

**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 Property Fund (“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
1. Gearing Ratio	<p><u>Gearing Ratio</u></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 = $\\$65,725,000/\\$121,657,000 = 54.0\%$</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><u>Loan to Value Ratio (“LVR”)</u></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 management accounts as at 31 December 2011:</p> <p>Actual LVR = Outstanding Debt/Property Valuation = $\\$66,300,000/\\$120,000,000 = 55.3\%$</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 60%.</p>

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	<p><u>Off Balance Sheet Financing</u></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>
<p>2. Interest Cover</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>$IC = (EBITDA - \text{unrealised gains} + \text{unrealised losses}) / \text{Interest expense}$</p> <p>The IC ratio based on the Fund's annual financial report for the year ended 30 June 2011 is calculated as:</p> <p>$IC = (\\$9,027,000 - \\$0) / \\$5,090,000 = 1.77 \text{ times}$</p> <p>The Fund's IC ratio measures the ability of the Fund to service interest on debt from its earnings. The IC ratio can be used by investors to assess the Fund's financial health and sustainability and to assess the risks associated with its level of borrowing. It is also useful for investors in order to compare the Fund's relative risks and returns to investments in other unlisted property schemes.</p> <p>In addition to the IC ratio above, the Fund also reports a quarterly interest cover calculation to NAB ("NAB IC") as part of the Fund's ongoing debt covenant compliance process. The following represents the Fund's NAB IC calculation based on unaudited management accounts for the quarter ended 31 December 2011:</p> <p>$NAB IC = \text{Net Rental Income} / \text{Gross Interest Expense} = \\$5,049,200 / \\$1,493,000 = 2.03 \text{ times}$</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 1.50 times.</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>3. Scheme Borrowing</p>	<p><u>Borrowings</u></p> <p>The Fund has access to bank bill lines totalling \$66,300,000 through facility agreements with NAB ("NAB Facility"). This facility amount was fully drawn as at 30 September 2011.</p> <p>The NAB Facility is a bill facility to refinance the original construction facility after practical completion of the property developed by the Fund and to assist the Fund with long term ownership of the property. It is in place for a term of five years following practical completion and is due to expire on 4 February 2013. The Fund is</p>

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	<p>not required to repay any of the principal of the NAB Facility prior to its expiry. Upon expiry of the NAB Facility the Fund is required to repay the total outstanding, being \$66,300,000 less any repayments of the principal amount made by the Fund prior to expiry.</p> <p>The NAB Facility is secured by the following:</p> <ul style="list-style-type: none"> ▪ A registered mortgage over the property; and ▪ A fixed and floating charge over the present and future property, assets and undertakings of the Fund. <p><u>Financing Risks</u></p> <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>As stated above, the Fund must maintain a loan to valuation ratio of not greater than 60%, and an interest coverage ratio of greater than 1.50 times. The Fund must also enter into and maintain hedging transactions with NAB to hedge its interest exposure of at least 75% of the outstanding amount at any time.</p> <p>At 31 December 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>4. Portfolio Diversification</p>	<p>As set out in the Product Disclosure Statement (“PDS”) issued by the Fund in January 2007, the Fund’s property comprises a freehold interest in a predominantly retail centre located in Perth, Western Australia. The centrepiece of the development is the IKEA Perth store leased to the IKEA franchisee (Cebas Pty Ltd) and the property also includes four buildings adjacent to the IKEA store which provide additional showroom retail and office space.</p> <p>The IKEA Perth store (27,077.7 sqm) and the four perimeter buildings (totalling 2,921.8 sqm) are all currently fully leased. The initial term of the IKEA Store lease is 15 years to February 2023 and this lease comprises approximately 90% of the property portfolio by reference to net lettable area and income. The average lease expiry of the perimeter tenancies is 1.8 years at 31 December 2011.</p> <p>The Fund has no other significant assets. Whilst the Fund was set up to complete the development of this IKEA Perth centre, 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, 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.</p> <p>The Responsible Entity will give consideration to assets across all property sectors including but not limited to retail, commercial, office and industrial property. The Fund will primarily invest in real property by direct acquisitions or via property funds, but may also undertake similar development structures to the original offer. Should the Fund acquire additional property assets the Fund’s exposure to the current property will be reduced.</p>

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<p>5. Valuation Policy</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 engaged a registered valuer to produce an independent valuation of the Fund's property investments as at that date. The independent valuation of the property was \$120.0 million, which was unchanged since 30 June 2010.</p>
<p>6. Related Party Transactions</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>7. Distribution Practices</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 investor 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 investors 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>Income distributions</p> <p>Income distributions represent distributions from the profit attributable to investors of the Fund.</p> <p>Capital distributions</p> <p>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>

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	<p>The Fund's distribution for the quarter ended 31 December 2011 was sourced solely from realised cash income of the Fund.</p>
<p>8. Withdrawal Rights</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 investors.</p> <p>It may be possible for an investor 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.</p>

Original Dated: 12th January 2009

Last Updated: 20th January 2012

LEX Property Management Limited as Responsible Entity for LEX Property Fund