

**A Guide to Research Practices
in the
Shopping Centre Industry**

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Innovative Research Specialists



DIRECTIONAL INSIGHTS

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1.0 INTRODUCTION

Directional Insights is Australia's leading consumer research consultancy with a reputation for innovation, knowledge and excellence. We specialise in the design and delivery of cutting-edge research for shopping centres, retailers and other property facilities, including residential, leisure and recreational complexes across Australia and New Zealand.

With over twenty years experience in the consumer research and property industries, we are in the enviable position of having worked on some highly significant projects. Our client base is both varied and impressive.

By exploring and analysing the latest shifts in consumer behaviours, attitudes and values, Directional Insights is relentlessly inventive in identifying emerging market opportunities and tailoring solutions to optimise clients' competitive advantage. The purpose of this guide is to provide an understanding of the types of research, methodologies and practices currently used in the shopping centre industry. This guide covers the following topics:

- Outlining the importance of research and distinguishing between various types of research.
- Identifying the types of research utilised in the industry, at various stages of the property cycle, and the way in which they are typically executed.
- In-depth focus on types of research undertaken for properties under master planning / development.
- Identifying benchmark activities.

1.1 What is Market Research and why is it important in shopping centre management

"Market research is the systematic gathering of data for the purpose of making more -informed decisions and developing new knowledge.

In the shopping centre industry, research has grown from primarily a development driven discipline to an integral part of the decision-making process for every aspect of operations, from development, leasing and retailing to marketing and management. This growing reliance on market research has occurred as competition has increased, the consumer has become more sophisticated and the economy and the retail environment have become more unpredictable.

However, the key to market research is not so much in the raw data as in how the information is interpreted by shopping centre professionals, used in decision making and translated into a strategic plan that determines the success of a shopping centre.

In a customer-driven, market-driven society, shopping centres must know their customers and understand where to reach them, what motivates them and how to attract their business."

(International Council of Shopping Centres : Marketing Series).





2.0 TYPES OF MARKET RESEARCH

Broadly within any market there are two main types of research utilised, economic and consumer research.

2.1 Economic Research

Economic research basically consists of two main forms, macro economics and micro economics.

2.1.1 Macro Economics

Macro economics is the study of the entire economy in terms of the total amount of goods and services produced, total income earned, level of employment and general pricing behaviours.

It is important for any company to have an understanding of the overall Australian economy and its machinations and sector specific view point on the economic score sheet of the industry in which the company relates. It is common, within the shopping centre industry, for companies to obtain or develop themselves an Australian macro view point of the economy in general and the retail market specifically.

2.1.2 Micro Economics

The study of micro economics involves the examination, in the case of the retail industry, of the individual shopping centre or individual market sector, for example, behaviour of regional shopping centres. Shopping centre micro economic assessment is used to:

- Determine the potential market size and characteristics
- Understand current and potential market demographics
- Analyse competition both existing and proposed
- Analyse site potential for remix / reconfiguration / relaunch / development

On a micro basis individual economic assessments of assets by owners are undertaken on a regular basis, either in the form of a Market and Centre Assessment (summary study) or a Strategic Review, which encompasses the overall development potential of a particular asset.

2.2 Consumer Research

Within consumer research there are two main forms of research, qualitative and quantitative research.

2.2.1 Quantitative Research

Quantitative research involves the use of a structured questionnaire in which the response options are pre-coded and a large number of respondents are involved. Quantitative research involves a statistical representation and the results can be typically projected to the population. The results are statistically relevant and can reliably determine if one concept, product, package, etc., is better than the alternatives.



Quantitative research is not appropriate as a method to develop creative ideas. Quantitative research is essentially evaluative, not generative.

Methods:

- Detailed and structured questionnaire possibly with some open-ended questions. e.g. Customer Exit Survey.
- Usually deployed through face-to-face or telephone or online interviews.

Generally used:

- To answers the questions “how many, where from, how much”;
- To test alternative hypotheses such as which concept is more favourable;
- Understand the market segment sizes and profile e.g. Trade Areas;
- Understand the market conversion rate potential from non-user to user.

2.2.2 Qualitative Research

Qualitative research was developed to explore the behaviour of the consumer which is less accessible through traditional questionnaires and closed answer responses. The research methodology was designed to explore the answers to the question of “why”.

Qualitative research involves collecting, analysing and interpreting data by observing what people say and do. It is non-numerical data that provides depth and detail through direct quotation and careful description of situations, events, interactions and observed behaviours in order to generate patterns, themes & ideas.

Analysis is a complete, detailed description and answers the “why” questions.

It is subjective, but is able to generate ideas and concepts (lists of possibilities) with in-depth focus and knowledge of the researcher’s problem. It employs a wide variety of techniques to collect data, rather than a standard structured questionnaire.

Methods:

- In-depth, open-ended interviews; for example in the form of focus groups, that is, groups of five to seven respondents at a time carry on a group discussion, led by a trained moderator.
- Direct observation; and
- Written documents, including such sources as open-ended written items on questionnaires or diary records.

Generally used:

- For brainstorming and testing new ideas or concepts e.g. entertainment and leisure precinct.
- To assist with quantitative research e.g. understanding “why” some customers are non-users, and not just how many are non-users.
- In situations where it is impractical to obtain reliable quantitative samples. e.g. sensitive topic areas

2.2.3 Pluralistic Research

Quantitative and Qualitative Research are complimentary tools. Many researchers have adopted the methodology of Pluralistic Research that combines the two approaches. Depending on the problem definition this may involve qualitative research initially to understand the nature of the issue and potential solutions followed by a quantitative phase to understand the scope of the issue and level of support for the various solution options.



3.0 INDIVIDUAL SHOPPING CENTRE VIEW

3.1 Basic Requirements

There are two principle pieces of information needed by management to acquire an instant and essential profile of a Centre.

- Market and Centre Assessment
- Customer Exit Survey

3.1.1 Market and Centre Assessment

Synopsis

This is sometimes also known as a Centre Market Update. Each centre should have a current understanding of the market in which it sits. The fundamental elements of a Market and Centre Assessment are:

- Centre area, turnover and occupancy costs compared to industry benchmarks for total centre and specialty performance
- Trade Area Map
- Competition Map
- Demographic description of residents within the trade area
- Expenditure profile of the trade area residents
- Trade Area Growth Rate Forecasts
- Market Share Analysis

3.1.2 Customer Exit Surveys

Synopsis

A Customer Exit Survey is essential staple information to Shopping Centre Management. Generally, it should be undertaken every 2-3 years for Regional Centres and every 3-4 years for sub-regional and neighbourhood shopping centres depending on the market conditions in each Trade Area.

A Customer Exit Survey is an in-centre study undertaken with typically between n=400 – n=1,000 customers in the centre who have completed their shopping trip. It is a quantitative study that provides hard numbers as to expenditure, use, view of the centre and demographics.

Detailed modelling of the customer data can also be undertaken to determine shopper needs and profiles of shopper satisfaction.

There has been three major trends that have occurred in the use of Customer Exit Surveys.

Firstly, they have moved from being an intercept survey (involving customer arriving at the centre, or being in the middle of their shopping or leaving the centre) and primarily changed to Exit Surveys across the industry. That is only customers who have finished their shopping are interviewed.



Secondly, sample sizes have increased. In the early 1990's typical sample sizes for all centres usually included n=300. In order to increase the survey's reliability and be able to segment the results to smaller levels e.g. age by spend, owners have increased their sample sizes accordingly. Neighbourhood centres typically still have sample sizes of n=300 or n=500, sub-regional centres have increased to between n=400 to n=800 depending on location and size (i.e. double supermarket, double DDS centre) and regionals/super regionals currently have sample sizes of n=800 to n=1,200.

Thirdly, the timing of the surveys now has more focus. The main influencers of timing choice include:

- Centre development completion (post six months).
- Competitor centre development completion (post six months).
- School holidays.
- Major retail and local events.
- Ability to apply findings once the survey is complete (e.g. access to owners' funds, major tenant availability etc.)

Research companies utilised should be members of the Australian Market and Social Research Society and comply with the IQCA Guidelines and Privacy Laws. In addition the firm selected should have experience undertaking sampling quotas for shopping centres across doors, hours and days.

Most importantly, the research company should understand which spend item belongs to each of the key commodity groups e.g. where does mobile phone spend belong.

Outliers in expenditure data also needs to be handled in a consistent manner. This way expenditure at a shopping centre across commodity groups can be reported accurately and consistently.

Once an exit survey program is established it is an excellent idea to have the information benchmarked internally and to industry benchmarks.



3.2 Shopping Centre Lifecycle Assessment

It is important to assess where the asset you manage sits on the lifecycle curve. One of the simplest yet most effective tools to apply to understanding where an asset sits on the lifecycle curve is to graph sales growth against market growth.

Market growth is made up of population growth, CPI (Retail) and real growth for the trade area. Against this graph it is also important to plot historical centre improvements over time. If the sales for the centre are growing above market then it usually indicates the centre is in launch or rapid growth phase. If it is tracking on or below market growth, it is consolidating or in decline. **Chart 3.1** provides an example of this method.

Another way owners assess the lifecycle, is to track dollars per square metres for the centre over time. (Track asset growth for either total centre sales or specialty sales.) This is then compared to industry averages for growth over the same time period, **Chart 3.2** provides an example.

Chart 3.1: Example of Shopping Centre Lifecycle – Growth in Retail Market

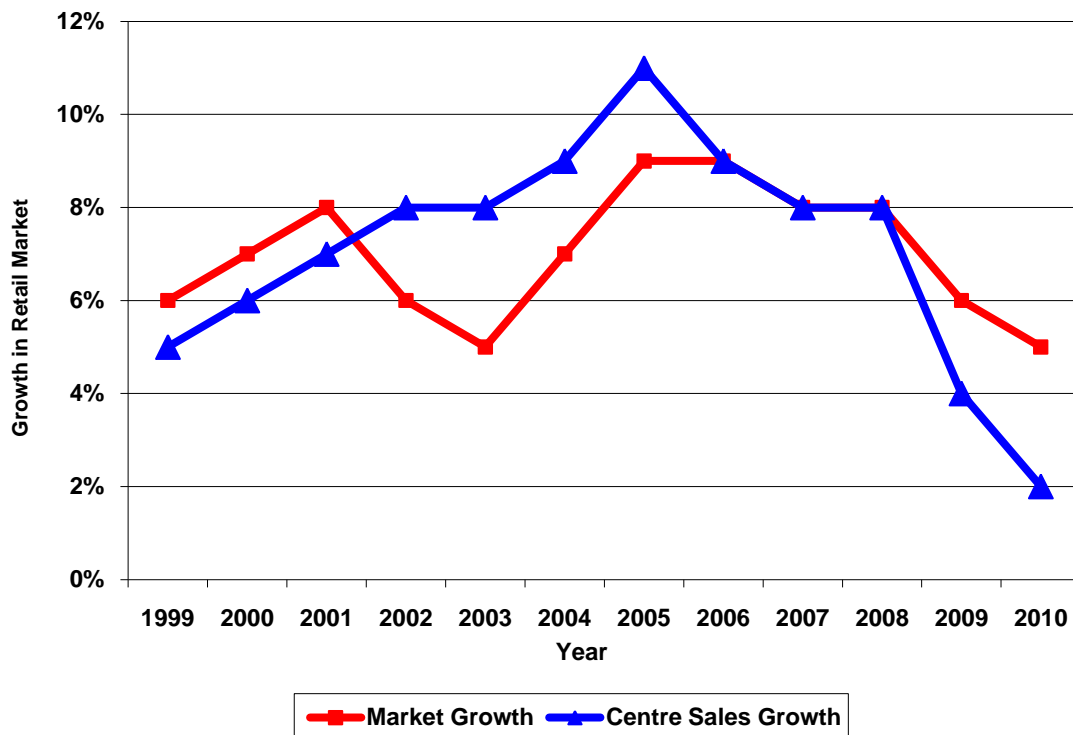
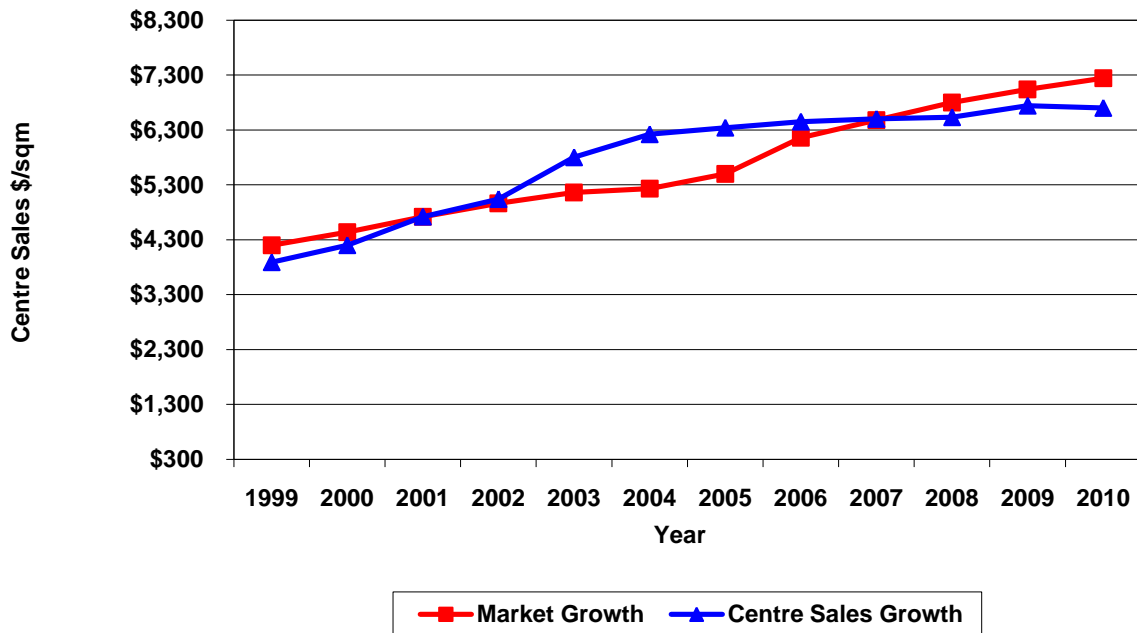


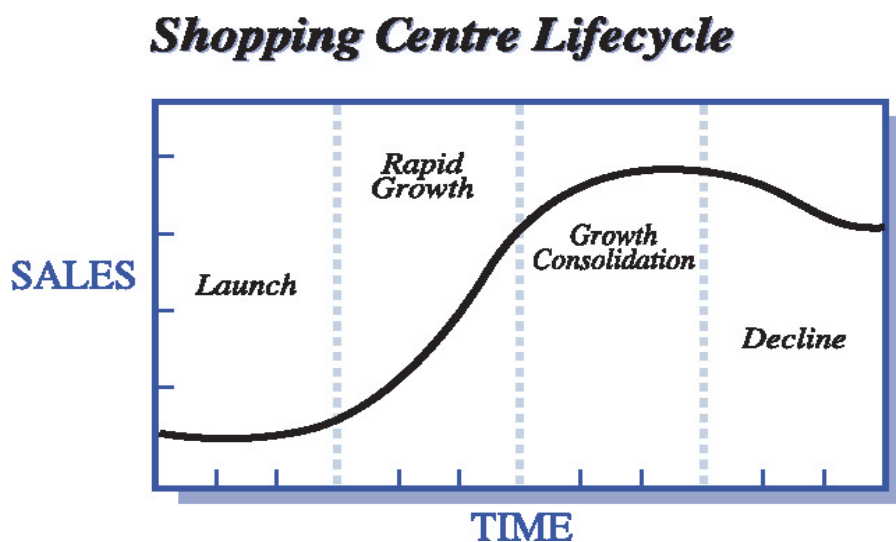


Chart 3.2: Example of Shopping Centre Lifecycle – Centre Sales \$/SQ.M



Depending on where the asset sits will determine the short and long term strategy required to maintain growth. It will also indicate the type of research required to support the asset strategy at any given time.

Chart 3.3: Shopping Centre Lifecycle



3.3 Launch Phase : Research for Development/Redevelopment

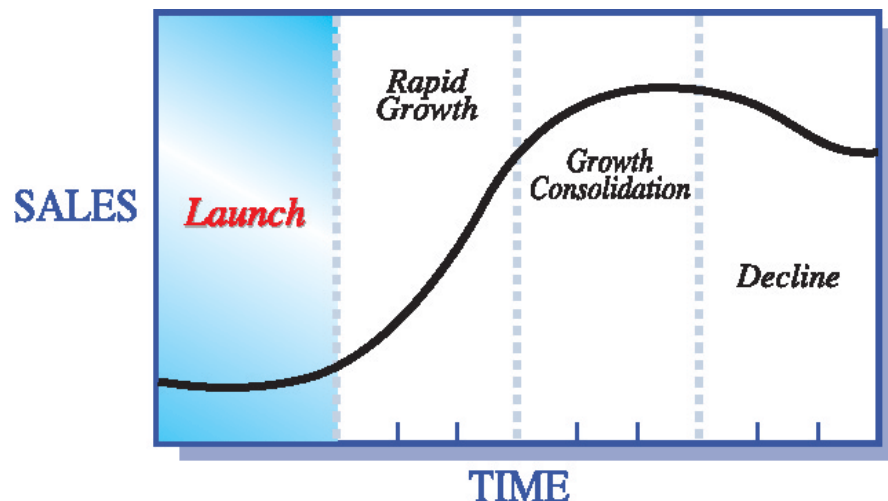
Synopsis

When undertaking redevelopment of a property (assumed as few green-field sites remain), it is important to obtain several key pieces of information to assist in mitigating any investment risk in the capital works program.

It is important to understand:

- the economic potential to expand the centre,
- the preferred development scenarios economically and from the customer's view point
- the master plan and retail plan should be fully tested both economically and from the consumer point of view
- and for large scale developments the marketing launch platform should also be market tested.

Chart 3.4: Launch Phase Stage



3.3.1 Basic Requirements Information

As outlined earlier, all centres should have the basic information requirements available before a large scale development would be considered, this includes up to date information on the Market and Centre Assessment and Customer Exit Survey Profile.



3.3.2 Strategic Review of Centre Development Potential

It is typical for the development team to obtain a report on centre potential from an economic view point. Initially, this primarily involves economic research which is used to:

- determine the potential market size and characteristics
- understand current and potential market demographics
- assess competition, both existing and proposed
- analyse site potential for remix, reconfiguration and/or development

Once the initial assessment has been made then it may be appropriate to proceed with a full Market Assessment / Strategic Review. We would note that owners often go straight to the full Market Assessment / Strategic Review.

A Market Assessment / Strategic Review for a typical centre would include:

- Location and Composition
- Trade Area Analysis
- Trade Area Demographics
- Retail Spending and Potential
- Competition Review
- Proposed Competitive Developments
- Sales Performance and Potential
- Occupancy Cost Performance
- Market Share Analysis and Potential
- SWOT Analysis
- Future Development Potential/Outlook

If the centre is due for redevelopment/rejuvenation at this initial stage it may be appropriate to also assess preliminary development scenarios (if these have been developed). If they have not, then it is commonplace for supplementary reports to be done further down the track with specific development scenarios economically tested.

3.3.3 Stakeholder Mapping

It is becoming increasingly common for owners to undertake Stakeholder Mapping in the local community particularly on major or community sensitive developments.

This involves an external stakeholder mapping company to review and document the primary individuals involved in the Council planning area, structure of local action groups and typical development progress through Council, so a needs analysis can be constructed.

3.3.4 Consumer Market Testing (Qualitative)

On completion of the Economic Assessment of the centre or site, if there is potential to develop or expand the centre, aligning the master plan to the trade area customer's needs is essential.

Some perceived economically viable developments have failed to reach investor expectations as a result of not understanding or delivering to the trade area consumers' needs.



Before the Master Plan for the centre development is finalised it is important to understand the local market's needs and expectations.

The methodology applied is dependent on the scope and scale of the proposed development though the primary method is via focus groups.

Qualitative research, via focus groups, is used to understand the attitudes and thoughts of people with similar behaviour patterns or who live in similar areas. It provides the consumer 'a voice' to explain the rationale behind certain behaviours and attitudes which may be unknown to the developing company. It also provides a forum to question participants on their opinion of various development schemes, treatments and retail plans. There are various techniques available, and again the exact methodology would be determined in line with the brief. However, focus groups are the most widely used technique in qualitative research.

A focus group study is typically a two to three hour facilitated session with five to seven participants recruited to attend. The facilitator will use a discussion guide to direct the group to discuss their views on various items. Specialised techniques such as image collages and bubble pictures, to name but a few can be utilised to draw out in depth customer thoughts and unconscious opinions.

In most cases a minimum of four to six focus groups are conducted to understand the full extent of the issue being researched and to avoid group bias. The groups are usually organised in life stage segments of frequent users and occasional users of the centre.

There are two primary ways in which development scenarios are tested with the market. The first approach is to undertake focus groups throughout the trade area with both frequent and occasional users of the subject shopping centre, and before even testing or developing a centre redevelopment plan, the needs and aspirations of the market are understood.

Once the information is obtained then the development manager would utilise the economic research on the centre potential and the customer feedback on their needs and aspirations for the centre, and develop a master plan.

Following on from this, block plans for the centre will be developed along with a broad retail plan. This is then taken back to the marketplace to be tested in a focus group environment with both frequent and occasional users of the shopping centre to develop an understanding of their likes and dislikes of the plan and the potential use of the improved shopping centre.

While the master plan is being tested it is common for the retail plan and the marketing launch platform to also be tested in a qualitative environment. We would note that on some occasions owners proceed directly to master plan testing.

3.3.5 Further Economic Testing of Proposed Development Schemes

During the master planning process the proposed development scheme will be developed further based on asset plan assessments, retail planning and community input via focus groups. At this stage it is likely that several development scenarios will be available which will be specifically economically tested. Depending on the outcomes these plans may be returned to the market place for additional community testing.



3.3.6 Consumer Market Testing (Quantitative)

Once the qualitative research has been completed and the detailed master plan has been economically tested, the more specific details of the development and retail plan are quantitatively tested with the marketplace. This usually involves either conducting a telephone survey or face-to-face survey with residents of the trade area.

This is often an excellent opportunity, to conduct user/non-user research. This typically involves undertaking a telephone survey within the Main or Total Trade Area with residents to understand their use, or lack of use, of the subject centre. Sample sizes are typically n=500 to n=800 depending on the size of the centre and the number of trade areas involved.

A 15 minute survey is typically employed to gauge the shopping behaviour of residents living within the trade area. It is particularly useful to assess residents' desire and rating of different retail mix or development options.

This is also useful in assessing the different behaviours and retail mix preferences between users and non-users.

Users are typically classified as residents who visit the subject Centre fortnightly or more often. Between 65% - 80% of customers in a shopping centre being studied visit fortnightly or more often classifying them as users.

Non-users are residents who visit the subject centre monthly or less often and are therefore less familiar with the centre and tend not to use it as their centre of first choice, so potential can exist to satisfy their needs further and therefore entice increased visitation and therefore spend.

This form of research can also be of assistance for Development Application submissions as part of the community consultation. Whilst online surveys are a cheaper option, at this stage there is often insufficient participation within a small trade area to obtain a reliable sample. However for national or capital city issues, online surveys are a less expensive option.

3.3.7 Additional Consumer Market Testing (Qualitative)

In addition, depending on the size of the project it is not uncommon during the construction planning process for some developers to also test the fixtures and fittings and further test the marketing program for a major launch program. We note, that this is more commonly used for large scale regional and super regional property developments.

3.3.8 Typical Budget Allocations for Development Approval Phase

To summarise, several components of research will be required during the development phase of a shopping centre. This will include an economic assessment commonly called a market assessment or strategic review of the centre which will often involve a base report and subsequent ancillary reports depending on scheme variations. There will also be a consumer research component often encompassing a qualitative and quantitative component and a stakeholder mapping exercise.

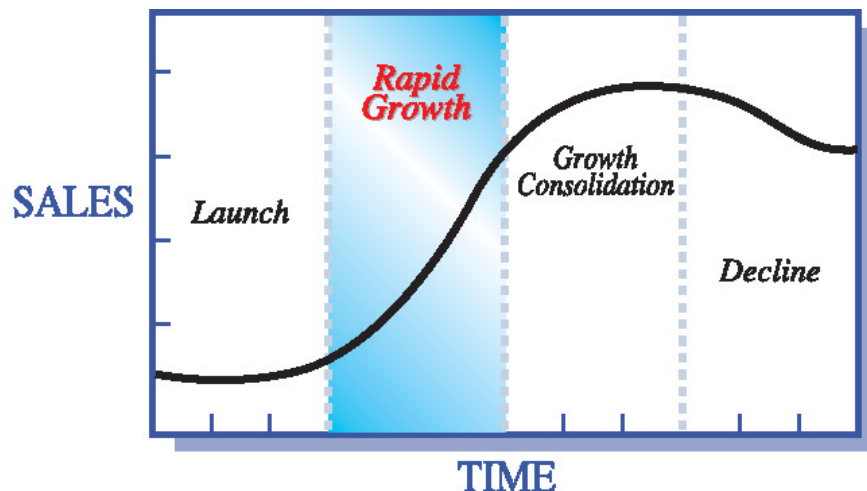
During the formulation of the master plan and development scheme over a two to three year period for large scale developments, the following investments are not uncommon with owners:

- | | |
|---------------------------|---------------------|
| • Economic Assessment | \$15,000 - \$55,000 |
| • Stakeholder Mapping | \$7,000 - \$45,000 |
| • Scheme Assessment | \$8,000 - \$30,000 |
| • Qualitative Assessment | \$30,000 - \$60,000 |
| • Quantitative Assessment | \$30,000 - \$60,000 |

For a large scale development it is not uncommon for \$100,000 to \$300,000 to be spent by owners from inception to completion on research.

3.4 Rapid Growth

Chart 3.5: Rapid Growth Stage



Synopsis

For anyone who has been involved with Shopping Centre development or any product launch it goes without saying, the first six to twelve months post launch are critical.

At this time there are two tools that are critical to ensure long term issue reduction in any shopping centre development.

Between six and twelve months after the centre opening, a customer exit survey should be conducted to understand:

- changed trade area patterns
- customer expenditure
- shopping habits
- issues

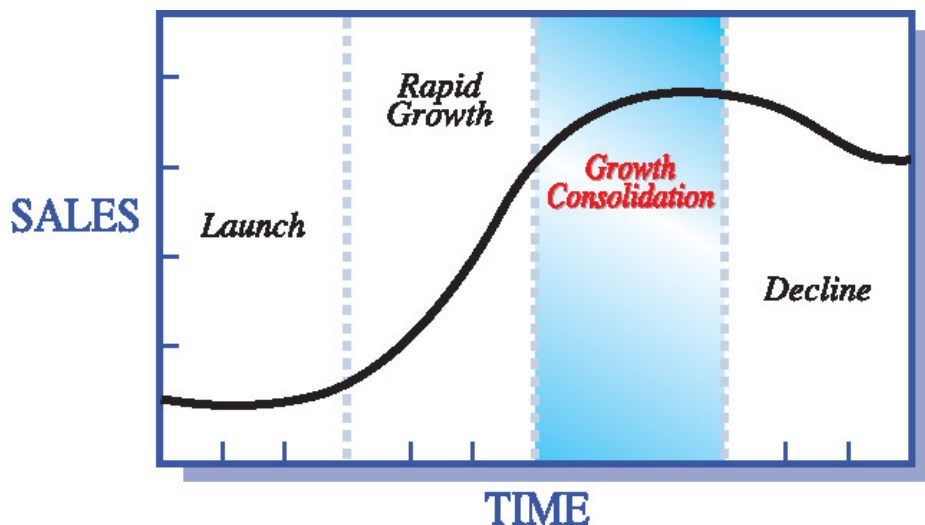
As a contingency if the asset does not perform to budget or asset plan expectations, then a user/non-user survey may be utilised to understand the issues and what needs to occur to persuade customers to spend more or visit more.

Depending on the critical nature of the post launch outcome, this may need to be further supplemented with focus groups.

Additionally, a detailed centre composition analysis usually occurs 6-12 months into trade to understand the centre's trading performance strengths and weaknesses as compared to similar assets. This allows the centre team to clearly identify issues that need to be addressed immediately before trading patterns are affected in the long term.

3.5 Stabilisation (Consolidation of Growth)

Chart 3.6: Growth Consolidation Stage



Synopsis

Post-launch, a centre usually takes some time to stabilise into a consistent trading pattern with good sales, customer and rental growth.

Assuming this is the case then the centre research requirement will rely ostensibly upon the Basic Requirements outlined in **Section 3.1**.

The primary information data set the Centre Team will need to track is the market growth compared to:

- the sales
- traffic
- rental growth

By doing this the team will be able to track the centre's life stage progress and quickly identify when the consolidation of growth is likely to turn into decline.

Moreover, during stabilisation is often when specifically targeted research projects occur to refine and maximise the performance of an asset. Examples include Food Court Studies, Centre Facilities Studies, Parents Room, fashion retail mix studies.

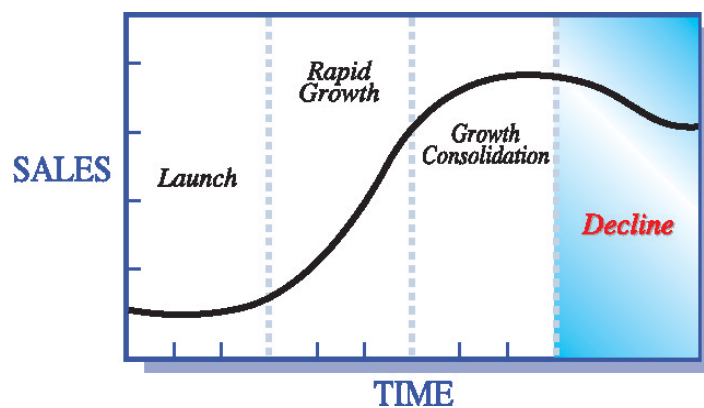
3.6 Centre Renewal (Avoiding Decline)

Synopsis

As explained earlier all shopping centres and products experience the lifecycle ride. The key for shopping centre managers and developers is to deploy lifecycle renewal through centre rejuvenation or development **prior** to decline setting in.

But it is all in the timing. Due to the long lead times involved in planning, designing and delivering shopping centre developments and remixes the decline can often be well entrenched prior to planning commencing.

Chart 3.7: Decline Stage



This can result in:

- lost revenue
- opportunity for a competitor to enter the market

It is, therefore, imperative that the Asset Managers understand exactly where their asset sits on the lifecycle curve and how long before it moves to the next stage.

Chart 3.8: Lifecycle Renewal:

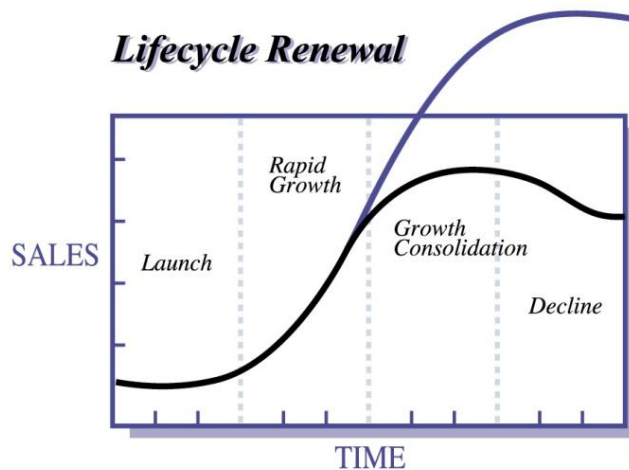




Table 3.1: Summary of Lifecycle Research Requirements

LIFECYCLE	RESEARCH TYPE	
Launch	Economic Assessment	
	• determine market potential	✓
	• test proposed options	✓
	Consumer Assessment	
	• qualitative research (understand the customer and test proposed options)	✓
	• quantitative research (test proposed options and market conversion)	✓
	• qualitative research (test final option, detailed design, retail mix delivery and marketing launch)	✓
	Stakeholder mapping	✓
	Exit survey within six to twelve months of launch	✓
	Rapid Growth	Market and centre composition within six to twelve months of launch
	A research contingency plan should also be prepared to activate if asset does not perform to expectations	
Consolidation of growth	Market and centre assessment	✓
	Customer exit survey	✓
	Specific research project e.g. ideal fashion mix	✓
Avoiding decline	Lifecycle view	✓



4.0 RESEARCH AND MARKETING

Typically, the research practices for shopping centres, primarily revolve around the physical centre and the opportunities to improve its performance.

Setting the physical asset aside, one of the other uses for research in shopping centres is to understand and test marketing strategies and stimulus.

There are several areas of marketing which benefit from research:

- Awareness and Preference of Marketing Material
- Media Usage
- Campaign Preferences e.g. catalogues, brand image, personality testing
- Launch assessment

In this Section we have briefly outlined the main marketing strategies tested within shopping centre management.

4.1 Quantitative Research/ Customer Exit Surveys/ In-Centre Surveys

A range of marketing questions can be contained in an exit survey covering customers' awareness and preference of marketing. It is important to note that customers do not clearly discriminate Retailer advertising from Centre advertising. For this reason media, in which a Centre has not been active, will still be mentioned by customers due to centre Retailer activity in this media.

Examples of the types of marketing information that can be collected within a customer survey are:

- Awareness of Centre name and/or Centre owner name
- Awareness and preference of marketing mediums and campaigns
- Commercial Radio mainly listened to
- Commercial TV mainly watched
- Local newspaper mainly read
- Frequency of visit to the cinema
- Competitor marketing awareness
- Specific campaign assessment and preference

This marketing information can be benchmarked with other 'same type' shopping centres for comparison and to provide a context to its performance, i.e. whether it is better or worse than the industry average. In addition, these variables can be cross tabulated with other variables, for example Marketing Medium by Trade Area. This information can be a valuable input into the decision making required for marketing campaigns.

Some owners have established benchmarks whilst comparing their centres across the portfolio, however, some owners also compare their portfolio with broader centre trends.



4.2 Telephone Surveys

As telephone surveys can interview customers and non customers to a centre, they can be used to measure the total market's awareness of and preference for marketing. A telephone survey can measure marketing awareness and preference for people living in the Total Trade Area. Results can be segmented to compare respondents that visit the centre and those that do not.

Respondents can provide brand and marketing awareness and marketing preference, relating to either your Centre or competitor centres. In addition, this information can be segmented to provide greater depth to the information, use or non use of your Centre, competitor usage and/or by trade area.

These results can be cross tabulated by demographics or other information to gain a profile of customers responding a certain way.

4.3 Qualitative Research

Qualitative research is ideal for the initial investigation of something new, whether it be a new product or brand, a new shopping centre development or redevelopment, or a new marketing campaign.

Focus groups can be used to explore respondents views on various Marketing options, identifying what they like and don't like and why. Focus groups are flexible enough to allow respondents to make suggestions of how they would modify the concept(s), how this would improve it and then to gain responses from the rest of the group. During focus groups visual stimulus is often presented and this can be in the form of print advertising, scripts for radio, story boards for television or even the taping of the finished product. A competitor's marketing can even be compared to a centre's own marketing efforts to provide context and comparison.

Owners use this tool in isolation or in combination with master planning to understand new marketing initiatives and centre launch campaigns as well as assessment of current campaigns.



5.0 REPORT DISCLAIMER

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