

16 March 2010

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 half-year accounts to 31 December 2009 provide additional information on the Fund and are available on ACF's website at http://www.acfund.com.au/reports_publications/half_year_financials.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 31 December 2009, the gearing ratio of the Fund is 40.8%¹. As at 31 December 2009, the Fund did not have any off balance sheet financing.

Disclosure Principle 2 - Interest Cover

The Fund's interest cover is 1.73 times² for the half year ended 31 December 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 1.73 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 31 December 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.

Disclosure Principle 3 - Fund Borrowing

Borrowing maturity profile

The Fund has an interest only Term Debt Facility of \$10.6 million with the Commonwealth Bank. The amount currently drawn down is \$10.6³, fully drawn as at 31 December 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 27 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. APMU 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 in breach of the a covenant under its Term Debt Facility with the Commonwealth Bank ("Bank"), which the Bank has waived. As investors have been previously advised, the Fund's major tenant ABC Learning Centres Limited (ABC) was placed in receivership in November 2008. 13 of the Fund's properties remain in the ABC1 portfolio pending the end of the Receivership period.

The breach (subsequently waived) is of the Interest Coverage Ratio (ICR) which measures the Fund's ability to meet its debt obligations. The drafting of the ICR currently includes allowances for non-cash items such as adjustments for straight line accounting of income and changes to the value of assets as part of the calculation. These items are non-cash and have no actual effect on the Fund's ability to meet its debt finance obligations. Exclusion of these non-cash items provided an interest coverage ratio of 2.11 times, well in excess of the existing benchmark.

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 31 December 2009.

	No. of Properties	Value as at 31 Dec 2009 \$000's	% of Gross Assets	Lease Expiry Years	Occupancy %
Investment Properties					
Total Childcare Centres	25	24,239	93.4	8	96
Other Assets		1,718	6.6		
Total Gross Assets		25,957			

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

State	No. of Properties	Value as at 31 Dec 2009 \$000's	% of Property Value
Qld	22	21,876	90.3
SA	3	2,363	9.7
Total	25	24,239	

³ Based on the audited financial statements dated 31 December 2009.

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 Childcare Properties	Carrying Value \$000's	Current Rent (pa) \$000's
Operating Properties			
ABC 1 (under the control of McGrath Nicol)	13	13,731	1,243
Other Properties	11	10,308	1,113
Closed Property (Disposed of on 8 January 2010)	1	200	-
Total Properties	25	24,239	2,356

ABC1: ABC1 properties remain under the control of McGrath Nicol (ABC Receiver). The 13 ABC1 properties (which includes 2 NELC properties) owned by ACF form part of 704 properties that continue to be operated by the ABC Receiver. On 22 December 2009, McGrath Nicol announced they had signed a conditional Contract of Sale with the GoodStart syndicate as the purchaser of the assets of the ABC1 business. ACF are continuing negotiations with both the ABC Receiver and the GoodStart syndicate with respect to the assignment of 11 of ACF's ABC1 property leases. Should the assignment be approved by Management of ACF, it is expected the assignment will occur over the following two months. It should be noted that the ABC trade sale is conditional upon a contract of sale unrelated to ACF and which is not in ACF's control. These terms could see the GoodStart transaction terminate independently of its discussions with ACF.

Other Properties: These comprise 11 properties, including 5 of which are leased to Leading Child Care Limited, 2 to Early Learning Centre Limited (ELS) and 2 to Worthgold Pty Limited. These include the former ABC2 group of 7 properties which have been assigned to new tenants.

Closed Properties: This property was closed as a result of ABC being placed into receivership on 6 November 2008, with settlement occurring on 8 January 2010.

The investment strategy

The Fund is a fixed term unlisted property trust that solely invests in childcare 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. Management is focussing on the successful assignment of its ABC1 portfolio to GoodStart and the negotiations of the extension of its debt facility with NAB. On completion of these two immediate priorities, Management will focus on ACF's strategy with a view to returning to a sustainable distribution model in the second half of 2010.

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 31 December 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 APML 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.

Austock Corporate Finance Pty Ltd (ACF), a related party of APML, has been appointed to assist the Fund with current negotiations with the Receivers of ABC1 and the potential new tenants (GoodStart) regarding ACF's 13 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. The Fund hopes to be in a position to recommence distributions once the ABC1 portfolio has been successfully assignment to new operators and a revised debt facility has been negotiated.

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 llossi@austock.com.