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MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

ABN 88 459 580 639

ANNUAL REPORT
FOR THE YEAR ENDED
30 JUNE 2007



MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

Annual Report

for the financial year ended 30 June 2007

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Trustee:
Macquarie Fortress Investments Limited
ABN 66 113 113 214
Level 7, No. 1 Martin Place
SYDNEY NSW 2000

Neither the Trustee, nor any member of the Macquarie Bank Group, guarantees the performance of Macquarie Fortress Australia Notes Trust, the repayments of capital or the payment of a particular rate of return on the notes issued.

Macquarie Fortress Investments Limited is not an authorised deposit-taking Institution for the purposes of the Banking Act (Cth) 1959, and Macquarie Fortress Investments Limited's obligations do not represent deposits or other liabilities of Macquarie Bank Limited ABN 46 008 583 542. Macquarie Bank Limited does not guarantee or otherwise provide assurance in respect of the obligations of Macquarie Fortress Investments Limited.

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MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

Directors' Report

The Directors of Macquarie Fortress Investments Limited (a wholly owned subsidiary of Macquarie Bank Limited), the Trustee of the Macquarie Fortress Australia Notes Trust, present their report together with the financial report of the Macquarie Fortress Australia Notes Trust (the "Trust") for the year ended 30 June 2007.

Principal activities

The principal activity of the Trust is to invest in unlisted notes issued by a Cayman Islands entity, the return on which is linked to a leveraged portfolio of US dollar denominated senior secured loans and the Australian bank bill swap rate.

The Trust did not have any employees during the period.

There were no significant changes in the nature of the Trust's activities during the period.

Directors

The following persons have held office as Directors of Macquarie Fortress Investments Limited during the period up to the date of this report:

Tan Kueh
Peter Bruce Lucas
Charles Warwick Wheeler

Review and results of operations

The investment policy of the Trust continues to be that detailed in the Trust's product disclosure statement and is in accordance with the provisions of the governing documents of the Trust.

Results

The performance of the Trust, as represented by the results of its operations, was as follows:

| | 1 July 2006 - 30 Jun 2007 \$'000 | 4 Mar 2005 - 30 Jun 2006 \$'000 |
|---|--|---------------------------------------|
| Net operating profit before financing costs attributable to noteholders | 13,554 | 8,304 |

MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

Directors' Report (continued)

Distribution

| | 1 July 2006 - 30 Jun 2007 \$'000 | 4 Mar 2005 - 30 Jun 2006 \$'000 |
|--|--|---------------------------------------|
| Distribution paid and payable to Trust beneficiaries | - | - |
| Interest paid to noteholders | 15,931 | 8,512 |
| | Cents per Note | Cents per Note |
| Distribution to Trust beneficiaries | - | - |
| Interest paid to noteholders | | |
| Class A and Class B notes | 10.65 | 11.19 |
| Class C notes (for the period 1 July to 31 August) | 1.48 | 0.62 |

Class A notes were issued on 19 May 2005, Class B notes were issued on 18 October 2005 and Class C notes were issued on 21 April 2006. Class B and Class C notes merged into Class A notes on the 28 February 2006 and 31 August 2006 respectively. The interest on the notes is calculated by reference to the bank bill swap rate adjusted for the performance of the underlying loan portfolio.

Significant changes in state of affairs

In the opinion of the Directors, there were no significant changes in the state of affairs of the Trust that occurred during the period under review.

Matters subsequent to the end of the financial year

As detailed in announcements to the Australian Stock Exchange in 24 July 2007, 31 July 2007, 6 August 2007 and 31 August 2007, the Trust was adversely impacted by price volatility in the US credit markets. This price volatility is not related to defaults in the underlying portfolio (of which there are none) which the Trust is indirectly exposed to through its investment in loan notes, but is being caused by supply/demand imbalances in the senior loan market as a whole that are, in large part, caused by the spill-over from sub-prime mortgage market. Four Corners Capital Management LLC (the Investment Manager) continues to have no major concerns about the overall credit quality of senior loans in the portfolio.

On 6 August 2007 Macquarie Fortress Investments Limited (as trustee for the Macquarie Fortress Australia Notes Trust) (MFIL) gave guidance that the Fortress Notes net asset value (NAV) was likely to be affected by price declines in the senior loan market during the month of July. MFIL now wishes to advise that the NAV per Note as at 31 July 2007 was 72.8 cents (29 June 2006: 98.2 cents). This NAV has not been audited. The reduction in net asset value over recent months is substantially unrealised but represents the theoretical outcome if the entire loan portfolio was to be liquidated at current market prices. There is presently no intention to liquidate the portfolio and wind-up the Trust.

MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

Directors' Report (continued)

Likely developments and expected results of operations

The Trust will continue to be managed in accordance with the investment objectives, and guidelines, as set out in the governing documents of the Trust and in accordance with the Trust Constitution.

The results of the Trust's operations will be affected by a number of factors, including the performance of investment markets in which the Trust invests. Investment performance is not guaranteed and future returns may differ from past returns. As investment conditions change over time, past returns should not be used to predict future returns.

Further information on likely developments in the operation of the Trust and the expected results of those operations have not been included in this report because the Trustee believes it would be likely to result in unreasonable prejudice to the Trust.

Indemnification and insurance of officers and auditors

No insurance premiums are paid for out of the assets of the Trust in regards to insurance cover provided to either the officers of the Trustee or the auditors of the Trust. So long as the officers of the Trustee act in accordance with the Trust Constitution and the Corporations Act 2001("the Law"), the officers remain indemnified out of the assets of the Trust against losses incurred while acting on behalf of the Trust. The auditors of the Trust are in no way indemnified out of the assets of the Trust.

Fees paid to and interests held in the Trust by the Trustee or its associates

Fees paid to the Trustee and its associates out of Trust property during the year are disclosed in Note 10 the financial statements.

No fees were paid out of Trust property to the Directors of the Trustee during the year.

The number of interests in the Trust held by the Trustee or its associates as at the end of the financial year are disclosed in Note 10 of the financial statements.

Interests in the Trust

The movement in notes on issue in the Trust during the year is disclosed in Note 5 of the financial statements.

The value of the Trust's assets and liabilities is disclosed on the balance sheet and derived using the basis set out in Note 2 of the financial statements.

MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

Directors' Report (continued)

Rounding of amounts to the nearest thousand dollars

The Trust an entity of a kind referred to in Class Order 98/0100 (as amended) issued by the Australian Securities and Investment Commission relating to the "rounding off" of amounts in the Directors' report and financial report. Amounts in the Directors' report and financial report have been rounded to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

Environmental regulation

The operations of the Trust are not subject to any particular or significant environmental regulations under a Commonwealth, State or Territory law.

Auditors' independence declaration

A copy of the auditors' independence declaration as required under section 307C of the Law is set out on page 7.

This report is made in accordance with a resolution of the Directors.


Director
Sydney

Date 31/8/07

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Auditor's Independence Declaration

As lead auditor for the audit of Macquarie Fortress Australia Notes Trust for the year ended 30 June 2007 I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Macquarie Fortress Australia Notes Trust during the period.



PK Merrett
Partner
PricewaterhouseCoopers

Sydney
31 August 2007

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MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

Income Statement

for the year ended 30 June 2007

| | Note | 1 July 2006 - 30 Jun 2007 \$'000 | 4 Mar 2005 - 30 Jun 2006 \$'000 |
|--|------|--|---------------------------------------|
| Investment Income | | | |
| Net gains on financial instruments held at fair value through profit or loss | 4 | 13,346 | 8,357 |
| Gain on notes buyback | | 260 | - |
| Interest income from cash and cash equivalents | | 5 | 63 |
| Other income | | 242 | 130 |
| Total investment income | | <u>13,853</u> | <u>8,550</u> |
| Expenses | | | |
| Manager's fees | | 31 | 33 |
| Trustee fees | | 52 | 56 |
| Professional fee expenses | | 150 | 152 |
| Other operating expenses | | 66 | 5 |
| Total operating expenses | | <u>299</u> | <u>246</u> |
| Net operating profit | | <u>13,554</u> | <u>8,304</u> |
| Financing costs attributable to noteholders | | | |
| Interest payments to noteholders | 6 | (15,931) | (8,512) |
| Decrease in net assets attributable to noteholders | | 2,377 | 208 |
| Net profit for the year | | <u>-</u> | <u>-</u> |

The above income statement should be read in conjunction with the accompanying notes.

MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

Balance Sheet

as at 30 June 2007

| | Note | 30 June 2007 \$'000 | 30 June 2006 \$'000 |
|---|------|------------------------|------------------------|
| Assets | | | |
| Cash and cash equivalents | 7 | 119 | 212 |
| Financial assets held at fair value through profit or loss | 8 | 146,473 | 153,828 |
| Receivables | | 50 | 64 |
| Total assets | | <u>146,642</u> | <u>154,104</u> |
| Liabilities | | | |
| Manager fees payable | | 23 | 33 |
| Trustee fees payable | | 17 | 17 |
| Withholding taxes payable | | 61 | 66 |
| Interest payable to noteholders | | - | 48 |
| Other liabilities | | 106 | 98 |
| Liabilities (excluding net assets attributable to noteholders) | | <u>207</u> | <u>262</u> |
| Net assets attributable to noteholders | 5 | <u>146,435</u> | <u>153,842</u> |
| Net assets attributable to Trust beneficiaries | 5 | <u>-</u> | <u>-</u> |

The above balance sheet should be read in conjunction with the accompanying notes.

MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

Statement of Changes in Equity

for the year ended 30 June 2007

| | 1 July 2006 - 30 Jun 2007 \$'000 | 4 Mar 2005 - 30 Jun 2006 \$'000 |
|--|--|---------------------------------------|
| Total equity at the beginning of the financial year | - | - |
| Profit/(loss) for the year | - | - |
| Net income/(expense) recognised directly in equity | - | - |
| Total recognised income and expense for the year | - | - |
| Transactions with equity holders in their capacity as equity holders | - | - |
| Total equity at the end of the financial year | - | - |

Under AIFRS, net assets attributable to noteholders and Trust beneficiaries are classified as a liability rather than equity. As a result there was no equity at the start or end of the period.

The above statements of change in equity should be read in conjunction with the note 5.

MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

Cash Flow Statement

for the year ended 30 June 2007

| | Note | 1 July 2006 - 30 Jun 2007 \$'000 | 4 Mar 2005 - 30 Jun 2006 \$'000 |
|--|-------|--|---------------------------------------|
| Cash flows from operating activities | | | |
| Interest received | | 15,936 | 8,594 |
| Trustee fees paid | | (56) | (43) |
| Professional, management and other fees paid | | (282) | (81) |
| Other receipts | | 288 | 138 |
| Payment for acquisition of financial assets at fair value through profit or loss | | - | (154,050) |
| Proceeds from sale of financial assets at fair value through profit or loss | | 4,617 | - |
| Net cash inflow/(outflow) from operating activities | 11(a) | <u>20,503</u> | <u>(145,442)</u> |
| Cash flows from financing activities | | | |
| Interest payments to noteholders | | (15,979) | (8,396) |
| Proceeds from applications from noteholders | | - | 154,050 |
| Proceeds paid for redemption of notes | | (4,617) | - |
| Net cash flows from financing activities | | <u>(20,596)</u> | <u>145,654</u> |
| Net increase/(decrease) in cash and cash equivalents | | (93) | 212 |
| Cash and cash equivalents at beginning of the period | | 212 | - |
| Cash and cash equivalents at end of financial period | 7 | <u>119</u> | <u>212</u> |
| Non-cash financing activities | 11(b) | - | - |

The above cash flow statement should be read in conjunction with the accompanying notes.

MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

Notes to the Financial Statements

for the year ended 30 June 2007

1 General information

This financial report covers Macquarie Fortress Australia Notes Trust as an individual entity. Macquarie Fortress Australia Notes Trust (the "Trust") was constituted on 4 March 2005 and commenced operations on 16 May 2005.

The Trustee of the Macquarie Fortress Australia Notes Trust is Macquarie Fortress Investments Limited (the "Trustee"). The Trustee's registered office is Level 7, 1 Martin Place, Sydney, NSW 2000. The financial report is presented in the Australian currency.

The financial statements were authorised for issue by the Directors on 31 August 2007. The directors of the Trustee have the power to amend and reissue the financial report.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated in the following text.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001 in Australia.

The financial report is prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated.

Compliance with International Financial Reporting Standards (IFRS)

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report of the Trust, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards.

(b) Financial instruments

(i) Classification

The Trust's investments are classified as at fair value through profit or loss. They comprise:

- Financial instruments designated at fair value through profit or loss upon initial recognition

These include financial assets that are not held for trading purposes and which may be sold. These are investments in loan notes in Knight Portfolio Trust. Financial assets and financial liabilities designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Trust's documented investment strategy. The Trust's policy is for the Trustee to evaluate the information about these financial assets on a fair value basis together with other related financial information.

(ii) Recognition/derecognition

The Trust recognises financial assets and financial liabilities on the date it becomes party to the contractual agreement (trade date) and recognises changes in fair value of the financial assets or financial liabilities from this date. Investments are derecognised when the right to receive cashflows from the investments have expired or the Trust has transferred substantially all risks and rewards of ownership.

MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

Notes to the Financial Statements
for the year ended 30 June 2007 (continued)

2 Summary of significant accounting policies (continued)

(iii) Measurement

(a) Financial assets and liabilities held at fair value through profit or loss

Financial assets and liabilities held at fair value through profit or loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the income statement.

- Fair value in an inactive or unquoted market

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, reference to the current fair value of a substantially similar other instrument, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Investments in other unlisted trusts are recorded at the redemption value per note as reported by the managers of such funds.

(b) Loans and receivables

Loan assets are measured initially at fair value plus transaction costs and subsequently amortised using the effective interest rate method, less impairment losses if any. Such assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment for example when there has been a significant or prolonged decline in the fair value below cost.

If any such indication of impairment exists, an impairment loss is recognised in the income statement as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

If in a subsequent period the amount of an impairment loss recognised on a financial asset carried at amortised cost decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through the income statement.

iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(c) Net assets attributable to noteholders

Net assets attributable to noteholders includes unrealised changes in the net market value of investments, accrued income not yet assessable, expenses provided or accrued for which are not yet deductible and net capital losses are attributable to noteholders. Non-distributable income is transferred directly to noteholders' funds.

(d) Net assets attributable to Trust beneficiaries

Trust beneficiaries have limited rights which are at the complete discretion of the Trustee. Noteholders have a priority interest in the net assets of the Trust.

MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

Notes to the Financial Statements
for the year ended 30 June 2007 (continued)

2 Summary of significant accounting policies (continued)

(e) Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

Payments and receipts relating to the purchase and sale of investment securities are classified as cash flows from operating activities, as movements in the fair value of these securities represent the Trust's main income generating activity.

(f) Interest payments

In accordance with the product disclosure statement, the Trust fully distributes income to noteholders in the form of interest payments. The interest payments are payable on a quarterly basis for quarters ended 31 August, 30 November, 28 February and 31 May and are recognised as a financing cost in the income statement.

(g) Distributions

In accordance with the Trust Deed, the Trust fully distributes its distributable (taxable) income to Trust beneficiaries.

(h) Foreign currency translation

i) Functional and presentation currency

Items included in the Trust's financial statements are measured using the currency of the primary economic environment in which it operates (the "functional currency"). This is the Australian dollar, which reflects the currency of the economy in which the Trust competes for funds and is regulated. The Australian dollar is also the Trust's presentation currency.

ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations at year end exchange rates, of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(i) Investment income and expenses

Investment income and expenses are brought to account on an accruals basis. Interest income and expenses are recognized in the income statement for all debt instruments using the effective interest method. Interest income on assets held at fair value through the profit and loss is included in the net gains/(losses) on financial instruments. Other changes in fair value for such instruments are recorded in accordance with the policies described in note 2(b).

(j) Income tax

Under current income tax legislation, the Trust is not subject to income tax provided its distributable income is fully distributed to investors. Withholding tax may be deducted from interest payments to noteholders.

(k) Goods and Services Tax (GST)

The GST incurred on the costs of various services provided to the Trust by third parties such as registry fees have been passed on to the Trust. The net amount of GST recoverable from the Australian Taxation Office ("ATO") is included in receivables in the balance sheet. Cash flows relating to GST are included in the cash flow statement on a gross basis.

MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

Notes to the Financial Statements

for the year ended 30 June 2007 (continued)

2 Summary of significant accounting policies (continued)

(l) Use of estimates

The Trust makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(m) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2007 reporting periods. The directors' assessment of the impact of these new standards (to the extent relevant to the Trust) and interpretations is set below:

(i) *AASB 7 Financial Instruments: Disclosures* and *AASB 2005-10 Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038]*

AASB 7 and AASB 2005-10 are applicable to annual reporting periods beginning on or after 1 January 2007. The Trust has not adopted these standards early. Application of these standards will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Trust's financial instruments.

(ii) *AASB 8 Operating Segments* and *AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8 [AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038]*

AASB 8 and AASB 2007-3 are applicable to annual reporting periods beginning on or after 1 January 2009. The Trust has not adopted these standards early. Application of these standards will not affect any of the amounts recognised in the financial statements, but will affect the segment disclosures provided in note 12.

(iii) *AASB 101 Presentation of Financial Statements (Revised)*.

AASB 101 (Revised) is applicable to annual reporting period beginning on or after 1 January 2007. The Trust has not adopted this standard early. Application of this standard will not affect any of the amounts recognised in the financial statements.

(iv) *AASB 2007-4 Amendments to Australian Accounting Standards arising from ED 151 and other Amendments [AASB 1, 2, 3, 4, 5, 6, 7, 102, 107, 108, 110, 112, 114, 116, 117, 118, 119, 120, 121, 127, 128, 129, 130, 131, 132, 133, 134, 136, 137, 138, 139, 141, 1023 & 1038]*.

(n) Rounding of amounts

The Trust is an entity of the kind referred to in Class Order 98/0100 (as amended), issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

(o) Segment reporting

A business segment is identified for a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is identified when products or services are provided within a particular economic environment subject to risks and returns that are different from those of segments operating in other economic environments.

MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

Notes to the Financial Statements
for the year ended 30 June 2007 (continued)

3 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the Trust.

| | 30 June 2007 | 30 June 2006 |
|---|---------------|---------------|
| | \$ | \$ |
| Review of the half-year financial report (exclusive of GST) | 5,300 | 5,000 |
| Audit of the annual financial report (exclusive of GST) | 10,900 | 8,000 |
| Other services (taxation) (exclusive of GST) | 13,800 | - |
| | <u>30,000</u> | <u>13,000</u> |

4 Net gains/(losses) on financial instruments held at fair value through profit or loss

Net gains recognised in relation to financial instruments held at fair value through profit or loss:

| | 1 July 2006 - 30 Jun 2007 | 4 Mar 2005 - 30 Jun 2006 |
|--|------------------------------|-----------------------------|
| | \$'000 | \$'000 |
| Net realised gain on financial instruments at fair value through profit or loss | | |
| Interest from loan notes | 15,931 | 8,580 |
| Loss on redemption of loan notes | (260) | - |
| Net movement in unrealised (loss) on financial instruments held at fair value through profit or loss | <u>(2,325)</u> | <u>(223)</u> |
| Net gain on financial instruments held at fair value through profit or loss | <u>13,346</u> | <u>8,357</u> |

5 Net assets attributable to Trust beneficiaries and noteholders

Movements in net assets attributable to Trust beneficiaries and noteholders during the year were as follows:

| Net assets attributable to Trust beneficiaries | Net assets Attributed | Net assets attributed |
|--|--------------------------|-------------------------------|
| | 30 June 2007 | 12 Mar 2005 - 30 June 2006 |
| | \$'000 | \$'000 |
| Opening balance | - | - |
| Applications | - | - |
| Redemptions | - | - |
| (Increase) in net assets attributable to Trust beneficiaries | <u>-</u> | <u>-</u> |
| Closing balance | <u>-</u> | <u>-</u> |

MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

Notes to the Financial Statements
for the year ended 30 June 2007 (continued)

5 Net assets attributable to Trust beneficiaries and noteholders (continued)

| Net assets attributable to noteholders | Notes on issue | | Net assets attributed | |
|--|---------------------|------------------------|--------------------------------------|---|
| | 30 June 2007 No. | 30 June 2007 \$'000 | 12 Mar 2005 - 30 June 2006 No. | 12 Mar 2005 - 30 June 2006 \$'000 |
| Opening balance | 154,049,803 | 153,842 | - | - |
| Applications | | | | |
| Class A | - | - | 56,966,948 | 56,967 |
| Class B | - | - | 68,234,782 | 68,235 |
| Class C | - | - | 28,848,073 | 28,848 |
| Redemptions | (5,030,290) | (5,030) | - | - |
| Decrease in net assets attributable to noteholders | - | (2,377) | - | (208) |
| Closing balance | <u>149,019,513</u> | <u>146,435</u> | <u>154,049,803</u> | <u>153,842</u> |

6 Interest payments to noteholders

| | 4 Mar 2005 - 30 Jun 2006 Cents / note | 4 Mar 2005 - 30 Jun 2006 \$'000 |
|--|---|---------------------------------------|
| Interest paid | | |
| Class A notes | | |
| 31 August 2005 | 1.63 | 929 |
| 30 November 2005 | 2.51 | 1,430 |
| 28 February 2006 | 2.49 | 1,415 |
| 31 May 2006 (includes Class B merged to Class A notes on 28 February 2006) | 2.54 | 3,180 |
| Total Class A notes | <u>9.17</u> | <u>6,954</u> |
| Class B notes | | |
| 30 November 2005 | 0.66 | 450 |
| 28 February 2006 | 1.36 | 929 |
| Total Class B notes | <u>2.02</u> | <u>1,379</u> |
| Class C notes | | |
| 31 May 2006 | 0.62 | 179 |
| Total Class C notes | <u>0.62</u> | <u>179</u> |
| Total interest paid and payable (including withholding taxes paid and payable) | | <u>8,512</u> |

MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

Notes to the Financial Statements for the year ended 30 June 2007 (continued)

6 Interest payments to noteholders (continued)

| | 1 July 2006 - 30 Jun 2007 Cents / note | 1 July 2006 - 30 Jun 2007 \$'000 |
|---|--|--|
| Interest paid | | |
| Class A notes | | |
| 31 August 2006 | 2.61 | 3,268 |
| 30 November 2006 | 2.65 | 4,082 |
| 28 February 2007 | 2.67 | 4,088 |
| 31 May 2007 | 2.72 | 4,066 |
| Total Class A notes | <u>10.65</u> | <u>15,504</u> |
| Class C notes | | |
| 31 August 2006 | <u>1.48</u> | <u>427</u> |
| Total Class C notes | <u>1.48</u> | <u>427</u> |
| Total interest paid and payable (including withholding taxes paid and payable) | | <u>15,931</u> |

Class B and Class C notes merged into Class A notes on the 28 February 2006 and 13 September 2006 respectively.

The interest on the notes is calculated by reference to the bank bill swap rate adjusted for the performance of the underlying loan portfolio. Refer to Note 9 for assessment of interest rate risk.

7 Cash and cash equivalents

| | 30 June 2007 \$'000 | 30 June 2006 \$'000 |
|--------------|------------------------|------------------------|
| Cash at bank | <u>119</u> | <u>212</u> |

(a) Cash at bank

The bank accounts have floating interest rates. The weighted average interest rate was 3.25% for 30 June 2007 (2006: 3.00%).

8 Financial assets held at fair value through profit or loss

| | 30 June 2007 \$'000 | 30 June 2006 \$'000 |
|---|------------------------|------------------------|
| Investment in loan notes at cost | 149,020 | 154,050 |
| Unrealised loss on loan notes | <u>(2,547)</u> | <u>(222)</u> |
| Total financial asset held at fair value through profit or loss | <u>146,473</u> | <u>153,828</u> |

The Trust acquired loan notes in Knight Portfolio Trust on 16 May 2005.

MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

Notes to the Financial Statements

for the year ended 30 June 2007 (continued)

9 Financial Risk Management

The Trust is indirectly exposed to credit risk, interest rate risk, liquidity and cash flow risk arising from the financial instruments it holds. The risk management policies employed by the Trust to manage these risks are discussed below.

(a) *Credit risk*

Credit risk is the risk that a counterparty will fail to perform contractual obligations, either in whole or in part, under a contract. Concentrations of credit risk are minimised primarily by:

- ensuring counterparties, together with the respective credit limits, are approved
- ensuring that transactions are undertaken with a large number of counterparties, and
- ensuring that the majority of transactions are undertaken on recognised exchanges.

The carrying amounts of financial assets best represent the maximum credit risk exposure at the balance sheet date. This relates also to financial assets carried at amortised cost, as they have a short-term to maturity.

There were no significant concentrations of credit risk to counterparties at 30 June 2007 or 30 June 2006.

(b) *Interest rate risk*

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The average interest rate applicable to the loan notes for the period was 10.43% (2006: 9.37%).

The bank accounts have floating interest rates. The interest rates are 3.25% at 30 June 2007 (2006: 3.00%). The fair values of loan notes and income received is significantly affected by changes in interest rates.

The interest rate risk disclosures have been prepared on the basis of the Trust's direct investment and not on a look-through basis for investments held indirectly through the Knight Portfolio Trust. Consequently, the disclosure of interest rate risk may not represent the true interest rate risk profile of the Trust where the Trust has significant investments in trusts which also have exposure to the interest rate markets.

(c) *Liquidity and cash flow risk*

Liquidity risk is the risk that the Trust will experience difficulty in either realising assets or otherwise raising sufficient funds to satisfy commitments associated with financial instruments. Cash flow risk is the risk that the future cash flows derived from holding financial instruments will fluctuate. The risk management guidelines adopted to minimise liquidity and cash flow risk through:

- ensuring that there is no significant exposure to illiquid or thinly traded financial instruments, and
- applying limits to ensure there is no concentration of liquidity risk to a particular counterparty or market. These risks were those detailed in the product disclosure statement.

(d) *Fair values of financial assets and financial liabilities*

The carrying amounts of all the Trust's financial assets and financial liabilities at the balance sheet date approximated their fair values as all financial assets and liabilities not fair valued are short-term in nature.

MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

Notes to the Financial Statements
for the year ended 30 June 2007 (continued)

9 Financial Risk Management (continued)

(e) Foreign exchange risk

The Trust holds loan notes in an international trust and is exposed to foreign exchange risk as the offshore securities held by the international trust are valued in foreign currency. The international trust may have entered into derivatives in order to gain exposure to offshore markets.

(f) Market price risk

Market price risk is the risk that the value of the Trust's investment portfolio will fluctuate as a result of changes in market prices. This risk is managed by ensuring that all activities are transacted in accordance with mandates, overall investment strategy and within approved limits.

10 Related party transactions

Trustee

The Trustee of the Macquarie Fortress Australia Notes Trust is Macquarie Fortress Investments Limited.

Key management personnel

(a) Trustee

The only key management personnel for the period ended 30 June 2007 were the directors of Macquarie Fortress Investments Limited as follows:

Tan Kueh
Peter Bruce Lucas
Charles Warwick Wheeler

(b) Other key management personnel

There were no other persons with responsibility for planning, directing and controlling the activities of the Trust, directly or indirectly during the financial year.

Trustee's fees and other transactions

For the period ended 30 June 2007, in accordance with the Trust Constitution, the Trustee received a total fee of AUD 51,508 (exclusive of GST) (2006: 56,164).

All expense in connection with the preparation of accounting records and the maintenance of the register are indemnified by Knight Portfolio Trust.

All related party transactions are conducted on normal commercial terms and conditions. The transactions during the period and amounts payable at period end between the Trust and the Trustee were as follows:

| | 1 July 2006 - 30 Jun 2007 \$'000 | 4 Mar 2005 - 30 Jun 2006 \$'000 |
|---|--|---------------------------------------|
| Trustee fees for the period paid or accrued by the Trust to the Trustee | 52 | 56 |
| Aggregate amounts paid and payable to the Trustee at the reporting date | 52 | 56 |

MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

Notes to the Consolidated Financial Statements
for the year ended 30 June 2007 (continued)

10 Related party transactions (continued)

Related party schemes' noteholdings

No parties related to the Trust (including Macquarie Fortress Investments Limited, its affiliates and other schemes managed by Macquarie Fortress Investments Limited), held notes in the Trust, except as disclosed in the table below and in the table under Key Management Personnel noteholdings.

4 Mar 2005 - 30 Jun 2006

| Noteholders | No. of notes held (Notes) | Interest held (%) | No. of notes acquired (Notes) | No. of notes disposed (Notes) | Interest paid / payable by the Trust (\$) |
|--|------------------------------|----------------------|----------------------------------|----------------------------------|--|
| Macquarie Bank Limited | 3,377,899 | 2.19 | 4,175,989 | 798,090 | 169,317 |
| Macquarie Fortress Investments Limited | - | - | - | - | - |

1 July 2006 - 30 June 2007

| Noteholders | No. of notes held (Notes) | Interest held (%) | No. of notes acquired (Notes) | No. of notes disposed (Notes) | Interest paid / payable by the Trust (\$) |
|--|------------------------------|----------------------|----------------------------------|----------------------------------|--|
| Macquarie Bank Limited | 2,362,569 | 1.58 | - | 1,015,330 | 278,079 |
| Macquarie Fortress Investments Limited | - | - | - | - | - |

Key management personnel noteholdings

The key management personnel of the Trustee held notes in the Trust as follows:

4 Mar 2005 - 30 Jun 2006

| Noteholders | No. of notes held (Notes) | Interest held (%) | No. of notes acquired (Notes) | No. of notes disposed (Notes) | Interest paid / payable by the Trust (\$) |
|-------------|------------------------------|----------------------|----------------------------------|----------------------------------|--|
| Directors | - | - | - | - | - |

1 July 2006 - 30 June 2007

| Noteholders | No. of notes held (Notes) | Interest held (%) | No. of notes acquired (Notes) | No. of notes disposed (Notes) | Distribution paid / payable by the Trust (\$) |
|-------------|------------------------------|----------------------|----------------------------------|----------------------------------|--|
| Directors | - | - | - | - | - |

MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

Notes to the Consolidated Financial Statements
for the year ended 30 June 2007 (continued)

10 Related party transactions (continued)

Key management personnel compensation

Key management personnel are paid by Macquarie Bank Limited, not Macquarie Fortress Investments Limited. Payments made from the Trust to Macquarie Fortress Investments Limited do not include any amounts attributable to the compensation of key management personnel.

Key management personnel loan disclosures

The Trust has not made, guaranteed or secured, directly or indirectly, any loans to the key management personnel, Directors of the Trustee or their personally related entities at any time during the reporting period.

Other transactions within the Trust

Apart from those details disclosed in this note, no key management personnel has entered into a material contract with the Trust during the financial year and there were no material contracts involving Director's interests existing at year end.

11 Reconciliation of net profit/(loss) to net cash inflow/(outflow) from operating activities

| | 1 July 2006 - 30 Jun 2007 \$'000 | 4 Mar 2005 - 30 Jun 2006 \$'000 |
|--|--|---------------------------------------|
| (a) Reconciliation of net profit/(loss) to net cash inflow/(outflow) from operating activities | | |
| Net profit | - | - |
| (Decrease) in net assets attributable to noteholders | (2,377) | (208) |
| Interest paid to noteholders | 15,931 | 8,512 |
| Increase in trustee fees payable | - | 17 |
| Decrease/(increase) in receivables | 14 | (64) |
| (Decrease)/increase in manager fees payable | (10) | 33 |
| Increase in other liabilities | 3 | 95 |
| Purchase of loan notes | - | (154,050) |
| Proceeds from sale of loan notes | 4,617 | - |
| Movement in unrealised loss on loan notes held at fair value through profit or loss | 2,325 | 223 |
| Net cash flows from operating activities | <u>20,503</u> | <u>(145,442)</u> |

(b) Non-cash financing activities

The Trust did not engage in any non-cash financing and investment activities during the financial period.

MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

Notes to the Consolidated Financial Statements for the year ended 30 June 2007 (continued)

12 Segment information

The Trust is organised into one main segment which operates solely in the business of investment management within Australia. Consequently, no business segment reporting is provided in the Trust's financial statements.

While the Trust operates in Australia (the geographical segment), the Trust has investment exposures in different countries as below:

Geographical Exposure

| | 30 June 2007 % of Total assets | 30 June 2007 Total assets \$'000 | 30 June 2006 % of Total assets | 30 June 2006 Total assets \$'000 |
|---------------|---|---|---|---|
| United States | 99.88% | 146,473 | 99.82% | 153,828 |
| Australia | 0.12% | 169 | 0.18% | 276 |
| Total | 100.00% | 146,642 | 100.00% | 154,104 |

The above investments are classified on the balance sheet as at fair value through profit or loss. The above disclosures have been prepared on a look through basis for investments held directly through loan notes.

13 Events occurring after balance sheet date

As detailed in announcements to the Australian Stock Exchange in 24 July 2007, 31 July 2007, 6 August 2007 and 31 August 2007, the Trust was adversely impacted by price volatility in the US credit markets. This price volatility is not related to defaults in the underlying portfolio (of which there are none) which the Trust is indirectly exposed to through its investment in loan notes, but is being caused by supply/demand imbalances in the senior loan market as a whole that are, in large part, caused by the spill-over from sub-prime mortgage market. Four Corners Capital Management LLC (the Investment Manager) continues to have no major concerns about the overall credit quality of senior loans in the portfolio.

On 6 August 2007 Macquarie Fortress Investments Limited (as trustee for the Macquarie Fortress Australia Notes Trust) (MFIL) gave guidance that the Fortress Notes net asset value (NAV) was likely to be affected by price declines in the senior loan market during the month of July. MFIL now wishes to advise that the NAV per Note as at 31 July 2007 was 72.8 cents (29 June 2006: 98.2 cents). This NAV has not been audited. The reduction in net asset value over recent months is substantially unrealised but represents the theoretical outcome if the entire loan portfolio was to be liquidated at current market prices. There is presently no intention to liquidate the portfolio and wind-up the Trust.

MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

Notes to the Consolidated Financial Statements
for the year ended 30 June 2007 (continued)

14 Contingent assets and liabilities and commitments

There are no outstanding contingent assets and liabilities or commitments as at 30 June 2007 and 30 June 2006.

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MACQUARIE FORTRESS AUSTRALIA NOTES TRUST

Directors' Declaration

In the opinion of the Directors of the Trustee:

- (a) the financial statements and notes set out on pages 8 to 24 are in accordance with the Corporations Act 2001, including
 - (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Trust's financial position as at 30 June 2007 and of its performance, as represented by the results of its operations, changes in equity and cash flows for the financial year ended on that date.
- (b) there are reasonable grounds to believe that Macquarie Fortress Australia Notes Trust will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors.



Director

Sydney
Date 31/8/07

Independent auditor's report

to the members of Macquarie Fortress Australia Notes Trust

Report on the financial report

We have audited the accompanying financial report of Macquarie Fortress Australia Notes Trust (the trust), which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' responsibility for the financial report

The directors of the trustee are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing 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. In Note 2(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

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 Australian Auditing Standards. These Auditing 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 judgement, 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.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

For further explanation of an audit, visit our website <http://www.pwc.com/au/financialstatementaudit>.

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Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*

Auditor's opinion

In our opinion:

- (a) the financial report of Macquarie Fortress Australia Notes Trust is in accordance with the *Corporations Act 2001*, including:
- (i) giving a true and fair view of the trust's financial position as at 30 June 2007 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the trust's financial report also complies with International Financial Reporting Standards as disclosed in Note 2(a)


PricewaterhouseCoopers


PK Merrett
Partner

Sydney
31 August 2007

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