

Regulatory Guide 46 Disclosure Principles – What are they?

This Enhanced Disclosure document is issued by Domaine Property Funds Limited (DPFL) as the Responsible Entity of Domaine Land Fund – Muswellbrook Project (the Scheme or Fund) pursuant to Australian Securities and Investment Commission (ASIC) Regulatory Guide 46 (RG 46): *‘Unlisted property schemes – improving disclosure for retail investors’*. These disclosures can help retail investors understand the inherent investment risks and decide whether these investments are suitable for them.

The Scheme, through its Responsible Entity, is committed to providing its investors with upfront, timely and balanced disclosure of all material matters in accordance with, but not limited to, the principles outlined in RG 46. Any material changes to the key information provided within this Enhanced Disclosure document will be updated at www.apgf.com.au as soon as possible, at least every six months, in addition to being contained in the Annual Reports.

Investors should note that any previous disclosures made by the Scheme of these or similar disclosures were based on market standard practices at that time which may differ from the requirements of RG 46. Investors may reference the Scheme’s publicly released information available at www.apgf.com.au.

Information relative to the Scheme based on ASIC’s eight disclosure principles is contained within this document for the reporting period ended 30 June 2010. This document outlines explanations for each of the eight disclosure principles as defined by ASIC and the Scheme’s compliance with these disclosure principles.

Disclosure Principle 1: Gearing ratio

A scheme’s gearing ratio indicates the extent to which a scheme’s assets are funded by external liabilities.

RG 46 defines gearing ratio using the formula:

“Total interest bearing liabilities divided by Total assets.”

ASIC’s Description

The risk feature of this principle states *“a higher gearing ratio means a higher reliance on external liabilities (primarily borrowings) to fund assets. This exposes the Scheme to increased funding costs if interest rates rise. A highly geared Scheme has a lower asset buffer to rely upon in times of financial stress”*.

Scheme’s Compliance with Disclosure Principles

The Scheme has no external bank borrowing, however Domaine Holdings Pty Ltd, a wholly-owned subsidiary of Mirvac Limited, holds a mortgage over the property to secure a \$1,626,857 loan.

On the basis of the Mirvac Limited / Domaine Holdings Pty Ltd loan the Scheme’s gearing ratio is approximately 39% as measured against APGF’s assessed project net realisable value.

The Scheme does not conduct independent regular valuations of the property.

Disclosure Principle 2: Interest cover

Information on a scheme’s interest cover indicates the scheme’s ability to meet interest payments from earnings.

RG 46 defines interest cover ratio using the formula:

“EBITDA (earnings before interest, tax, depreciation and amortisation) minus unrealised gains plus unrealised losses, divided by interest expense.”

ASIC's Description

The risk feature of this principle states *“a property Scheme's interest cover is a key indicator of its financial health. The lower the interest cover, the higher the risk that the Scheme will not be able to meet its interest payments. A Scheme with a low interest cover only needs a small reduction in earnings (or a small increase in interest rates or other expenses) to be unable to meet its interest payments”*.

Scheme's Compliance with Disclosure Principles

Disclosure Principle 2 does not apply to the Domaine Land Fund – Muswellbrook Project due to it being a development project.

The Scheme has no external bank borrowings, however Domaine Holdings Pty Ltd, a wholly-owned subsidiary of Mirvac Limited, holds a mortgage over the property to secure liabilities amounting to \$1,626,857.

The Scheme is not required to meet periodic interest payments on this liability. Rather, interest is capitalised (accumulated) and will be repaid from land sale proceeds. Interest on the loan accrues at 7.0% above the Bank Bill Rate.

Disclosure Principle 3: Scheme borrowing

This principle requires information on the Scheme's borrowing maturity and credit facility expiry and any associated risks. It is also important that investors are kept informed and updated with information they would reasonably require on breaches of loan covenants.

ASIC's Description

The risk feature of this principle states *“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 held long-term. 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 than favourable terms or not available at all. If a 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. This means that the Scheme may need to refinance on less favourable terms or sell assets. Termination of critical financing could also mean the Scheme is no longer viable”*.

Scheme's Compliance with Disclosure Principles

The Scheme has no external bank borrowings, however Domaine Holdings Pty Ltd, a wholly-owned subsidiary of Mirvac Limited, holds a mortgage over the property to secure liabilities owed by the Scheme to Mirvac amounting to \$1,626,857 which expires in March 2011.

Disclosure Principle 4: Portfolio diversification

This information addresses the Scheme's investment practices and portfolio risk.

ASIC's description

The risk feature of this principle states *“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”*.

ASIC's description of this principle provides that *“diversification can be achieved across a range of measures such as geographical location, number of properties, asset type, lease maturities, number of tenants etc. Generally, the greater the diversity, the lower the risk”*.

Scheme's Compliance with Disclosure Principles

Disclosure Principle 4 does not relate to the Domaine Land Fund – Muswellbrook Project, which is a single development project.

Disclosure Principle 5: Valuation policy

Key aspects of the Scheme's valuation policy for real property assets should be disclosed so that investors can assess the reliability of the valuations.

ASIC's Description

The risk feature of this principle states *"investing in a property Scheme exposes investors to movements in the value of the Scheme's assets. Investors therefore need information to assess the reliability of valuations. The more reliable a valuation, the more likely the asset will return that amount when it is sold. However, any forced sale may still result in a shortfall compared to the valuation"*.

Scheme's Compliance with Disclosure Principles

The land subdivision is classified as Inventory by the Scheme and in accordance with Australian Accounting Standards (AASB 102 Inventories) is carried at cost. Accordingly, it is not revalued on a regular basis.

The property's carrying value on the Scheme's books of account as at 30 June 2010 is \$2,746,000; however this may not necessarily reflect its market value or net realisable value.

Disclosure Principle 6: Related party transactions

Investors need to be able to assess the Responsible Entity's approach to related party transactions.

ASIC's Description

The risk feature of this principle states *"a conflict of interest may arise when property Schemes invest in, make loans or provide guarantees to related parties"*.

ASIC's description of this principle provides that *"related party transactions carry a risk that they could be assessed and monitored less rigorously than arm's length third party transactions. Responsible Entities who enter into transactions with related parties should disclose their approach to these transactions"*.

Scheme's Compliance with Disclosure Principles

As at 30 June 2010, the Scheme does not lend, invest in or provide any other form of financial accommodation to DPFL or its associates.

Except for the management associated fees paid / payable to DPFL as Responsible Entity of the Scheme as disclosed in the Product Disclosure Statement, there are no other related party transactions for the period ended 30 June 2010.

DPFL maintains a Register of Related Party Transactions and a Potential and Actual Conflicts of Interest Register which records and details all of the Scheme's dealings with related parties and potential and actual conflicts of interest. These are constantly monitored by DPFL and its independent Compliance Committee to ensure that all related party transactions are on commercial arm's length terms and all potential and actual conflicts of interest are dealt with and disclosed to ensure that investors are not disadvantaged.

Disclosure Principle 7: Distribution practices

Information on the Scheme's distribution practices helps investors assess the sources of the distributions and be informed about the sustainability of distributions from sources other than realised income.

ASIC's Description

The risk feature of this principle states *“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”*.

Scheme's Compliance with Disclosure Principles

Distributions will be made upon completion of the Project, or earlier if the cashflow permits.

Disclosure Principle 8: Withdrawal rights

If a scheme gives investors withdrawal rights, these rights should be clearly explained.

ASIC's Description

ASIC's description of the risk feature of this principle states *“unlisted property Schemes often have limited or no withdrawal rights. This means they are usually difficult to exit”*.

Scheme's Compliance with Disclosure Principles

There are no withdrawal rights for investors pending completion or sale of the project.

Disclaimer

The information is provided without taking into consideration your objectives, financial situation or needs and is not intended as financial product advice or a recommendation. You should obtain independent financial advice before making any investment decision. Past performance is not indicative of future performance.

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