

Disclosure Guide 46

March 2010

Introduction

This document has been prepared in response to the Australian Securities and Investments Commission (“ASIC”) Regulatory Guide 46 entitled “Unlisted Property Schemes – improving disclosure for retail investors” (“the Guide”).

The Guide sets out a series of matters that an unlisted property trust like the Government Property Trust should disclose to enable investors to understand key attributes of the Trust in a regulated format.

Disclosure Principle 1 Gearing Ratio

The gearing ratio of the fund’s financing obligations excluding member contributions to ordinary and preference equity is 91% at 31 December 2009.

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.

The Government Property Trust has a stated aim to maintain gearing between 60% and 70% over the longer term. This can be achieved if the properties are revalued upwards in the future, further capital is raised and bank finance reduced or properties are sold with consequent debt reduction.

Disclosure Principle 2 Interest cover

The interest cover of the fund’s financing obligations excluding member contributions to ordinary and preference equity is 1.48 times at 31 December 2009, which is the same as the previous disclosure statement.

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.

Disclosure Principle 3 Scheme borrowing

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 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.

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.

Breach of a loan covenant may result in penalties being applied, or the loan becoming repayable immediately.

TERMS OF DEBT FACILITIES			
Amount \$94,840,000	Amount \$53,475,000		
Refinance of existing facilities	Refinance of an existing facility totaling \$94,840,000 subject to debt reduction		
Ordinary Rate BBSY plus 3.25% pa	Ordinary Rate BBSY plus 3%pa		
Nature of Loan Variable Rate Fully Drawn Cash Advance	Nature of Loan Variable Rate Fully Drawn Cash Advance		
Hedging Interest Rate Swap Expiry 15 November 2017 Amount \$96,840,000 Amortisation Interest Only Rate 5.50% (15 December 2009 to 15 June 2011) 7.66% (15 June 2011 to 15 November 2017)	Interest Rate Swap Expiry 15 November 2017 Amount \$96,840,000 Amortisation Interest Only Rate 5.50% (15 December 2009 to 15 June 2011) 7.66% (15 June 2011 to 15 November 2017)		
Term 9 months	2 years		
Repayment date (unless extended) June 2010	Repayment date (unless extended) June 2012		
Fully Drawn	Fully Drawn		
Mortgages/Charges Over all GPT properties	Mortgages/Charges Over all GPT properties		

Loan facilities

Government Property Trust has the above facilities in place with Capital Finance Australia Limited. The ultimate parent company of Capital Finance Australia Limited is Lloyds Banking Group Plc.

Loan Covenants

Currently the Trust has a requirement to reduce the outstanding balance by \$1.5m which was due by 31 December 2009 and which is currently outstanding. The Financier has indicated this requirement can be met from the proceeds of sale from properties.

Refinance of Facilities to mature within less than 12 months

The Government Property Trust facility matures within the next twelve months. The offer of a further extension is contingent on a reduction in the principal outstanding. This may be achieved by revaluation of the existing properties, the raising of additional capital, refinance of existing facilities or the sale of some of the properties.

Currently the Trust is in the process of selling properties to assist in achieving the required reduction in principal.

The properties currently for sale by either expression of interest or auction campaigns include:

Property	EOI close / Estimated Settlement	Selling Agent
Vicroads	25 March / 30 May	Knight Frank
Bendigo	25 March / 30 May	Knight Frank
Bunbury	30 April / 30 June	JLL
Midland	30 April / 30 June	JLL
Inala	31 March / 15 June	Burgess Rawson
Newcastle	9 April / 30 June	Colliers
Darwin	30 April / 15 July	KF
Pymble	Not on the market	JLL
Salisbury	Not on the market	Colliers
Geelong	Not being placed on the market.	
Canberra	Not being placed on the market.	

Ranking of Creditors

CFAL, or any future provider of loan funds, is a secured creditor which means it ranks ahead of ordinary creditors. Ordinary creditors rank ahead of Preference unitholders.

Preference unitholders rank equally amongst each other on any winding up and ahead of ordinary unitholders.

Disclosure Principle 4

Portfolio diversification

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.

Top 5 Tenants

Tenant	Property	% of Trust Income	% of total NLA
Department of Health	Penrhyn House Canberra	33%	29%
Centrelink	Bunbury W.A. Perth W.A. and Adelaide S.A.	17%	22%
ATO	Geelong Victoria	15%	19%
Department of Health Support NSW	Newcastle	9%	9%
Commonwealth Offices	Brisbane	8%	7%

Disclosure Principle 5
Valuation of real property

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.

Australian Public Trustees Ltd has a policy of seeking external valuations of the properties at least bi annually using appropriately registered valuers.

It is proposed to value the retained buildings externally again in June 2010

Australian Public Trustees will not use the same valuer more than twice consecutively for the same property.

Directors may revalue the properties at each accounting interval taking into account rental increases or decreases, vacancies or objective market evidence of changes to capitalization rates.

Disclosure Principle 6
Related party transactions

A conflict of interest may arise when property schemes invest in, make loans or provide guarantees to related parties.

Australian Public Trustees Ltd is Responsible Entity of the Government Property Trust. APT Group Holdings Pty Ltd is an associate of Australian Public Trustees in that it owns 100% of the shares in Australian Public Trustees Limited and shares common directors.

APT Treasury Pty Ltd holds 4,235,930 ordinary units in the Government Property Trust which was the initial capital used to seed the Trust. All Preference Series units rank ahead of the ordinary units for distributions and on a winding up of the Fund

The Government Property Trust is currently a Preference Unit investor in Government Property Syndicate No. 3 (which owns the Vicroads building in Sunshine, Melbourne) and Government Property Syndicate No. 4 (which owns the Department of Human Services building in Bendigo, Victoria).

Directors and shareholders of Australian Public Trustees Ltd and APT Group Holdings Pty Ltd hold interests in Government Property Trust Syndicates No.3 and 4.

Terms are struck on an arms length basis and currently all the investments in the related party entities are meeting their distribution obligations.

Currently the Vicroads property and the Bendigo property are in the process of being sold and the repayment of the Preference Units owned by the Government Property Trust is subject to sale and settlement of those properties.

In the interim they continue to pay their distributions to the Government Property Trust on the initial face value not the written down value ("WDV")

Disclosure Principle 7
Distribution Practices

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.

Source of Distributions

Distributions for the financial half year ending December 2009 were sourced 100 % from realized income and 0% from capital.

Australian Public Trustees has agreed to pay distributions to Preference Series Investors in priority to management fees. Management fees may be accrued against or paid from capital.

Disclosure Principle 8**Withdrawal rights**

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

The Government Property Trust has issued:

Series 2, (2 year redeemable Preference Units) which matured and were repaid in 2008

Series 3 (3 year Redeemable Preference Units);

Series 5, (3 year Redeemable Preference Units); and

Series 6 (Redeemable Preference Units)

The Series 2 Preference Units matured in June 2008. (950,000 units)

The Series 3 Preference Units matured between June and September 2009 (17,981,000 units)

Series 3 investors were invited to extend the term of their Preference units for a period of 2 years at the existing rate of 8.25%pa to mature between June and September 2011

Series 5 Preference Units mature between June 2011 and February 2012 (10,984,000 units)

Series 6 Redeemable Preference units (1,830,000 units)

To 31 December 2009 there has been:

\$950,000 paid in Redemptions to Series 2 investors

\$4,370,000 paid in Redemptions to Series 3 investors

\$1,830,000 paid in Redemptions to Series 6 investors

While all efforts will be made by the Responsible Entity and the Scheme to ensure there are sufficient funds to satisfy the investors requirements for redemption at the end of the period, redemption is always subject to the risks set out in the original and subsequent Product Disclosure Statements.

These include the ability of the Government Property Trust to issue further capital raising instruments or find alternative sources of finance neither of which may be available due to market conditions.