity and the Funds it manages. Given that the Responsible Entity operates other managed investment schemes, the directors of the Responsible Entity do not believe there is any direct correlation between the level of remuneration provided to the directors and other key management personnel and the management fees paid by the Fund.

The employee costs are incurred by the Responsible Entity, however, they are disclosed in the accounts of the Fund in accordance with accounting and statutory requirements.

Notes to the Financial Statements

continued

Note 15: Related Party Transactions (continued)

Unitholdings

The numbers of units in the Fund held during the financial year by each director and other key management personnel of the Responsible Entity, including their personally related parties, are set out below. There were no units granted during the reporting period as compensation.

Name 2006	Balance at the start of the year Units	Other changes during the year Units	Balance at the end of the year Units	Interest held %
Directors representing				
Elizabeth Collins P/L	26,671	2,291	28,962	1
Rufus Keown	3,029	260	3,289	1
– Rodney M Keown				
JP Morgan Nominees Ltd ACF				
LUCRF Pty Ltd	1,500,000	–	1,500,000	5
– David B G McCusker				
Claire de Vos	10,578	(10,578)	–	–
Noel North & Gillian North	27,024	–	27,024	1
de Vos Nominees P/L	–	1,068	1,068	1
– Robert A de Vos				
Total	1,578,487	(5,998)	1,572,489	9

Name 2005	Balance at the start of the year Units	Other changes during the year Units	Balance at the end of the year Units	Interest held %
Directors representing				
Elizabeth Collins P/L	24,397	2,274	26,671	1
Rufus Keown	2,771	258	3,029	1
– Rodney M Keown				
JP Morgan Nominees Ltd ACF				
LUCRF Pty Ltd	1,500,000	–	1,500,000	5
– David B G McCusker				
Claire de Vos	8,891	1,687	10,578	–
Noel North & Gillian North	26,796	228	27,024	1
– Robert A de Vos				
Total	1,573,087	5,400	1,578,487	8
		Note	2006	2005
			\$	\$

Other transactions with key management personnel

The Fund receives legal advice from Deacons, of which director, Peter J Dickson, is a partner, on normal commercial terms and conditions.

Legal fees paid for the year	26,215	61,499
Legal fees payable at year end	8,898	2,715
Total	35,113	64,214

Note 16: Segment Reporting

The Fund operates wholly within Australia and operates predominantly in the one business segment of property investment, including direct property ownership, units in other property managed investment schemes.

Notes to the Financial Statements

continued

Note	2006 \$	2005 \$
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Note 17: Cash Flow Information

(a) Reconciliation of cash

Cash at the end of the financial year as shown in the Cash Flow Statement of is reconciled to the related items in the Balance Sheet as follows:

Cash at bank	814,896	604,083
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(b) Reconciliation of cash flows from operating activities with profit before distribution to unitholders

Profit before distribution to unitholders	13,220,880	14,285,032
Non-cash flow items in profit before distributions to unitholders:		
Net gain on sale of investment properties	(756,102)	(230,017)
Net gain on sale of available-for-sale investments	(56,132)	–
Change in fair value of investment property	(7,179,612)	(8,664,621)
Amortisation of borrowing costs	33,360	–
Changes in assets and liabilities:		
(Increase)/decrease in receivables	(3,609)	1,240,600
(Decrease)/increase in payables	(158,099)	167,791
Cash flows from operating activities	5,100,686	6,798,785

(c) Credit stand-by arrangement and loan facilities

– Loan facilities	24,500,000	24,500,000
– Amount utilised	(24,500,000)	(24,500,000)

Note 18: Contingent Liabilities

There are no contingent liabilities at the end of the year.

Note	2006 \$	2005 \$
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Note 19: Events Subsequent to Reporting Date

There have been no events subsequent to balance date that require disclosure. The financial report was authorised for issue on 21 September 2006 by the Board of Directors of the Responsible Entity.

Note 20: Auditor’s Remuneration

Remuneration of the auditor for:

– audit or review of financial reports	15,750	22,500
Non-audit services:		
– audit of compliance plan	2,600	2,500
– assistance with preparation of financial report	2,750	–
	5,350	2,500

Note 21: Responsible Entity Details

The registered office and the principal place of business of the Responsible Entity is:

Ceramic Funds Management Limited
Level 14, 45 William Street
MELBOURNE VIC 3000

Responsible Entity's Declaration to Unitholders

The Directors of the Responsible Entity declare that:

- (a) in the directors' opinion, the financial statements and notes for the financial year ended 30 June 2006 are in accordance with the Corporations Act 2001, including:
 - (i) Section 296 (compliance with accounting standards); and
 - (ii) Section 297 (true and fair view); and
- (b) in the directors' opinion there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

The Directors of the Responsible Entity have been given the declarations required by Section 295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:



Rodney M Keown
Director

Dated this 21st day of September 2006

Auditor's Independence Declaration

21 September 2006

Attn: Mr Rodney M Keown
The Board of Directors,
Ceramic Funds Management Limited,
Level 14,
45 William Street,
MELBOURNE VIC 3000

This declaration is made in connection with my audit of the financial report of The Australian Social Infrastructure Fund for the year ended 30th June 2006 and in accordance with the provisions of the Corporations Act 2001.

I declare that, to the best of my knowledge and belief, there have been:

- No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to this audit;
- No contraventions of the Code of Professional Conduct of the Institute of Chartered Accountants in Australia in relation to this audit.

Yours faithfully



HORWATH MELBOURNE
Chartered Accountants



PAUL CARR
Partner

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Independent Audit Report

to the Unitholder

HORWATH MELBOURNE
Chartered Accountants
A member of Horwath International
The Rialto, 525 Collins Street, MELBOURNE 3000
GPO Box 4736, MELBOURNE Victoria 3001 Australia

Independent audit report on the financial report to unitholders of The Australian Social Infrastructure Fund

We have audited the accompanying financial report of The Australian Social Infrastructure Fund for the year ended 30 June 2006. The financial report comprises the balance sheet at 30 June 2006, and the income statement, statement of changes in equity, cash flow statement, summary of significant accounting policies and other explanatory notes, and the directors' declaration for the year then ended.

Directors' Responsibility for the Financial Report

The directors of the Responsible Entity are responsible for the preparation and fair presentation of the financial report in accordance with Accounting Standards in Australia and the Corporations Act 2001. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Auditing Standards in Australia. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

We are independent of the Fund, and have complied with the independence requirements of the Corporations Act 2001. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Auditor's Opinion

In our opinion the financial report of The Australian Social Infrastructure Fund is in accordance with the Corporations Act 2001, including:

- (a) giving a true and fair view of the Fund's financial position as at 30 June 2006 and of its performance for the year ended on that date; and
- (b) complying with Accounting Standards in Australia and the Corporations Regulations 2001.

Dated the 21 day of September 2006.



HORWATH MELBOURNE
Chartered Accountants



PAUL CARR
Partner

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Statement of Values

The best long term investments are those that provide high, sustainable returns to stakeholders and at the same time enhance the wellbeing of the broader community and the environment.

These considerations are fundamental to Ceramic's due diligence process when it is assessing the sustainability of assets that the fund may acquire.

Through its investment program Ceramic aims to foster development in sectors judged to be of benefit to Australian society without impacting negatively on the environment or individual communities.

