

### January 2007

Fund Financial Position		Proforma June 2008
Equity Sought		\$31.20m
Current Equity		\$10.15m
- Assets		\$110.50m
- Debt		\$66.30m
Gearing	Current	Nil
	Target	60%
Net Asset Backing/Unit		\$0.963 (at practical completion)

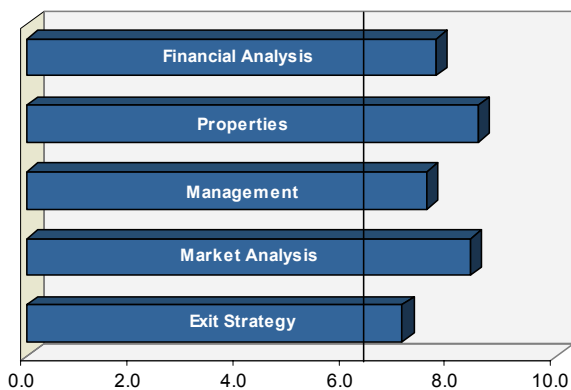
Portfolio Summary	
Number of Properties	1
Direct Property Type	Bulky goods retail 91% Other retail/office 9%
Property Location	Innaloo, Western Australia
Unexpired Lease Term	15.0 years

Trust Returns		Lonsec Estimates	
Est. Trust IRR pre-tax		10.57%	
(After tax @ 46.5%)		9.83%	
<b>Year end</b>		<b>Jun 08</b>	<b>Jun 09</b>
		<b>(F/cst)</b>	<b>(F/cst)</b>
Distribution per unit		2.49c	8.25c
Pre-tax Yield (@ \$1.00)		7.46%**	8.25%
Projected Tax Deferred		100%	100%

Other Trust Details	
Minimum Investment	\$20,000 (thereafter \$1,000)
Investment Term	10 years
Responsible Entity	LEX Property Managem't Ltd
MER (gross assets)	0.45% (2 yrs) then 1.05%
Advisor Commissions	Up to 6% on initial equity

(Note\*\*: Annualised return)

### Lonsec Ratings of Critical Determinants



### Fund Features

#### Strengths:

- Attractive yield of 8.25% in the first full financial year.
- High quality seed asset.
- Above average tax advantages.
- Blue-chip tenant with proven retail business model.
- Stable income unpinned by long term tenant.

#### Weaknesses:

- Limited diversification, with high exposure to single tenant / asset.
- Exposure to development risk, minimised by Guaranteed Maximum Cost arrangement.
- The Manager is relatively new to the funds management industry.
- No liquidity feature.

### Summary

➤ The LEX Property Fund (LPF or the Fund) is an open-ended property fund that has been established to develop an IKEA retail store plus office/showrooms located in the Perth suburb of Innaloo, Western Australia. The Manager is seeking to raise \$31.2m in this offer to assist with constructing the property.

➤ A 15 year lease term has been secured with Cebas Pty Ltd, the franchisee holder of IKEA in Western Australia and South Australia.

➤ Most of the risk has been taken out of the development for the Fund by means of a Guaranteed Maximum Cost arrangement provided by Cebas, who secured the property, structured the deal and supplied seed capital. For its efforts it received a \$4.35m discount on conversion of its loan to equity (its units were issued at \$0.70 per unit).

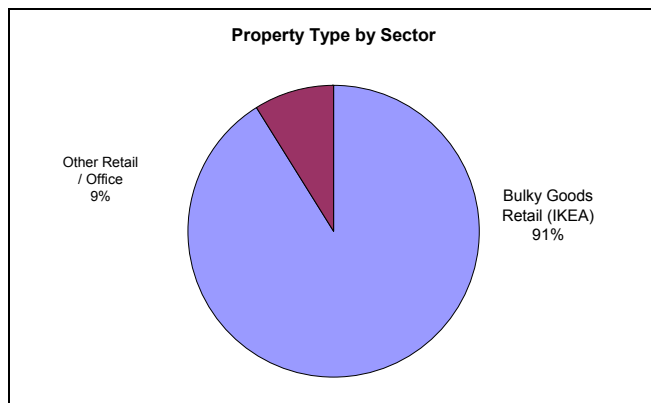
➤ Cebas (who is also the tenant) will take a 31.7% direct interest in the Fund. An associate of the major shareholder of Cebas also holds an indirect 75% ownership interest in the Manager. This is an unusual ownership structure and provides some concern as to a potential conflict of interest as the tenant will have a large say in the direction of the Fund and the Manager. On the positive side, there is an alignment of interests with other unit-holders.

➤ Investors should note that distributions will not accrue for the remaining 11 months of the construction period. The first full year distribution yield of 8.25% is competitive with other retail offerings available, especially on an after-tax basis given the 100% tax deferral on income.

➤ Rental income for IKEA is above market, however comfort is provided through the structure of the lease where the current lease term is 15 years with annual

CPI increases along with a market review every five years. A ratchet clause is also included to ensure rental is not reduced below the existing level.

- The establishment costs for the Fund for this issue are lower compared to Lonsec's sample of unlisted property trusts. Although investors should note that the Cebas discount for its efforts putting the deal together is reflected in the overall cost of the property.
- The Manager intends to maintain a reduced annual management fee (0.5% pa of the value of assets) beyond the forecast period of FY09. This brings the Fund's total annual costs of 0.55% well below Lonsec's sample average of 0.70%. However, the Manager may revert to the maximum management fee of 1.0% pa at its discretion.
- The Fund's main attractions include the high quality of the tenant; long lease; being a new property with little capital expenditure necessary for some years. However, Lonsec has rated the Fund in the **Lower Recommended** category at this stage, mainly due to the lack of diversification; no income until March 2008; lack of track record as a manager; no liquidity feature; and potential conflict of interest with the intertwined ownership structure. A compensating factor is that all unit-holders will gain the benefit of a \$6.85m uplift in property value.



## Table of Contents

1.	Lonsec Methodology .....	3
2.	Overview .....	4
3.	Financial Analysis .....	5
4.	Management .....	8
5.	Properties .....	10
6.	Information Used in the Review Process .....	11

## 1. Lonsec Methodology

Lonsec Property Research provides quality research services to investment managers and financial planning groups. Our reports assist financial planners in the selection and understanding of unlisted property trusts/ syndicates, property securities funds and other managed investment products. Experienced analysts have conducted an extensive and objective review of the Fund and its underlying assets.

The research methodology includes a rating process designed to assess the qualitative and quantitative factors of the investment.

The process is consistent for comparable investment products, enabling projects to be individually rated, comparatively ranked, and to establish a Lonsec Research recommendation status for use by financial planners.

The rating determinants are:

- Financial Analysis
- Properties
- Management
- Market Analysis
- Exit Strategy

This report, dated January 2007, expires when the initial offer closes or after twelve months or if there are any material changes in relation to the information contained in this report or any disclosure or offer document issued in relation to his offer. Lonsec reserves the right to change its opinion, rating and/or withdraw the report at any time on reasonable grounds.

### Lonsec Property Research Rating Definitions

 <b>Highly Recommended</b>	<b>Highly Recommended</b> Projects in this exclusive category possess exceptionally high ratings in most of our assessment areas and are considered to be the most favoured investment alternative.
 <b>Upper Recommended</b>	<b>Upper Recommended</b> Although not as highly rated as the Highly Recommended category, this category includes projects that are rated as having good to excellent all-round performance potential in relation to their peers. They are suggested better investment alternatives.
 <b>Lower Recommended</b>	<b>Lower Recommended</b> Projects that fall into this category have satisfied Lonsec's rigorous analysis criteria and are viewed as acceptable for investment.
 <b>Investment Grade</b>	<b>Investment Grade</b> Projects that fall into this category have satisfied Lonsec's rigorous analysis criteria and are viewed as acceptable for investment.
<b>Not Approved</b>	The project has failed one or more of Lonsec's major investment rating determinants. We advise that projects that fall into this grouping are detrimental to an investor's overall investment portfolio.

## 2. Overview

### 2.1 The Fund

LEX Property Management Limited (LPML or the Manager) is seeking to raise equity of \$31.2m through the issue of 31.2m ordinary units each priced at \$1.00. The Manager has secured a debt facility of \$66.3m and has converted \$10.15m of an existing short-term loan into 14.5m units in the Fund. This loan is held by the proposed tenant of the property, Cebas Pty Ltd.

The proceeds will be utilised to construct a purpose built retail store of 26,500m<sup>2</sup> (91%) for the IKEA franchisee along with 2,600m<sup>2</sup> of showroom retail and office space in the Perth suburb of Innaloo, WA.

The property will be constructed over a 16 month term and is expected to be completed by 27 February 2008 when rental income to the Fund will commence. The development risk will be mitigated through a fixed lump sum building contract with Multiplex. The Manager has also obtained a Guaranteed Maximum Cost deed which ensures any costs above \$103.65m are to be borne by the tenant Cebas Pty Ltd (IKEA franchisee) who has entered into a 15 year AAA net lease for the property.

The tenant Cebas Pty Ltd will take a 31.7% direct interest in the Fund and an associate of Cebas holds a 75% indirect ownership interest in the Manager.

The Manager will pursue other good quality property assets with strong tenants and leases to expand the Fund's portfolio.

### 2.2 Investment Limits/Unit Price

Minimum investment in the Fund is \$20,000 and thereafter in multiples of \$1,000. There will be no buy/sell spread for new investors.

Minimum wholesale investment is \$500,000.

### 2.3 Income Distribution

Distributions will be paid quarterly in arrears, expected to be three weeks after the end of each quarter.

Distributions will accrue following practical completion of construction scheduled for 27 February 2008. The first income distribution will be paid for the period ending 31 March 2008.

### 2.4 Source & Application of Funds

	This Raising \$m
<b>Cash Inflow</b>	
Equity from this Offer	\$31.200
Equity on Issue#	\$10.150
Debt	\$66.300
<b>Total</b>	<b>\$107.650</b>
<b>Cash Outflow</b>	
Construction costs	-\$103.650
Borrowing Costs Capitalised	-\$1.070
Other Estab. Costs	-\$0.210
RE Issuer Fee	-\$2.930
Cash/Working Capital	\$0.210
<b>Total</b>	<b>-\$107.650</b>

Cebas has agreed to provide loan funding of up to \$29.975m and the Fund expects to draw \$23.528m for part of the construction costs. The loan will be repaid from the equity monies raised from this offer. Equity on issue prior to this offer is a loan provided by Cebas which was converted to 14.5m units in the Fund, at a discount of 30%. This reflects the costs and resources expended by Cebas on the property to date and the \$4.35m discount is for sourcing the property and putting the structure together.

### 2.5 Exit Strategy /Liquidity Mechanism

There is no secondary market for this product. Hence the acquisition of units in this Fund should be considered a long term investment.

The Manager intends to consult potential investors no later than 30 June 2012 to either put forward a proposal to extend the term of the Fund or provide an exit strategy/liquidity mechanism no later than 30 June 2015.

The Manager has no immediate intention to provide a buy-back, redemption or withdrawal facility to unit-holders.

Lonsec would like to see a limited redemption facility provided for investors that may experience financial hardship or other unforeseen circumstances.

### 2.6 Overview of Fund Investments

Address	State	Sector	Cost \$m	Value \$m	Net Income \$m	Initial Yield	Discount Rate	Net Lettable Area	Major Tenant
Ellen Stirling Boulevard, Innaloo	WA	Retail	103.65	110.50	8.85	8.53%	9.25%	29,100m <sup>2</sup>	IKEA

### 3. Financial Analysis

#### 3.1 Income/Expenses Analysis

Financial Perform. & Distrib'n Year Ending	F/cst*	F/cst
	Jun-08	Jun-09
	\$m	\$m
Revenue	2.983	9.062
Interest Received	0.005	0.026
<b>Total Income</b>	<b>2.988</b>	<b>9.088</b>
Fund Expenses	-0.060	-0.086
RE Management Fees	-0.212	-0.446
Borrowing Costs	-1.596	-4.787
Amort. Deferred Borrow. Costs	-0.071	-0.214
<b>Total Expenses</b>	<b>-1.939</b>	<b>-5.533</b>
Prior Yr Undistributed Income	0.016	0.000
<b>Income Distribution</b>	<b>1.065</b>	<b>3.555</b>
<b>Capital Distribution</b>	<b>0.071</b>	<b>0.214</b>
<b>Distributable Income</b>	<b>1.136</b>	<b>3.769</b>
Total Issued Units (mill)	45.700	45.700
<b>Distribution cents per unit</b>	<b>2.49c</b>	<b>8.25c</b>
<b>Annual Income Yield</b>	<b>7.46%</b>	<b>8.25%</b>
<b>Tax Deferred</b>	<b>100%</b>	<b>100%</b>

(Note\*: FY08 four months).

#### Assumptions underlying income

Lonsec has reviewed the assumptions underlying the net property income of the Manager and in the valuation report for FY07 and FY08 and concluded that the forecast distributions are achievable.

During the construction, there is a Guaranteed Maximum Cost of construction provided by Cebas, the major unit-holder of the Fund prior to this offer and major tenant of the property. However, there are some exclusions such as variations and increased costs caused by 'force majeure' provisions, industrial disputes and variations not approved by Cebas.

Practical completion of the project is expected by 27 February 2008, thereafter Cebas Pty Ltd will commence their lease. Rental income for FY08 will be four months with the first income distribution due for the period ending 31 March 2008.

In order to meet the level of distribution over this period, the Manager has reduced its' annual management fee (see fees section).

Due to the accounting treatment of non-cash items, part of the returns for the forecast periods will be deemed a capital distribution.

Revenue is forecast to grow in FY09 assuming most of the smaller retail area 2,600m<sup>2</sup> is being leased. The Manager has made a vacancy allowance of 20% in the first year and 10% in subsequent years for this space.

Given the strength of IKEA as a co-tenant and the location of the property, we expect the space to be leased within a few months of the project's practical completion.

#### 3.2 Debt Position & Interest Costs

The Fund will borrow \$66.3m by way of bank loans to fund the construction of the buildings and then on-going as a term debt facility.

The Manager has secured a construction debt facility at a competitive variable rate forecast of 7.81% pa with the National Australia Bank. Any increase in interest rates is effectively covered as part of the Guaranteed Maximum Cost on the construction contract.

Upon practical completion, the construction debt will be converted into a term loan, with 90% of the loan balance subject to step-up fixed rates averaging 7.56% over five years to 20 March 2013, providing investors with a large degree of protection from further rises in interest rates. The remaining 10% of debt will be on a floating rate giving the Manager some flexibility to reduce debt. A minimum of 75% of total debt is required to be hedged at all times.

Borrowings will represent an amount not exceeding 60% of the gross value of the assets of the Fund at completion (loan to valuation ratio or LVR).

#### 3.3 Manager's Fee Structure

##### Establishment Costs

The Manager has the capacity to charge a 5% issuer fee (plus GST) on all monies raised (including debt). In this instance the fee has been reduced to 3% (plus GST).

##### Total Establishment Costs Comparison

	Amount \$m	% Props.*	% Equity
RE Issuer Fees	2.93	2.83%	7.09%
Other Estab. Costs	1.28	1.24%	3.10%
<b>Total Estab. Cost</b>	<b>4.21</b>	<b>4.06%</b>	<b>10.19%</b>
<i>Lonsec Sample Avg.</i>		6.14%	12.41%

(Note\*: Cost of completed property - \$103.65m)

While LPF's establishment costs on this issue are lower than the Lonsec sample average, it should be noted that the overall cost of the property to the Fund includes the \$4.35m benefit to Cebas from the 30% discount received on the allotment of its equity (for sourcing the property and structuring the transaction). This is not a part of the Manager's fee structure.

### Annual Management Fees and Expenses

The Manager is entitled to an **Annual Management Fee** of up to 1.00% pa of the gross assets. The Manager will waive part of this fee and has agreed to accept a lower fee of 0.10% during construction and 0.40% during the income forecast period of FY08 and FY09. Beyond this the fee will rise to 0.5%pa, but it is the Manager's intention not to increase the fee any further, but it may be increased at their discretion.

The Manager will also be entitled to recover any expenses incurred in the running of the Fund, estimated to be up to 0.05% pa of gross assets.

#### Comparison of Management Expense Ratios\*

	M/ment Fee	Other Exp	Total MER
LEX Property Fund			
Min (FY08/09)	0.40%	0.05%	0.45%
FY10 and beyond	0.50%	0.05%	0.55%
Max.	1.00%	0.05%	1.05%
Lonsec Unlisted Avg.	0.53%	0.17%	0.70%

(Note\*: Total annual expense / gross assets)

If the management fee was increased to 1.0% after FY09 the average MER over a ten year period would be 0.93%.

Under new disclosure requirements, the annual management fee is referred to as the **Indirect Cost Ratio (ICR)** or the total expenses as a proportion of average net assets during a period. If the Manager increased the annual fee from FY09, the ICR for the Fund would average 1.96% pa over ten years.

#### Comparison of Indirect Cost Ratios#

	M/ment Fee	Other Exp	Total ICR
LEX Property Fund			
Min. (FY08/09)	0.95%	0.12%	1.07%
FY10 and beyond	1.06%	0.11%	1.17%
Maximum	2.30%	0.11%	2.41%
Lonsec Unlisted Avg.	1.39%	0.46%	1.85%

(Note#: Total annual expenses / net assets)

The tables above compare the Fund's annual management charges to Lonsec's sample of unlisted property Funds on both a total assets and net assets basis. The net asset position adjusts for the different level of gearing of various funds. The previous MER was calculated on gross assets which favours funds with higher gearing (and therefore greater assets).

Assuming the Manager does not further increase its management fee, the LPF's annual fees and expenses on both MER and ICR measures are at the lower end of the Lonsec sector averages.

### Other Fees

The Manager will also receive an **Exit Fee** of 1% on the gross sale proceeds of the Fund's assets, provided that the net proceeds of the sale are greater than the adjusted cost base of the Fund's assets being sold plus the provision for withdrawal fees.

### 3.4 Distributions/Taxation

**Investors are advised to seek independent taxation advice before investing in this Fund.**

#### LEX Property Fund

(PDS Forecasts)	FY08	FY09
Distribution/unit	2.49c	8.25c
Pre-tax Yield	7.46%#	8.25%
Tax Advantaged	100%	100%
Yield after 46.5% tax	7.46%#	8.25%
Grossed-up Yield	13.94%#	15.42%

(Note#: Annualised return)

#### Lonsec Industry Distributions Comparison

Fund/Sector (FY08/09)	Pre-tax Yield	Tax Def.	After tax Yield*
LEX Property Fund	8.25%	100%	8.25%
Lonsec Retail Avg.	8.03%	96%	7.98%
Lonsec Sample Avg.	8.43%	83%	7.71%

(Note\*: After tax of 46.5%. Rolling 12-18 month basis)

The forecast pre-tax yield and after tax yield is below the Lonsec average for FY08, however this is attributed to the Fund recording distribution for four months only and annualising the return. Distributions are forecast to increase in FY09 to 8.25% surpassing Lonsec averages.

### 3.5 Total Returns

The key financial performance measure that Lonsec focuses on is the Internal Rate of Return (IRR) of the Fund and related sensitivities. The basic rationale behind using the IRR financial analysis is that it tries to find a single number that summarises the merits of an investment and does not depend on anything but the cash flows of the investment. The IRR is compared with Lonsec's benchmark discount rate.

#### Lonsec Allowances for 10yr Total Return

Allowances	Amount
Lease Renewal Rate	50%
Vacant Period (small tenants)	3 months
Leasing Fees (new tenants)	12.5%
Leasing Fees (existing tenants)	7.5%
Net Capital Growth (Property)	2.60%
Capital Expenditure	\$1.709m

(Note: Capital expenditure is over ten years).

In order to be consistent with the treatment of other Funds, Lonsec has calculated a **ten-year total return (IRR)** for the Fund. As part of this analysis, Lonsec examines the longer term allowances made by the Valuer for potential vacancy on lease expiry, capital expenditure and rental growth. Lonsec has adopted the allowances outlined in the following table.

While allowances have been made for smaller tenancies (100m<sup>2</sup> -1,500m<sup>2</sup>) a vacancy allowance has not been made for IKEA's space as the lease will be for a term of 15 years, well beyond Lonsec ten year calculation period.

Lonsec has assumed a capital growth rate of 2.60% over the next decade, in line with projected portfolio net rental growth.

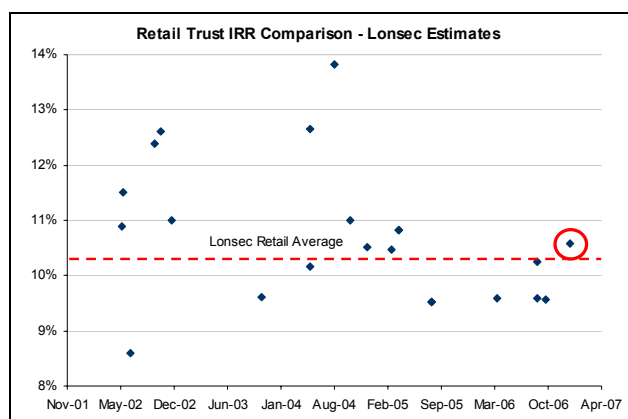
#### Lonsec Internal Rate of Return (net after fees)

	Pre-tax	After Tax (46.5%)*
LEX Property Fund	10.57%	9.83%
Lonsec Benchmark Rate	9.25%	8.00%
Lonsec Retail Avg.	10.22%	7.98%
Lonsec Sample Avg.	10.79%	8.23%

(Note\*: Also net of capital gains tax). (Rolling 12-18 months).

As is evident from the table above, Lonsec's estimate of LPF's pre-tax total return is marginally below Lonsec's unlisted property sector average, however slightly above the retail average. Yields have further compressed in the property sector over the past 12-18 months with the retail sector leading the charge, therefore it is not uncommon for the potential total return of the retail sector to be lower in comparison to the other property sectors. The total return has been calculated on the assumption that the Fund remains in the existing form.

The following chart details Lonsec's total estimated return for the Fund relative to other retail fund/trust offerings Lonsec has reviewed over the past five years and depicts the continued compression of yields in the retail sector over the past 18 months.



(Note: LPF is circled)

#### Sensitivity of Lonsec IRR to Key Assumptions

Scenario	Pre-tax	After Tax (@46.5%)*
Lonsec Base Case	10.57%	9.83%
Property Growth		
+10%	12.01%	11.01%
-10%	8.91%	8.51%
Interest Rates		
+0.50%	11.12%	10.36%
-0.50%	10.02%	9.30%

(Note\*: After tax is also net of capital gains tax).

Upon practical completion of the building, the Manager will hedge 90% of the total debt for a five year term, therefore interest rate movements can only impact the LPF when hedging expires.

#### 3.6 Balance Sheet /Net Tangible Assets

The following table reflects the Fund's position as at November 2006 and also the forecast position upon the completion of the building construction.

The current Accounting NTA (using current Accounting Standards) is \$0.984 and is calculated by deducting debt and issue costs from total monies raised.

The Lonsec Adjusted NTA of \$0.963 reflects our consistently applied approach over all funds, to write-off capitalised costs. This compares to Lonsec's average for unlisted property trusts of \$0.82. Investors will gain the benefit of the up-side stemming from the revaluation of the project. The revaluation increment of \$6.85m results from the valuation of the property at completion above the total cost of construction.

As at end	Jun-08 \$m
Cash	0.696
Other Current Assets	0.130
Investment Property	110.500
Deferred Borrowing Costs	0.997
<b>Total Assets</b>	<b>112.323</b>
Trade Payables	-0.049
GST Payable	-0.074
Distribution Payable	-0.911
Interest Bearing Liabilities	-66.300
<b>Total Liabilities</b>	<b>-67.334</b>
<b>Net Tangible Assets</b>	<b>44.989</b>
Number of Units on Issue	45.700
<b>NTA Backing Per Unit</b>	<b>0.984</b>
<b>Lonsec Adjusted NTA</b>	
Less Capitalised Costs	-0.997
<b>Net Tangible Assets</b>	<b>43.992</b>
<b>Lonsec Adjusted NTA</b>	<b>\$0.963</b>

## 4. Management

An assessment of Management is another key performance measure and is largely qualitative, focusing on the ownership, operating and reporting structure, property investment policy and selection criteria. Capable and experienced management is vital to the success of the Fund. Previous performance is evaluated, but is not necessarily a guide to future returns.

### 4.1 The Responsible Entity (RE or Manager)

The RE or Manager is LEX Property Management Ltd (LPML) which is owned by The Queensgate Trust, The Bridgewater Trust and Macro Funds Limited.

The company was formed in November 2004 and although it is relatively new to the property funds management industry, the board of directors have extensive experience in managing and investing property throughout Australia.

LPML is also the RE for the **LEX Retail Property Trust**, which raised \$18m in October 2005 to fund the construction of the IKEA Adelaide Store (opened in April 2006). LEX Retail Property Trust has performed well to date, with construction finishing ahead of schedule and \$0.850m under budget, providing investors with a higher Net Tangible Asset Value than forecast and an earlier start to rentals.

The RE has advised that all distributions to date have been met. Forecast distribution for 30 June 2007 is on target to exceed PDS forecast of 9.45% and the RE is projecting net income for the year ended 30 June 2007 to be higher.

### 4.2 LEX Property Management - Board of Directors

#### **Alan W Tribe CPA FCCA** *(Non-Executive Director and Chairman)*

Alan has over 28 years experience in a broad range of commercial roles in Australia and overseas. He is Managing Director of Cebas (IKEA franchisee and LPF's main tenant and current unit-holder) with overall responsibility of retail operations and performance of the business.

He is also an associate of The Queensgate Trust which is 75% shareholder of the LPML.

Alan has extensive experience in property development including strategic acquisition, lease negotiations, design, project management and finance management.

#### **Nicholas C Wyatt, BA (Hons) ACA (UK)** *(Managing Director)*

Nicholas has over 16 years experience in commerce and industry. Prior to joining LPML he worked for Nautronix, a global industrial group as Chief Financial Officer and Company Secretary. Earlier he held a senior group financial controller position with a major listed automotive distributor and finance company in the UK.

More recently he has specialised in acquisitions, property development and corporate finance opportunities. As Managing Director, he has overseen all aspects of LPML's formation and strategic growth to date, including the structuring, debt-funding and capital raising recently completed for LEX Retail Property Trust. He is an associate of The Bridgewater Trust which is a shareholder of the Responsible Entity.

#### **Stephen R Dixon, BBus. CPA** *(Director - Funds Management)*

Steve has over 17 years experience in the funds management industry with roles at Acumen Funds Management and Guardian Funds Management. Steve held the role of Fund Manager with Acumen for 3 years where he assisted with property acquisitions, capital raisings and \$65m investment into the listed property securities market.

As Director – Funds Management, he has a focus on product structuring, capital raising and operational matters. He was a founding shareholder and director of Macro Funds Limited, a shareholder of the Responsible Entity.

#### **Peter M Morrison, CPA** *(Non-Executive Director)*

Peter is a CPA with over 23 years experience in the funds management industry. Joining Armstrong Jones in 1980, he gained experience across all funds management business units including listed and unlisted property trusts, mortgage funds, life insurance, superannuation, retail and wholesale managed investment funds. Following roles at Oakvale Capital Limited and Settlers Lifestyle Limited, he was a founding shareholder and director of Macro Funds Limited, a shareholder of the Responsible Entity.

### 4.3 Investment Style

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LPML has a clear and focused strategy to protect and grow the value of its investment assets. If LPML identifies any quality property assets with strong lease covenants and income streams, consideration will be given to purchasing those assets. LPML will also look for properties with potential for adding value through refurbishment, re-leasing, expansion or redevelopment.

Each opportunity will be assessed on an individual basis and assessed as to the appropriate vehicle into which the property asset will be placed. Assets may be developed or acquired in a separate fund to existing LPML funds.

The Manager will give consideration to assets across all property sectors including but not limited to retail, commercial, office and industrial property. LPML will primarily seek to invest in real property by direct acquisitions or via property funds, but may also undertake a similar development structure to the LEX Property Fund offer.

### 4.4 Property Risk Management

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The property selection strategy includes analysis of economic and property market fundamentals and specific focus asset selection on the characteristics of individual properties.

LPML undertakes a detailed analysis including extensive financial modelling and due diligence in respect of each individual property.

LPML risk management approach is to identify risks, assess the likelihood the risk will arise, assess the impact on property operations if the risk arises and set in place risk prevention measures.

### 4.5 Constitution/Custodian/Compliance

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The **Constitution** sets out the rights and obligations of both unit-holders and the Manager. The Manager has advised Lonsec that there have been no variances or breaches of the Constitution for this Fund or any other fund managed by the RE.

The external **Custodian** is Trust Company Limited. Lonsec has sighted a draft copy of the **Compliance Plan** (dated 31 December 2006). The Manager has advised us that there have been no variances of the Compliance Plan.

The **Compliance Committee** comprises an officer of LPML (Steve Dixon) and two external members Derek Parkin and Bob Jenkins. Both currently hold compliance roles with ASX-listed WA companies. The committee reports to the Board and is responsible for reporting any adverse issues relating to any funds managed by LPML.

## 5. Properties

### 5.1 Ellen Stirling Boulevard, Innaloo (WA)

#### Location / Infrastructure (Good/Excellent)

The property is located on Ellen Stirling Boulevard, Innaloo about 8kms north-west of the Perth CBD. The site is adjacent to the Mitchell Freeway and has frontages to Ellen Stirling Boulevard and Cedric Streets.

A large Westfield Innaloo shopping centre lies on the corner of Ellen Stirling Boulevard and Scarborough Beach Road. The subject site is therefore an extension of the existing commercial/retail precinct of Innaloo. This area also adjoins the Osborne Park industrial area which is a prime industrial location within the Perth metropolitan area.

Surrounding residential suburbs include Innaloo, Doubleview, Scarborough and Woodlands on the western side; Osborne Park and Stirling on the north eastern side.

#### Building Condition/Facilities (Excellent)

The total project will have a lettable area of 29,100m<sup>2</sup>. The purpose built IKEA store will occupy 91%, 26,500m<sup>2</sup> and will be the centrepiece of the site with 1,000 car bays surrounding the complex.

Several free-standing peripheral buildings will be incorporated in the overall development. These buildings will be located along the road frontages and will comprise showroom style developments for smaller retailers, as well as some commercial office space component.

The IKEA retail area of the property will be on two floors, with a further level below the store containing undercover parking. The store will comprise furniture showroom; market hall; warehouse; restaurant; office area; parking and outdoor areas.

The furniture showroom is the major sales area of the IKEA store. This area is located immediately on entering the building and will have an area of approximately 5,000m<sup>2</sup>.

The market hall stocks non-furniture range. This area is on the first level of the building and will be approximately 4,800m<sup>2</sup>.

The self serve / warehouse area is adjacent to the main warehouse. This total area is 7,400m<sup>2</sup>, approximately half of the store's total footprint.

The food services area is an IKEA restaurant located between the furniture showroom and the market hall. It will have an area of 1,500m<sup>2</sup> with a seating capacity of approximately 400.

Construction will comprise generally concrete tilt panel walls, reinforced concrete floors and the showrooms will be air-conditioned and will contain a large number of room sets. The offices will be built to a high quality standard providing reverse cycle air conditioning, carpets.

#### Tenants/Leases (Good-Excellent)

The Fund has entered into a 15 year AAA lease term with IKEA franchisee Cebas Pty Ltd, with three five year options.

The commencing rental will be based on a return on cost. A return of 8.75% of the total development cost is anticipated with the estimate for the IKEA store rent at \$8.367m per annum.

Annual rental increases to CPI with a market review every five years – but with a ratchet clause.

The property will have approximately 2,600m<sup>2</sup> of additional showroom retail and office space available. The Manager will be seeking smaller tenants for the available space which will provide some diversification.

**IKEA** is an international furniture retailing business owned by Stichting INGKA Foundation registered in the Netherlands. This foundation owns Inter IKEA Systems B.V., which operates and franchises the business worldwide. The IKEA business commenced trading in the 1940's and has franchises in 29 countries throughout the world. In 2004 IKEA had a worldwide turnover of €13.57b with over 200 stores in Europe, Russia, North America and Australia.

IKEA commenced trading in Australia in 1975 being one of the first stores the chain opened outside Scandinavia and the first outside Europe. There are three company owned IKEA stores in Australia on the east coast and two stores operated by Cebas in Osborne Park (Perth) and at Adelaide Airport.

The existing Perth IKEA store is operated by Cebas and commenced trading in 1987, operating out of three separate buildings on one site with a total building area of 6,639m<sup>2</sup>. It also operates the new IKEA Adelaide superstore (of approximately 23,500 m<sup>2</sup>) recently developed by LEX Retail Property Trust and opened by Cebas in April 2006. Cebas holds franchise rights for South Australia and Western Australia.

The commencing rental for the new IKEA Perth store is to be based upon a percentage of the total cost of the project. The estimated annual rental for the IKEA store is in the order of \$8.367m – generally based on 8.75% of total cost.

## 6. Information Used in the Review Process

This report has been prepared by Lonsec Property Research (a division of Lonsec Limited) for the Directors of the Responsible Entity.

Lonsec has relied on information supplied by and obtained from discussions with employees of LEX Property Management Limited.

A site inspection of the property and surrounding environs has been undertaken as part of this review conducted in January 2007.

We have reviewed or relied upon the following documents in the course of our research process:-

1. LEX Property Fund – Product Disclosure Statement (January 2007)
2. Knight Frank Valuation Report – Ellen Stirling Boulevard, Innaloo Western Australia (November 2006)
3. LEX Retail Property Trust – Product Disclosure Statement (September 2005)
4. LEX Property Management Limited - Constitution & Compliance Plan
5. Savills Market Up-date Report

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### IMPORTANT NOTICES:

**The following Warning, Disclaimer and Disclosure relate to all material presented in this document and should be read before making any investment decision.**

#### **Analyst Interests:**

The Analyst(s) may hold the product(s) referred to in this document, but Lonsec considers such holdings not to be sufficiently material to compromise the rating or advice. Analyst(s)' holdings may change during the life of this document.

#### **Analyst Certification:**

The Analyst(s) certify that the views expressed in this document accurately reflect their personal, professional opinion about the financial product(s) to which this document refers.

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Any advice is General Advice based on the investment merits of the financial product or issuer alone without taking into account any person's investment objectives, financial situation and particular needs. Before making an investment decision based on such advice, the recipient must either decide whether it is appropriate to his/her investment objectives, financial situation and particular needs or seek specific professional advice. The recipient should consider whether to seek advice on comparable or alternative investments. Offers in relation to the financial product will be made in, or accompanied by a copy of the Product Disclosure Statement ("PDS") and anyone wishing to acquire the financial product will need to complete the application form that accompanies the PDS.

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#### **Disclosure:**

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**Date Prepared: January 2007**

**Analyst: Kevin Prosser**

**Authorised by: Grant Kennaway**