Austock Childcare Fund
ARSN 104 229 861

15 October 2009

RG 46 DISCLOSURE NOTICE

The Australian Securities & Investments Commission (ASIC) now requires responsible entities of unlisted property funds in which retail investors invest to address eight disclosure principles which are set out in Regulatory Guide 46 *Unlisted property schemes—improving disclosure for retail investors* (RG 46). The disclosure principles are intended to assist retail investors to understand the risks associated with investing in unlisted property funds and to decide whether such investments are suitable for them.

Austock Property Management Ltd (APML), as responsible entity of the Austock Childcare Fund (ACF or the Fund), has issued this document addressing the disclosure principles for the Fund.

Information included in this statement will be updated as soon as APML becomes aware of a material change or otherwise at least every six months. Updates on the status of information relating to the disclosure principles will be available at www.acfund.com.au. Investors can request a hard copy of these updates to be sent to them by contacting APML on + 61 3 8601 2668.

This statement has been prepared as general information only and does not take into account the investment objectives, financial situation or needs of a particular person. ACF's annual accounts to 30 June 2009 provide additional information on the Fund and are available on ACF's website at http://www.acfund.com.au/reports_publications/annual_reports.aspx

Disclosure Principle 1 - Gearing Ratio

The gearing ratio represents the extent to which the assets of a fund are financed by debt. The higher a fund's gearing ratio the greater its reliance on external liabilities (primarily borrowings) to finance the assets. A higher gearing ratio may also expose a fund to increased costs if interest rates rise or property values decrease. A highly geared fund generally has a lower asset buffer to rely upon in times of financial stress. Investors can use the gearing ratio to assess the potential risks associated with an investment in a fund in the event interest rates rise or property values decrease; and to compare the risk associated with a fund's return on investment to other similar products.

As at 30 June 2009, the gearing ratio of the Fund is 42.1%[1].

As at 30 June 2009, the Fund did not have any off balance sheet financing.

Disclosure Principle 2 - Interest Cover

As at 30 June 2009, the Fund's interest cover is 2.05 times[2] for the financial year ending 30 June 2009.

This figure indicates that the Fund currently has sufficient earnings to satisfy interest repayments. Specifically, based on current figures, the Fund could service its interest expense by 2.05 times. Having a high interest cover provides a buffer if interest rates or other expenses of the Fund increase. Based on the Fund's hedging arrangements, the Fund's interest rate is fully hedged and therefore not subject to fluctuations.

Investors can use an interest cover ratio to assess a fund's ability to meet ongoing interest payments and therefore service debt. The lower the interest cover, the higher the risk a fund will not be able to meet its interest payments. A fund with a low interest cover only needs a small reduction in earnings (or a small increase in interest rates or other expenses) to be unable to meet its interest payments.

[1] Calculated by dividing the Fund's total interest bearing liabilities by the total value of the assets, based on the audited financial statements dated 30 June 2009.

[2] The interest cover for a fund is calculated by determining its earnings before interest, tax, depreciation and amortisation (EBITDA), subtracting realised/unrealised gains (if any) and adding realised/unrealised losses (if any). This figure is then divided by the current interest expense (also known as the finance cost) of the fund.

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Disclosure Principle 3 - Fund Borrowing

Borrowing maturity profile
The Fund has an interest only Term Debt Facility of $11.4 million with the Commonwealth Bank. The amount currently drawn down is $11.4 million[3], fully drawn as at 30 June 2009. Interest is paid on a quarterly basis throughout the term of the facility which expires on 27 June 2010.

There are risks associated with the borrowing maturity profile of the Fund. As the Fund's borrowings mature on 30 June 2010, there is a risk refinancing will be on less favourable terms or not available at all. If the Fund cannot refinance, then it may need to sell assets on a forced sale basis with the risk that it may realise a capital loss on those assets sold. APML uses interest rate swaps to fully hedge the Fund's exposure to interest rates. The Fund has no off-balance sheet financial instruments.

Loan covenants
The Fund is not in breach of any covenants under its Term Debt Facility with the Commonwealth Bank ("Bank"). However, as investors are aware, the Fund's major tenant ABC Learning Centres Limited (ABC) was placed in receivership in November 2008. Thirteen of the Fund's properties remain in the ABC1 portfolio pending the end of the Receivership period.

A breach of a Loan Covenant or an Event of Default may result in a lender being able to impose a penalty or require immediate repayment of the loan, in which case the Fund may be forced to arrange alternative financing or sell assets within a short timeframe.

Ranking of investors
Investors' interests in the Fund will rank behind lenders and other creditors of the Fund. This means, if the Fund was to be wound-up, then the Fund's lenders and other creditors would be repaid first, before any capital or outstanding distributions were paid to investors as is normal practice.

Disclosure Principle 4 - Portfolio Diversification

Generally, the more diversified a fund's portfolio is, the lower the risk that an adverse event affecting one property or one lease will put the overall portfolio (and therefore, the Fund) at risk. The table below summarises the funds investments as at 30 June 2009.

	No. of Properties	**Value as at 30 June 2009 $000's**	**% of Gross Assets[5]**	**Lease Expiry Years**	**Occupancy %**
Investment Properties					
Total Childcare Centres	28	29,958	96.2	9[4]	86[6]
Less Revaluation Decrement		(4,102)			
Other Assets		1,167	3.8	-	-
Total Gross Assets		**27,023**	**100.0**	-	-

All ACF's properties are located in Australia as detailed in the table below.

State	**No. of Properties**	**Value as at 30 June 2009 $000's[5]**	**% of Property Value[5]**
Qld	25	27,561	92.0
SA	3	2,397	8.0
Total	**28**	**29,958**	**100%**

As investors are aware, the property portfolio of the Fund has focused on childcare properties predominantly leased to one tenant, ABC. The risks inherent in an undiversified portfolio were thought to be mitigated by the fact that the tenant was a profitable, publicly listed company with most of its income funded by Federal Government subsidies. However, the collapse of ABC in November 2008 has highlighted the underlying risk.

[3] Based on the audited financial statements dated 30 June 2009.
[4] Excludes closed centres.
[5] Excludes revaluation decrement as at 30 June 2009.
[6] Includes closed centres.

Prior to ABC being placed in Receivership, the majority of the Fund's childcare centres were leased to ABC. ABC was placed into receivership on 6 November 2008. Since that time, the centres have been split into various categories as follows:

	No of Properties	Carrying Value $000's	Current Rent (pa) $000's
Operating Properties			
ABC 1 (under the control of McGrath Nicol)	13	14,650	1,210
Non ABC Centres	11	12,318	1,035
	24	26,968	2,245
Closed Centres			
- Sold / Contracted	2	1,560	-
- Available for Sale/Lease	2	1,430	-
Total Properties	28	29,958	
Revaluation decrement		(4,102)	
Total Properties		**25,856**	

ABC 1: ABC1 properties have remained under the control of McGrath Nicol (ABC Receiver) since 6 November 2008. McGrath Nicol selected 720 properties (ABC1) that were deemed profitable and continue to be operated by ABC, 13 of that group of properties are owned by the Fund. McGrath Nicol, indicated that they proposed to stabilise the operating performance of the centres with the aim of selling the ABC business to new operators. The Administrators of ABC made a court application requesting an extension to the convening period of the Administration. The ABC Administration period has been extended twice previously and whilst McGrath Nicol continues to pay the rent on a monthly basis, the Fund has been unfairly prejudiced as a result thereof.

Austock Property Management Limited (APML) as the Responsible Entity of the Fund challenged the extension of the convening period on the basis that the Fund is suffering continued financial prejudice due to the length of the administration and the Receiver's continued ability to disclaim the Fund's leases as provided under the Corporations Law and other negative factors that have adversely affected the Fund as a direct result from the continued Administration. Orders by the Federal Court on 21 August 2009, provided that the convening period of the Administration is extended to 31 March 2010, including undertakings by the Receiver; which has provided greater short term clarity to the Fund and addresses some of the key issues which were in abeyance.

ABC 2

The reassignment of the ABC2 portfolio was a major project, with tight timelines in a very controlled environment. Management is pleased with the better than expected outcome of this phase of the ABC Administration given that the Administrators deemed these centres unviable.

There were 7 Fund properties in the ABC2 portfolio, which were under the control of PPB Pty Ltd (PPB), the court appointed receiver. The receiver had originally set a deadline of 31 March 2009 for the completion of the sale of the business and lease assignments; this was extended to 15 May 2009. The Fund has been able to conclude the assignment of all 7 leases to 3 new tenants on terms very similar to the terms of the existing leases between ACF and ABC.

Non-ABC Properties

These comprise 4 centres which are leased to Early Learning Centre Limited (ELS) and Worthgold Pty Limited and the 7 properties which were part of the ABC2 process.

Closed Properties

On 19 February 2009, the Fund appointed Jones Lang LaSalle ("JLL") to manage an Expressions of Interest ("EOI") process to invite interest from prospective buyers or tenants. The sales/leasing campaign initiated by the Fund in an unpredictable and declining property market realised sales below carrying value reflecting their vacant status. As at 30 June 2009, 3 properties have been sold for approximately $2.5 million and as at the date of this Report a further 2 properties have settled for approximately $0.8 million. There are 2 properties remaining on the sales and leasing campaign. The proceeds of sale from these properties will be used to pay down debt.

The investment strategy

The Fund is a fixed term unlisted property trust that solely invests in childcare centre property. The Fund launched in 2003 and has a fixed term of 12 years term and is not open for new subscriptions. ACF's aim is to provide a secure distribution to its unitholders whilst maintaining real value and low volatility. The Fund is retail in style, and was established as an ASIC registered management investment scheme to enable unitholders to benefit from a tax advantaged component.

The Fund is in a restructuring period to reflect the changes incurred as a direct result of the ABC's failure and subsequent receivership.

The Directors are focused on ensuring the best possible long term result can be achieved out of the externally managed

ABC1 sale processes. These circumstances provide less certainty than is otherwise desirable, however Management has ensured that it has played as active a role as possible in protecting the interests of the Unitholders.

Disclosure Principle 5 - Valuation policy

Investing in a property fund exposes investors to movements in the value of the fund's assets. Investors therefore need information to assess the reliability of valuations. The more reliable a valuation, the more likely the asset will return that amount when it is sold. However, any forced sale may still result in a shortfall compared to the valuation.

After initial recognition, investment properties of the Fund are measured at fair value and revalued with sufficient regularity to ensure the carrying amount of each property does not differ materially from its fair value at the reporting date. Independent valuations are performed on each property at intervals of not more than three years by registered valuers who are appropriately qualified to undertake the valuation, based on the type and locality of the property being valued. All independent valuations comply with relevant industry standards and codes. These valuations are considered by the directors of APML when determining fair value. When assessing fair value, the directors may also consider the discounted cash flow of the property, the highest and best use of the property and sales of similar properties and general market conditions. The Fund's 30 June 2009 accounts provide additional information regarding the current value of the Fund's investments.

Disclosure Principle 6 - Related Party Transactions

Current related party transactions
Information about the Fund's related party transactions are set out in the financial statements for the Fund, which are available on the Fund's website, www.acfund.com.au. APML, as responsible entity for the Fund, is entitled to receive fees in connection with the operation of the Fund. Directors of AFML are entitled to receive remuneration in their capacity as directors and senior management of APML and these amounts are paid from an entity related to APML. No Director is remunerated directly from the Fund.

It is proposed that Austock Corporate Finance Pty Ltd (ACF), a related party of APML, will be appointed to assist the Fund with current negotiations with the Receivers of ABC1 childcare centres and source potential new tenants for the Fund's childcare centres.

Policy on related party transactions
As conflicts of interest may arise when the Fund invests in, makes loans to or provides guarantees in favour of related parties, APML has a policy about managing conflicts of interest (Conflicts Management Policy). APML's Conflicts Management Policy documents the company's approach to managing conflicts. That approach is adopted by the Board of APML and underpins the training of staff to identify and manage potential conflicts. All identified conflicts are recorded in a conflicts register. The register also identifies what measures APML has in place to manage the conflict. The principal mechanisms used to manage conflicts involve controlling conflicts, avoiding conflicts and disclosing conflicts. The register is regularly updated by compliance staff and reviewed by the Compliance Committee.

Disclosure Principle 7 - Distribution Practices

As investors are aware, distributions for the Fund are currently suspended until the finalisation of the ABC1 portfolio in February 2010 . An announcement regarding distributions will be made in February when there is expected to be greater clarity around the future of ABC and the Fund's childcare centres.

Disclosure Principle 8 - Withdrawal Rights

The Fund is illiquid and investors have no redemption facility available to them.

Fund Updates

As previously advised, ACF Fund Updates will be uploaded on ACF's website and will also be sent to unitholders via email. We are committed to keeping ACF's investors well informed and update our website as often as possible. I strongly encourage unitholders and advisors who have not provided their email address details to do so by sending your details to lliossi@austock.com.