

Property Syndicate No.2

Continuous Disclosure Notice – 28 February 2011

The Australian Securities and Investments Commission (ASIC) requires responsible entities of unlisted property schemes in which retail investors invest to provide a statement addressing eight disclosure principles. These eight principles are contained in ASIC Regulatory Guide 46: Unlisted property schemes – Improving disclosure for retail investors.

This document has been prepared by Australian Unity Property Limited ("AUPL") as the responsible entity of the Australian Unity Property Syndicate No.2 ('Syndicate') to update investors on the information relevant to the disclosure principles. This document should be read in conjunction with the 30 June 2010 Annual Report, available from our website www.australianunityinvestments.com.au

Overview of changes since last update

This document has been updated as at 28 February 2011 (financial information as at 31 December 2010) from its previous issue on 25 November 2010, to reflect changes to the Syndicate's portfolio information and the Syndicate's approaching term expiry.

In November 2010, Syndicate investors were advised of the Responsible Entity's decision to commence an orderly wind up of the Syndicate in line with its upcoming expiry in September 2011.

Disclosure Principle 1 – Gearing ratio

The gearing ratio of the Syndicate, calculated as total interest bearing liabilities divided by total assets was 52.51%, as at 31 December 2010 and is based on unaudited accounts. (53.17% as at 30 June 2010 based on audited accounts.)

The gearing ratio calculates the extent to which the Syndicate's total assets are funded by interest bearing liabilities. It gives an indication of the potential risks investors face in terms of external liabilities that rank ahead of them. If the Syndicate's gearing ratio under its debt facilities increases, the Syndicate will have a higher reliance on external liabilities to fund assets and a greater exposure to funding costs if interest rates rise. This may have a negative impact on the cash distributions and the value of the Syndicate.

Disclosure Principle 2 – Interest cover

The Syndicate's interest cover is calculated by using the following formula:

$$\text{Interest cover} = \frac{(\text{EBITDA} - \text{unrealised gains} + \text{unrealised losses})}{\text{Interest expense}}$$

Where:

EBITDA = earnings before interest, tax, depreciation and amortisation
Interest expense = Interest expense on debt facilities, net of hedging arrangements and interest income, adjusted for various AIFRS treatments including property

The Syndicate's interest cover ratio as at 31 December 2010 (financial year to date) was 1.01 times. (2.11 times as at 30 June 2010 based on audited accounts.)

This abnormally low interest cover ratio for the financial year to 31 December 2010 is the result of vacancies at 5/568 Church Street, Richmond and lease incentives incurred with reletting 40% of the vacant space at Richmond and the reletting of 18-20 Lakeside Boulevard, Braeside.

We expect the interest cover ratio to improve over the remaining financial year as the lease incentives diminish. Importantly, the Syndicate is in compliance with the lender's requirements.

Interest cover indicates the ability of the Syndicate to meet interest payments from operating cash. It is an indicator of the Syndicate's financial health and is a key to assessing the sustainability of, and risks associated with, the Syndicate's level of borrowing. If the Syndicate's interest cover decreases then the risk of the Syndicate not being able to meet interest payments will increase.

Disclosure Principle 3 – Syndicate borrowing

The Syndicate's borrowing as at 31 December 2010 is summarised in the table below:

Borrowing details as at 31 December 2010	
Borrowing facility limit	\$13.29m
Borrowing facility drawn amount	\$13.24m
Borrowing facility maturity ¹	Sept 2011
% of borrowings hedged	98%
Hedge facility expiry	Sept 2011

¹The Syndicate is due to expire in September 2011. We expect that the borrowings will be repaid prior to the facility maturity date.

To the best of AUPL's knowledge, there have been no breaches of loan covenants as at the date of this document.

All amounts owed to lenders and other creditors will rank before each investor's interest in the Syndicate. The Syndicate's ability to repay principal and interest and meet all loan covenants under its borrowing facilities is material to its performance and ongoing viability.

Disclosure Principle 4 – Portfolio diversification

The information in the graphs and tables below is taken from the values as at 31 December 2010/September 2010 (unless stated otherwise) and is not based on audited financial records.

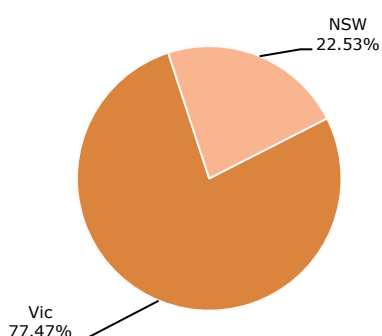
Direct Property Portfolio

Property	Independent valuation			Book value
	Date	(\$m)	Cap rate %	(\$m)
Property 1	June 2010	5.60	9.50	5.62
Property 2	June 2010	7.90	8.25	7.93
Property 3	June 2010	3.70	8.50	3.70
Property 4	June 2010	3.80	9.00	3.80
Property 5	June 2010	3.90	8.25	3.90

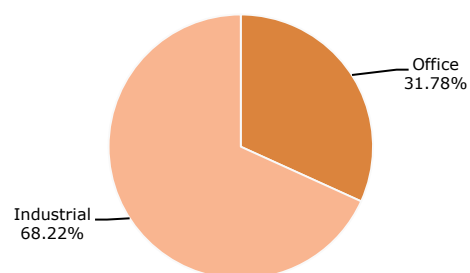
Asset allocation

Asset allocation	%	\$(m)
Direct Property	98.97	24.95
Cash & cash equivalents	0.56	0.14
Other	0.47	0.12
Total	100.00	25.21

Property by geographical location by value



Direct property by sector and value



Direct property occupancy

Occupancy rate by area	95.90%	
Weighted average lease expiry by income	3.66 years	
Major tenants and % of base rental income	Key plastics	28.60%
	Focus Paper (Aust) P/L	17.16%
	Wilson's Sporting Goods	16.24%
	Unmin Australia Ltd	15.71%
	Cash Resources	8.94%
	Optalert Pty Ltd	8.91%

Direct property lease expiry profile by income



Investment strategy

The Australian Unity Property Syndicate No.2 is a direct property investment with five properties.

After careful assessment of the commercial property market, the Board of Australian Unity Property Ltd has approved the wind up of the Syndicate by the end of scheduled expiry on 30 September 2011. We are actively exploring opportunities to sell the Syndicate's properties with the aim to conclude all property sales prior to the scheduled expiry.

Disclosure Principle 5 – Valuation Policy

Regular valuation of underlying property assets is an important aspect of managing the Syndicate in the best interests of all investors. The valuations are conducted by qualified independent valuers in accordance with industry standards.

We have a policy of generally obtaining independent valuations on our properties each year.

Disclosure Principle 6 – Related Party Transactions

All transactions we enter into in relation to the Syndicate, including those with related parties, are conducted on arm's length commercial terms.

Entities within the Australian Unity Group may provide registry, accounting, asset management and tax services to the Syndicate for fees charged at a commercial rate.

Policies and guidelines are in place to manage risk of any actual or perceived conflict of interest as a result of a related party transaction. Related party transactions with Australian Unity Group entities are reviewed and approved by senior management with clearly identified governance policies and guidelines. All decisions in relation to conflicts of interest and all related party transactions are documented. Policies and guidelines are generally reviewed annually.

Details of related party transactions are outlined in note 15 of the 30 June 2010 Annual Report for the Syndicate.

Disclosure Principle 7 – Distribution Practices

Distributions are currently met from net income and net realised gains and are paid quarterly.

It is not our intention to source distribution payments from sources other than net income and net realised gains, although we may do so if we consider it to be in the interests of our investors (for example if rental income is suddenly reduced unexpectedly) and where payment from that source is sustainable given the circumstances. We would notify investors if this occurred.

Disclosure Principle 8 – Withdrawal arrangements

The Syndicate is a fixed term investment. Withdrawals are not provided for. Investors will receive proceeds of their investment after the termination and the sale of the properties is completed.

For further enquiries

Please contact us either by telephone, email or mail as shown below:

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