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Questus Land Development Fund (QLDF)
ARSN 116 602 076
RG 46
Updated Disclosure Notice
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In September 2008 the Australian Securities and Investment Commission (ASIC) released a new Regulatory Guide relating to the disclosure of information for Unlisted Property Schemes for retail Investors. The guide sets out eight principles for improved disclosure to retail Investors to help them compare risks and returns across investments in the unlisted property sector. Outlined below are the eight principles, including an overview of there meaning, followed by QLDF's position in relation to each of the principles.

No.	Principle	ASIC Definition
1	Gearing Ratio	The higher gearing ratio means a high reliance on external liabilities (primary 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. Gearing Ratio = <u>Total interest bearing liabilities</u> Total assets
2	Interest Cover	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 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. Interest Cover = <u>BITDA – unrealised gains + unrealised losses</u> Interest Expenses
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 time frame, 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.

No.	Principle	ASIC Definition
		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.
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.
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 access the reliability of valuations. The more reliable a valuation, the more likely the asset will return the amount when it is sold. However, and forced sale may still result in a shortfall compared to the valuation.
6	Related Party Transactions	A conflict of interest may arise when property schemes invest in, make loans or provide guarantees to related parties.
7	Distribution Practices	Some property schemes make distributions party 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.
8	Withdrawal Rights	Unlisted property schemes often have limited or no withdrawal rights. This means they are usually difficult to exit.

1) Gearing Ratio

The gearing ratio of the Fund as at 1 December 2009 was 72% which is above the expected long term gearing ratio of 65%.

Information relating to the manner in which the Fund borrows money and gearing levels are disclosed in Section 2.6 of the PDS issued 24 September 2007.

2) Interest Cover

ASIC Regulatory Guide 46.122 provides for a disclosure principal to be omitted if the information is likely to mislead Investors or in clearly inappropriate.

As the Fund's activities is residential land development the use of an interest coverage ratio is inappropriate. Interest is a component of development costs and is generally capitalised within the overall development costs of a project. As interest is capitalised it is generally not realised as an expense to the individual projects until sales of the lots created and the project finalised. Questus Funds Management Limited (the Manager) has not reported an interest cover ratio as it believes if is misleading to Investors.

3) Scheme Borrowing

Information on the risks associated with borrowings are detailed in Section 5 of the PDS issued 24 September 2007.

The Fund has a number of projects at different stages of development and the general terms and conditions for each loan will vary.

The following table provides an update on the current borrowings for the Fund:

PROJECTS	LOAN AMOUNT	INTEREST RATE TYPE	MATURITY DATE	LENDER
Pinjarra Stages 1 & 2	$4,553,646	Variable	31/05/2009	St George
Lane Park Estate	$4,125,000	Variable	31/12/2009	Bank of Qld
Karnup Estate	$8,070,000	Variable	31/12/2009	Bank of Qld
Tuart Rise Estate	$9,046,000	Variable	31/05/2009	St George
Questus Land Development Fund	$2,731,723	Variable	30/06/2010	Questus Mortgage Fund

Pinjarra Stages 1 & 2 (QLDF Development 1 Pty Ltd)

- Construction of 55 lot stage one of Pinjarra Springs has been completed.
- Settlement of individual lots in Stage 1 has commenced with proceeds applied to debt reduction. The Manager can confirm that 17 lots have settled and due to the status of the expired facilities with St George that full proceeds are being applied to debt reduction.

The facilities with St George for QLDF Development 1 Pty Ltd expired on 31 May 2009.

St George has stated to the Responsible Entity that it considers the facilities are in default. St George is charging a default rate of interest on the facilities.

Negotiations with St George have been ongoing since May 2009 with a view to extending the facilities.

Despite these negotiations and the provision of requested information to St George, St George issued Letters of Demand on the 1st December 2009 for the full repayment of debts owed to St George by QLDF Development 1 Pty Ltd. St George has demanded full payment by the 13 January 2010.

Prior to receiving the Letters of Demand, the Responsible Entity had approached a number of financiers seeking to re-finance the facilities. The Responsible Entity continues to proceed with this course of action.

Tuart Rise Estate (Yalop Pty Ltd)

The facilities with St George for Yalop Pty Ltd expired on 31 May 2009.

St George has stated to the Responsible Entity that it considers the facilities are in default. St George is charging a default rate of interest on the facilities.

Negotiations with St George have been ongoing since May 2009 with a view to extending the facilities.

Despite these negotiations and the provision of requested information to St George, St George issued Letters of Demand on the 1st December 2009 for the full repayment of debts owed to St George by Yalop Pty Ltd. St George has demanded full payment by the 13 January 2010.

Prior to receiving the Letters of Demand, the Responsible Entity had approached a number of financiers seeking to re-finance the facilities. The Responsible Entity continues to proceed with this course of action.

Lane Park (QLDF Development 2 Pty Ltd)

Facility for QLDF Development 2 Pty Ltd is due to expire on the 31 December 2009. The Responsible Entity has been in on going discussions with Bank of Queensland on the facility, however no agreement has been reached on the extension of the facility.

The Responsible Entity is currently unable to advise if an agreement will be reached with respect to the extension of the Bank of Queensland facility

Harvey Road (QLDF Development 3 Pty Ltd)

Facility for QLDF Development 3 Pty Ltd is due to expire on the 31 December 2009. The Responsible Entity has been in on going discussions with Bank of Queensland on the facility, however no agreement has been reached on the extension of the facility.

The Responsible Entity is currently unable to advise if an agreement will be reached with respect to the extension of the Bank of Queensland facility.

4) Portfolio Diversification

Information on QLDF assets are contained within Section 4 of the PDS issued 24 September 2007.

Information on the Investment Strategy, Investment Objective and Investment Criteria of the QLDF is detailed in Section 2 of the PDS issued 24 September 2007.

Regular information updates on the status of the Fund projects is provided to Investors through quarterly updates and via the Questus website www.questus.com.au.

5) Valuation Policy

QLDF's valuation policy is detailed in Section 3.7 of the PDS issued 24 September 2007.

Valuations are undertaken on an "As Is" basis, however to secure construction funding from a financier, the financier may require an "As if Complete" valuation for their internal risk assessment purposes. The QLDF does not rely on "As if Complete" valuations in calculating the unit price of the Fund.

Each asset of the QLDF is valued by an experienced independent qualified valuer in accordance with industry standards at least once in every three year period. The valuation of assets will be staggered over this three year period so that approximately one third of QLDF's assets will be valued each year.

We advise that due to the global market volatility all fund assets (excluding Pinjarra Springs) have been valued within the past 12 months and QFML has relied on these valuations when determining the QLDF's Unit Price.

6) Related Party Transactions

The Manager has a policy of full disclosure of related party transactions. Details on related party transactions are disclosed in Section 10.4 of the PDS issued 24 September 2007.

The following related party transactions have occurred since the issue of the PDS.

- Additional funding sourced from Questus Mortgage Funds Ltd in the amount of $2,731,723. .

- Questus Asset Management Pty Ltd (QAM) provides project and asset management services for each development project being undertaken by the Fund. The terms and services provided by QAM are detailed in the Service

Agreement for each project. QAM is entitled to receive receives $10,000 (plus GST) per month per project for services provided.

The Fund’s Compliance Plan provides the basis on which related parties transactions are to be approved and managed. A summary of these provisions are as follows:

- All transactions in which a benefit is received by the Responsible Entity or a related party must be approved by the Board and disclosed to the unitholders and Compliance Manager.
- Related party transactions are reviewed annually.
- A register of related party transactions is kept by the Manager.

7) Distribution Practices

The Fund’s distributions policy is detailed in Section 3.4 of the PDS issued 24 September 2007 and are summarised as follows:

- “Distributions (if any) are paid on a quarterly basis and may comprise income and/or capital”.

The Fund provides Investors with a quarterly distribution statement detailing any distributions paid over the previous quarter (if any).

Following the onset of the Global Financial Crisis QLDF has not made a distribution since March 2008 in order to preserve capital in the interest of Unitholders..

8) Withdrawal Arrangements

The Fund is deemed to an illiquid Fund and withdrawal offers will be made in accordance with the Fund’s constitution and the Corporations Act.

Information regarding withdrawal arrangements for the Fund are detailed in Sections 3.8 and 5.2 of the PDS issued 24 September 2007.