

- § LEYSHON CORPORATION LIMITED
AS RESPONSIBLE ENTITY FOR LEYSHON PROPERTY TRUST No.3
- § LEYSHON DEVELOPMENTS NO. 3 LIMITED
- § LEYSHON CORPORATION LIMITED
AS RESPONSIBLE ENTITY FOR BLUE TOWER TRUST

INDEPENDENT EXPERT'S REPORT AND FINANCIAL SERVICES GUIDE

19 July 2006

VALUATION ADVISORY SERVICES

19 July 2006

Private & Confidential

The Directors

Leyshon Corporation Limited as Responsible Entity for Leyshon Property Trust No. 3

Leyshon Developments No. 3 Limited

Leyshon Corporation Limited as Responsible Entity for Blue Tower Trust

Level 1, 295 Elizabeth Street

Brisbane QLD 4000

Dear Directors

Independent Expert's Report

1. Leyshon Property Fund No. 3

Leyshon Property Fund No. 3 ("LPF3") consists of Leyshon Property Trust No. 3 ("LPT3") and Leyshon Developments No. 3 Limited ("LDL3"). Units in LPT3 are stapled to the shares in LDL3 and are treated as one security ("Stapled Security"). The Stapled Securities are listed on the Bendigo Stock Exchange Ltd ("BSX").

The Directors of:

n Leyshon Corporation Limited (the "Company" or "LCL") as responsible entity for LPT3; and

n LDL3

have engaged Ernst & Young Transaction Advisory Services Limited ("Ernst & Young Transaction Advisory Services") to prepare an Independent Expert's Report (the "Report") for them in relation to the following:

- a) the proposed takeover offer of BTT by LPF3 for a consideration of 2.1846 Stapled Securities for every unit in BTT at a total Stapled Security price of \$1.0591;
- b) the proposed capital raising comprising 70 million LPF3 Stapled Securities at an issue price of \$1.06 ("Capital Raising"); and
- c) the acquisition of substantial assets from relevant parties as part of the proposed acquisition of all of the units in BTT by LPT3.

2. Blue Tower Trust

Units in Blue Tower Trust (“BTT”) are listed on the BSX. The Directors of LCL as responsible entity for BTT have engaged Ernst & Young Transaction Advisory Services to prepare an Independent Expert’s Report for them in relation to the following:

- a) the proposed takeover offer to BTT unit holders from LPF3 for a consideration of 2.1846 Stapled Securities for every unit in BTT at a total Stapled Security value of \$1.0591; and
- b) the proposed acquisition of BTT units from John Hendry and Prudence Hendry by Keats Group Pty Ltd as trustee for the Guy Keats Family Trust (“Keats Group”).

In order for 1 (a), 1(b), 1(c), 2(a) and 2(b) to be implemented, approval from the security holders/unit holders as appropriate will be sought at:

- n the Extraordinary General Meeting (“EGM”) of the Stapled Security Holders of LPF3 to be held on or around 4 September 2006 in respect of matters outlined in the Notice of EGM and the attached Bidder’s Statement and the Prospectus and Product Disclosure Statement provided to the LPF3 Stapled Security Holders; and
- n the EGM of the unit holders of BTT to be held on or around 4 September 2006 in respect of matters outlined in the Notice of EGM and the attached Bidder’s Statement and Target’s Statement provided to the unit holders of BTT.

Ernst & Young Transaction Advisory Services has been requested by the Directors of:

- n LCL as responsible entity for LPT3;
- n LDL3; and
- n LCL as responsible entity for BTT

to prepare an Independent Expert’s Report in accordance with the requirement of Sections 606, 611 and 640 of the Corporations Act, Section 7.8 of the Listing Rules of the BSX having regard to disclosure and content required by the Australian Securities and Investments Commission (“ASIC”) in its published Practice Notes and Policy Statements as a result of 1(a), 1(b), 1(c), 2(a) and 2(b).

3. Opinions

Ernst & Young Transaction Advisory Services is of the opinion that:

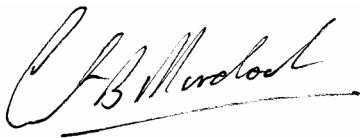
- n in relation to the proposed acquisition of all of the units in BTT by LPF3 is **fair** and **reasonable** to the holders of Stapled Securities in LPF3 and unit holders of BTT.
- n in relation to Resolutions 1C and 1D of the LPF3 Notice of EGM (“Notice of EGM – LPF3”), the issue of Stapled Securities to Leyshon Operations and Keats Group as part of the proposed Capital Raising is **fair** and **reasonable** to the non-associated holders of Stapled Securities in LPF3.
- n in relation to Resolution 2B of the Notice of EGM – LPF3, the acquisition of substantial assets from relevant parties through the proposed acquisition of all of the units in BTT is **fair** and **reasonable** to the non-associated holders of Stapled Securities in LPF3.
- n in relation to Resolution 1 of the BTT Notice of EGM, the acquisition of units in BTT by Keats Group is **fair** and **reasonable** to the other unit holders of BTT.

The reasons for our opinions are set out in Sections 1, 6, 7 and 8 of the attached Report.

This letter should be read in conjunction with the attached Report and Financial Services Guide.

Yours faithfully

Ernst & Young Transaction Advisory Services Limited



Grant Murdoch
Director and Representative



Anne-Maree Keane
Principal and Representative

Contents

Part 1 – Independent Expert's Report.....	2
1 Summary of the Takeover, Resolutions and Opinion.....	2
2 Purpose and Scope of the Report.....	15
3 Industry Overview	22
4 LPF3 Profile.....	24
5 Blue Tower Trust Profile.....	27
6 The Takeover	29
7 Notice of EGM – LPF3 Resolutions	33
8 Notice of EGM – BTT Resolution.....	39
9 Statement of Qualifications and Declarations	42
Appendix A – Glossary.....	44
Appendix B – Sources of Information.....	45
Appendix C – Valuation Methodologies.....	46
 Part 2 – Financial Services Guide.....	 48

Part 1 – Independent Expert's Report

1 Summary of the Takeover, Resolutions and Opinion

The resolutions listed out in the Notice of Extraordinary General Meeting of Leyshon Property Fund No. 3 ("LPF3" or "Fund") ("Notice of EGM - LPF3") and the Notice of Extraordinary General Meeting of Blue Tower Trust ("BTT") ("Notice of EGM – BTT") relate to, amongst other things, the LPF3 Capital Raising and the acquisition of BTT by LPF3 ("Takeover"). The summary of the Takeover and the resolutions is shown below.

1.1 The Takeover

- Takeover**
- **Approval of the Takeover by the Stapled Security Holders of LPF3**
 - **Approval of the Takeover by the unit holders of BTT**

1.2 Summary of the Resolutions

Notice of EGM – LPF3

- Resolution 1 - Approval to Issue of Stapled Securities for the Capital Raising**
- 1A - Approval to issue Stapled Securities
 - 1B - Approval for issues to Related Parties (Capital Raising)
 - 1C* - Approval to issue Stapled Securities to Leyshon Operations Pty Ltd**
 - 1D* - Approval to issue Stapled Securities to Keats Group Ltd (as trustee for the Guy Keats Family Trust)**
- Resolution 2 - Approval of Takeover
- 2A - Approval of Takeover
 - 2B* - Approval for Substantial Assets to be acquired from Relevant Parties as part of Takeover**
 - 2C - Approval of Financial Assistance
- Resolution 3 - Approval of the Modification to the Trust Deed
- Resolution 4 - Approval of the Modification to the Constitution
- Resolution 5 - Approval of the Modification to the Stapling and Asset Management Deed
- 5A - Approval of the Modification to the Stapling and Asset Management Deed with respect to the Capital Raising and Takeover
 - 5B - Approval of the Modification to the Stapling and Asset Management Deed with respect to Frequency of Reporting

Resolution 6 - Approval of Changes of Name

Resolution 7 - Approval of the Election of a Director of the Company

Notice of EGM – BTT

Resolution 1* - Approval for Acquisition of Option Units by Keats Group Pty Ltd (as trustee for the Guy Keats Family Trust)

** Resolution that requires an Independent Expert's Report and considered by Ernst & Young Transaction Advisory Services in assessing the fairness and reasonableness of the resolution*

****** The capital raising relates to the Entitlement Issue, the Priority Issue and the Public Issue ("Capital Raising") (Refer the Notice of EGM – LPF3 for more details).

The Takeover

1.3 The Takeover

1.3.1 Purpose

The purpose of the Takeover is to:

- n merge the Fund and BTT into one entity;
- n increase the size of the Fund which will give it increased capacity to participate in future strategic property acquisitions;
- n the Fund to potentially own a successful Brisbane CBD commercial office building;
- n increase the percentage of LPF3's income derived from stable rental income streams;
- n further diversify investments of the Fund across industry sectors and multiple tenant profiles;
- n reduce administrative costs and increase efficiencies through economies of scale in the future; and
- n create a more liquid investment through an increased pool of investors.

1.3.2 Key Elements

The proposed acquisition of all of the issued units in BTT by LPF3 which is not dependent on the success of the Capital Raising.

1.3.3 Stages of the Takeover

1.3.3.1 Revaluation of Property and Other Adjustments

Prior to the Takeover (refer Section 6.2 for more details) in order to ensure that the original unit holders in BTT are not disadvantaged the property held by BTT was valued by an independent valuer and the Balance Sheet as at 31 March 2006 adjusted to reflect this change in value as well as other accounting adjustments (refer Section 6.2.1 for more details). The table below gives a summary of the effect on net asset value per BTT unit before and after the said adjustments.

	Before Revaluation and other adjustments	After Revaluation and other adjustments
Net Asset Value per BTT unit* (\$)	2.7996	2.3804

*Refer Section 6.2.1 of this Report for details on the calculation of the Net Asset Value per BTT unit.

1.3.3.2 Return of Capital

In order to ensure that the original unit holders in BTT are not disadvantaged, if the Takeover becomes unconditional, BTT proposes to return \$2 million capital to the BTT unit holders that may be used to fund the capital gains tax ("CGT") that may be incurred by the BTT unit holders as a result of the Takeover (Refer to the Tax Report included in the Bidder's Statement for more information and details on CGT). The table below gives a summary of the effect on net asset value per BTT unit before and after the return of capital.

	After Revaluation and other adjustments	After Return of Capital
Net Asset Value per BTT unit* (\$)	2.3804	2.3137

* Refer Section 6.2.1 of the Report for details on the calculation of the Net Asset Value per BTT unit.

1.3.3.3 The Takeover

LPF3 proposes to acquire all of the issued units in BTT. As consideration, LPF3 will offer 2.1846 Stapled Securities for every unit in BTT held at a total Stapled Security price of \$1.0591. The table below gives a summary of the security holding in LPF3 relating to this stage of the proposal assuming that the Capital Raising has already occurred and was fully subscribed by all LPF3 Stapled Security Holders and assuming that the Capital Raising has not occurred.

Takeover – LPF3 Perspective (Capital Raising has occurred)

INVESTOR	After Entitlement Issue		# of Stapled Securities Issued for Takeover	After Takeover	
	# of Securities	%		# of Securities	%
Leyshon Operations Pty Ltd and Relevant Parties and Associates to Relevant Parties*	31,911,000	30.39%	13,249,599	45,160,599	26.48%
Keats Group and Relevant Parties and Associates to Relevant Parties*	24,000,000	22.86%	21,846,000	45,846,000	26.88%
Other	49,089,000	46.75%	30,442,401	79,531,401	46.64%
	105,000,000	100.00%	65,538,000	170,538,000	100.00%

Takeover – LPF3 Perspective (Capital Raising has not occurred)

INVESTOR	Before Takeover		# of Stapled Securities Issued for Takeover	After Takeover	
	# of Securities	%		# of Securities	%
Leyshon Operations Pty Ltd and Relevant Parties and Associates to Relevant Parties*	10,637,000	30.39%	13,249,599	23,886,599	23.76%
Keats Group and Relevant Parties and Associates to Relevant Parties*	8,000,000	22.86%	21,846,000	29,846,000	29.69%
Other	16,363,000	46.75%	30,442,401	46,805,401	46.55%
	35,000,000	100.00%	65,538,000	100,538,000	100.00%

* Relevant Parties and Associates of Relevant Parties considered for Resolution 2B voting exclusion.

1.3.4 Fairness of the Takeover

We have assessed the fairness of the LPF3 offer for all of the units in BTT by comparing the value of the consideration offered with the net asset backing per unit in BTT (after the return of capital).

	BTT	LPF3
Net Asset Value After Repayment of Capital (\$)	69,411,282	
# of Units on issue	30,000,000	
Net Asset Value per Unit	2.3137	
Approximate # of Stapled Security Offered*		65,538,000
Offer Price per Stapled Security (\$)		1.0591
Approximate Value of Offer (\$)		69,411,282
Value of Consideration per Unit (\$)		2.3137

* Rounded off to thousands

Assuming that the Takeover is approved by LPF3 Stapled Security Holders and accepted by all of the unit holders of BTT.

We conclude that the offer to the BTT unit holders by LPF3 is **fair** as the value per Stapled Security offered as consideration equals the net asset backing per unit in BTT (after the return of capital).

1.3.5 Reasonableness of the Offer

We have considered the advantages and disadvantages of the Takeover offer to the Stapled Security Holders of LPF3 and the unit holders of BTT detailed in Section 6.5.3 of this Report.

1.3.5.1 Key Advantages of the Takeover

Listed below are what we consider to be the key advantages of the Takeover:

- n diversification of investment across industry sectors and multiple tenant profiles;
- n increased capacity to participate in future strategic property acquisitions;
- n value per Stapled Security offered is the same as the net asset value per BTT unit;
- n more liquid investment through an increased pool of investors; and
- n reduced cost structure going forward.

1.3.5.2 Key Disadvantages of the Takeover

There appears not to be any key disadvantages to the Takeover.

1.3.6 Opinion on the Takeover

Ernst & Young Transaction Advisory Services has assessed the fairness and reasonableness of the Takeover. In accordance with ASIC Policy Statement 74, what is fair and reasonable for the Stapled Security Holders of LPF3 and the unit holders of BTT has been judged in all circumstances of the Takeover.

As a result of our investigation, Ernst & Young Transaction Advisory Services is of the opinion that the Takeover is **fair** and **reasonable** to the holders of Stapled Securities in LPF3 and unit holders of BTT for whom the Directors of:

- n LCL as responsible entity for LPT3;
- n LDL3; and
- n LCL as responsible entity for BTT

have requested the preparation of this Report. The reasons for this opinion are set out in Section 6.4 of this Report.

Notice of EGM – LPF3

1.4 LPF3 Resolution 1 - Approval of the Issue of Stapled Securities for the Capital Raising

1.4.1 Purpose

The purpose of Resolution 1 is to enable LPF3 to raise funds to invest in future projects of LPF3.

1.4.2 Key Elements

The proposed Capital Raising to original security holders in LPF3 at an issue price of \$1.06 per Stapled Security. The Capital Raising is not contingent on the success of the Takeover of BTT.

1.4.3 Stages of Resolution 1

1.4.3.1 Revaluation of Property and Other Adjustments

Prior to the Capital Raising (refer Section 7.2 for more details) in order to ensure that the original security holders are not disadvantaged the properties held by Leyshon Property Trust No.3 (“LPT3”) and Leyshon Developments No. 3 Limited (“LDL3”) were valued by independent valuers and the Balance Sheet as at 31 March 2006 was adjusted to reflect this change in value as well as other accounting adjustments (refer Section 7.2.1 for more details). The table below gives a summary of the effect on net asset value per security before and after the said adjustments.

	LPT3		LDL3		LPF3	
	Before Valuation Uplift & Other Adjustments	After Valuation Uplift & Other Adjustments	Before Valuation Uplift & Other Adjustments	After Valuation Uplift & Other Adjustments	Before Valuation Uplift & Other Adjustments	After Valuation Uplift & Other Adjustments
Net Asset Value per Unit/Share/ Stapled Security (\$)	0.51	0.56	0.42	0.50	0.93	1.06

* Refer Section 7.2.1 of this Report for details of the calculation of Net Asset Value per Security.

1.4.3.2 The Capital Raising

LPF3 proposes raising a maximum of \$74.2 million by way of a Capital Raising to original security holders. The Stapled Securities will be issued at \$1.06 per Stapled Security comprising of \$1.05 per unit in LPT3 and \$0.01 per share in LDL3. A summary of the holding with regard to Resolution 1C and 1D is given in the following tables.

Holding if all Stapled Security Holders take up their full entitlements

INVESTOR	Before Entitlement Issue		Entitlement Issue		After Entitlement Issue	
	# of Securities	%	# of Securities	# of Securities	%	
Leyshon Operations Pty Ltd and Associates*	10,601,000	30.29%	21,202,000	31,803,000	30.29%	
Keats Group and Associates*	8,000,000	22.86%	16,000,000	24,000,000	22.86%	
Other	16,399,000	46.85%	32,798,000	49,197,000	46.85%	
	35,000,000	100.00%	70,000,000	105,000,000	100.00%	

Holding if only Leyshon Operations and Associates and Keats Group and Associates take up their full entitlements

INVESTOR	Before Entitlement Issue		Entitlement Issue		After Entitlement Issue	
	# of Securities	%	# of Securities	# of Securities	%	
Leyshon Operations Pty Ltd and Associates*	10,601,000	30.29%	21,202,000	31,803,000	44.05%	
Keats Group and Associates*	8,000,000	22.86%	16,000,000	24,000,000	33.24%	
Other	16,399,000	46.85%	-	16,399,000	22.71%	
	35,000,000	100.00%	37,202,000	72,202,000	100.00%	

Holding if only Leyshon Operations and Associates take up their full entitlements

INVESTOR	Before Entitlement Issue		Entitlement Issue		After Entitlement Issue	
	# of Securities	%	# of Securities	# of Securities	%	
Leyshon Operations Pty Ltd and Associates*	10,601,000	30.29%	21,202,000	31,803,000	56.59%	
Keats Group and Associates*	8,000,000	22.86%	-	8,000,000	14.23%	
Other	16,399,000	46.85%	-	16,399,000	29.18%	
	35,000,000	100.00%	21,202,000	56,202,000	100.00%	

Holding if only Keats Group and Associates take up their full entitlements

INVESTOR	Before Entitlement Issue		Entitlement Issue		After Entitlement Issue	
	# of Securities	%	# of Securities	# of Securities	%	
Leyshon Operations Pty Ltd and Associates*	10,601,000	30.85%	-	10,601,000	21.17%	
Keats Group and Associates*	8,000,000	22.86%	16,000,000	24,000,000	47.06%	
Other	16,399,000	46.29%	-	16,399,000	31.77%	
	35,000,000	100.00%	16,000,000	51,000,000	100.00%	

* Associates as set out in Table 1.3 of the Notice of EGM- LPF3

1.4.4 Fairness of Resolution 1C and 1D

We have assessed the fairness of Resolution 1C and 1D by comparing the net asset backing per Stapled Security prior to and after the Capital Raising. The impact of Resolution 1 is summarised in the table below:

Impact on LPF3

	LPF3 - Before Capital Raising	Capital Raising	LPF3 - After Capital Raising
Value (\$)*	37,069,549		111,208,647
Total # issued	35,000,000	70,000,000	105,000,000
Net Asset value per Stapled Security (\$)	<u>1.0591</u>		<u>1.0591</u>

* Approximate value which includes the uplift in value to the properties (Refer Section 7.2.1)

We conclude that on a net asset backing per security basis that Resolution 1C and 1D is **fair**.

1.4.5 Reasonableness of Resolution 1C and 1D

We have considered the advantages and disadvantages of Resolution 1C and 1D for the holders of Stapled Securities in LPF3 detailed in Section 7.5.3 of this Report.

1.4.5.1 Key Advantages of Resolution 1C and 1D

Listed below is what we consider to be the key advantages of Resolutions 1C and 1D:

- n net asset value per security in LPF3 remains the same;
- n increased size of the Fund contributing to cost savings through scalability;
- n increased size of the Fund which will give it increased capacity to participate in future strategic property acquisitions; and
- n more liquid investment through an increased pool of Stapled Securities.

1.4.5.2 Key Disadvantages of Resolution 1 C and 1D

Listed below is what we consider to be the key disadvantages of Resolution 1C and 1D:

- n funds are sourced from original security holders; and
- n the shareholding of each security holder, Leyshon Operations and the Keats Group, in LFP3 remains greater than 20% after the Capital Raising.

Ernst & Young Transaction Advisory Services does not consider that any of the above disadvantages would render Resolution 1C and 1D not reasonable to the non-associated holders of the Stapled Security.

1.4.6 Opinion on Resolution 1C and 1D

Ernst & Young Transaction Advisory Services has assessed the fairness and reasonableness of Resolution 1C and 1D. In accordance with ASIC Policy Statement 74, what is fair and reasonable for the security holders has been judged in all circumstances of Resolution 1C and 1D.

- n As a result of our investigation, Ernst & Young Transaction Advisory Services is of the opinion that Resolution 1C and 1D is **fair** and **reasonable** to the non-associated holders of Stapled Securities for whom the Directors of LCL as responsible entity for LPT3 and the Directors of LDL3 have requested the preparation of this Report. The reasons for this opinion are set out in Section 7.5 of this Report.

1.5 LPF3 Resolution 2B – Approval for Substantial Assets to be acquired from Relevant Parties as part of the Takeover

1.5.1 Purpose

The purpose of Resolution 2B is to:

- n merge the Fund and BTT into one entity;
- n increase the size of the Fund which will give it increased capacity to participate in future strategic property acquisitions;
- n the Fund to potentially own a successful Brisbane CBD commercial office building;
- n increase the percentage of LPF3's income derived from stable rental income streams;
- n further diversify investments of the Fund across industry sectors and multiple tenant profiles;
- n reduce administrative costs and increase efficiencies through economies of scale in the future; and
- n create a more liquid investment through an increased pool of investors.

1.5.2 Key Elements

The proposed Takeover of all of the issued units in BTT by LPF3 which is not dependent on the success of the Capital Raising. Through the Takeover, LPF3 will be acquiring a substantial asset from:

- (a) related parties;
- (b) persons who hold at least 10% of the Stapled Securities of LPF3; and
- (c) an Associate of a person referred to in (a) and (b) above.

An asset is substantial if its value or the value of the consideration for it is 5% or more of the equity interests of LPF3. Resolution 2B requires approval from the non-associated Stapled Security Holders for the acquisition of a substantial asset from relevant parties (listed above).

1.5.3 Stages of Resolution 2B

Refer Section 1.3.3 of this Report for more details of the Takeover.

1.5.4 Fairness of Resolution 2B

We have assessed the fairness of Resolution 2B by comparing the net asset backing per Stapled Security prior to and after Resolution 2B. The impact of Resolution 2B on LPF3 is summarised in the table below:

LPF3	Before Takeover	Issue of Stapled Securities to BTT unit	After Takeover *
Net Assets (\$) **	111,208,647		180,621,907
# of Securities in Issue	105,000,000	65,538,000	170,538,000
Net Asset Value per Stapled Security (\$)	<u>1.0591</u>		<u>1.0591</u>

* Assuming that the Takeover issue is after the Capital Raising

** Approximate value which includes the uplift in value to the properties (Refer Section 7.2.1)

+ Estimated number of Stapled Securities to be issued

We conclude that on a net asset backing per security basis that Resolution 2B is **fair**.

1.5.5 Reasonableness of Resolution 2B

We have considered the advantages and disadvantages of Resolution 2B for the LPF3 Stapled Security Holders detailed in Section 7.6.3 of this Report.

1.5.5.1 Key Advantages of Resolution 2B

Listed below are what we consider to be the key advantages of Resolution 2:

- n increased size of the Fund which will give it increased capacity to participate in future strategic property acquisitions;
- n increased liquidity with a larger pool of investors;
- n value per security in LPF3 after acquisition of BTT remains at \$1.0591 per Stapled Security;
- n reduced cost structure going forward; and
- n increased percentage of LPF3's income derived from stable rental income streams.

1.5.5.2 Key Disadvantages of Resolution 2B

There appears not to be any key disadvantages of Resolution 2B.

1.5.6 Opinion on Resolution 2B

Ernst & Young Transaction Advisory Services has assessed the fairness and reasonableness of Resolution 2B. In accordance with ASIC Policy Statement 74, what is fair and reasonable for the security holders has been judged in all circumstances of Resolution 2B.

As a result of our investigation, Ernst & Young Transaction Advisory Services is of the opinion that Resolution 2B is **fair** and **reasonable** to the non-associated holders of the Stapled Security for whom the Directors of LCL as responsible entity for LPT3 and the Directors of LDL3 have requested the preparation of this Report. The reasons for this opinion are set out in Section 7.6 of this Report.

Notice of EGM – BTT

1.6 BTT Resolution 1 – Approval for Acquisition of option units by Keats Group

1.6.1 Purpose

The purpose of Resolution 1 under the Notice of EGM – BTT is for Keats Group Ltd (as trustee for the Guy Keats Family Trust) (the “Keats Group”) to purchase units in BTT pursuant to Call Option Deeds granted by two other BTT unit holders John Hendry and Prudence Hendry. This will occur prior to the proposed return of capital (Refer Bidder’s Statement for more details).

1.6.2 Key Elements

The following options over BTT units were granted to Keats Group by John Hendry and Prudence Hendry at an exercise price of \$2.38 per BTT unit (Refer Section 1.1 of the Explanatory Memorandum attached to the Notice of EGM – BTT for more details):

- n On 31 May 2006, the Keats Group was granted an option by John Hendry under which the Keats Group may acquire 1.2 million units from John Hendry and on 14 July 2006, Keats Group was assigned an option under which Keats Group may acquire a further 1.8 million units from John Hendry (total units that may be acquired under the options is 3 million units); and
- n On 31 May 2006, the Keats Group was granted an option by Prudence Hendry under which the Keats Group may acquire 0.8 million units from Prudence Hendry and on 14 July 2006, Keats Group was assigned an option under which Keats Group may acquire a further 1.2 million units from John Hendry (total units that may be acquired under the options is 2 million units).

1.6.3 Fairness of Resolution 1

We have assessed the fairness of Resolution 1 by comparing the net asset backing per security prior to and after the acquisition of units by Keats Group.

Holding if Keats Group exercises all its options

Investor	# of Units Before Acquisition	% Shareholding	Acquisition through call options	# of Units After Acquisition	% Shareholding
Keats Group Pty as trustee for the Guy Keats Family Trust	5,000,000	16.66%	5,000,000	10,000,000	33.33%
Dr John Hendry	3,000,000	10.00%		-	-
Mrs Prudence Hendry	2,000,000	6.67%		-	-
Other	20,000,000	66.67%		20,000,000	66.67%
	30,000,000	100.00%		30,000,000	100.00%

We conclude that on a net asset backing per unit basis, Resolution 1 is **fair**.

1.6.4 Reasonableness of Resolution 1

We have considered the advantages and disadvantages of Resolution 1 to the other unit holders of BTT detailed in Section 8.5.3 of this Report.

1.6.4.1 Key Advantages of Resolution 1

Listed below is what we consider to be the key advantage of Resolution 1:

- n BTT units have not traded on BSX since they were quoted. By purchasing the securities held by John Hendry and Prudence Hendry via the exercise of the options, the Keats Group is creating an exit mechanism for these unit holders.

1.6.4.2 Key Disadvantages of Resolution 1

Listed below is what we consider to be the key disadvantage of Resolution 1:

- n The unit holding of the Keats Group and its associates after the acquisition of units in BTT via the options will be greater than 20%.

Ernst & Young Transaction Advisory Services does not consider that the above disadvantage would render Resolution 1 not reasonable to the other unit holders of BTT.

1.6.5 Opinion

Ernst & Young Transaction Advisory Services has assessed the fairness and reasonableness of Resolution 1. In accordance with ASIC Policy Statement 74, what is fair and reasonable for the unit holders has been judged in all circumstances of Resolution 1.

As a result of our investigation, Ernst & Young Transaction Advisory Services is of the opinion that Resolution 1 is **fair** and **reasonable** to the other unit holders of BTT for whom the Directors of LCL as responsible entity for BTT have requested the preparation of this Report. The reasons for this opinion are set out in Section 8.5 of this Report.

1.7 Other Resolutions

LPF3

Following Resolutions 1 and 2, LCL intends to modify the Trust Deed and Constitution, amend the Stapling and Asset Management Deed, change the name of the entities comprising LPF to recognise the takeover of BTT by LPF3, approve the election of a Director and approve Directors' fees.

BTT

There are no other Resolutions in the Notice of EGM – BTT.

1.8 Control Premium

The Takeover

ASIC guidelines require an Independent Expert to assess whether a premium for control is included in the consideration payable for the units in BTT that will be issued by LPF3 to BTT unit holders.

1.8.1 The Takeover

Based on the analysis in Section 1.3 above, there is no control premium included in the Takeover.

LPF3

ASIC guidelines require the Independent Expert to assess whether a premium for control is included in the consideration payable for the securities that will be issued under Resolution 1 or the consideration payable under Resolution 2 by LPF3 to BTT unit holders.

1.8.2 Resolution 1C and 1D

Based on the analysis in Section 1.4 above, there is no control premium included in Resolution 1C and 1D.

1.8.3 Resolution 2B

Based on the analysis in Section 1.5 above, there is no control premium included in Resolution 2B.

BTT

ASIC guidelines require the Independent Expert to assess whether a premium for control is included in the consideration payable for the securities that will be acquired by the Keats Group under Resolution 1.

1.8.4 Resolution 1

Based on the analysis in Section 1.6 above, there is no control premium included in Resolution 1.

1.9 Implications if the Resolutions are Not Implemented

The Takeover

1.9.1 The Takeover

If the Takeover is not approved by the Stapled Security Holders of LPF3 and accepted by the unit holders of BTT, security holders of LPF3 and BTT will not be able to access the advantages in 1.3.5.1 above.

LPF3

In forming our opinion we have also considered the implications if Resolutions 1 and 2 are not approved by the non-associated Stapled Security Holders of LPF3.

1.9.2 Resolution 1

If Resolution 1 is not agreed to, the LPF3 Stapled Security Holders will not be able to access the advantages in 1.4.5.1 above.

1.9.3 Resolution 2

If Resolution 2 is not agreed to, the security holders of LPF3 and BTT will not be able to access the advantages in 1.5.5.1 above.

BTT

In forming our opinion we have also considered the implications if Resolution 1 is not approved by the other unit holders of BTT.

1.9.4 Resolution 1

If Resolution 1 is not agreed to, the unit holders John Hendry and Prudence Hendry will not be able to exit their investment.

2 Purpose and Scope of the Report

Ernst & Young Transaction Advisory Services has been requested by the Directors of:

- n LCL as responsible entity for LPT3;
- n LDL3; and
- n LCL as responsible entity for BTT

to prepare an Independent Expert's Report in accordance with the requirements of Sections 606, 611 and 640 of the Corporations Act, Section 7.8 of the Listing Rules of the Bendigo Stock Exchange Limited (the "BSX") having regard to disclosure and content required by the Australian Securities & Investments Commission ("ASIC") in its published Practice Notes and Policy Statements as a result of the following Resolutions listed out in the Notice of EGM – LPF3, Notice of EGM – BTT and the Takeover:

The Takeover

Resolution	Description	Independent Expert's Report
N/A	Approval by the holders of the Stapled Securities in LPF3 and acceptance by unit holders of BTT of the Takeover offer from LPF3 for acquisition of all of the units in BTT	3 Section 640 of the Corporations Act

Notice of EGM - LPF3

Resolution	Description	Independent Expert's Report
Resolution 1	Approval of the Issue of Stapled Securities for the Capital Raising	
1A	Issue of Stapled Securities	5
1B	Issues to Related Parties	5
1C	Issue of Stapled Securities to Leyshon Operations Pty Ltd	3 ASIC Policy Statement 74
1D	Issue of Stapled Securities to Keats Group Ltd (as trustee for the Guy Keats Family Trust)	3 ASIC Policy Statement 74
Resolution 2	Approval of Takeover	
2A	Approval of Takeover	5
2B	Approval for Substantial Assets to be acquired from Relevant Parties as part of the Takeover	3 As per BSX Listing Rule 7.8
2C	Approval of Financial Assistance	5
Resolution 3	Approval of the Modification of the Trust Deed	5
Resolution 4	Approval of the Modification of the Constitution	5
Resolution 5	Approval of the Modification to the Stapling and Asset Management Agreement	5
5A	Approval of the Modification to the Stapling and Asset Management Agreement with respect to the Capital Raising and Takeover	
5B	Approval of the Modification to the Stapling and Asset Management Agreement with respect to the Frequency of Reporting	
Resolution 6	Approval of Changes of Name	5
Resolution 7	Approval of the Election of a Director	5

NOTICE OF EGM – BTT

Resolution	Description	Independent Expert's Report
Resolution 1	Approval for acquisition of option units by Keats Group Ltd (as trustee for the Guy Keats Family Trust)	3 ASIC Policy Statement 74

The Takeover

Requirement of the Corporations Act

A “Section 640 report” accompanies a Target's statement and is required in situations where the bidder has 30% or more voting power in the target; the bidder and the target have one or more common directors; or the bidder is or includes an individual and the bidder is also a director of the target. Because LCL in different capacities is a bidder and is the target there are four common directors (Neil Summerson, Geoff McMahon, Michael O'Reilly and William Collins) in LCL as responsible entity of BTT (target) and LPT3 (Stapled Security in bidder LPF3).

Ernst & Young Transaction Advisory Services have prepared this Independent Expert's Report in accordance with Section 640 of the Corporations Act stating whether, in our opinion, the Takeover of BTT by LPF3 is fair and reasonable to the unit holders of BTT, and sets out our reasons for forming this opinion.

The Directors of LCL as responsible entity for LPT3 and Directors of LDL3 have requested that Ernst & Young Transaction Advisory Services prepare an Independent's Expert's Report stating whether, in our opinion, the Takeover of BTT by LPF3 is fair and reasonable to the Stapled Security Holders of LPF3, and sets out our reasons for forming this opinion.

Notice of EGM – LPF3

2.1 Resolution 1C and 1D

Two Stapled Security Holders, namely Leyshon Operations and the Keats Group, presently hold more than 20% each of the Stapled Securities in LPF3 (Refer Section 1.4.3.2 of this Report).

Requirement of the Corporations Act

Item 7 of Section 611 provides an exemption from Section 606, which prohibits the acquisition of a relevant interest in the issued voting shares of a company (which is listed or has more than 50 members) where as a consequence of the acquisition, the voting power of the acquirer or some other person increases above 20%, or from a starting point above 20% but below 90%. We understand that two security holders' (Leyshon Operations and Keats Group) interests will increase from above 20% under Resolution 1C and 1D. Due to timing considerations and other factors Leyshon Operations and Keats Group may not take up its full entitlements under the Capital Raising and may apply for Stapled Securities at a later time under the public issue under the Capital Raising (Refer Notice of EGM – LPF3 for more details). In accordance with item 7 of Section 611, LPF3 requires approval from the non-associated Stapled Security Holders to issue Stapled Securities to Leyshon Operations and the Keats Group. ASIC Policy Statement 74 requires a report from an Independent Expert on whether the Capital Raising is fair and reasonable to the non-associated Stapled Security Holders of LPF3.

Ernst & Young Transaction Advisory Services have prepared this Independent Expert's Report in accordance with ASIC Policy Statement 74 stating whether, in our opinion, the Capital Raising is fair and reasonable to the non-associated Stapled Security Holders of LPF3, and sets out our reasons for forming this opinion.

2.2 Resolution 2B

Requirement of the BSX Listing Rules

BSX Listing Rule 7.1 provides that a Trust must not acquire a Substantial Asset (an asset is substantial if its value or the value of the consideration for it is 5% or more of the equity interests of LPF ("Substantial Assets")) from certain persons, without the approval of the Stapled Security Holders. The persons who are within the ambit of Listing Rule 7.1 may be broadly described as:

- (a) related parties;
- (b) persons who hold at least 10% of the Stapled Securities of LPF3; and
- (c) an Associate of a person referred to in (a) and (b) above,

referred to as "relevant parties".

BSX Listing Rule 7.8 requires there to be a report of an Independent Expert where it is proposed for there to be an acquisition by LPF3 of a substantial asset (i.e. if the value of the asset is 5% or more of the equity interests of LPF3) from a relevant party. Under the Takeover, LPF3 is acquiring various parcels of units in BTT from relevant parties, being unit holdings that would also be considered to be substantial assets.

Pursuant to BSX Listing Rule 7.8 (b) a Notice of Extraordinary General Meeting issued must contain a report on Resolution 2 from an Independent Expert. The report must state "whether the transaction is fair and reasonable to holders of the entity's ordinary securities, other than those covered by the voting exclusion statement".

Ernst & Young Transaction Advisory Services has prepared this Independent Expert's Report under BSX Listing Rule 7.8 stating whether, in our opinion, the Resolution 2B is fair and reasonable to the non-associated security holders of the Stapled Security, and sets out our reasons for forming this opinion.

Notice of EGM - BTT

2.3 Resolution 1

Two of the unit holders in BTT, John Hendry and Prudence Hendry, have executed options in favour of the Keats Group to sell units in BTT before the Takeover (Refer Section 1.6.2 for more details on the options).

Requirement of the Corporations Act

Item 7 of Section 611 provides an exemption from Section 606, which prohibits the acquisition of a relevant interest in the issued voting shares of a company (which is listed or has more than 50 members) whereas a consequence of the acquisition, the voting power of the acquirer or some other

person increases above 20%, or from a starting point above 20% but below 90%. We understand that the Keats Group and its associates' interests will increase above 20% under Resolution 1. In accordance with item 7 of Section 611 of the Corporations Act, BTT requires approval from its other unit holders for Keats Group and its associates to increase their unit holding above the 20% threshold. ASIC Policy Statement 74 requires a report from an Independent Expert on whether the proposed acquisition of additional securities in BTT by Keats Group is fair and reasonable to the other unit holders of BTT.

Ernst & Young Transaction Advisory Services have prepared this Independent Expert's Report in accordance with ASIC Policy Statement 74 stating whether, in our opinion, the acquisition of additional securities in BTT by Keats Group is fair and reasonable to the other unit holders of BTT, and sets out our reasons for forming this opinion.

2.4 Meaning of "Fair and Reasonable"

The BSX Listing Rules provide no guidance on the preparation of fair and reasonable opinions. Therefore, in preparing our Report we have had regard for the relevant policy statements issued by ASIC, with particular reference to Policy Statements 74 and 75, as these Policy Statements provide guidance on fair and reasonable opinions.

Policy Statement 74 states that to determine whether the Proposal is fair and reasonable, the likely advantages and disadvantages to the security holders of the Stapled Security if the Resolutions are implemented must be compared to the likely advantages and disadvantages if the Resolutions are not implemented.

Policy Statement 74 states that fairness and reasonableness should be judged in all circumstances of the Resolutions. In essence, the Resolutions will be fair and reasonable if the security holders of the Stapled Security are better off if the Resolutions are implemented, that is, the expected advantages to the security holders of the Stapled Security outweigh the disadvantages.

Although the term "fair and reasonableness" has no legal definition, over time a commonly accepted meaning has evolved. "Fairness" relates to price whereas "reasonableness" involves consideration of factors other than price.

Fairness is said to involve a comparison of the value of the consideration with the value that may be attributed to the securities, which are the subject of the transaction, based on the valuation of the underlying business and assets.

The concept of reasonableness involves an analysis of factors other than fairness that non-associated members might consider prior to voting on the Resolutions.

2.5 Basis of Assessment

In view of the above guidelines, Ernst & Young Transaction Advisory Services believes that the most appropriate basis on which to evaluate Notice of EGM – LPF3 Resolutions 1C, 1D and Resolution 2B, the Notice of EGM – BTT Resolution 1 and the Takeover is via its overall impact on the LPF3 Stapled Security Holders and the unit holders in BTT, in particular, by forming an opinion as whether the likely advantages of the resolutions and the Takeover offer outweigh any potential disadvantages. In assessing the fairness and reasonableness of the resolutions and the Takeover, Ernst & Young Transaction Advisory Services has considered inter alia:

The Takeover

- n The rights of the unit holders of BTT before the Takeover;
- n The rights of the unit holders of BTT upon acceptance of the Takeover;
- n The value and form of the consideration being offered;
- n The capital structure of BTT and any dilution effects of the Takeover;
- n The likely advantages and disadvantages to the unit holders of BTT if the Takeover is accepted;
- n The likely advantages and disadvantages to the unit holders of BTT if the Takeover is not accepted; and
- n Other issues relevant to the unit holders of BTT in deciding whether or not accept the Takeover offer.

Notice of EGM – LPF3

Resolutions 1C and 1D

- n The rights of the security holders of the Stapled Security before Resolutions 1C and 1D;
- n The rights of the security holders of the Stapled Security upon implementation of the Resolutions 1C and 1D;
- n The value and form of the consideration being offered;
- n The capital structure of the Stapled Security and any dilution effects of Resolutions 1C and 1D;
- n The likely advantages and disadvantages to the security holders of the Stapled Security if Resolutions 1C and 1D are implemented;
- n The likely advantages and disadvantages to the security holders of the Stapled Security if Resolutions 1C and 1D are not implemented; and
- n Other issues relevant to non-associated security holders of the Stapled Security in deciding whether or not to vote in favour of Resolutions 1C and 1D.

Resolution 2B

- n The rights of the security holders of the Stapled Security before Resolution 2B;
- n The rights of the security holders of the Stapled Security upon implementation of the Resolution 2B;
- n The value and form of the consideration being offered;
- n The capital structure of the Stapled Security and any dilution effects of Resolution 2B;
- n The likely advantages and disadvantages to the security holders of the Stapled Security if Resolution 2B is implemented;
- n The likely advantages and disadvantages to the security holders of the Stapled Security if Resolution 2B is not implemented; and

- n Other issues relevant to non-associated security holders of the Stapled Security in deciding whether or not to vote in favour of Resolution 2B.

Notice of EGM – BTT

Resolution 1

- n The rights of the unit holders of BTT before Resolution 1;
- n The rights of the unit holders of BTT upon implementation of Resolution 1;
- n The value and form of the consideration being offered;
- n The capital structure of BTT and any dilution effects of Resolution 1;
- n The likely advantages and disadvantages to the unit holders of BTT if Resolution 1 is implemented;
- n The likely advantages and disadvantages to the unit holders of BTT if Resolution 1 is not implemented; and
- n Other issues relevant to the other unit holders of BTT in deciding whether or not to vote in favour of Resolution 1.

2.6 Approvals Required

In order for the Resolutions listed in the Notice of EGM – LPF3, Notice of EGM - BTT and the Takeover to proceed, security holder and unit holder approval will be sought at the security holders' and unit holders' meetings to be held on or around 4 September 2006 for LPF3 and BTT in respect of matters in the Notice of EGM – LPF3, Prospectus and Product Disclosure Statement and the Bidder's Statement provided to the security holders of the Stapled Security and the Notice of EGM – BTT and the Target's Statement provided to the unit holders of BTT.

Notice of EGM – LPF3

The Notice of EGM – LPF3 sets out the following resolutions to be voted on as shown below:

- | | | |
|--------------|---|--|
| Resolution 1 | - | Approval of the Issue of Stapled Securities for the Capital Raising** |
| 1A | - | Approval to issue Stapled Securities |
| 1B | - | Approval of issues to Related Parties (Capital Raising) |
| 1C* | - | Approval to issue Stapled Securities to Leyshon Operations Pty Ltd |
| 1D* | - | Approval to issue Stapled Securities to Keats Group Ltd (as trustee for the Guy Keats Family Trust) |
| Resolution 2 | - | Approval of Takeover |
| 2A | - | Approval of Takeover |
| 2B* | - | Approval for Substantial Assets to be acquired from Relevant Parties as part of Takeover |

- 2C - Approval of Financial Assistance
- Resolution 3 - Approval of the Modification to the Trust Deed
- Resolution 4 - Approval of the Modification to the Constitution
- Resolution 5 - Approval of the Modification to the Stapling and Asset Management Deed
 - 5A - Approval of the Modification to the Stapling and Asset Management Deed with respect to the Capital Raising and Takeover
 - 5B - Approval of the Modification to the Stapling and Asset Management Deed with respect of Frequency of Reporting
- Resolution 6 - Approval of Changes of Name
- Resolution 7 - Approval of the Election of a Director of the Company

Notice of EGM – BTT

The Notice of EGM- BTT sets out the following resolution to be voted on as shown below:

Resolution 1* - Approval for Acquisition of Option Units by Keats Group Pty Ltd (as trustee for the Guy Keats Family Trust)

** Resolution that requires an Independent Expert's Report and considered by Ernst & Young Transaction Advisory Services in assessing the fairness and reasonableness of the resolution*

****** The capital raising relates to the Entitlement Issue, the Priority Issue and the Public Issue ("Capital Raising") (Refer the Notice of EGM – LPF3 for more details).

2.7 Reliance on Information

In reaching its conclusions, Ernst & Young Transaction Advisory Services has considered and relied upon information provided or allowed to be placed on the public record. Our sources of information are set out in Appendix B of this Report.

We have no reason to believe that any material facts have been withheld from us. Ernst & Young Transaction Advisory Services notes, however, that we have not audited the information provided to us and we do not warrant that our enquiries have disclosed all the matters that an audit or more extensive examination might have disclosed.

3 Industry Overview

3.1 Overview

The property funds management industry includes organisations engaged in property funds management, investment and development. The key driver for organisations in this industry is occupancy demand.

The key determinant of office building demand is the size and growth of the white collar workforce¹. The white collar workforce is largely comprised of the finance, insurance, public services and the head office activities of large companies. There has been significant growth in white collar employment in Australia since the 1970's, which has flowed through to strong growth in demand for office space. In 1998, around 27% of Australian workers were located in offices².

Office demand is also affected by levels of economic growth and business profitability, which affects business growth and new business formation. Demand can also vary between product segments, for example some business tenants seek accommodation which has a higher profile quality, which is generally more expensive.

Demand for residential property is influenced by both short term cyclical economic factors and long term demographic and economic factors. Short term demand determinants include the impact of current economic conditions on consumer confidence, housing affordability, rental yield and specific government policies³.

Long term factors that impact underlying demand include population growth rates, trends in net migration, population dispersion, the age composition of the population and the rate of household formation.

3.2 Industry Trends

In regard to the industry trends associated with commercial property investment and residential property development and management, we note the following:

- n** The office leasing market in Australia improved in 2004-05, which was largely attributable to:
 - National CBD office vacancy rates falling from 9.5% in July 2004 to 7.0% in January 2006; and
 - A perception of rising risks with lower growth in white collar employment which caused rental yields for office property to rise.

¹ IBISWorld Pty Ltd, Commercial Property Operators and Developers in Australia, 27 April 2006

² IBISWorld Pty Ltd, Commercial Property Operators and Developers in Australia, 27 April 2006

³ IBISWorld Pty Ltd, Residential Construction n.e.c in Australia, 30 March 2006

- n Residential building development revenue is estimated to have grown by an average 4.6% per annum over the five years to June 2005⁴. However, during the year to June 2005, the pace of expansion slowed as demand conditions softened in response to:
- the deterioration in housing affordability over recent years; and
 - an apparent excess supply in the major metropolitan markets.

3.3 Industry Outlook

Office occupancy rates are expected to remain at low levels in the medium term, with significant levels of construction taking place in Sydney, Melbourne and Brisbane. In addition, Jones Lang LaSalle forecast that rents will rise in most major Australian capital cities⁵ in the short term.

IBISWorld expects that the outlook for the residential building development industry is for a sharp cyclical contraction in the short term followed by a return to solid cyclical growth from 2007-08 onwards. This projected short term contraction in demand for residential building development results mainly from the apparent oversupply conditions of multi-unit apartment rental stock in most inner urban markets.

⁴ IBISWorld Pty Ltd, Residential Construction n.e.c in Australia, 30 March 2006

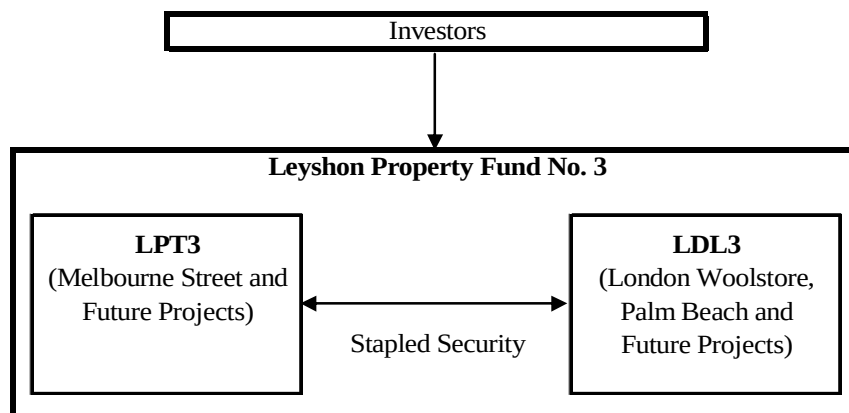
⁵ IBISWorld Pty Ltd, Commercial Property Operators and Developers in Australia, 27 April 2006

4 LPF3 Profile

4.1 Company History

In November 2004, LCL issued a prospectus and product disclosure statement for investment in LPF3 which comprised a property trust, LPT3 which invests in long term passive property investments and a property funds management and a development company, LDL3 which undertakes property funds management and active property development projects. Units in the LPT3 are stapled to the shares in LDL3 and are therefore treated as one security. The LPT3 and LDL3 subsequently listed on BSX as LPF3.

The diagram below depicts the existing group structure:



LPF3 was created in order to invest in and develop property projects including:

- 99 Melbourne Street, South Brisbane (LPT3); and
- London Woolstore at Vernon Terrace, Teneriffe, Brisbane and Palm Beach at Gold Coast Highway, Fourth Avenue and Fifth Avenue, Palm Beach, Gold Coast (LDL3).

The Stapled Security structure allows security holders to derive income from passive property ownership in addition to profits from property development.

4.2 Financial Performance

Extracts from the LPF3 unaudited Income Statement for the period ending 31 March 2006 is detailed in the following table:

Leyshon Property Fund No.3	
Other Income	
Interest revenue	409,436
Rental revenue	1,959,609
Other income	1,500,554
Total Other Income	3,869,599
Expenses	
Operating expenses	4,705,058
Total Operating Expenses	4,705,058
Profit Before Tax	(835,459)
Income tax expense	(891,161)
Profit After Tax	55,702

Source: Leyshon Property Fund No.3 Investors' Report Quarter ending 31 March 2006

4.3 Financial Position

Extracts from the LPF3 unaudited Balance Sheet for the period ending 31 March 2006 is detailed in the following table:

Leyshon Property Fund No.3	
Security Holders' Funds	
Issued and paid up capital	17,218,110
Units issued and paid up	13,905,991
Hedging (SWAP) reserve	69,912
Retained earnings	1,037,579
Profit current year	55,702
Total Security Holders' Funds	32,287,294
Assets	
Current Assets	
Cash	7,153,026
Receivables	699,898
Inventory	42,217,156
Other	65,618
Total Current Assets	50,135,698
Non Current Assets	
Property plant & equipment	28,142,500
Inventory	11,599,334
Other	13,909,258
Total Non Current Assets	53,651,092
Total Assets	103,786,790
Liabilities	
Current Liabilities	
Accounts payable	951,401
Loans	31,502,456
Provisions	17,600
Total Current Liabilities	32,471,457
Non Current Liabilities	
Loans	26,362,892
Provisions	12,665,147
Total Non Current Liabilities	39,028,039
Total Liabilities	71,499,496
Net Assets	32,287,294

Source: Leyshon Property Fund No.3 Investors' Report Quarter ending 31 March 2006

5 Blue Tower Trust Profile

5.1 Company History

BTT listed on BSX in June 2004. BTT is the owner of Comalco Place, 12 Creek Street in the Brisbane CBD. Comalco Place was acquired from AMP Life in 2003.

5.2 Financial Performance

Extracts from the BTT unaudited Income Statement for the period ending 31 March 2006 is detailed in the following table:

Blue Tower Trust	
Income	
Interest revenue	15,131
Rental revenue	11,126,995
Other income	8,718,258
Total Income	19,860,384
Expenses	
Operating expenses	8,510,720
Total Expenses	8,510,720
Net Profit	11,349,664

Source: Blue Tower Trust Investors' Report Quarter ending 31 March 2006

5.3 Financial Position

Extracts from the BTT unaudited Balance Sheet for the period ending 31 March 2006 is detailed in the following table:

Blue Tower Trust	
Unitholders' Funds	
Units issued and paid up	25,666,671
Hedging (SWAP) reserve	(865,027)
Retained earnings	47,837,662
Profit current year	11,349,665
Total Unitholders' Funds	83,988,971
Assets	
Current Assets	
Cash	1,103,641
Receivables	2,723,775
Other current assets	1,302,193
Total Current Assets	5,129,609
Non Current Assets	
Property, Plant & Equipment	176,406,380
Total Non Current Assets	176,406,380
Total Assets	181,535,989
Liabilities	
Current Liabilities	
Accounts Payable	1,701,015
Total Current Liabilities	1,701,015
Non Current Liabilities	
Loans	95,846,003
Total Non Current Liabilities	95,846,003
Total Liabilities	97,547,018
Net Assets	83,988,971

Source: Blue Tower Trust Investors' Report Quarter ending 31 March 2006

6 The Takeover

6.1 Purpose of the Takeover

The purpose of the Takeover is to:

- n merge the Fund and BTT into one entity;
- n increase the size of the Fund which will give it increased capacity to participate in future strategic property acquisitions;
- n the Fund to potentially own a successful Brisbane CBD commercial office building;
- n increase the percentage of LPF3's income derived from stable rental income streams;
- n further diversify investments of the Fund across industry sectors and multiple tenant profiles;
- n reduce administrative costs and increase efficiencies through economies of scale in the future; and
- n create a more liquid investment through an increased pool of investors.

6.2 Stages of the Takeover

6.2.1 Revaluation of Property and Other Adjustments

To ensure that the original security holders are not disadvantaged the property held by BTT was valued by an independent valuer and the Balance Sheet as at 31 March 2006 adjusted to reflect this change in value as well as other accounting adjustments. The result of the independent valuation has been summarised below:

Property	Before Independent Valuation	After Independent Valuation	Independent Valuer
Comalco Place, Brisbane (BTT)	176,406,380	184,000,000	Savills (Qld) Pty Ltd

The effect on Net Assets is given below:

Revaluation and Other Adjustments (excluding Repayment of Capital)

Balance Sheet as at 31 March 2006	Before Valuation Uplift and Other Adjustments	Other Adjustments	Valuation Uplift	After Valuation Uplift and Other Adjustments
Total Current Assets	5,129,609			5,129,609
Property, Plant and Equipment	176,406,380		7,593,620	184,000,000
Total Assets	181,535,989			189,129,609
Total Current Liabilities	1,701,014	3,373,068		5,074,082
Total Non Current Liabilities	95,846,003	16,798,242		112,644,245
Total Liabilities	97,547,017			117,718,327
Net Assets	83,988,972			71,411,282
No. of Units Issued	30,000,000			30,000,000
Net Asset Value per Unit (\$)	2.7996			2.3804

Details of Adjustments and Valuation Uplifts

Other adjustments comprise:

- n Outstanding lease incentives payable as per valuation and finance fees accrual (\$3,373,068);
- n Accrued asset management fees net of hedging swap loan (\$16,798,242); and

Valuation adjustments comprise:

- n Valuation uplift in relation to Comalco Place, Brisbane (\$7,593,620).

After Revaluation and Other Adjustments and Repayment of Capital

Balance Sheet as at 31 March 2006	After Valuation uplift and Other Adjustments	Repayment of Capital	After Repayment of Capital
Total Current Assets	5,129,609	2,000,000	3,129,609
Property, Plant and Equipment	184,000,000		184,000,000
Total Assets	189,129,609		187,129,609
Total Current Liabilities	5,074,082		5,074,082
Total Non Current Liabilities	112,644,245		112,644,245
Total Liabilities	117,718,327		117,718,327
Net Assets	71,411,282		69,411,282
No. of Units Issued	30,000,000		30,000,000
Net Asset Value per Unit (\$)	2.3804		2.3137

Details of Repayment of Capital

- n \$2 million repayment of capital upon the Takeover becoming unconditional.

6.2.2 Details of the Takeover

LPF3 has made an offer to acquire all the issued units in BTT. As consideration LPF3 will offer 2.1846 Stapled Securities for every unit of BTT. The unit holders of BTT will receive the same value of their unit holding in BTT as consideration from LPF3.

Upon the Takeover becoming unconditional BTT proposes to repay \$2 million of the BTT capital to the BTT unit holders which may be used to fund the payment of any CGT incurred by the BTT unit holders as a result of the Takeover (Refer to the Tax Report included in the Bidder's Statement for more information and details on CGT).

6.3 Evaluation of the Takeover

In making an assessment of whether the offer by LPF3 to acquire all of the units in BTT as discussed in Section 2 of this Report, is in the best interest of the Stapled Security Holders of LPF3 and the unit holders of BTT, Ernst & Young Transaction Advisory Services has considered the advantages and disadvantages of the Takeover to the Stapled Security Holders of LPF3 and the unit holders of BTT, as listed in this Section of the Report.

6.4 Opinion

Ernst & Young Transaction Advisory Services has assessed the fairness and reasonableness of the Takeover to the Stapled Security Holders of LPF3 and the unit holders of BTT. In accordance with ASIC Policy Statement 74, what is fair and reasonable for the Stapled Security Holders of LPF3 and the unit holders of BTT has been judged in all circumstances of these Resolutions.

As a result of our investigation, Ernst & Young Transaction Advisory Services is of the opinion that:

- n The Takeover is **fair** and **reasonable** to the Stapled Security Holders of LPF3 and the unit holders of BTT for whom the Directors of;
 - LCL as responsible entity for LPT3;
 - LDL3; and
 - LCL as responsible entity for BTT
- have requested the preparation of this Report.

In forming our opinion we have considered the fairness of the Takeover based on the following:

6.4.1 Fairness of the Takeover

Fairness is said to involve a comparison of the value of the consideration with the value that may be attributed to the securities, which are the subject of the transaction, based on the valuation of the underlying business and assets.

6.4.1.1 Definition of value

There is no single definition of the term 'value' which is suitable for all purposes. The value of a particular asset may vary from time to time. In addition, an asset may have differing values at any one time according to the purposes for which the valuation is intended.

Fair market value is most frequently used to value businesses that operate on a going concern basis. A generally accepted definition of fair market value is the price that a willing but not anxious buyer, acting at arm's length, with adequate information, would be prepared to pay and a willing but not anxious seller would be prepared to accept for the assets in question. This principle was established by the High Court of Australia in Spencer v. The Commonwealth of Australia (1907) and is still followed consistently by the judicial authority.

In light of the definitions of value outlined above, arriving at a value for any asset or business requires the application of the most appropriate valuation methodology for that asset or business. The range of methodologies available is discussed in detail below.

6.4.1.2 Common Valuation Methodologies

There are a number of methodologies available with which to value a company. The commonly used methodologies are:

- n Capitalisation of earnings;
- n Discounted cash flow;
- n Net realisable value of assets; and
- n Market based assessments.

These concepts are discussed in detail in Appendix C to this Report.

6.4.1.3 *Selected Methodology for Assessing Fairness*

Given the nature of the operations of BTT and LPF3 (property trust and fund), Ernst & Young Transaction Advisory Services is of the opinion that the net asset backing per share (net realisable value of assets), to be the most appropriate approach to assess the fairness of the Takeover.

6.5 Assessment of Fairness and Reasonableness of the Takeover

6.5.1 *Opinion*

Based on the considerations detailed below, Ernst & Young Transaction Advisory Services is of the opinion that the Takeover offer by LPF3 for all of the units in BTT is fair and the advantages of the acquisition outweigh the potential disadvantages. Accordingly, Ernst & Young Transaction Advisory Services has concluded that the Takeover offer by LPF3 for all of the units in BTT is **fair** and **reasonable** to the Stapled Security Holders of LPF3 and the unit holders of BTT, for whom the Directors of:

- n LCL as responsible entity for LPT3;
- n LDL3; and
- n LCL as responsible entity of BTT

have requested the preparation of this Report.

6.5.2 *Fairness of the Takeover*

The consideration offered by LPF3 to the unit holders of BTT will take place at the net asset backing per unit in BTT (after the return of capital).

6.5.3 *Reasonableness of the Takeover*

Advantages of the Takeover

- n diversification of investment across industry sectors and multiple tenant profiles;
- n increased capacity to participate in future strategic property acquisitions;
- n value per Stapled Security offered is the same as the net asset value per BTT unit;
- n more liquid investment through an increased pool of investors; and
- n reduced cost structure going forward.

Disadvantage of the Takeover

There appears not to be any key disadvantages to the Takeover.

7 Notice of EGM – LPF3 Resolutions

7.1 Purpose of the Resolutions

LPF3 Resolution 1

- n Through the Capital Raising to original security holders in LPF3 at an issue price of \$1.06 per Stapled Security, the Fund will raise a maximum of \$74.2 million which will be used to invest in future projects.

LPF3 Resolution 2B

The purpose of Resolution 2B is to:

- n merge the Fund and BTT into one entity;
- n increase the size of the Fund which will give it increased capacity to participate in future strategic property acquisitions;
- n the Fund to potentially own a successful Brisbane CBD commercial office building;
- n increase the percentage of LPF3's income derived from stable rental income streams;
- n further diversify investments of the Fund across industry sectors and multiple tenant profiles;
- n reduce administrative costs and increase efficiencies through economies of scale in the future; and
- n create a more liquid investment through an increased pool of investors.

7.2 Stages of the Resolutions

7.2.1 Revaluation of Property and Other Adjustments

To ensure that the original security holders are not disadvantaged, the properties in LPT3 and LDL3 have been valued by independent valuers and the Balance Sheet as at 31 March 2006 adjusted to reflect the change in value. Our assessment of the fair and reasonableness of the resolutions are based on the adjusted Balance Sheet which reflects the value of the entities as opposed to the book value.

The results of the independent valuations have been summarised below:

	Before Independent Valuation	After Independent Valuation	Independent Valuer
99 Melbourne St, South Brisbane (LPT3)	28,142,500	30,000,000	Savills (Qld) Pty Ltd
Palm Beach Plaza, Gold Coast (LDL3)	11,599,334	13,000,000	CB Richard Ellis (C) Pty Ltd
London Woolstore Apartments, Newstead (LDL3)	40,047,000	20,580,000 *	LandMark White Brisbane Pty Ltd

* The valuation as at 1 June 2006 (\$19.16 million) is based on **unsold** residential units whereas the previous valuation (\$40.04 million) is based on the gross realisation "as if complete" for **all** residential apartments. The value in the balance sheet is based on the gross realisation method.

The effect on net assets is given below:

7.2.1.1 LPT3

Balance Sheet as at 31 March 2006	Before	Other Adjustments	Valuation Uplift	After
	\$	\$	\$	\$
Total Current Assets	6,105,611			6,105,611
Property, Plant and Equipment	28,142,500		1,857,500	30,000,000
Other Non Current Assets	1,569,912	(69,912)		1,500,000
Total Assets	35,818,023			37,605,611
Total Current Liabilities	928,850			928,850
Total Non Current Liabilities	17,177,977			17,177,977
Total Liabilities	18,106,827			18,106,827
Net Assets	17,711,196			19,498,784
No. of Units Issued	35,000,000			35,000,000
Net Asset Value per Unit (\$)	0.51			0.56

Details of Adjustments and Valuation Uplifts

Other adjustments comprise:

- n Elimination of the hedging reserves (\$69,912).

Valuation adjustments comprise:

- n Valuation uplift in relation to 99 Melbourne St, South Brisbane (\$1,857,500).

7.2.1.2 LDL3

Balance Sheet as at 31 March 2006	Before	Other Adjustments	Valuation Uplift	After
	\$	\$	\$	\$
Total Current Assets*	50,233,884		2,877,436	53,111,320
Property, Plant and Equipment	11,599,334		1,400,666	13,000,000
Other Non Current Assets	13,839,343	(13,278,531)		560,812
Total Assets	75,672,561			66,672,132
Total Current Liabilities	31,542,607			31,542,607
Total Non Current Liabilities	29,553,859	(11,995,099)		17,558,760
Total Liabilities	61,096,466			49,101,367
Net Assets	14,576,095			17,570,765
No. of Shares Issued	35,000,000			35,000,000
Net Asset Value per Share (\$)	0.42			0.50

* Includes London Woolstore Apartments work-in-progress as Inventory and income receivable from sale of the units as Receivables. Refer above note under summary of the independent valuations.

Details of Adjustments and Valuation Uplifts

Other adjustments comprise:

- n Adjustments to and offsetting of deferred tax balances (\$13,278,531); and
- n Adjustments to and offsetting of deferred tax balances (\$11,995,099).

Valuation adjustments comprise:

- n Valuation uplift in relation to London Woolstore Apartments (\$2,877,436); and
- n Valuation uplift in relation to the Palm Beach Plaza (\$1,400,666).

The above valuation uplifts will not be included in the accounts under the Australian equivalents to International Financial Reporting Standards ("AIFRS").

LPF3

The Balance Sheet for LPF3 is a consolidation of the Balance Sheet of LPT3 and LDL3. The net asset value before the adjustments is \$32.4 million and after the adjustments is \$37.1 million.

7.2.2 Details of the Resolutions

7.2.2.1 LPF3 Resolution1

LPF3 proposes raising a maximum of \$74.2 million by way of a Capital Raising to original security holders. The Stapled Securities will be issued at \$1.06 per Stapled Security comprising of \$1.05 per unit in LPT3 and \$0.01 per share in LDL3. LPF3 currently has 35 million Stapled Securities on issue and after the issue is fully subscribed will have approximately 105 million Stapled Securities on issue.

7.2.2.2 LPF3 Resolution2

LPF3 proposes to acquire all of the issued units in BTT under the Takeover. As consideration, LPF3 will offer 2.1846 Stapled Securities for every unit in BTT at a total Stapled Security price of \$1.0591.

All of BTT units will be transferred to the Custodian who is required to hold the assets in LPT3 separate from the assets of the LPT3 responsible entity. This is a condition of the Australian Financial Services ("AFS") Licence of LCL. The Custodian of LPT3's assets is the Public Trustee of Queensland. LDL3 will not hold any BTT units.

As it will be LPT3 that will acquire legal ownership of the unit holding of BTT under the Takeover, the Trustee and the Board have determined for internal accounting purposes to allocate the \$1.0591 price of the Stapled Security issued under the Takeover as follows:

- n units in LPT3 will be issued for a consideration of \$1.0591 per unit; and
- n shares in LDL3 will be issued for nil consideration (i.e. \$0).

LPF3 will issue approximately 65.5 million Stapled Securities to BTT unit holders and after the takeover will have approximately 170.5 million Stapled Securities (assuming that the Capital Raising has been fully subscribed).

7.3 Evaluation of the Resolutions

In making an assessment of whether:

- n the issue of securities in LPF3 to Leyshon Operations and the Keats Group as proposed under Resolution 1C and 1D; and

- n the acquisition of substantial assets from related parties through the takeover of BTT as proposed under Resolution 2B

as discussed in Section 2 of this Report, are in the best interests of the other security holders of LPF3, Ernst & Young Transaction Advisory Services has considered the advantages and disadvantages of the above mentioned Resolutions to the Staple Security holders of LPF3 as listed in this Section of the Report.

7.4 Opinion

Ernst & Young Transaction Advisory Services has assessed the fairness and reasonableness of Resolution 1C, 1D and 2B to the non-associated Stapled Security Holders of LPF3. In accordance with ASIC Policy Statement 74, what is fair and reasonable for the security holders has been judged in all circumstances of these Resolutions.

As a result of our investigation, Ernst & Young Transaction Advisory Services is of the opinion that:

LPF3 Resolutions 1C and 1D

- n Resolutions 1C and 1D are **fair** and **reasonable** to the non-associated Stapled Security Holders of the Stapled Security for whom the Directors of LCL as responsible entity for LPT3 and the Directors of LDL3 have requested the preparation of this Report.

LPF3 Resolution 2B

- n Resolution 2B is **fair** and **reasonable** to the non-associated Stapled Security Holders of the Stapled Security for whom the Directors of LCL as responsible entity for LPT3 and the Directors of LDL3 have requested the preparation of this Report.

In forming our opinion we have considered the fairness of the Takeover based on the following:

7.4.1 Fairness of the Resolutions

Fairness is said to involve a comparison of the value of the consideration with the value that may be attributed to the securities, which are the subject of the transaction, based on the valuation of the underlying business and assets.

7.4.1.1 Definition of value

There is no single definition of the term 'value' which is suitable for all purposes. The value of a particular asset may vary from time to time. In addition, an asset may have differing values at any one time according to the purposes for which the valuation is intended.

Fair market value is most frequently used to value businesses that operate on a going concern basis. A generally accepted definition of fair market value is the price that a willing but not anxious buyer, acting at arm's length, with adequate information, would be prepared to pay and a willing but not anxious seller would be prepared to accept for the assets in question. This principle was established by the High Court of Australia in Spencer v. The Commonwealth of Australia (1907) and is still followed consistently by the judicial authority.

In light of the definitions of value outlined above, arriving at a value for any asset or business requires the application of the most appropriate valuation methodology for that asset or business. The range of methodologies available is discussed in detail below.

7.4.1.2 *Common Valuation Methodologies*

There are a number of methodologies available with which to value a company. The commonly used methodologies are:

- n Capitalisation of earnings;
- n Discounted cash flow;
- n Net realisable value of assets; and
- n Market based assessments.

These concepts are discussed in detail in Appendix C to this Report.

7.4.1.3 *Selected Methodology for Assessing Fairness*

Given the nature of the operations of BTT and LPF3 (property trust and fund), Ernst & Young Transaction Advisory Services is of the opinion that the net asset backing per share (net realisable value of assets), to be the most appropriate approach to assess the fairness of the above mentioned resolutions.

7.5 Assessment of Fairness and Reasonableness of LPF3 Resolutions 1C and 1D

7.5.1 *Opinion*

Based on the considerations detailed below, Ernst & Young Transaction Advisory Services is of the opinion that Resolutions 1C and 1D are fair and the advantages of the said resolutions to the non-associated security holders of LPF3 outweigh the potential disadvantages. Accordingly, Ernst & Young Transaction Advisory Services has concluded that Resolutions 1C and 1D are **fair** and **reasonable** to the non-associated security holders of LPF3, for whom the Directors of LCL and the Directors of LDL3 have requested the preparation of this Report.

7.5.2 *Fairness of Resolutions 1C and 1D*

The issue of Stapled Securities to Leyshon Operations and the Keats Group will take place at the net asset backing per Stapled Security.

7.5.3 *Reasonableness of LPF3 resolutions 1C and 1D*

7.5.3.1 *Advantages of LPF3 Resolutions 1C and 1D*

- n net asset value per security in LPF3 remains the same.
- n increased size of the Fund contributing to cost savings through scalability;
- n increased size of the Fund which will give it increased capacity to participate in future strategic property acquisitions; and
- n more liquid investment through an increased pool of stapled securities.

7.5.3.2 *Disadvantages of LPF3 Resolutions 1C and 1D*

- n funds are sourced from the original security holders.

- n the shareholding of each security holder, Leyshon Operations and the Keats Group, in LPF3 remains greater than 20% after the Capital Raising.

Ernst & Young Transaction Advisory Services does not consider that any of the above disadvantages would render Resolution 1C and 1D not reasonable to the security holders of the Stapled Security.

7.6 Assessment of Fairness and Reasonableness of LPF3 Resolution 2B

7.6.1 Opinion

Based on the considerations detailed below, Ernst & Young Transaction Advisory Services is of the opinion that the acquisition of substantial assets from relevant parties as part of the takeover of BTT under Resolution 2B is fair and the advantages of the takeover to the non-associated holders of the Stapled Security outweigh the potential disadvantages. Accordingly, Ernst & Young Transaction Advisory Services has concluded that the acquisition of substantial assets from relevant parties as part of the takeover of BTT is **fair** and **reasonable** to the non-associated holders of the Stapled Security, for whom the Directors of LCL as responsible entity for LPT3 and the Directors of LDL3 have requested the preparation of this Report.

7.6.2 Fairness of LPF3 Resolution 2B

The takeover of BTT by LPF3 will take place at \$1.0591, the net asset value per security of LPF3.

LPF3

LPF3	Before Takeover	Issue of Stapled Securities to BTT unit holders⁺	After Takeover [*]
Net Assets (\$) ^{**}	111,208,647		180,621,907
# of Securities in Issue	105,000,000	65,538,000	170,538,000
Net Asset Value per Stapled Security (\$)	<u>1.0591</u>		<u>1.0591</u>

^{*} Assuming that the Takeover issue is after the Capital Raising

^{**} Approximate value which includes the uplift in value to the properties (Refer Section 7.2.1)

⁺ Estimated number of Stapled Securities to be issued

7.6.3 Reasonableness of LPF3 Resolution 2B

Advantages of LPF3 Resolution 2B

- n increased size of the Fund which will give it increased capacity to participate in future strategic property acquisitions;
- n increased liquidity with a larger pool of investors;
- n value per security in LPF3 after acquisition of BTT remains at \$1.0591 per Stapled Security;
- n reduced cost structure going forward; and
- n increased percentage of LPF3's income derived from stable rental income streams.

7.6.3.1 Key Disadvantages of LPF3 Resolution 2B

There appears not to be any key disadvantages of Resolution 2B.

8 Notice of EGM – BTT Resolution

8.1 Purpose of the Resolution

8.1.1 BTT Resolution 1

- n Acquisition of units held by John Hendry and Prudence Hendry by Keats Group which will increase its unit holding over the 20% threshold.

8.2 Stages of the Resolution

8.2.1 Revaluation of Property and Other Adjustments

Refer Section 6.2.1 of this Report.

8.2.2 Details of Resolution 1

Keats Group has options to acquire BTT units from John Hendry and Prudence Hendry at an exercise price as determined by the directors of LCL as responsible entity of BTT pursuant to the Call Option Deeds. We have been advised that the exercise price is \$2.38 per BTT unit. The units on issue in BTT will remain the same. If all the options are exercised by Keats Group, the unit holding of the Keats Group will increase from 16.66% to 33.33% (Refer Section 1.6.3 of this Report for more details).

The price per unit of \$2.38 offered to John Hendry and Prudence Hendry is different to the price per unit of \$2.137 offered by LPF3 for the Takeover. The difference is due to the proposed repayment of capital to BTT unit holders (Refer Section 1.1 of the Explanatory Memorandum attached with the Notice of EGM – BTT for more details).

8.3 Evaluation of Resolution 1

In making an assessment of whether the acquisition of BTT units by Keats Group as proposed under Resolution 1 as discussed in Section 2 of this Report, is in the best interests of the other unit holders of BTT, Ernst & Young Transaction Advisory Services has considered the advantages and disadvantages of the above mentioned Resolution to the unit holders of BTT, as listed in this Section of the Report.

8.4 Opinion

Ernst & Young Transaction Advisory Services has assessed the fairness and reasonableness of Resolution 1 to the other unit holders in BTT. In accordance with ASIC Policy Statement 74, what is fair and reasonable for the security holders has been judged in all circumstances of these resolutions.

As a result of our investigation, Ernst & Young Transaction Advisory Services is of the opinion that:

BTT Resolution 1

- n Resolution 1 is **fair** and **reasonable** to the other unit holders of BTT for whom the Directors of LCL as responsible entity for BTT have requested the preparation of this Report.

In forming our opinion we have considered the fairness of the resolutions based on the following:

8.4.1 Fairness of BTT Resolution 1

Fairness is said to involve a comparison of the value of the consideration with the value that may be attributed to the securities, which are the subject of the transaction, based on the valuation of the underlying business and assets.

8.4.2 Definition of value

There is no single definition of the term 'value' which is suitable for all purposes. The value of a particular asset may vary from time to time. In addition, an asset may have differing values at any one time according to the purposes for which the valuation is intended.

Fair market value is most frequently used to value businesses that operate on a going concern basis. A generally accepted definition of fair market value is the price that a willing but not anxious buyer, acting at arm's length, with adequate information, would be prepared to pay and a willing but not anxious seller would be prepared to accept for the assets in question. This principle was established by the High Court of Australia in Spencer v. The Commonwealth of Australia (1907) and is still followed consistently by the judicial authority.

In light of the definitions of value outlined above, arriving at a value for any asset or business requires the application of the most appropriate valuation methodology for that asset or business. The range of methodologies available is discussed in detail below.

8.4.3 Common Valuation Methodologies

There are a number of methodologies available with which to value a company. The commonly used methodologies are:

- n Capitalisation of earnings;
- n Discounted cash flow;
- n Net realisable value of assets; and
- n Market based assessments.

These concepts are discussed in detail in Appendix C to this Report.

8.4.4 Selected Methodology for Assessing Fairness

Given the nature of the operations of BTT, Ernst & Young Transaction Advisory Services is of the opinion that the net asset backing per unit (net realisable value of assets), to be the most appropriate approach to assess the fairness of the resolution.

8.5 Assessment of Fairness and Reasonableness of BTT Resolution 1

8.5.1 Opinion

Based on the considerations detailed below, Ernst & Young Transaction Advisory Services is of the opinion that the acquisition of additional units in BTT by Keats Group via options under Resolution 1 is fair and the advantages of the acquisition outweigh the potential disadvantages. Accordingly, Ernst & Young Transaction Advisory Services has concluded that the acquisition of additional units in BTT by Keats Group via options under Resolution 1 is **fair** and **reasonable** to the other unit

holders, for whom the Directors of LCL as responsible entity for BTT requested the preparation of this Report.

8.5.2 Fairness of BTT Resolution 1

The acquisition of units in BTT by Keats Group will take place at the net asset backing per security.

8.5.3 Reasonableness of BTT Resolution 1

Advantages of BTT Resolution 1

- n BTT units have not traded on BSX since they were quoted. By purchasing the securities held by John Hendry and Prudence Hendry via the exercise of the options, Keats Group is creating an exit mechanism for these unit holders.

Disadvantages of BTT Resolution 1

- n The unit holding of Keats Group after the acquisition of units in BTT via the options will be greater than 20%.

Ernst & Young Transaction Advisory Services does not consider that the above disadvantage would render Resolution 1 not reasonable to the other unit holders of BTT.

9 Statement of Qualifications and Declarations

Ernst & Young Transaction Advisory Services, which is wholly owned by Ernst & Young holds an Australian Financial Services Licence under the Corporations Act and its Representatives are qualified to provide this Report. The directors of Ernst & Young Transaction Advisory Services responsible for this Report have not provided financial advice to Leyshon Corporation Limited ("LCL"), the responsible entity, Leyshon Property Trust No. 3 ("LPT3"), Leyshon Developments No. 3 Limited ("LDL3") (the "Stapled Security") and Blue Tower Trust ("BTT").

Prior to accepting this engagement Ernst & Young Transaction Advisory Services considered its independence with respect to LCL, LPT3, LDL3 and BTT with reference to the ASIC Practice Note 42 entitled "Independence of Expert's Reports". In Ernst & Young Transaction Advisory Services' opinion it is independent of LCL, LPT3, LDL3 and BTT.

This Report has been prepared specifically for the non-associated security holders of LPT3, LDL3 and BTT. Neither Ernst & Young Transaction Advisory Services, Ernst & Young, nor any member or employee thereof undertakes responsibility to any person, other than a non-associated security holder of LPT3, LDL3 and BTT in respect of this report, including any errors or omissions howsoever caused.

The statements and opinions given in this Report are given in good faith and the belief that such statements and opinions are not false or misleading. In the preparation of this Report Ernst & Young Transaction Advisory Services has relied upon and considered information believed after due inquiry to be reliable and accurate. Ernst & Young Transaction Advisory Services has no reason to believe that any information supplied to it was false or that any material information has been withheld from it. Ernst & Young Transaction Advisory Services has evaluated the information provided to it by LCL as responsible entity to LPT3 and LDL3 and as responsible entity to BTT as well as other parties, through inquiry, analysis and review, and nothing has come to its attention to indicate the information provided was materially misstated or would not afford reasonable grounds upon which to base its Report. Ernst & Young Transaction Advisory Services does not imply and it should not be construed that it has audited or in any way verified any of the information provided to it, or that its inquiries could have verified any matter which a more extensive examination might disclose.

LCL has provided an indemnity to Ernst & Young Transaction Advisory Services for any claims arising out of any misstatement or omission in any material or information provided to it in the preparation of this report.

Ernst & Young Transaction Advisory Services provided draft copies of this Report to the independent directors and management of LCL for their comments as to factual accuracy, as opposed to opinions, which are the responsibility of Ernst & Young Transaction Advisory Services alone. Changes made to this Report as a result of this review by the independent directors and management of LCL have not changed the methodology or conclusions reached by Ernst & Young Transaction Advisory Services.

Ernst & Young Transaction Advisory Services will receive a professional fee based on time spent in the preparation of this report, estimated at approximately \$60,000. Ernst & Young Transaction Advisory Services will not be entitled to any other pecuniary or other benefit whether direct or indirect, in connection with the making of this report.

Ms Anne-Maree Keane B Bus (Dist), CA, F Fin, Principal and Representative of Ernst & Young Transaction Advisory Services and a Principal of Ernst & Young and Mr Grant Murdoch M Com (Hons) FCA, Director and Representative of Ernst & Young Transaction Advisory Services and a Partner of Ernst & Young have assumed overall responsibility for this Report. Ms Keane and Mr Murdoch have over 40 years of combined experience in providing financial advice and valuation advice and have professional qualifications appropriate to the advice being offered.

The preparation of this Report has been undertaken pursuant to Sections 604 and 611 of the Corporations Act and Section 7.8 of the BSX Listing Rules. Ernst & Young Transaction Advisory Services has also had regard to relevant ASIC Policy Statements and Practice Notes. It is not intended that the Report should be used for any other purpose other than to accompany the Notice of Extraordinary General Meeting and Explanatory Memorandum sent to the Stapled Security Holders and unit holders of BTT. In particular, it is not intended that this Report should be used for any other purpose other than as an expression of its opinion as to whether or not the Notice of EGM – LPF3 Resolutions 1C and 1D, Notice of EGM - BTT Resolution 1 and the Takeover is in the best interest of security holders of the Stapled Security and unit holders of BTT.

The financial forecasts used in the preparation of this report reflect the directors and management's judgement based on present circumstances, as to both the most likely set of conditions and the course of action it is most likely to take. It is usually the case that some events and circumstances do not occur as expected or are not anticipated. Therefore, actual results during the forecast period will almost always differ from the forecast and such differences may be material. To the extent that our conclusions are based on forecasts, we express no opinion on the achievability of those forecasts.

Ernst & Young Transaction Advisory Services consents to the issue of this report in the form and context in which it is included in the Notices of Extraordinary General Meeting to be sent to BTT unit holders and LPF3 Stapled Security Holders, Bidder's Statement and Target's Statement.

Appendix A – Glossary

Within this document, the following terms have been given the following definitions.

Abbreviation	Definition
AFS Licence	Australian Financial Services Licence
AIFRS	Australian equivalent to the International Financial Reporting Standards
ASIC	Australian Securities and Investment Commission
BSX	Bendigo Stock Exchange Limited
BTT	Blue Tower Trust (ARSN 109 093 852)
Capital Raising	The Entitlement Issue, the Priority Issue and the Public Issue approved by Stapled Security holders at an extraordinary general meeting of LPF3 on or about 4 September 2006
CBD	Central Business District
Custodian	The Public Trustee of Queensland
Company	Leyshon Corporation Limited (ACN 090 257 480)
Entitlement Issue	Proposed capital raising comprising a 2 for 1 "Entitlement Issue" of Stapled Securities to the original security holders in LPF3
Ernst & Young Advisory Services	Ernst & Young Advisory Services Limited (CAN 003 599 844)
Fund	Leyshon Property Fund No. 3
Keats Group	Keats Group Pty Limited as trustee for the Guy Keats Family Trust
LCL	Leyshon Corporation Limited as Responsible Entity to LPT3 and as Responsible Entity to BTT
LDL3	Leyshon Developments No. 3 Limited (ACN 111 628 589)
Leyshon Operations	Leyshon Operations Pty Limited (ACN 074 603 580)
LPF3	Leyshon Property Fund No. 3 being LPT3 and LDL3
LPT3	Leyshon Property Trust No. 3 (ARSN 109 093 816)
Net Asset	Total Assets minus Total Liabilities
Net Asset Value per Security	Net Asset divided by the number of securities in issue
Notice of EGM - BTT	Notice of Extraordinary General Meeting Blue Tower Trust
Notice of EGM - LPF3	Notice of Extraordinary General Meeting - Leyshon Property Trust No. 3 - Leyshon Developments No. 3 Limited
Original security holders	All of the holders of the Stapled Securities on the record date for the Entitlement Issue; or All of the holders of the units in BTT on the record date for the takeover
Report	Independent Expert's Report
Share	A share in LDL3
Stapled Security Holders	Holders of the Stapled Security
Stapled Security	One unit in LPT3 and one share in LDL3
Takeover	LPF3 has offered to purchase all of the units in BTT offering 2.1846 Stapled Securities for every unit in BTT as consideration
Unit	A unit in LPT3 or BTT
Unit Holders	Unit holders in LPT3 or BTT

Appendix B – Sources of Information

In the preparation of this report Ernst & Young Transaction Advisory Services has used the following sources of information:

- n Annual Reports for the Year Ended 30 June 2005 and Quarterly Investor Reports for the Period Ended 31 March 2006 for LPF3 and BTT.
- n Forecast financial models for LPT3, LDL3, LPF3, LPF and BTT.
- n Valuation Report on “London Woolstore Apartments” 36 Vernon Street, Newstead, QLD 4006 by LandMark White Brisbane Pty Ltd dated 1 June 2006.
- n Valuation Report on “Palm Beach Plaza” Shopping Centre Site, 1102 & 1112 Gold Coast Highway, Palm Beach, Gold Coast, Queensland by CB Richard Ellis (C) Pty Ltd dated 15 April 2006.
- n Valuation Report on “Comalco Place” 12 Creek Street, Brisbane, Queensland by Savills (Qld) Pty Ltd dated 1 June 2006.
- n Valuation Report on “99 Melbourne Street” South Brisbane, Queensland by Savills (Qld) Pty Ltd dated 1 June 2006.
- n Discussions with the directors and management of LCL.
- n IBISWorld Industry Reports on “Property and Business Services in Australia”, 30 March 2006 and “Residential Building Construction n.e.c. in Australia E4112” 30 March 2006, “Commercial Property Operators and Developers in Australia L7112”, 27 April 2006.
- n BSX Listing Rules.
- n Corporations Act.
- n Notice of Extraordinary General Meeting LPF3, dated 19 July 2006.
- n Notice of Extraordinary General Meeting BTT, dated 19 July 2006.
- n LPF3 Prospectus and Product Disclosure Statement, dated 19 July 2006.
- n Bidder’s Statement to acquire all units in BTT, dated 19 July 2006.
- n Target’s Statement, dated 26 July 2006.

Appendix C – Valuation Methodologies

There are a number of methodologies available with which to value a company. The commonly used methodologies are:

- n Capitalisation of earnings
- n Discounted cash flow
- n Net realisable value of assets
- n Market based assessments

Each methodology is appropriate in certain circumstances. The decision as to which methodology to apply generally depends on the nature of the company being valued, the methodology most commonly adopted in valuing such companies and the availability of appropriate information.

Capitalisation of earnings valuations involve capitalising, or multiplying, the earnings of a company using a multiple that reflects both the risks underlying the earnings and the growth prospects of the company.

This methodology requires consideration of the following factors.

- n Estimation of future maintainable earnings having regard to historical and projected earnings, abnormal or non-recurring items of income and expenditure and other factors including key industry risk factors, growth prospects and the general economic outlook.
- n Determination of an appropriate earnings multiple which reflects the risks inherent in the company, its growth prospects and alternative investment opportunities available. Earnings multiples are generally applied to net profit after tax (“NPAT”), earnings before interest and tax (“EBIT”) or earnings before interest, tax, depreciation and amortisation (“EBITDA”). Earnings multiples applied to NPAT are known as price earnings multiples (“PE multiples”) and are commonly used in relation to listed public companies. Earnings multiples applied to EBIT or EBITDA are commonly used for valuing whole companies for acquisition purposes where gearing is in the control of the acquirer. The EBIT and EBITDA alternatives are not likely to lead to a valuation conclusion which is materially different to that derived by using an NPAT multiple.
- n An adjustment for any surplus assets and liabilities to be acquired and a deduction for net interest bearing debt.

Earnings multiples applied to NPAT are known as price earnings multiples and are commonly used in relation to listed public companies. Earnings multiples applied to EBITDA are known as EBITDA multiples and are commonly used in respect of companies comprising a number of businesses where debt cannot be precisely allocated or in acquisition scenarios where the purchaser is likely to control gearing.

Earnings multiples can also be applied to other measures of earnings including operating cash flow, earnings before interest and tax and earnings before depreciation, interest and tax. These alternatives are not likely to lead to a valuation conclusion which is materially different to that derived from using NPAT or EBITDA.

This methodology is appropriate where a company or business has demonstrated a stable record of earnings that is expected to continue indefinitely. It is the most frequently applied methodology in valuing industrial companies.

Discounted cash flow (“DCF”) valuations are based on the net present value of cash flows expected to be generated from future activities. The projected cash flows are discounted to a present day value by a discount rate that reflects both the time value of money and the risks inherent in the cash flows.

The DCF methodology is appropriate in valuing a company with a finite life such as mines, companies that are in a start up phase and are expecting considerable volatility in earnings, or companies with a changing cash flow profile over time.

This method requires consideration of the following factors.

- n Quantification and assessment of the cash flow projections of the business.
- n Determination of a discount rate which is used to convert the future cash flows into a present day value. The discount rate reflects both the time value of money and the risks inherent in the projected cash flows.
- n Determination of a terminal value. The terminal value captures the value of cash flows occurring after the projection period into perpetuity. This value is discounted to a present day value and added to the present value of the cash flows occurring during the projection period.
- n An adjustment for any surplus assets and liabilities to be acquired and a deduction for net interest bearing debt.

Net realisable value of assets valuations involves the determination of the net realisable value of the assets of a company assuming an orderly realisation of those assets. It is not a valuation on the basis of a forced sale where the assets might be sold at values materially different from their fair market value. This approach is appropriate where the company is a going concern, where there are surplus or non-operating assets and where the assets are generally not generating an appropriate level of return. A discount may be included to allow for the time value of money and for reasonable costs of undertaking the realisation.

A variation to this approach is to use net realisable value of tangible assets which may be appropriate when it is difficult to reliably value intangible assets.

Market based assessment valuations relate to the valuation of companies, shares or other assets using the prices at which comparable companies, shares or assets have been bought and sold in arm's length transactions. This is often the most reliable evidence as to value but in the case of companies it is often difficult to find directly comparable transactions.

For companies whose shares are traded on a stock exchange, the relevant share price would, prima facie, constitute the market value of the shares, however, such market prices usually reflect the prices paid for small parcels of shares and as such do not include a control premium relevant to a significant parcel of shares.

Part 2 – Financial Services Guide

**THIS FINANCIAL SERVICES GUIDE FORMS PART OF THE
INDEPENDENT EXPERT'S REPORT**

PART 2 – FINANCIAL SERVICES GUIDE

Issue date: 15 February 2005 (version 1)

1. Ernst & Young Transaction Advisory Services

Ernst & Young Transaction Advisory Services Limited (“Ernst & Young Transaction Advisory Services” or “we,” or “us” or “our”) has been engaged to provide general financial product advice in the form of an Independent Expert’s Report (“Report”) in connection with a financial product of another person. The Report is set out in Part 1.

2. Financial Services Guide

This Financial Services Guide (“FSG”) provides important information to help retail clients make a decision as to their use of the general financial product advice in a Report, information about us, the financial services we offer, our dispute resolution process and how we are remunerated.

3. Financial services we offer

We hold an Australian Financial Services Licence which authorises us to provide the following services:

- financial product advice in relation to securities, derivatives, general insurance, life insurance, managed investments, superannuation, and government debentures, stocks and bonds; and
- arranging to deal in securities.

4. General financial product advice

In our Report we provide general financial product advice. The advice in a Report does not take into account your personal objectives, financial situation or needs.

You should consider the appropriateness of a Report having regard to your own objectives, financial situation and needs before you act on the advice in a Report. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain an offer document relating to the financial product and consider that document before making any decision about whether to acquire the financial product.

We have been engaged to issue a Report in connection with a financial product of another person. Our Report will include a description of the circumstances of our engagement and identify the person who has

engaged us. Although you have not engaged us directly, a copy of the Report will be provided to you as a retail client because of your connection to the matters on which we have been engaged to report.

5. Remuneration for our services

We charge fees for providing Reports. These fees have been agreed with, and will be paid by, the person who engaged us to provide a Report. Our fees for Reports are based on a time cost or fixed fee basis. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority.

Ernst & Young Transaction Advisory Services is ultimately owned by Ernst & Young, which is a professional advisory and accounting practice. Ernst & Young may provide professional services, including audit, tax and financial advisory services, to the person who engaged us and receive fees for those services.

Except for the fees and benefits referred to above, neither Ernst & Young Transaction Advisory Services, nor any of its directors, employees or associated entities receive any fees or other benefits, directly or indirectly, for or in connection with the provision of a Report.

6. Associations with product issuers

Ernst & Young Transaction Advisory Services and any of its associated entities may at any time provide professional services to financial product issuers in the ordinary course of business.

7. Responsibility

The liability of Ernst & Young Transaction Advisory Services is limited to the contents of this Financial Services Guide and the Report.

8. Complaints process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial services. All complaints must be in writing and addressed to the Compliance and Legal Manager and sent to the address below. We will make every effort to resolve a complaint within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Industry Complaints Service or the Insurance Brokers Disputes Limited for general insurance product advice.

Contacting Ernst & Young Transaction Advisory Services Compliance and Legal Manager Ernst & Young 680 George Street Sydney NSW 2000 Telephone: (02) 9248 5555	Contacting the Independent Dispute Resolution Schemes: Financial Industry Complaints Service Limited PO Box 579 – Collins Street West Melbourne VIC 8007 Telephone: 1800 335 405 Insurance Brokers Disputes Limited Level 10 99 William Street Melbourne VIC 3000 Telephone 1800 064 169
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This Financial Services Guide has been issued in accordance with ASIC Class Order CO 04/1572