



## ASIC REGULATORY GUIDE 46 ("RG46")

In accordance with ASIC's RG46 released in September 2008, LEX Property Management Limited as the Responsible Entity for LEX Retail Property Trust ("Fund") is required to disclose certain information regarding the Fund which is aimed at improving disclosure to retail investors in unlisted registered property schemes.

Under RG46, there are eight disclosure principles which apply to upfront and ongoing disclosure to investors. The Directors have set out below a commentary on each of the eight disclosure principles which has been prepared for the purposes of keeping investors up to date.

RG46 Principle	Information for Investors
<b>1. Gearing Ratio</b>	<p><b><u>Gearing Ratio</u></b></p> <p>Under RG46, the Responsible Entity is required to disclose a gearing ratio to investors by reference to the Fund's latest financial statements, where:</p> <p>Gearing = Total Interest Bearing Liabilities/Total Assets.</p> <p>The gearing ratio based on the Fund's annual financial report as at 30 June 2011 is calculated as:</p> <p>Gearing = <math>\\$24,145,000/\\$47,866,000 = 50.4\%</math></p> <p>This gearing ratio indicates the extent to which the Fund's assets are funded by interest bearing liabilities and provides an indication to investors of the potential risks the Fund faces in terms of its level of borrowings due to, for example, an increase in the interest rates or a reduction in property values. This potential risk should be weighed up by investors against the Fund's rate of return.</p> <p><b><u>Loan to Value Ratio ("LVR")</u></b></p> <p>In addition to the gearing ratio above, the Fund also discloses a Loan to Value ratio ("LVR") periodically to investors, usually as part of the Quarterly Update newsletters. This LVR is defined within the National Australia Bank's ("NAB") debt covenant reporting requirements.</p> <p>The Fund reports this LVR calculation to NAB as part of the Fund's ongoing covenant compliance process on a quarterly basis and the following represents the Fund's latest LVR calculation based on unaudited managed accounts as at 30 September 2011:</p> <p>Actual LVR = Outstanding Debt/Property Valuation = <math>\\$24,400,000/\\$47,000,000 = 51.9\%</math></p> <p>The NAB debt covenant stipulates that the LVR at all times during the period until the Termination Date of the Facility shall not be greater than <b>60%</b>.</p> <p><b><u>Off Balance Sheet Financing</u></b></p> <p>Investors should note that the Fund has no off balance sheet financing and accordingly the summary above includes all of the Fund's financing liabilities.</p>

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<p><b>2. Interest Cover</b></p>	<p>Under RG46, the Responsible Entity is required to disclose an interest cover calculation to investors to give an indication of the Fund's ability to meet interest payments from earnings.</p> <p>Interest Cover ("IC") is disclosed on the basis of the Fund's latest financial statements and is calculated as:</p> <p>IC = (EBITDA – unrealised gains + unrealised losses)/Interest expense</p> <p>The IC ratio based on the Fund's annual financial report for the period ended 30 June 2011 is calculated as:</p> <p>IC = <math>(\\$4,270,000 - \\$0) / \\$1,792,000 = 2.38 \text{ times}</math></p> <p>The Fund's IC ratio measures the ability of the Fund to service interest on debt from its earnings. The IC ratio can be used by investors to assess the Fund's financial health and sustainability and to assess the risks associated with its level of borrowing. It is also useful for investors in order to compare the Fund's relative risks and returns to investments in other unlisted property schemes.</p> <p>In addition to the IC ratio above, the Fund also reports a quarterly interest cover calculation to NAB ("NAB IC") as part of the Fund's ongoing debt covenant compliance process. The following represents the Fund's NAB IC calculation based on unaudited management accounts for the quarter ended 30 September 2011:</p> <p>NAB IC = Net Rental Income/Gross Interest Expense = <math>\\$1,236,300 / \\$437,600 = 2.83 \text{ times}</math></p> <p>The NAB debt covenant stipulates that the NAB IC at the end of each quarter until the Termination Date of the Facility shall not be less than <b>1.90 times</b>.</p> <p>In the event that the Fund breaches this financial ratio, the Fund has 30 days from the date of that breach within which to become compliant with the financial ratio ("Remedy Period"). The Fund is only entitled to one Remedy Period in each 12 month period.</p>
<p><b>3. Scheme Borrowing</b></p>	<p><b><u>Borrowings</u></b></p> <p>The Fund previously had access to bank bill lines totalling \$24,600,000 through facility agreements with NAB ("Original NAB Facility"). \$24,400,000 of this Original NAB Facility was drawn by the Fund.</p> <p>The Original NAB Facility expired on 18 April 2011 and the amount drawn was repaid in full from a drawdown of a new debt facility with NAB ("Refinanced NAB Facility").</p> <p>The purpose of the Refinanced NAB Facility was to refinance the Original NAB Facility and the Refinanced NAB Facility is for a term which is due to expire on 31 December 2013. The Fund is not required to repay any of the principal of the Refinanced NAB Facility prior to its expiry. Upon expiry of the Refinanced NAB Facility, the Fund is</p>

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	<p>required to repay the total outstanding, being \$24,400,000 less any repayments of the principal amount made by the Fund prior to expiry.</p> <p>The Refinanced NAB Facility is secured by the following:</p> <ul style="list-style-type: none"> <li>▪ Registered Mortgage Debenture over the assets and undertakings of LEX Property Management Limited ATF LEX Retail Property Trust;</li> <li>▪ Mortgage by way of sub-demise over the leasehold site; and</li> <li>▪ Bank Guarantees from Cebas Pty Ltd equal to six months' ground rent and six months' property rent.</li> </ul> <p>Investors should note that amounts owing to the Fund's financier (NAB) and other creditors of the Fund rank before an investor's interest in the Fund.</p> <p><b><u>Financing Risks</u></b></p> <p>Under the terms of the Fund's Refinanced NAB Facility, the Fund must continue to maintain a loan to valuation ratio of not greater than 60%, and an interest coverage ratio of greater than 1.90 times.</p> <p>As at 30 September 2011, the Fund is in full compliance with all terms and covenants associated with this facility. No breaches have been reported to date.</p>
<p><b>4. Portfolio Diversification</b></p>	<p>As set out in the Product Disclosure Statement ("PDS") issued by the Fund in October 2005, the Fund's property comprises a leasehold interest in a site on which the new IKEA Adelaide was constructed. This store is leased to the IKEA franchisee (Cebas Pty Ltd) under long term lease arrangements.</p> <p>The Fund has no other significant assets. Whilst the Fund was set up to complete the development of this IKEA Adelaide store, the Responsible Entity will consider other quality property assets with a view to expanding the size of the Fund in the future. If the Responsible Entity identifies any quality property assets similar to the IKEA Adelaide store with strong lease covenants and income streams, consideration will be given to purchasing those assets and this will require additional funding to be raised in the form of both debt and equity. Should the Fund acquire additional property assets the Fund's exposure to the current property will be reduced.</p>
<p><b>5. Valuation Policy</b></p>	<p>Investment properties are carried at fair value.</p> <p>Fair value is determined by a full independent valuation of property investments which are obtained at intervals of not more than three years. The Fund uses only valuers who are registered under the appropriate state registration schemes and all valuations comply with all relevant industry standards and codes.</p> <p>Notwithstanding this, the Directors of the Responsible Entity assess the carrying value at each reporting period to ensure carrying values do not differ materially from fair values. When carrying value differs from fair values, those assets are adjusted to their fair value.</p> <p>In determining the carrying value of the property at the last reporting date (30 June 2011), the Directors of the Responsible Entity consulted with the Fund's advisers, had</p>

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	<p>regard to current property market conditions, capitalisation rates, rental returns and the global financial market generally.</p> <p>The Directors assessed the carrying value of the investment property at 30 June 2011 to be \$47,000,000 which remained unchanged from the fair value of the investment property at 30 June 2010.</p>
<p><b>6. Related Party Transactions</b></p>	<p>The Fund monitors and discloses to investors all transactions entered into with related parties taking into account the definition of related parties in the Corporations Act and accounting standard AASB 124 <i>Related Party Transactions</i>.</p> <p>The nature of the Fund's relationships with related parties was disclosed in detail in the Fund's PDS and, at each reporting date, the total amount of transactions which the Fund has entered into with related parties for the relevant financial year are disclosed in the Fund's Annual Financial Statements which are independently audited and lodged with ASIC.</p> <p>Under the terms of the Fund's Compliance Plan, the Responsible Entity has a duty to manage any potential conflict of interest in relation to related party transactions. No conflicts of interest have been reported to date as part of the ongoing compliance processes of the Fund.</p>
<p><b>7. Distribution Practices</b></p>	<p>As set out in the Fund's PDS, the distribution policy of the Fund is such that the Responsible Entity intends to pay distributions to unitholders on a quarterly basis after debt servicing commitments and Fund expenses have been met.</p> <p>It is anticipated that distributions will be paid to unitholders after three weeks from the end of each quarter and no later than eight weeks after the end of each quarter. Under the terms of the Fund's Constitution, the Responsible Entity has the discretion to distribute both capital and income of the Fund.</p> <p><b>Income distributions</b> Income distributions represent distributions from the profit attributable to unitholders of the Fund.</p> <p><b>Capital distributions</b> Capital distributions represent the amount distributed by the Fund in excess of the taxable income. The only capital distributions which have been made by the Fund previously and which may be made by the Fund in the future relate to amortisation arising from establishment fees associated with the Fund's debt facilities.</p> <p>The Fund's distribution for the quarter ended 30 September 2011 was sourced solely from realised cash income of the Fund.</p>
<p><b>8. Withdrawal Rights</b></p>	<p>Investors presently have no withdrawal rights in respect of their investment in the Fund.</p> <p>As outlined in the PDS, the units in the Fund should be considered to be a medium to long term investment and illiquid, therefore there is no market for trade in the units and there are no formal redemption, withdrawal or buy-back facilities available to unitholders.</p>

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	It may be possible for a unitholder to sell units through a private treaty arrangement with a willing buyer. However this would be a private arrangement between the seller and any potential buyer identified.

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Last Updated: 4<sup>th</sup> November 2011

**LEX Property Management Limited as Responsible Entity for LEX Retail Property Trust**