

This is not an asset of the Fund

MELBOURNE PROPERTY SYNDICATE  
(ARSN 101 809 269)

MELBOURNE UNIT TRUST  
(ARSN 101 809 401)

This Enhanced Disclosure document provides  
Information Pursuant to ASIC's Regulatory Guide  
46 Disclosure Principles

Information contained herein is based on  
financial statements as at 30 June 2010



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## Regulatory Guide 46 Disclosure Principles – What are they?

This Enhanced Disclosure document is issued by APGF Management Limited (APGFM) as the Responsible Entity of the Melbourne Property Syndicate and the Melbourne Unit Trust 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.

Throughout this document, 'Scheme' refers to the Melbourne Property Syndicate and 'Trust' refers to the Melbourne Unit Trust.

The Scheme and the Trust is a dual structure scheme. Some investors invest through the Trust and the Trust then invests with other investors in the Scheme. The Scheme holds the real property directly on behalf of Syndicate investors and indirectly on behalf of Trust investors. As the only asset of the Trust is its investment in the Syndicate, the Disclosure Principles 1-5 and 7 are not directly applicable to investors in the Trust. However, adopting an investment look-through approach, the disclosure principles referred to above are indirectly relevant to Trust investors.

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](http://www.apgf.com.au) as soon as possible, at least every 6 months, as well as 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](http://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's stated investment strategy utilises gearing, where practical, to maximise the potential returns to shareholders and to leverage the Scheme's assets appropriately dependent on market conditions. Direct property has traditionally supported higher levels of gearing than other investment classes based on the matching of long-term rental income with interest costs.

Gearing covenants generally refer to the maximum permissible level of gearing as measured against an asset's value, usually called a loan to value ratio (LVR). Each lender imposes its own maximum LVR. These are important, because if an LVR covenant is breached, then this could lead the lender to take steps under its security to recover the loan.

As at 30 June 2010, the Scheme's gearing ratio as reportable to the bank using independent asset valuations is approximately 52.9%. A 52.9% gearing means that the properties would have to decline in value by \$1,375,795 before its loan covenant is breached.

Lender	Bank Gearing Covenant	Actual Gearing Ratio		
		Book Value 30 June 2010*	Per bank accepted valuation	RG 46 Definition
St George Bank	60%	52.9%	52.9%	51.3%

\* Please refer to Disclosure Principle 5 for Independent Valuations as at 30 June 2010.

The overall level of borrowing by the Scheme will vary over time depending on the underlying property's value and associated debt level at the time the ratio is measured.

As the Trust has no direct borrowings, Disclosure Principle 1 does not apply to the Trust. However, it is indirectly affected as the Trust invests in the Scheme.

## 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

The Responsible Entity monitors the Scheme's interest cover ratio (ICR) on a regular basis to ensure its compliance with bank loan covenants and as an indicator of the Scheme's overall financial performance.

RG 46 prescribes that the ICR presented in this Enhanced Disclosure document must be calculated based on the latest audited / reviewed accounts. The latest audited / reviewed accounts are for the reporting period to 30 June 2010.

The Scheme's ICR for the twelve months to 30 June 2010 is approximately 2.3 times. The Scheme must maintain an interest cover of not less than 1.6 times under its bank loan covenant (which is measured on a 12-month rolling basis and may be calculated differently to the RG 46 definition).

As the Trust has no direct borrowings, Disclosure Principle 2 does not apply to the Trust. However, it is indirectly affected as the Trust invests in the Scheme.

## 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's total borrowing as at 30 June 2010 is \$6,135,615 and is on a variable interest rate. The Scheme has a single loan facility with St George Bank with a facility limit of \$6,595,000.

The maturity date of the Scheme's borrowings is March 2012.

As at 30 June 2010, the Scheme is in compliance with its loan covenants.

Amounts owing to the bank lender of the Scheme rank before an investor's interests in the Scheme.

As the Trust does not borrow, Disclosure Principle 3 does not apply to the Trust. However, it is indirectly affected as the Trust invests in the Scheme.

## 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

The Scheme is a single property investment scheme leased to two tenants.

Tenants that constitute 5% or more of the Scheme's net income are listed in the following table:

Property	Tenant	Percentage of Scheme Net Income
91-105 Woodlands Drive, Braeside, VIC	Flavour Makers Pty Ltd	38.91%
	Aggreko Generator Rentals Pty Ltd	61.09%

The occupancy rate of the property portfolio is 100%.

The portfolio lease expiry profile in yearly periods calculated on the basis of lettable area is outlined below, and, where applicable, the weighted average lease expiry (WALE):

Lease Expiry by Net Lettable Area	Vacant	Within 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	More than 4 years
Lettable Area	0.00%	0.00%	0.00%	0.00%	31.81%	68.19%
WALE	7.09 years					

The sole asset of the Trust is an investment in the Scheme.

## 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 property is valued at intervals of not more than 3 years and immediately prior to the scheduled end of the syndicate, unless requested earlier or more frequently by a lender.

Where valuations are performed by independent registered valuers, they are required to be appropriately qualified to undertake the valuation, based on the type and locality of the property being valued. The valuation reports are prepared by valuers in compliance with all relevant industry standards and codes.

However, in the intervening years between independent valuations, the value of a property is reassessed internally by the Directors, to determine its current fair value. The value of investment properties is measured on a fair value basis, being the amounts for which the properties could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar leases.

Subject to the accounting standard adopted by the Scheme, any revaluation increment / decrement will be recorded in the Income Statement as an income / expense as disclosed in the notes to the Financial Statements.

The latest independent valuation was undertaken for the 30 June 2010 accounts and the property was valued at \$11,675,000 on a capitalisation rate of 8.50%.

A capitalisation rate is a percentage that is used to convert income into value, that is the rate or yield at which the annual net income from an investment is capitalised to ascertain its capital value at a given date.

As the Trust invests solely in the Scheme, Disclosure Principle 5 does not apply to the Trust. However, it is indirectly affected as the Trust invests in the Scheme.

## 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 APGFM or its associates.

Except for the management fees paid / payable to APGFM 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.

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

The Scheme disclosures in Disclosure Principle 6 apply equally to the Trust.

## 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

The Scheme's objective is to pay distributions on a quarterly basis. Distributions are generally sourced from realised income. Occasionally, a distribution may include a component sourced from capital (either from borrowings and/or equity), where APGFM considers this is appropriate and prudent. For example, a rent-free period may be offered to attract a new tenant and this may lead to a slight reduction in the realised income of the Scheme for a particular period. In that situation, APGFM might decide to supplement a particular distribution with an amount sourced from equity, or from Scheme borrowings. However, APGFM will only do this where APGFM considers it will not have a materially adverse impact on the Scheme.

Distributions are currently being paid at 9.0 cents per unit per annum.

As the Trust is an investor in the Scheme, the Trust's distribution practices are aligned with the distribution practices of the Scheme.

## 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

The Scheme is a fixed-term scheme with no withdrawal rights prior to the termination of the Scheme. Following a recent extension by the manager, the Scheme's maturity date is June 2011. The maturity date indicates the latest date by which the manager must have completed the wind up process<sup>1</sup>.

However, the manager may make a recommendation to investors to vote in favour of a resolution to extend the term of the Scheme for a specified period. This recommendation will only be made if the manager firmly believes investors will be disadvantaged (and not realise the full value of the property) by selling the real estate in the current market.

If a recommendation to extend is rejected by investors, and the manager has already exercised its discretion once, the property will be placed on the market and sold at the highest offer. Property investment is all about timing and under these circumstances, the manager cannot guarantee that investors may realise their original investment.

The withdrawal rights of investors in the Trust are the same as that disclosed for investors in the Scheme. Any proposal to extend the term of the Scheme as discussed above will be put also to investors in the Trust as they are indirect investors in the Scheme.

### 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.

APGF Management Limited (APGFM) ACN 090 257 480, AFSL No. 229287 holds an Australian Financial Services Licence authorising it to only provide general financial product advice limited to its own funds. For further information, please refer to the APGFM's Financial Services Guides at [www.apgf.com.au](http://www.apgf.com.au).

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<sup>1</sup> Property sold, proceeds distributed and syndicate deregistered under the current term

This is not an asset of the Fund



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