

HEATHLEY KEYSTONE PROPERTY FUND NO. 28
99 Mount Street, North Sydney, NSW

DISCLOSURE PRINCIPLES

UPDATED AS AT 31 MARCH 2011

The Australian Securities and Investments Commission (ASIC) has developed eight disclosure principles for unlisted property schemes to assist investors to understand the risks.

These disclosure principles are set out in *Regulatory Guide 46 Unlisted property schemes – improving disclosure for retail investors*, which is available on ASIC’s website at www.asic.gov.au. The table below summarises the disclosure principle information.

This table will be updated every six months. These updates will be available to investors at www.heathley.com.au.

If there is a material change to the Disclosure Principle Information, we will notify investors by sending a Significant Event Notification by notice on the website at www.heathley.com.au.

PRINCIPLE 1 - GEARING RATIO
<p><i>RISK</i></p> <p><i>The gearing ratio gives an indication of the potential risk a scheme faces in terms of its level of borrowings due to, for example, an increase in interest rates or a reduction in property values. A higher gearing ratio means a higher reliance on external liabilities to fund assets.</i></p>
<p>The gearing ratio of the Fund is 60.1%.</p> <p>The ratio above is based on the 31 December 2010 financial statements which are the most recently audited financial statements of the Fund.</p>
PRINCIPLE 2 – INTEREST COVER
<p><i>RISK</i></p> <p><i>Interest cover refers to the ability of a scheme to service interest expense on debt from earnings. The higher the ratio, the better the ability of a scheme to meet its interest payments.</i></p>
<p>The interest cover ratio is 1.51 times.</p> <p>This means that the Fund is able to meet its interest commitments based on the 31 December 2010 financial statements.</p>
PRINCIPLE 3 – SCHEME BORROWING
<p><i>RISK</i></p> <p><i>Borrowing maturity and credit facility expiry profiles are important information where a scheme borrows to invest. If the scheme has a significant proportion of its borrowings that mature within a short timeframe, it will need to refinance. There is a risk that the refinancing will be on less favourable terms or not available at all. If the scheme cannot refinance, it may need to sell assets on a forced sale basis with the risk that it may realise a capital loss.</i></p> <p><i>Breach of a loan covenant may result in penalties being applied, or the loan becoming repayable immediately. Termination of critical financing could also mean the scheme is no longer viable.</i></p> <p><i>Relatively short-term borrowings and credit facilities with short expiry dates are a risk factor if they are used to fund assets intended to be long term.</i></p>
<p>The borrowings of the Fund are currently \$28,575,000 and this debt facility matures on 16 June 2012.</p> <p>Amounts owing to lenders and other creditors rank ahead of investors’ interests.</p> <p>There is no current breach of any loan covenant with the current level of Fund borrowings.</p>

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PRINCIPLE 4 – PORTFOLIO DIVERSIFICATION

RISK

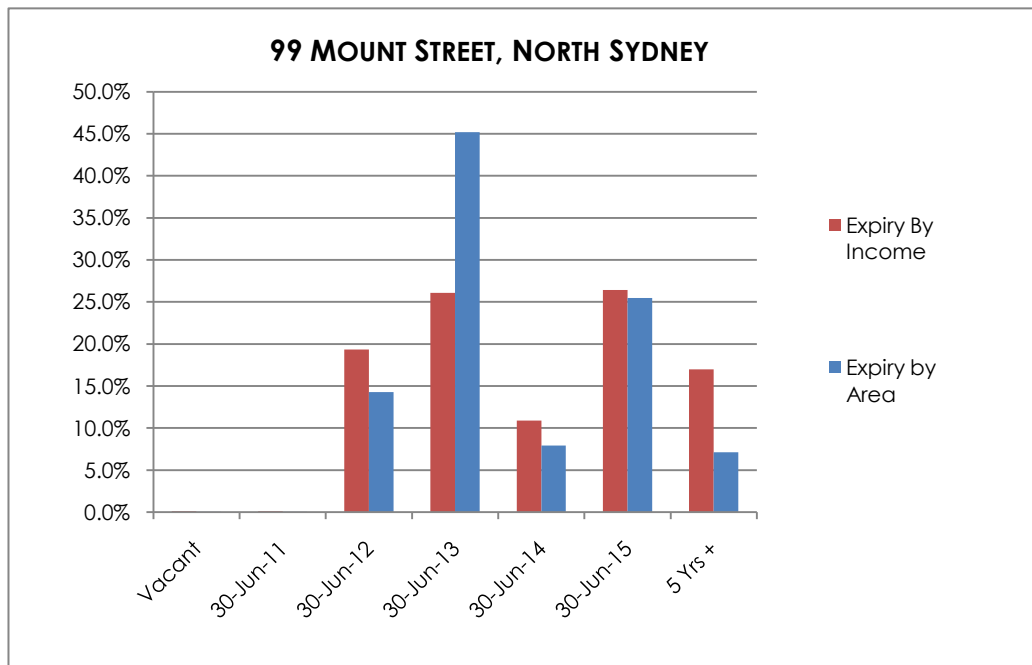
Generally, the more diversified a portfolio is, the lower the risk that an adverse event affecting one property or one lease will put the overall portfolio at risk.

As a single property Fund there is limited diversification by geography and sector. Diversification is achieved through the tenancy mix.

There are 24 tenants in the building ranging in area from retail tenancies of 25sqm to the major tenant, Raffles KVB which occupies 5,400sqm (51% by income).

The other major tenants are Aldi (7% by income) and Commonwealth Bank of Australia (6% by income).

The lease expiry profile of the building provides a secure long term cash flow with more than 66% of the building (by income) expiring after June 2014.



The property was independently valued in August 2009 at \$46,500,000 by CB Richard Ellis. The capitalisation rate adopted was 8.85% on a market basis.

The Fund does not intend to make any further acquisitions.

PRINCIPLE 5 – VALUATION POLICY

RISK

Investors should be able to understand and compare how managers value their Fund's real property assets.

The Manager's valuation policy is to have the property independently valued each three years by a suitably qualified independent valuer registered with the Australian Property Institute.

The last independent valuation was completed in August 2009. An updated independent valuation will be sought in June 2011. It is the policy of the Responsible Entity to vary the valuer from time to time.

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PRINCIPLE 6 – RELATED PARTY TRANSACTIONS

RISK

Related party transactions carry a risk that they could be assessed and monitored less rigorously than arm's length third party transactions. A significant number or value of related party transactions increases the risk of potential conflicts of interest.

The Manager of the Fund holds 56,600 units in the Fund.

The Manager of the Fund is the Responsible Entity for another Fund which holds 2,782,740 units in the Fund.

Directors of the Manager of the Fund hold 267,123 units in the Fund.

The total number of units in the Fund is 19,600,000 and the same terms and conditions are applicable to all Unitholders.

The Manager of the Fund and associated parties are paid a fee to provide investment management and property management services to the Fund in the normal course of business which are documented and approved. The Manager of the Fund is an Australian Financial Services Licence holder.

The accounts of the Fund are independently audited for the six months to 31 December and for the twelve months to 30 June each year. The Compliance Plan of the Fund is independently audited each year.

Related party transactions and conflicts of interest are monitored by the Compliance Officer.

Two of the four Directors on the Board of the Manager of the Fund are independent of the Company.

PRINCIPLE 7 – DISTRIBUTION PRACTICES

RISK

Some property schemes make distributions partly or wholly from unrealised revaluation gains and/or capital rather than solely from realised income. This may not be commercially sustainable over the longer term, particularly where property values are not increasing.

It is the Manager's practice to distribute realised income on a quarterly basis.

PRINCIPLE 8 – WITHDRAWAL RIGHTS

RISK

Unlisted property schemes often have limited or no withdrawal rights.

There are no withdrawal rights applicable to the Fund.

The life of the Fund is 10 years from 15 February 2006. However, the property may be sold, the Fund wound up and the proceeds distributed to investors prior to the maturity of this term.