

Questus Land Development Fund (FUND)
ARSN 116 602 076
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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 their meaning, followed by QLDF's position in relation to each of the principles.

In addition to the Disclosure Principles, Questus Funds Management Limited strongly recommends investors review the ASX Announcement posted by Questus Limited on the 10 August 2010 in respect to the role of the Responsible Entity. A copy of the ASX Announcement is available from the Questus Limited website.

No.	PRINCIPLE	ASIC DEFINITION
1	Gearing Ratio	<p>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.</p> <p>Gearing Ratio = $\frac{\text{Total interest bearing liabilities}}{\text{Total assets}}$</p>
2	Interest Cover	<p>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.</p> <p>Interest Cover = $\frac{\text{BITDA} - \text{unrealised gains} + \text{unrealised losses}}{\text{Interest Expenses}}$</p>
3	Scheme Borrowing	<p>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.</p>

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		<p>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.</p> <p>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.</p>
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 assess the reliability of valuations. The more reliable a valuation, the more likely the asset will return the amount when it is sold. However, a 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 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.
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 30 June 2010 was 71% 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 is 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 occur and the project is finalised. Questus Funds Management Limited (the Manager) has not reported an interest cover ratio as it believes it 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 the Fund has with St George and Bank of Queensland.

PROJECTS	LOAN AMOUNT	INTEREST RATE TYPE	CURRENT INTEREST RATE	MATURITY STATUS	LENDER
Pinjarra Stages 1 & 2	\$3,330,020	Variable	12.30%	Expired	St George
Lane Park Estate	\$3,600,000	Variable	10.50%	Expired	Bank of Qld
Karnup Estate	\$7,525,000	Variable	10.50%	Expired	Bank of Qld
Tuart Rise Estate	\$7,645,000	Variable	12.30%	Expired	St George

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 continues with proceeds applied to debt reduction. The Manager can confirm that 23 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 have expired. Over the past 9 months the Manager has sought to obtain a loan extension or renewal approval from St George, but has been unable to secure any commitment from St George to extend or renew the facilities.

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

Since the 1 July 2009 QLDF Development 1 Pty Ltd has provided \$2.825m in principal repayments to St George.

QLDF Development 1 Pty Ltd holds unconditional contracts of sale on 7 residential lots providing for a further \$825,000 in principal reductions to the St George facility. These lots are scheduled for settlement by the 20 August 2010. St George have been requested to provide discharge of mortgage and titles for settlement.

In addition a further 6 lots are held under option which provide for a further \$750,000 in principal reductions to the St George facility.

Following settlement of the 7 lots and application of monies to debt reduction, the Loan to Value Ratio on the St George facility will be approximately 49%. Settlement of the additional 6 lots will further reduce the Loan to Value to approximately 38%.

Despite the significant debt reduction and unconditional offers St George have advised that they are under no obligation to agree to any proposal or grant any extension of the facility.

St George have issued Letters of Demand for the full repayment of debts owed to St George by QLDF Development 1 Pty Ltd.

QLDF Development 1 Pty Ltd has obtained a Letter of Offer for the re-finance of the St George facility. A copy of the Letter of Offer has been provided to St George.

“Tuart Estate” (Yalop Pty Ltd)

- Development Approval for Stage 1 of the Tuart Estate development is held. Stage 1 of this development comprises the construction of 12 x 1 hectare Special Rural lots.
- Construction of Stage 1 has commenced and is scheduled to be completed by the end of October 2010.
- Yalop has accepted offers and entered into contracts on 4 lots for Stage 1 representing \$2,510,000 in sales.

The facilities with St George for Yalop Pty Ltd have expired. Over the past 9 months the Manager has sought to obtain a loan extension or renewal approval from St George, but has been unable to secure any commitment from St George to extend or renew the facilities.

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

Since the 1 January 2010, Yalop Pty Ltd has provided \$1.77m in principal repayments to St George. The current Loan to Value ratio on the St George facility is 54%.

Despite the significant debt reduction and progression of the development, St George have advised that they are under no obligation to agree to any proposal or grant any extension of the facility.

St George has issued Letters of Demand for the full repayment of debts owed to St George by Yalop Pty Ltd.

The Manager has received a Letter of Offer to re-finance the facility. A copy of the Letter of Offer has been provided to St George.

Lane Park (QLDF Development 2 Pty Ltd)

The facility for QLDF Development 2 Pty Ltd with Bank of Queensland has expired and the Manager has been seeking to meet with Senior Management of Bank of Queensland but has not been afforded a meeting. Bank of Queensland has issued a Letter of Demand and a formal proposal has been submitted to Bank of Queensland. At this stage no agreement has been reached on the extension of the facility.

The Manager has instructed independent valuers to undertake a valuation of the security property and is awaiting receipt of the valuation.

The Manager 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)

The facility for QLDF Development 3 Pty Ltd with Bank of Queensland has expired and the Manager has been seeking to meet with Senior Management of Bank of Queensland but has not been afforded a meeting. Bank of Queensland has issued a Letter of Demand and a formal proposal has been submitted to Bank of Queensland. At this stage no agreement has been reached on the extension of the facility.

The Manager has instructed independent valuers to undertake a valuation of the security property and is awaiting receipt of the valuation.

The Manager 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.

Valuations on the Pinjarra and Tuart Estate project have been completed since 1 January 2010. The Manager has sought independent valuations on the properties owned by QLDF Development 2 Pty Ltd and QLDF Development 3 Pty Ltd and is awaiting receipt of these valuations.

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 \$3,038,000. This facility is due to expire on the 30 June 2011.
- 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 \$10,000 (plus GST) per month per project for services provided.
- QAM has since December 2009 deferred the collection of fees totalling in excess of \$132,000 for projects being undertaken by QLDF Development 2 Pty Ltd and QLDF Development 3 Pty Ltd.
- QAM has since March 2010 deferred the collection of fees totalling \$66,000 for projects being undertaken by QLDF Development 1 Pty Ltd and Yalop Pty Ltd.

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 Manager 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 and the demands place on the QLDF by St George Bank the QLDF has not made a distribution over the past 6 quarters in order to preserve capital and repay debt 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.