

# HEATHLEY DIVERSIFIED PROPERTY FUND

## 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 and decide whether the investment is suitable for them.

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](http://www.asic.gov.au).

The table below summarises the disclosure principles information. This table will be updated at least every six months.

If there is a material change to the disclosure principles information, we will notify investors by sending a Significant Event Notification.

### PRINCIPLE 1 - GEARING RATIO

#### RISK

*The gearing ratio gives an indication of the potential risks 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.*

The gearing ratio of the Stapled Fund is 29.2%. This means for every \$1 of assets in the Stapled Fund, 29.2 cents are liabilities (primarily borrowings).

The ratio above is based on the 31 December 2010 financial statements which are the most recently audited financial statements of the Stapled Fund.

### PRINCIPLE 2 – INTEREST COVER

#### RISK

*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.*

The interest cover ratio is 2.75 times. This means that there is \$2.75 of earnings to service every \$1.00 of interest on debt.

The ratio above is based on the 31 December 2010 financial statements which are the most recently audited financial statements of the Stapled Fund.

### PRINCIPLE 3 – SCHEME BORROWING

#### RISK

*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.*

*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.*

*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.*

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#### PRINCIPLE 3 – SCHEME BORROWING (CONTINUED)

Borrowings of the Stapled Fund are due to be refinanced by the following dates:

\$13,896,767	on 24 June 2011, and
\$23,000,000	on 1 July 2013.

All of the above facilities are fully drawn.

The Manager has exercised its power to borrow for the purpose of acquiring properties for the Stapled Fund and borrowings are well within the Manager's gearing ratio policy.

Borrowings are secured by a registered first mortgage over the properties and a first ranking fixed and floating charge over the assets of the Stapled Fund. These securities rank ahead of investors' equity.

There is no current or expected risk of breach of any loan covenant with the current level of borrowing by the Stapled Fund.

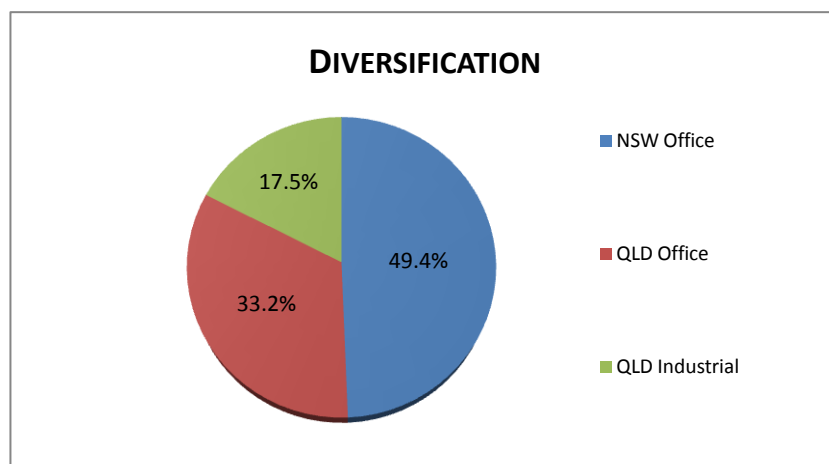
#### PRINCIPLE 4 – PORTFOLIO DIVERSIFICATION

##### 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.*

The Fund is invested directly in commercial and industrial properties in New South Wales and Queensland and indirectly in one additional commercial property in New South Wales.

The Fund intends to acquire additional commercial and industrial assets from time to time to increase the diversification.



Diversification is further achieved through a low reliance on any one single tenant. The Fund has over 140 tenants, the single largest tenant represents approximately 11% of Fund income.

The top five tenants of the Fund are:

TENANT	% OF INCOME
Hatch Associates	11.2
CEVA Logistics	7.8
Wesfarmers Insurance (OAMPS)	5.9
Andrews Airport Parking	3.7
Golding Contractors	3.1

The weighted average lease expiry as at 31 March 2011 is 2.7 years by area and 3.1 years by income.

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#### PRINCIPLE 4 – PORTFOLIO DIVERSIFICATION (CONTINUED)

The following table outlines the most recent valuations and capitalisation rates for the Fund.

PROPERTY	VALUE \$	DATE OF VALUATION	CAP RATE %	VALUER
13 Spring Street, Chatswood, NSW	13,300,000	31-Dec-2010	9.50	CBRE Pty Limited
152 Wharf Street, Brisbane, Qld	17,500,000	1-Apr-2010	8.75	CBRE Pty Limited
8 Gardner Close, Milton, Qld	21,000,000	31-Dec-2010	9.00	CBRE Pty Limited
494 Nudgee Road, Hendra, Qld	7,700,000	1-Apr-2010	8.75	CBRE Pty Limited
67 Bellrick Street, Acacia Ridge, Qld	12,600,000	1-Apr-2010	9.00	CBRE Pty Limited
99 Mount Street, North Sydney, NSW	6,603,000*	31-Aug-2009	8.85	CBRE Pty Limited
56 Clarence St, Sydney, NSW	39,500,000	1-Jun-2010	7.70	Colliers International

\*Represents HDPF's 14.2% share in HKPF No. 28

#### PRINCIPLE 5 – VALUATION POLICY

##### RISK

*Investors should be able to understand and compare how managers value their fund's real property assets. This will help investors assess the reliability of the valuations. Generally, the more reliable a valuation, the more likely the asset will return that amount when it is sold.*

The Manager's valuation policy is to have the properties valued each financial year, either by way of an independent valuation or directors' valuations when market conditions are stable.

Independent valuations are to be undertaken by a certified Practising Valuer registered with the Australian Property Institute.

It is also the policy of the Manager to appoint different valuers periodically to complete the independent valuations to further ensure transparency.

#### 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 holds 1,422 units in the Stapled Fund and is subject to the same conditions applicable to all Unitholders. The Stapled Fund also holds 2,782,740 units in *Heathley Keystone Property Fund No. 28* which has the same Manager.

Two Directors and the Company Secretary of the Manager hold a total of 797,028 units in the Stapled Fund.

The Manager and associated parties are paid a fee to provide investment management and property management services to the Fund in the normal course of business.

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

The Compliance Plans of the Fund which include related party and conflict issues are independently audited each year.

Policies and procedures are in place to mitigate the risk of any conflict of interest resulting from a related party transaction. The Manager's Compliance Officer monitors all related party transactions and any such transaction is reviewed by the Board.

Two of the four Directors on the Board of the Responsible Entity are independent of the Manager.

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#### 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 only distribute realised income. Distributions are made on a quarterly basis.

#### PRINCIPLE 8 – WITHDRAWAL RIGHTS

##### *RISK*

*Unlisted property schemes often have limited or no withdrawal rights. This means they are usually difficult to exit.*

Whilst the *Heathley Diversified Property Fund* should not be considered a liquid investment, investors in the Fund are able to exercise withdrawal rights through quarterly Withdrawal Offers made by the Manager.

Approximately 25% of the Liquid Reserves of the Fund will be made available during Withdrawal Offer periods. The amount of Liquid Reserves is intended to be approximately 10% of the Net Asset Value of the Fund. The Manager reserves the right to increase or decrease the amount of Liquid Reserves if it considers it to be in the interest of Unitholders.

Withdrawal Offers will be open for no less than 21 days per quarter and the Manager will satisfy withdrawal requests within 21 days after the close of the Offer.

Further details in relation to Withdrawal Offers including the dates that the Offers are open are provided in the Withdrawal Offer Information document that can be downloaded from [www.heathley.com.au](http://www.heathley.com.au).