

# Q3 2008 Outlook

Orchard Childcare Property Fund ARSN 106 891 641  
Orchard Commercial Office Fund ARSN 115 845 871  
Orchard Diversified Property Fund ARSN 093 304 379  
Orchard Hybrid Property Fund ARSN 096 350 533  
Orchard Primary Infrastructure Fund ARSN 110 813 851  
Orchard Social Infrastructure Trust ARSN 125 629 058

**As at 30 September 2008**



Funds Management

# Focus on risk

We have seen volatility in global financial markets continue to take its toll on Australian financial, credit and property markets in 2008. In an unprecedented address to the nation in October, the Prime Minister called the financial crisis “the economic equivalent of a national security crisis”, warning we are entering into a “new, dangerous, and damaging phase”<sup>1</sup>. Clearly, decisive action is required to help preserve investor capital in this environment and to prepare for the stormy conditions ahead.

In a letter sent to all Orchard investors recently, we explained the impact of market conditions on your investment in Orchard’s unlisted property funds, along with our broad strategies for managing risk in this environment.

In this edition of Outlook we discuss the latest developments in financial and property markets. We also provide a detailed analysis of each of our unlisted property funds and outline the steps we are taking with the aim of protecting your investment.

## Background

What started two years ago as an issue with sub-prime mortgages in the United States has today cascaded into a financial crisis crippling business and financial markets around the globe.

In September, financial markets took a turn for the worse with large scale business failures and heightened market instability. While the crisis of confidence in the US continued, the impact on financial markets across the globe intensified with the contagion hitting Europe, Japan and even China.

Global property markets have not been immune and are already feeling the effects of a tightly interwoven world that remains extremely vulnerable.

Official action in a number of countries has been aimed at restoring stability and improving liquidity. Given the severity of market conditions, we are now witnessing a global response, with officials from the world’s wealthiest countries pledging decisive action at G7 and G20 meetings in Washington in October.

In Australia, the Reserve Bank of Australia (RBA) made its most decisive move in more than a decade by slashing interest rates by 1% on 8 October, in an effort to stave off the effects of the global crisis. This was the largest reduction in official rates in sixteen years and a clear sign that Australia’s economy has not escaped the meltdown. This was followed by a further 0.75% reduction on 5 November.

In October, the Government sprung into action announcing its ‘Economic Security Strategy’ in an attempt to stimulate domestic economic activity in the face of the “worst global financial crisis since the Great Depression”<sup>1</sup>.

## Impact on property investments

Volatility in global markets continues to have a strong negative impact on Australian property markets, with a sharp decline in the availability of capital and rising costs of capital (funding). According to Jones Lang LaSalle the cost of capital is likely to remain at or above property yields (earnings) for some time<sup>2</sup>. Harsh credit conditions also point to a shift in the outlook for market activity with even more reductions in the number of commercial property transactions likely.

This continued tightening of credit, coupled with confusion in property and financial markets, is set to increase uncertainty about the value of the underlying assets in property funds and in this environment, the expectation is that asset values will decline.

In the short to medium term falling asset values will place increased pressure on all property funds to reduce debt levels, in line with falling property values, to maintain bank loan-to-value ratios (LVRs).

Market uncertainty is impacting on all commercial property sectors, including:

- **Office markets**, which have experienced an easing of yields in 2008, despite fundamentals in central business district (CBD) office markets remaining tight. The difficult global economic environment, tighter financing conditions and heightened caution in most investment sectors are set to continue to impact negatively on demand for office space and hence the office market well into 2009;
- **Retail markets**, where yields (earnings) are expected to ease going forward, with soft retail spending and an increased number of forced/ distressed sales weighing heavily on the market;

- **Industrial markets**, where the combination of weak investor sentiment, easing economic growth, rising business overheads and increased funding costs have seen prospects for further demand for industrial space already begin to diminish, with further falls predicted; and
- **Australian Real Estate Investment Trusts (A-REITs)**. The listed sector has experienced its fair share of volatility in 2008, with average falls in value of around 30%. Weakened sentiment and a lack of confidence about property valuations will continue to weigh heavily on the sector.

Credit conditions are set to remain tight for some time. According to Jones Lang LaSalle, in no foreseeable time frame will there be a return to the conditions that existed pre-financial crisis, in early 2007<sup>3</sup>.

Our view is that the difficult market environment will persist over the next 12 months for property markets, with tight credit conditions and a sustained decline in asset values as forced sellers and opportunistic buyers dominate the market.

Property Investment Research (PIR) recently echoed this sentiment, explaining it expects more fallout from the global financial crisis. In a statement, PIR Director Mark Wist said he expected “ramifications for property funds to include impaired confidence, lower earnings per security, lower gearing and simplified business models” going forward<sup>4</sup>.

## What are we doing to weather the storm?

### Actions at the fund level

At Orchard, we believe the Australian property market will continue to feel the impact of the global turmoil and in this environment we remain focused on reducing risks for all investors in our funds.

To prepare for deteriorating conditions ahead, we have taken the following steps to protect the capital of each fund:

- changed the Funds’ distribution payment frequency from quarterly to an annualised distribution payment in July 2009, payment of which will ultimately depend on the financial position of each fund.

This change applies to all Orchard unlisted funds, effective immediately and means that you will not receive a distribution payment for the September 2008 quarter.

The reason for varying the distribution payment frequency to annual instead of quarterly is to preserve fund capital and build a cash reserve in the funds.

This will give the funds the additional capacity to meet their respective debt covenants if required;

- deferred all non-essential capital expenditure; and
- continued to renegotiate debt facilities to spread debt expiry risk and concentration risk with any single financier/bank.

We recognise that the move to an annual distribution payment is not a popular decision and is likely to impact on your own situation in the short term. However we assure you we are taking these steps to protect your capital investment in an unpredictable and hostile financial environment.

The actions taken at the fund level have been employed to help ensure all funds continue to meet their contracted obligations and are not forced to sell assets at fire-sale prices.

Our strategy remains focused on the preservation of capital value namely through debt management and reduction, as this will help improve each fund’s income position in the long term.

To keep all investors fully informed in this edition of Outlook we provide a fund-by-fund analysis, including the material risks facing each fund. We also include detailed information about the strategies to address each of these risks to ensure the funds remain robust. We encourage all investors to read this detailed information, on pages 6 to 30.

### Actions at the corporate level

Orchard like many companies, currently has a strong focus on cost reduction across all aspects of the business. This is reflective of a more subdued economic outlook.

An independent strategic review in late 2007 and again in early 2008 resulted in the following recommendations, which have been adopted over the year:

- Orchard, which operates the property business, should separate (demerge) from SAI Group to limit the exposure of Orchard stakeholders to volatile earnings in venture capital activities and expected short term losses associated with agribusiness operations;

1. Prime Minister’s address to the nation, 14 October 2008. For a full transcript, visit [www.pm.gov.au/media/Speech/2008](http://www.pm.gov.au/media/Speech/2008) 2. Jones Lang LaSalle Research ‘Economic Update: What is going on?’, 13 October 2008 3. Jones Lang LaSalle Research ‘Economic Update: What is going on?’, 13 October 2008 4. As quoted in the Australian Financial Review, ‘Unlisted trusts hit by fair share of woes’, 14 October 2008

- the SAI Convertible Notes issuer (SAI Group Capital) should become a wholly owned subsidiary of Orchard (SAI Group Capital is now called Orchard Group Capital); and
- Orchard should attempt to undertake a capital raising or initial public offering (IPO).

Since May we have pursued a number of capital raising initiatives to facilitate expansion and the redemption of Convertible Notes which are due in March 2009.

The current financial and credit crisis, however, has created unprecedented conditions which have prevented the raising of capital.

As a result, the Orchard Board has now deferred any trade sale, listing through an IPO or other capital raising plan until market sentiment, confidence and evidence of a financial and credit market recovery emerges.

### Convertible Notes

An inability to fund the redemption of Convertible Notes in March would raise concerns over the ongoing viability of Orchard and the Note Issuer. In this event, Noteholders would be likely to incur significant losses as it would be highly unlikely that they would recover the face value of the Notes and may not receive any return.

To address this risk, Orchard has formulated a proposal to restructure the terms of issue of Convertible Notes. Under the Conversion Proposal, Noteholders will be issued 574.45 shares for each Note held on the implementation date and the Notes will be cancelled. Collectively Noteholders will own 90% of Orchard's issued shares.

For the Conversion Proposal to be implemented, Noteholders must pass the resolutions put forward. A Noteholder Meeting will be held by Orchard on Monday 15 December to vote on the Proposal.

In the coming weeks all Noteholders will receive full details of the Proposal from Orchard, including:

- Explanatory Memorandum
- Notice of Meeting
- Prospectus issued by Orchard Group Capital Limited (formerly SAI Group Capital Limited)

The Directors of Orchard are unanimous in their recommendation in favour of the Conversion Proposal however Noteholders should consider the information in light of their particular investment objectives and circumstances prior to voting and contact their financial adviser if in any doubt as to which course of action to take.

### Noteholder information line

A dedicated Noteholder information line has been set up specifically to assist with Noteholder queries - please call 1800 260 453.

### Further information

The steps we are taking at the fund level to protect capital are not related to any activities at the corporate level. As the Responsible Entity for the funds, we continue to act in the best interests of all fund investors, regardless of any actions at the corporate level.

We are confident that the hard and decisive actions we are taking at this time will optimise the prospects for all funds, and your investment, over the longer term.

If you have any questions regarding this update or require further information, please speak to your financial adviser or call Orchard Investor Services on 1800 008 494.

# Market update

## Traditional sectors

### Office

Supply was subdued over the quarter after a steady increase during quarter two. The largest project completed was in Melbourne, a 51,300 square metre (sqm) property that was 85% pre-committed prior to completion<sup>1</sup>. Perth CBD and Canberra were the only other two markets to record completions during the quarter.

Despite tenant demand remaining moderate across the country, continued financial market uncertainty has caused demand to slow in some areas. Continuing on from last quarter, net absorption remains positive.

Vacant stock has recently been added to the market and an increase to sub-lease space availability has been evident. As a result, vacancy rates were expected to slightly increase across a large majority of the monitored markets.

Positive rental growth continued into the September quarter in the majority of markets. In terms of investment activity, investors are still adopting a 'wait and see' approach to the market and subsequently, movement has slowed.

Yields (earnings) have continued to weaken across the board with the only exceptions being Adelaide CBD and Canberra where both prime and secondary yields remained stable. Colliers International (Colliers) predicts that the full extent of the credit crisis is likely to have further to run and should this be the case, there may be additional softening in yields (earnings). Looking ahead, according to Colliers' latest national CBD office market research, vacancy levels across Australia's major CBD office markets are likely to remain tight in the short to medium term<sup>2</sup>.

### Retail

Total supply levels for the quarter reached 170,000 sqm due to anticipated completions – the highest supply level in 18 months.

Positively, the majority of projects were continuing to record high occupancy levels.

As a result of the prevailing market conditions, a decline in new projects was seen during the quarter which consequently caused a reduction in stock under construction. This is the first decline since 2006.

Low consumer sentiment and softer retail sales activity has resulted in a more challenging retail environment. Subsequently, retailer demand for space has been varied. In some markets, easing in tenant demand has been apparent.

However, leasing enquiries and demand for good quality locations remain strong. Perth, Sydney CBD, Brisbane CBD and most regional centres across Australia reported resilient demand over the quarter.

In most markets, rental growth has remained positive, although due to enduring economic conditions, the bulky goods sector has been the most adversely affected.

Few transactions have occurred despite a considerable amount of stock available to investors.

Due to the current uncertain market environment, investors seem reluctant to purchase property which has slowed transactional activity.

Investment yields (earnings) for retail property softened somewhat throughout the year and mild softening continued throughout the quarter<sup>1</sup>.

### Industrial

Approximately 750,000 sqm of industrial space was expected to be completed across the country's major cities, which is more than 100,000 sqm higher than the previous quarter. Melbourne's north was the site of the largest project to be completed not only for the quarter but also for the year.

Occupiers continue to be cautious when committing to space due to the current market conditions, resulting in subdued demand across most major markets for industrial space. During the first half of the year, pre-commitments to new supply reached 70%, compared with the expected rate of 50% for the previous quarter.

During this quarter, rents generally remained stagnant. Decreases in rents in some localities are expected due to additional vacant supply reaching the market before the end of the year.

Positively, land value growth is still apparent across the industrial markets in Perth and Adelaide, although the eastern cities have seen evidence of value growth easing.

In line with the property market as a whole, transactional activity has continued to slow. Furthermore, prime yields (earnings) softened between 0.25% and 0.50% across the majority of industrial markets during the quarter.

Looking ahead, over 1.5 million sqm remains under construction and over half of these projects are due for completion over the next quarter. However, due to the current environment, owners are looking to secure pre-commitments more and more, which is expected to dilute the number of projects commencing over the next six to 12 months<sup>1</sup>.

1. Jones Lang LaSalle, Preliminary Market Overview - Third Quarter 2008 2. Colliers International, Australian CBD office markets to remain tight despite slowdown - 17 September 2008

# Non-traditional sectors

## Child care

During the quarter, leading child care operator ABC Learning Centres (ABC) came under increased media and market scrutiny.

At the end of August, ABC announced to the market that it was not in a position to release its full year results. Shares in ABC Learning were suspended from trade on the Australian Securities Exchange (ASX) on 25 August, while the company reassessed its accounts for previous years.

In a statement to the ASX in August, the company said its full-year result would be finalised as soon as possible, expected to be in early October. ABC shares remained suspended from trade during the quarter.

On September 9, the company announced the appointment of a new Chief Financial Officer, Peter Trimble.

During the quarter, the prospect of price increases to child care from July 1 came under the spotlight. While the media reported concerns that operators would look to boost prices significantly when the Federal Government's 50% child care rebate came into effect on July 1, Childcare Associations Australia executive director Helen Kenneally said the rises would be in line with the Consumer Price Index and usual business practices<sup>1</sup>.

Nevertheless, Deputy Prime Minister Julia Gillard stated the Government would look at its options if there was evidence of unfair pricing practices.

**Update: on 6 November ABC announced to the ASX that the company had gone into voluntary administration - for more information please see page 8.**

## Health care

In September, the Federal Government announced almost \$740,000 in National Health and Medical Research Council (NHMRC) funding.

As the Australian population ages the need for palliative care is increasing in our community.

About 22,000 Australians each year will require specialist palliative care at some point and a conservative estimate is that with patients, families, carers and friends, terminal illness touches about half a million people each year<sup>2</sup>.

The Government has invested in palliative care research, recognising the importance of high-quality, evidence-based data to guide policy directions in health.

Also during the quarter the director of the Australian Centre for Economic Research on Health from the Australian National University (ANU), Professor Butler, called for Medicare to be extended to include private hospital patients.

Butler said extending Medicare would reduce hospital waiting lists as well as the reliance on private health insurance. He said the Commonwealth should establish what he referred to as a "hospital benefit scheme". If a patient, for example, wanted to have a hip replacement and that was going to cost \$7,000 in a public hospital, then they would receive that as a benefit under the Commonwealth hospital benefit scheme. But more importantly in terms of the proposed scheme, patients would have the ability to take that \$7,000 and use it in a private hospital of their choice if they desired<sup>3</sup>.

## Primary infrastructure

According to media reports during the quarter, farmers, environmental groups and the Greens are unhappy with the Federal Government's decision to approve Victoria's controversial \$750 million North-South water pipeline.

Federal Environment Minister Peter Garrett approved the pipeline, which will connect the Goulburn River near Yea, in central Victoria, to a reservoir north of Melbourne.

There are concerns that by taking too much water from the north, the pipeline will cripple the region's agriculture sector. Once up and running, the 'Sugarloaf Pipeline' will carry 75 billion litres of water each year from Yea, 70 kilometres north-east of Melbourne, across the Great Dividing Range to the Sugarloaf Reservoir. The Federal Government approval includes a condition that water currently allocated to help restore the Murray River cannot be touched. Despite the Government's promise that no water earmarked for the Murray will be taken, opponents say any extra water should be going to the struggling Murray-Darling system<sup>4</sup>.

Also during the quarter, Goulburn and Murray irrigators were allocated water for the first time during the season. Goulburn Murray Water has announced the first allocation for the season for high-security irrigators. Murray irrigators will be entitled to 6% and there is an allocation of 4% for those on the Goulburn system. All other systems in Northern Victoria remain at zero. If there are average inflows, Goulburn Murray Water is now predicting there would be a 57% allocation for Murray irrigators by February. However under a dry scenario it says allocations would be only 20%.<sup>5</sup>

1. Childcare reform in the spotlight, ABC World Today - September 2008 2. National Health and Medical Research Council [www.nhmrc.gov.au](http://www.nhmrc.gov.au) 3. [www.abc.net.au/news/stories/2008/09/09/2359881.htm](http://www.abc.net.au/news/stories/2008/09/09/2359881.htm) 4. [www.abc.net.au/pm/content/2008/s2363406.htm](http://www.abc.net.au/pm/content/2008/s2363406.htm) 5. Goulburn Murray Water <http://www.g-mwater.com.au/news/media-releases/media-releases-2008/allocations20081001.html>

# Orchard Childcare Property Fund

## Fund overview

Inception date	November 2003
Total asset value	\$274m
Unit price	\$1.3037*

Distribution status	Annually in June <sup>^</sup>
Withdrawal status	On hold

<sup>^</sup> Payment is dependent on the Fund's financial position at the time.

\* This is the last unit price struck prior to the Fund being closed to new applications on 30 September 2008.

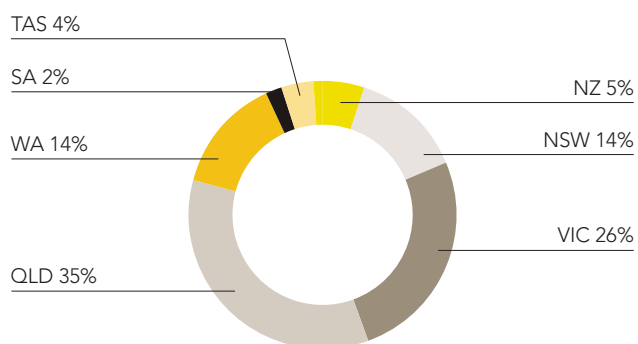
## Portfolio overview

<b>Number of directly held properties</b>	219	<b>Number of indirect investments</b>	1	<b>Total number of properties Fund has exposure to</b>	600+
---	-----	---------------------------------------	---	--	------

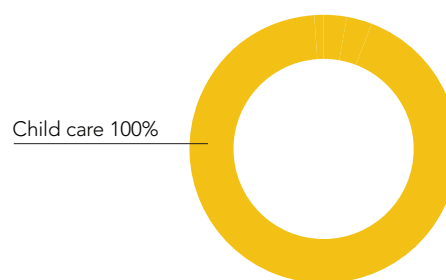
## Asset allocation

Direct property	Listed property	Fixed interest
97%	1%	2%

## Geographic allocation



## Sector allocation



## Five largest directly held assets

Property	Valuation	Valuation date	Capitalisation rate	Valuer
ABC, Metroplex Centre, 20 Metroplex Road, Murrarie QLD	\$6.70m	21 August 2008	8.00%	LandMark White
ABC, Corner Irene and Beatrice Streets, Kanimbla QLD	\$2.63m	21 May 2008	8.00%	LandMark White
ABC, 187-191 Bruce Highway, Edmonton QLD	\$2.53m	21 May 2008	8.04%	LandMark White
ABC, 24 North Street, Logan Village QLD	\$2.31m	26 October 2007	8.40%	LandMark White
ABC, 2 Faculty Close, Smithfield QLD	\$2.20m	22 May 2008	8.30%	LandMark White

# Orchard Childcare Property Fund

## Tenancy details

Occupancy rate	100%	Weighted average lease expiry (WALE)	6.7 years
----------------	------	--------------------------------------	-----------

## Lease expiry profile

Expires within	2008 - 2013	2014	2015	2016	2017	2018	2019+
(%)	0	25.1	26.5	27.6	7.4	2.3	11.1

## Top five tenants (direct portfolio)

Tenant	Number of properties	% of direct income
ABC Learning Centres Limited (Australia and New Zealand)	199	94
Childcare Providers Pty Ltd	5	3
ANZ Banking Group Pty Ltd	2	2
888 Australia Investments Pty Ltd	1	<1
La Liberte Pty Ltd	1	<1

## Debt overview

Description	Actual
Total direct borrowings <sup>1</sup>	\$119.6m
Total direct borrowing facility limit <sup>1</sup>	\$125.0m
Average interest rate (p.a.)	8.30%
Gearing ratio <sup>2</sup> as at 30 June 2008	46%
Look through gearing ratio <sup>3</sup> as at 30 June 2008	50.5%
Interest cover ratio <sup>4</sup> (times) as at 30 June 2008	1.80
Hedged component	92%

1. As at 10 November 2008. 2. Gearing ratio is calculated as total interest bearing liabilities divided by total assets. A higher gearing ratio means a higher reliance on external liabilities (primarily borrowings) to fund assets. This exposes the scheme to increased funding costs if interest rates rise. A highly geared scheme has a lower asset buffer to rely upon in times of financial stress. 3. Look through gearing reflects the ratio of net borrowings to total assets adjusted for relevant borrowings of investments in third party funds and joint ventures. 4. Interest cover ratio gives an indication of the Fund's ability to meet its interest payments from earnings. The higher the ratio the easier the Fund can meet its interest expense.

## Fund cash flow

As at 30 June 2008	Amount
Operating income	\$23.9m
Operating expenses	\$16.8m
Net operating cash flow	\$7.1m

## Debt maturity profile

Financier	Ownership	Drawn	Undrawn	Maturity <sup>1</sup>
Bank of New Zealand Australia (BNZA)	Direct	\$119.6m	\$5.4m	June 2009 <sup>2</sup> : \$119.6m

1. Maturity relates to drawn funds only. 2. BNZA has recently granted an extension until 30 June 2009 (it was to mature in December 2008). A condition of the extension is that commencing 31 January 2009, \$1m per month will be placed in a security deposit account to be satisfied from existing cash and operating cashflows. These amounts are expected to be released on refinancing. The Orchard Childcare Property Fund (CPF) has commenced discussions with two brokers in order to be in a position to refinance the debt prior to its scheduled maturity. One of the factors that will influence CPF's ability to refinance this facility will be tenant related risks with financing this fund (including any risks associated with ABC Learning Centres as a tenant).

# Orchard Childcare Property Fund

## Position in relation to key debt covenants<sup>1</sup> as at 30 June 2008

	Covenant limit	Actual covenant	LVR % decline in property value before covenant breach	Status
<b>Bank of New Zealand Australia (BNZA)</b>				
Bank interest cover ratio (ICR)	1.50x	1.92x	-	Compliant
Loan value ratio (LVR)	65.0% <sup>2</sup>	56.0% <sup>3</sup>	21% <sup>2</sup>	Compliant

1. Financiers each use their own method for calculating ICR and gearing which is why this figure is different to the figure in the Debt Overview section. 2. The LVR covenant will be 55% effective 1 January 2009, reducing the percentage decline in property values before the covenant is breached to 14%. 3. The LVR has since reduced to 49% (September 2008) due to the repayment of debt.

## Performance<sup>^</sup>

As at 30 September 2008	Distribution yield <sup>1</sup> (% p.a.)	Capital growth <sup>2</sup> (% p.a.)	Total return <sup>3</sup> (% p.a.)	Tax-deferred proportion <sup>4</sup> (%)
1 year	5.74	1.65	7.39	100
3 years	7.68	6.46	14.14	100
5 years	8.39	5.45	13.84	100
Since inception (August 2003)	8.24	5.36	13.60	100

1. The distribution yield is equal to the total return less capital growth, assuming reinvestment of distributions. 2. The capital growth is the change in unit price, annualised for the relevant period. 3. The total return is equal to the change in unit price including reinvestment of distributions, annualised for the relevant period. 4. The tax-deferred portion relates to the distribution received. It does not apply to the capital growth component of the total return. Figures are for the relevant period ended 30 June 2008.

<sup>^</sup> Past performance is no indication of future performance. For the 2009 financial year, we expect distribution yields will be lower than those indicated in the table above.

## Orchard Childcare Property Fund - ABC Learning Centres update

On 6 November, ABC Learning Centres Limited (ABC), the major tenant of the Orchard Childcare Property Fund (the Fund), confirmed reports that the company had gone into voluntary administration. In an official statement released to the Australian Securities Exchange the Directors of ABC confirmed the appointment of Ferrier Hodgson as its voluntary administrators and the appointment by ABC's banking syndicate McGrathNicol as receivers.

The announcement follows months of speculation regarding the company's financial situation and the announcement on 30 September that ABC's founder and chief executive, Eddy Groves, had left the company. Shares in ABC have been suspended since 25 August 2008 after the company failed to lodge its financial reports for the year ended 30 June 2008.

The Fund currently owns 199 ABC centres. Given the recent uncertainty regarding ABC's future, we have been considering contingency plans for the Fund. These plans include discussions with:

- Ferrier Hodgson, the administrator;
- McGrathNicol, the receiver appointed by ABC's banking syndicate;
- state governments, as they issue the child care licenses;
- the Federal Government, as it provides funding for child care; and
- Bank of New Zealand Australia (BNZA), debt provider to the Fund.

### For further information

We will continue to monitor the situation and provide updates as further information becomes available. For a detailed explanation of the potential impact of this latest ABC development and our plans to minimise the impact on the Fund, please visit our website [www.orchardfunds.com](http://www.orchardfunds.com)

We will be working hard to ensure the best interests of all investors in the Orchard Childcare Property Fund are looked after during these uncertain times.

# Orchard Childcare Property Fund

## Managing risks in the current climate

Key risk	Description	Strategy
Financing	<p>The risk of:</p> <ul style="list-style-type: none"> <li>being unable to refinance debt obligations when due; and</li> <li>breaching covenants of existing debt facilities.</li> </ul> <p>The above risks may lead to:</p> <ul style="list-style-type: none"> <li>forced sales of assets;</li> <li>a higher interest cost charged by the debt provider;</li> <li>a requirement to amortise debt over time; and</li> <li>a direction by a debt provider to stop income distributions.</li> </ul>	<p>The Orchard Childcare Property Fund (the Fund) has a debt facility in place with Bank of New Zealand Australia (BNZA) that is due for repayment on 30 June 2009. The expiry of this facility is at a time when liquidity is expected to be tight in credit markets.</p> <p>Orchard is in ongoing discussions with the current facility provider, BNZA, with the objective of securing an extension to the current term of the facility. However, in this environment we have appointed an arranger of debt to source a separate facility for the Fund.</p> <p>The loan to value ratio (LVR) of the Fund is 49% (as at 10 November 2008), which sits comfortably within the facility covenant of 65%. This LVR covenant will be reduced to 55%, effective 1 January 2009.</p> <p>We have recently tested the market to determine the level of demand for the child care centre freeholds owned by the Fund. Our research has determined that in the current environment there are fewer purchasers than is typically the case.</p>
Valuation	<p>The risk of asset values falling, which may:</p> <ul style="list-style-type: none"> <li>impact the equity value and unit price of the Fund;</li> <li>adversely affect meeting banking covenants; and</li> <li>require the application of a greater proportion of Fund income to service debt, resulting in lower distributable income.</li> </ul>	<p>The aggregate value of the security properties is \$239m, with properties valued on an ongoing basis in accordance with Orchard's valuation policy.</p> <p>The outstanding amount of the loan is \$119.6m, resulting in an LVR of 49%.</p> <p>The Fund owns 219 properties and is geographically diversified across Australia and New Zealand. Apart from five development sites that are in the process of being marketed for sale, all other assets are leased on long terms and the majority of assets are leased to ABC Learning Centres Limited (ABC). The leases are triple net, meaning that all capital expenditure is the responsibility of the tenants.</p> <p>Occupancy rates for completed centres remain at 100% which provides support for current valuations.</p> <p>Orchard has moved to annual distributions to help protect against the impact of falling valuations and related financing risks.</p>
Income	<p>The risk of the Fund's income reducing as a result of:</p> <ul style="list-style-type: none"> <li>lower revenue; and</li> <li>higher expenses.</li> </ul>	<p>The Fund is characterised by tenant concentration risk. The major tenant of the Fund is ABC. The company has experienced considerable financial difficulties this year and on 6 November, confirmed it had gone into voluntary administration, with the appointment of Ferrier Hodgson as voluntary administrators and the appointment of McGrathNicol as receivers by ABC's banking syndicate.</p> <p>We are working with the various stakeholders with an objective of continued operation of the centres to achieve the best lease and rental outcomes possible. The Fund's ABC centres are generally modern and well located which means they should be attractive business premises for other child care operators, should ABC be unable to continue their operation. Government has a policy of keeping continuity of child care services in Australia and it has already intervened to assist in this outcome. ABC's real estate leases are a key asset and as such it is likely that any entity in control of ABC would attempt to ensure that rents are paid so that this key asset is preserved. To date, ABC has continued to meet its rent payment obligations to the Fund.</p>

# Orchard Childcare Property Fund

## Managing risks in the current climate continued

Key risk	Description	Strategy
Income continued	<p>The risk of the Fund's income reducing as a result of:</p> <ul style="list-style-type: none"><li>• lower revenue; and</li><li>• higher expenses.</li></ul>	<p>The Fund is facing debt refinancing in June 2009. In the current environment it is likely that the cost of debt (in particular the financier's facility margin) will be higher than is currently the case. This is expected to result in an increase to the interest expense and a reduction in the distributable income of the Fund.</p> <p>The current financier facility margin is 2.00%. From 1 January 2009, this will increase to 2.80%. From 1 April 2009, it will increase again to 3.20%.</p>

# Orchard Commercial Office Fund#

# All information, unless otherwise stated, is at 1 October 2008, following the sale of Wesfarmers House.

## Fund overview

Inception date	October 2005	Distribution status	Annually in June <sup>^</sup>
Total asset value	\$436m	Withdrawal status	On hold
Unit price	\$1.2034*	<sup>^</sup> Payment is dependent on the Fund's financial position at the time.	

\* This is the last unit price struck prior to the Fund being closed to new applications on 8 October 2008.

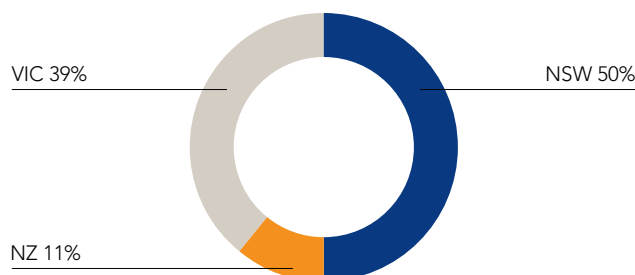
## Portfolio overview

Number of directly held properties	6	Number of indirect investments	5	Total number of properties Fund has exposure to	13
------------------------------------	---	--------------------------------	---	---	----

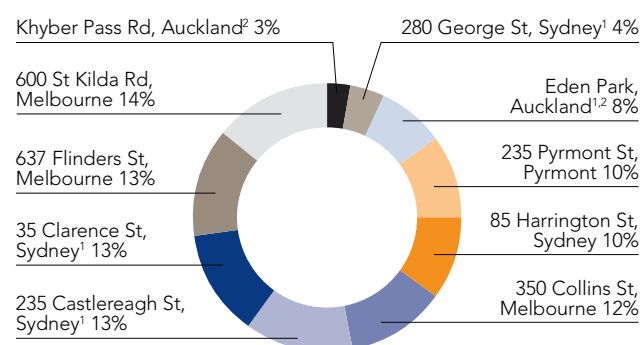
## Asset allocation

Direct property	Unlisted property	Fixed interest	Cash and other assets
72%	10%	12%	6%

## Geographic allocation



## Property allocation



1 Commercial Office Fund owns 50% of these properties.  
2 Exchange rate of AU\$1.00 = NZ\$1.1925 taken as at 30 September 2008.

## Five largest directly held assets

Description	Valuation	Valuation date	Capitalisation rate	Valuer
600 St Kilda Road, Melbourne VIC	\$68.70m	30 June 2008	7.25%	Savills
637 Flinders Street, Melbourne VIC	\$67.00m <sup>1</sup>	31 August 2008	n/a <sup>2</sup>	Directors
350 Collins Street, Melbourne VIC	\$61.70m	31 August 2008	7.75%	Colliers
85 Harrington Street, Sydney NSW	\$46.40m	1 October 2008	6.75%	M3 Property
235 Pyrmont Street, Sydney NSW	\$50.50m	31 March 2008	6.75%	Savills

1. Last independent valuation conducted by Colliers was \$74m on 31 August 2008. 2. Capitalisation rates are not used to determine Directors' valuations.

# Orchard Commercial Office Fund

## Tenancy details

Occupancy rate	98%	Weighted average lease expiry (WALE)	3.1 years
----------------	-----	--------------------------------------	-----------

## Lease expiry profile

Expires within	Vacant	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
(%)	2.1	5.9	13.0	14.4	12.8	34.0	6.2	1.8	7.2	0.1	2.2	0	0.3

## Top five tenants

Tenant	Property	% Fund income
Minister of Finance	637 Flinders Street, Melbourne VIC	14.25
QBE Insurance Group	85 Harrington Street, Sydney NSW	7.00
George Patterson	35 Clarence Street, Sydney NSW	5.78
Permanent Trustee Co	35 Clarence Street, Sydney NSW	3.11
John Holland	235 Pyrmont Street, Sydney NSW	3.01

## Debt overview

Description	Actual
Total direct borrowings <sup>1</sup>	\$190.5m
Total direct borrowing facility limit <sup>1</sup>	\$190.5m
Average interest rate (p.a.)	6.20% <sup>2</sup>
Gearing ratio <sup>3</sup> as at 30 June 2008	47%
Look through gearing <sup>4</sup> as at 30 June 2008	59%
Interest cover ratio <sup>5</sup> (times) as at 30 June 2008	1.73
Hedged component	110% <sup>6</sup>

1. Includes NZ\$11.5m debt (approximately A\$9.5m). 2. As at 22 October 2008, the average interest rate increased to 6.95%. 3. Gearing ratio is calculated as total interest bearing liabilities divided by total assets. A higher gearing ratio means a higher reliance on external liabilities (primarily borrowings) to fund assets. This exposes the scheme to increased funding costs if interest rates rise. A highly geared scheme has a lower asset buffer to rely upon in times of financial stress. 4. Look through gearing reflects the ratio of net borrowings to total assets adjusted for relevant borrowings of investments in third party funds and joint ventures. 5. Interest cover ratio gives an indication of the Orchard Commercial Office Fund's (COF's) ability to meet its interest payments from earnings. The higher the ratio the easier the Fund can meet its interest expense. 6. COF became slightly overhedged following the sale of Wesfarmers House in October 2008. The position is being managed and will be reduced to 100%.

## Fund cash flow

As at 30 June 2008	Amount
Operating income	\$52.8m
Operating expenses	\$35.4m
Net operating cash flow	\$17.4m

## Debt maturity profile

Financier	Ownership	Drawn	Undrawn	Maturity <sup>1</sup>
Bank of New Zealand Australia (BNZA)	Direct	\$190.5m	-	June 2009: \$190.5m
Suncorp <sup>2</sup>	Indirect	\$109.8m	-	September 2011: \$109.8m
Bank of New Zealand (BNZ) <sup>3</sup>	Indirect	NZ\$33.4m	-	October 2012: NZ\$33.4m

1. Maturity relates to drawn funds only. 2. The Suncorp facility is held off balance sheet and represents debt for the Clarence Street, Castlereagh Street and George Street Trusts that are 50% joint ventures with the Orchard Diversified Property Fund (DPF). 3. Debt associated with COF's investment in the Eden Park Trust NZ (50% owned by DPF and 50% by COF) and is held off balance sheet.

# Orchard Commercial Office Fund

## Position in relation to key debt covenants<sup>1</sup> as at 30 June 2008

	Covenant limit	Actual covenant	LVR % decline in property value before covenant breach <sup>2</sup>	Status
<b>BNZA</b>				
Bank interest cover ratio	1.60x	1.61x	-	Compliant
Loan value ratio	65.0%	62.0%	7.0% <sup>a</sup>	Compliant
<b>Suncorp</b>				
Bank interest cover ratio	1.39x	1.46x	-	Compliant
Loan value ratio <sup>3</sup> (direct property)	69.0%	68.0%	0% <sup>b</sup>	Compliant
WALE (years)	3.0	3.34	-	Compliant
<b>BNZA - Eden Park New Zealand</b>				
Bank interest cover ratio	1.30x	1.34x	-	Compliant
Net tangible value	70.0%	67.0%	5.0%	Compliant

1. Financiers each use their own method for calculating interest cover ratio and gearing which is why this figure is different to the figure in the Debt Overview section. 2. a, b. Refer to the table below for a description of current position in relation to covenants and mitigants of potential breaches. 3. The Suncorp facility is required to be reduced to an LVR of 65% by March 2009.

## Additional information regarding the Fund's LVR capacity

Financier	Status
<b>a. BNZA</b>	The Orchard Commercial Office Fund's (COF's) financing facility with BNZA is due to expire in June 2009. Due to the uncertain state of credit and financial markets, initial approaches have been made to potential financiers to refinance the facility. The strategy to refinance the facility is to syndicate the \$190.5m facility. BNZA has given a binding commitment to provide \$100m for a further 12 months (until June 2010). We are also in discussions with another financier which has provided COF with an offer to provide \$85m for an additional 12 month period, this offer is subject to financier credit approval.
<b>b. Suncorp</b>	<p>This facility must be paid down to ensure an LVR of no greater than 65% by 17 March 2009. Based on the most recent independent valuation of the properties, \$23.2m may need to be repaid in order to comply with this LVR limit.</p> <p>An amount of \$10m has been set aside by the Orchard Diversified Property Fund (DPF) to partially repay this facility. Following this repayment by DPF, COF has funds available for any further contributions necessary to ensure continued compliance with this LVR limit.</p>

## Performance<sup>^</sup>

As at 30 September 2008	Distribution yield <sup>1</sup> (% p.a.)	Capital growth <sup>2</sup> (% p.a.)	Total return <sup>3</sup> (% p.a.)	Tax-deferred proportion <sup>4</sup> (%)
1 year	5.14	-1.38	3.76	66
2 years	6.92	9.70	16.62	83
Since inception (October 2005)	7.72	6.55	14.28	89

1. The distribution yield is equal to the total return less capital growth, assuming reinvestment of distributions. 2. The capital growth is the change in unit price, annualised for the relevant period. 3. The total return is equal to the change in unit price including reinvestment of distributions, annualised for the relevant period. 4. The tax-deferred portion relates to the distribution received. It does not apply to the capital growth component of the total return. Figures are for the relevant period ended 30 June 2008.

<sup>^</sup> Past performance is no indication of future performance. For the 2009 financial year, we expect distribution yields will be lower than those indicated in the table above.

# Orchard Commercial Office Fund

## Managing risks in the current climate

Key risk	Description	Strategy
Financing	<p>The risk of:</p> <ul style="list-style-type: none"> <li>being unable to refinance debt obligations when due; and</li> <li>breaching covenants of existing debt facilities.</li> </ul> <p>The above risks may lead to:</p> <ul style="list-style-type: none"> <li>forced sales of assets;</li> <li>a higher interest cost charged by the debt provider;</li> <li>a requirement to amortise debt over time; and</li> <li>a direction by a debt provider to stop income distributions.</li> </ul>	<p>The Orchard Commercial Office Fund (the Fund) currently has a look through loan to value ratio (LVR) of 59% and an interest cover ratio (ICR) of 1.87 times and to date has not breached any loan covenants. Currently, the main facility of \$190.5m is with BNZA and expires in June 2009.</p> <p>To limit refinancing risk we intend to negotiate the refinancing of the debt facility early in order to position the portfolio to obtain attractive terms at time of refinancing. We are already speaking to a number of banks regarding the refinancing of the BNZA facility. We have also reduced the amount of debt to be refinanced, therefore reducing the potential cost of borrowing. The steps taken include:</p> <ul style="list-style-type: none"> <li>reduction of gearing (LVR) through asset sales (i.e. Wesfarmers House), lower distributions by not paying out capital and changing the distribution frequency to annual;</li> <li>enhancing income through leasing strategies and proactive asset management which leads to a higher ICR; and</li> <li>addressing the weighted average lease expiry (WALE) covenant by negotiating early and extending leases as soon as possible to provide income certainty.</li> </ul>
Valuation	<p>The risk of asset values falling which may:</p> <ul style="list-style-type: none"> <li>impact the equity value and unit price of the Fund;</li> <li>adversely affect meeting banking covenants; and</li> <li>require the application of a greater proportion of Fund income to service debt, resulting in lower distributable income.</li> </ul>	<p>The Fund has a strategy to pay down as much debt as possible in the current environment, as outlined above, in order to create as much capacity as possible between the covenant LVR of 65% and the current LVR of 59%.</p> <p>Several asset management strategies are being used to assist with asset valuations. These include renegotiating leasing arrangements where possible, conducting appropriate capital expenditure (capex) projects and improving tenant diversification through the negotiation of lease extensions as early as possible.</p> <p>Orchard has moved to annual distributions to help protect against the impact of falling valuations and related financing risks.</p>
Income	<p>The risk of the Fund's income reducing as a result of:</p> <ul style="list-style-type: none"> <li>lower revenue; and</li> <li>higher expenses.</li> </ul>	<p>The Fund has a good spread of strong tenants in various sectors of the economy, with no single tenant representing more than 15% of the income of the Fund.</p> <p>The debt is fully hedged with an average maturity of December 2010. This reduces any potential impact of rising interest rate movements on the cash flow and provides the Fund with some certainty over expenses.</p> <p>We actively manage each asset to retain quality tenants in order to grow and protect the Fund's income.</p> <p>The Fund is still forecast to carry out all budgeted capital expenditure, therefore maintaining the quality of the assets, which assists in supporting the Fund's performance and securing its income.</p>

# Orchard Diversified Property Fund

## Fund overview

Inception date	June 1992
Total asset value	\$919m
Unit price	\$1.3002*

\* This is the last unit price struck prior to the Fund being closed to new applications on 4 July 2008.

Distribution status	Annually in June <sup>^</sup>
Withdrawal status	On hold

<sup>^</sup> Payment is dependent on the Fund's financial position at the time.

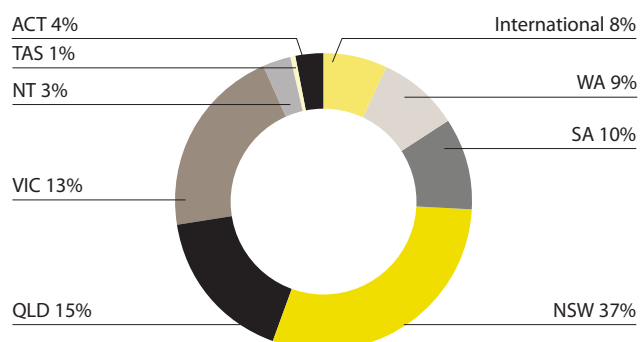
## Portfolio overview

Number of directly held properties	12	Number of indirect investments	26	Total number of properties Fund has exposure to	481
------------------------------------	----	--------------------------------	----	---	-----

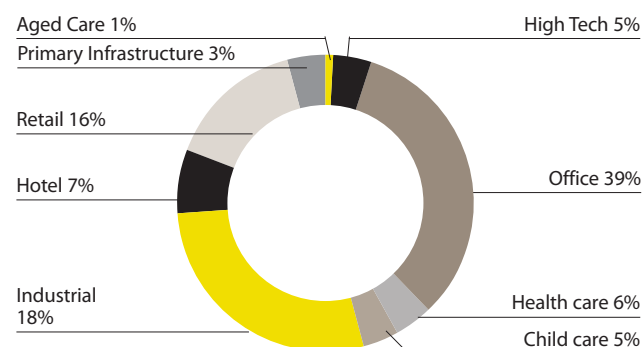
## Asset allocation

Direct property	Unlisted property	Listed property	Fixed interest	Cash and other assets
30%	60%	5%	2%	3%

## Geographic allocation



## Sector allocation



## Five largest directly held assets

Description	Valuation	Valuation date	Capitalisation rate	Valuer
Westpac House, 91 King William Street, Adelaide SA	\$65.0m	30 June 2008	7.25%	CB Richard Ellis
1 - 3 Smail Street, Ultimo NSW	\$44.7m	22 April 2008	6.50%	M3 Property
10 Felix Street, Brisbane QLD	\$28.5m	31 July 2008	7.75%	Jones Lang LaSalle
Darwin Airport Resort, Darwin NT	\$26.2m	31 July 2008	8.25%	Colliers
Customs House, 2 Henry Street, Fremantle WA	\$26.0m	31 July 2008	9.00%	Jones Lang LaSalle

# Orchard Diversified Property Fund

## Tenancy details

Occupancy rate (Fund) 98%

Weighted average lease expiry (WALE) 7.5 years

### Lease expiry profile (direct portfolio)

Expires within	Vacant	2008	2009	2010	2011	2012	2013	2014	2015	2016	2016+
(%)	3.9	0.9	12.1	11.5	5.6	23.8	6.4	2.7	1.8	3.1	28.2

### Top five tenants (direct portfolio)

Tenant	Property	% Fund income
Darwin Airport Resort	Darwin Airport Resort, NT	9.76%
Minister for Infrastructure	Westpac House, SA	8.74%
Australian Customs Service	Customs House, WA	7.86%
Diamant Hotel	Diamant Hotel, NSW	7.75%
National Australia Bank	NAB Dandenong, VIC	7.68%

## Debt overview

Description	Actual
Total direct borrowings	\$419m
Total direct borrowing facility limit	\$419m
Average interest rate <sup>1</sup> (p.a.)	8.68%
Gearing ratio <sup>2</sup> as at 30 June 2008	57%
Look through gearing <sup>3</sup> as at 30 June 2008	69%
Interest cover ratio <sup>4</sup> (times) as at 30 June 2008	1.66
Hedged component	84%

1. As at 22 October 2008 the average interest rate has increased to 8.91%. 2. Gearing ratio is calculated as total interest bearing liabilities divided by total assets. A higher gearing ratio means a higher reliance on external liabilities (primarily borrowings) to fund assets. 3. Look through gearing reflects the ratio of net borrowings to total assets adjusted for relevant borrowings of investments in third party funds and joint ventures. 4. Interest Cover Ratio gives an indication of the Fund's ability to meet its interest payments from earnings. The higher the ratio the easier the Fund can meet its interest expense.

## Fund cash flow

As at 30 June 2008	Amount
Operating income	\$116.1m
Operating expenses	\$87.9m
Net cash flow	\$28.2m

## Debt maturity profile

Financier	Ownership	Drawn	Undrawn	Maturity <sup>1</sup>
Bank of Scotland International (BOS)	Direct	\$206.4m	-	June 2009: \$11.9m December 2009: \$59.5m August 2010: \$135.0m
Bank of New Zealand Australia (BNZA)	Direct	\$194.4m	-	June 2011: \$194.4m
Commonwealth Bank of Australia (CBA)	Direct	\$9.6m	-	February 2010: \$9.6m
CPT Manager <sup>2</sup>	Direct	\$8.5m	-	December 2011: \$8.5m
Suncorp <sup>3</sup>	Indirect	\$109.8m	-	September 2011: \$109.8m

1. Maturity relates to drawn funds only. 2. Vendor finance provided for purchase of units in the Metro Maddington Trust. There are no financial covenants against this facility. 3. The Suncorp facility is held off balance sheet and represents debt for the Clarence Street, Castlereagh Street and George Street Trusts that are 50% joint ventures with the Orchard Commercial Office Fund.

# Orchard Diversified Property Fund

## Debt maturity profile continued

Financier	Ownership	Drawn	Undrawn	Maturity <sup>1</sup>
BNZA - Chevron Renaissance Property Trust <sup>2</sup>	Indirect	\$29.4m	\$0.6m	February 2010: \$29.4m
BNZA - Orchard Social Infrastructure Fund	Indirect	\$7.9m	-	January 2010: \$7.9m
CBA - Orchard Sustainable Property Fund	Indirect	\$39.5m	-	September 2012: \$39.5m
CBA - DPF New Zealand	Indirect	NZ\$62.6m	NZ\$37.4m <sup>3</sup>	April 2010: NZ\$62.6m
BNZ - Eden Park New Zealand <sup>4</sup>	Indirect	NZ\$33.4m	-	October 2012: NZ\$33.4m
BNZA - St Leonard's Trust	Indirect	\$77.7m	-	June 2011: \$77.7m

1. Maturity relates to drawn funds only. 2. Debt associated with DPF's investment in the Chevron Renaissance Property Trust (Chevron). Facility is held off balance sheet and is 49.9% owned by Orchard Diversified Property Fund (DPF). 3. While the facility is for NZ\$100m, there is no capacity to draw down further due to LVR pressure and scarcity of equity. 4. Debt associated with DPF's investment in the Eden Park Trust New Zealand, which is 50% owned by each of DPF and COF. Facility is held off balance sheet.

## Position in relation to key debt covenants<sup>1</sup> as at 30 June 2008

	Covenant limit	Actual covenant	LVR % decline in property value before covenant breach <sup>2</sup>	Status
<b>BOS International</b>				
Bank interest cover ratio	1.30x	1.85x	-	Compliant
Net tangible value	60.0%	60.55%	0% <sup>a</sup>	Compliant <sup>3</sup>
Gearing ratio of permitted investments	65.0%	46.0%	-	Compliant
<b>Bank of New Zealand Australia</b>				
Bank interest cover ratio	1.20x	1.22x	-	Compliant
Loan value ratio (balance sheet)	50.0%	48.0%	-	Compliant
Loan value ratio (direct property)	65.0%	64.0%	1% <sup>b</sup>	Compliant
<b>Commonwealth Bank of Australia</b>				
Bank interest cover ratio	1.40x	2.24x	-	Compliant
Loan value ratio (direct property)	65.0%	65.0%	0% <sup>c</sup>	Compliant
<b>Suncorp</b>				
Bank interest cover ratio	1.39x	1.46x	-	Compliant
Loan value ratio (direct property)	69.0%	68.0%	0% <sup>d</sup>	Compliant
WALE (years)	3.0	3.34	-	Compliant
<b>BNZA - Chevron Renaissance Property Trust</b>				
Bank interest cover ratio	1.60x	1.60x	-	Compliant
Loan value ratio (direct property)	64.0%	58.0%	9.0%	Compliant
<b>BNZA - Orchard Social Infrastructure Fund</b>				
Bank interest cover ratio	1.50x	1.64x	-	Compliant

1. Financiers each use their own method for calculating interest cover ratio and gearing which is why this figure is different to the figure in the Debt Overview section.  
2. a, b, c, d. Refer to the table on the following page for a description of current position in relation to covenants and mitigants of potential breaches. 3. The covenant allowed for a 90-day rectification period. By 30 September 2008 the covenant was compliant.

# Orchard Diversified Property Fund

## Position in relation to key debt covenants<sup>1</sup> continued

	Covenant limit	Actual covenant	LVR % decline in property value before covenant breach <sup>2</sup>	Status
<b>CBA - Orchard Sustainable Property Fund</b>				
Bank interest cover ratio	1.20x	1.23x	-	Compliant
Loan value ratio (direct property)	65.0%	65.0%	0% <sup>e</sup>	Compliant
<b>CBA - DPF New Zealand</b>				
Bank interest cover ratio	1.10x <sup>3</sup>	1.26x	-	Compliant
Loan value ratio (direct property)	n/a	68.0% <sup>f</sup>	-	-
<b>Bank of New Zealand (BNZ) - Eden Park New Zealand</b>				
Bank interest cover ratio	1.3x	1.34x	-	Compliant
Loan value ratio	70.0%	67.0%	5.0%	Compliant

1. Financiers each use their own method for calculating interest cover ratio and gearing which is why this figure is different to the figure in the Debt Overview section. 2, e, f. Refer to the table below for a description of current position in relation to covenants and mitigants of potential breaches. 3. Bank interest cover ratio to go to 1.4x in April 2009.

## Additional information regarding the Fund's LVR capacity

Financier	Status
<b>a. BOS</b>	Whilst there was no headroom under this covenant as at 30 June 2008, the net tangible value (NTV) covenant has since been amended and is now 65%. As at 30 September 2008 the actual NTV was 57% and the decline in property values which could occur before a breach of this covenant was 12%.
<b>b. BNZA</b>	<p>All properties have been recently revalued in June and July 2008 at the request of BNZA which confirmed that there was no breach of this covenant. Accordingly it is not anticipated that a further property revaluation is requested in the short term.</p> <p>A bank guarantee of \$3.2m was released in October 2008 resulting in an actual LVR of 64% as at 31 October 2008 - allowing for a 1% decline in property value before this covenant is breached.</p> <p>There are also selected properties on the market. Following the sale of these properties and the application of all or some of the sale proceeds to repay a portion of the debt, the actual LVR may be further reduced.</p>
<b>c. CBA</b>	<p>The value of the property upon which this LVR is calculated is \$14.8m (based on a September 2007 valuation) and any decline in property value would only require DPF to repay a small portion of this facility in order to comply with the LVR limit.</p> <p>If, for example, there was a decline in property value of 7% (reducing the value of the property by \$1m) a repayment of \$0.65m would allow DPF to continue complying with this covenant. DPF would have access to sufficient funds, based on current cash forecasts to meet a repayment of this size, subject to BOS International's approval of this expenditure as the principal financier.</p>
<b>d. Suncorp</b>	<p>This facility must be paid down to ensure an LVR of no greater than 65% by 17 March 2009. Based on the most recent independent valuation of the property, \$23.2m may need to be repaid in order to comply with this LVR limit.</p> <p>An amount of \$10m has been set aside by DPF (the principal financier has consented to this) to partially repay this facility. Following this repayment COF has funds available for any further contributions necessary to ensure continued compliance with this LVR limit.</p>

# Orchard Diversified Property Fund

## Additional information regarding the Fund's LVR capacity continued

Financier	Status
<b>e. CBA (Orchard Sustainable Property Fund)</b>	<p>The Orchard Sustainable Property Fund is marketing the property in this fund for sale and the proceeds of the sale will be used to repay the debt under this facility.</p> <p>Should CBA default this facility as a result of any breach of the LVR limit, the only recourse CBA has is to the property in the Orchard Sustainable Property Fund.</p>
<b>f. CBA (DPF New Zealand Fund)</b>	<p>CBA has waived compliance with any LVR limit until 12 April 2009 from which time an LVR limit of 65% applies.</p> <p>Based on book valuations as at 30 September 2008 a repayment of \$2.8m will be required in order for the LVR limit to be complied with on 12 April 2009. DPF New Zealand will negotiate with CBA for a continued waiver of the requirement to comply with any LVR limit or for the LVR limit to be reduced to ensure compliance on and from 12 April 2009.</p> <p>Should CBA not agree to any such waiver or amendment DPF New Zealand will need to repay a portion of the facility to comply with the LVR limit. Under this facility CBA has recourse to the property in DPF New Zealand. If the property in that fund is realised and the proceeds are insufficient to repay CBA, DPF would be required to meet any shortfall (under the terms of a subscription agreement between DPF, DPF New Zealand and CBA).</p> <p>BOS International as the principal financier has already agreed to DPF making a payment of \$2m to manage repayment of the debt to CBA. However, as DPF New Zealand has only borrowed 65% of the value of the property it is likely that the realisation of the property will be sufficient to repay CBA in full and accordingly DPF is unlikely to need to make a repayment under the subscription agreement.</p>

## Performance<sup>^</sup>

As at 30 September 2008	Distribution yield <sup>1</sup> (% p.a.)	Capital growth <sup>2</sup> (% p.a.)	Total return <sup>3</sup> (% p.a.)	Tax-deferred proportion <sup>4</sup> (%)
1 year	6.09	-7.42	-1.33	100
3 years	7.93	0.34	8.27	100
5 years	8.65	2.53	11.18	99
10 years	9.29	1.77	11.06	90
Since inception (June 1992)	8.28	1.63	9.91	73

1. The distribution yield is equal to the total return less capital growth, assuming reinvestment of distributions. 2. The capital growth is the change in unit price, annualised for the relevant period. 3. The total return is equal to the change in unit price including reinvestment of distributions, annualised for the relevant period. 4. The tax-deferred portion relates to the distribution received. It does not apply to the capital growth component of the total return. Figures are for the relevant period ended 30 June 2008.

<sup>^</sup> Past performance is no indication of future performance. For the 2009 financial year, we expect distribution yields will be lower than those indicated in the table above.

## Managing risks in the current climate

Key risk	Description	Strategy
<b>Financing</b>	<p>The risk of:</p> <ul style="list-style-type: none"> <li>being unable to refinance debt obligations when due; and</li> <li>breaching covenants of existing debt facilities.</li> </ul>	<p>As indicated in the table on page 17, the Fund has some interest cover ratio (ICR) and net tangible value (NTV) covenants which were at risk of breaching. To address this risk, we actively sought an extension to the repayment schedule and a relaxation of the ICR and NTV covenants from our financiers. These have now been granted by the Bank of Scotland International (BOS).</p> <p>We are in regular contact with our financiers and continue to actively re-negotiate finance terms.</p>

# Orchard Diversified Property Fund

## Managing risks in the current climate continued

Key risk	Description	Strategy
Financing continued	<p>The above risks may lead to:</p> <ul style="list-style-type: none"> <li>• forced sales of assets;</li> <li>• a higher interest cost charged by the debt provider;</li> <li>• a requirement to amortise debt over time; and</li> <li>• a direction by a debt provider to stop paying income distributions.</li> </ul>	<p>The Fund's debt is financed for a sufficient period to allow the market to recover and for liquidity to return to the debt market, however in the current environment, our principal strategy is to use any spare cash generated by the fund to reduce debt and preserve capital.</p> <p>We will continue to focus on reducing the Fund's debt, as loans with lower loan to value ratios (LVRs) are easier to obtain, reducing the risk of not obtaining finance upon expiry of any of the facilities.</p> <p>The steps we have taken to reduce gearing have included:</p> <ul style="list-style-type: none"> <li>• deferring all non-essential capital expenditure;</li> <li>• moving to an annual distribution payment schedule;</li> <li>• asset sales – we have sold a number of properties in the past year and have a number on the market (however we do not want to sell at fire-sale prices and take losses on properties that may rebound strongly); and</li> <li>• renegotiating debt facilities to spread expiry risk and concentration risk with any single financier.</li> </ul> <p>The decision to move to an annual distribution if cash is available at the end of the year will ensure all spare cash generated by the Fund through ongoing activities that would normally be paid as distributions, is held within the Fund in order to minimise any potential for LVR breaches.</p> <p>We remain committed to reducing financing risks in the current market.</p>
Valuation	<p>The risk of asset values falling, which may:</p> <ul style="list-style-type: none"> <li>• have an adverse impact on equity value and unit price of the Fund;</li> <li>• cause a breach of banking covenants; and</li> <li>• require the application of a greater proportion of Fund income to service debt, resulting in lower distributable income.</li> </ul>	<p>We are making allowances now for the possibility of falling asset values by:</p> <ul style="list-style-type: none"> <li>• reducing gearing in order to minimise the effect of falling asset values on equity;</li> <li>• retaining income as a cash reserve in the Fund; and</li> <li>• proactive asset management.</li> </ul> <p>Asset management strategies to assist with valuations include renegotiating leasing arrangements where possible, conducting appropriate capital expenditure (capex) projects and improving tenant diversification through the negotiation of lease extensions as early as possible.</p> <p>Proactive asset management will ensure the Fund's assets are maintained in good condition to optimise rental returns and tenant retention.</p>
Income	<p>The risk of the Fund's income reducing as a result of:</p> <ul style="list-style-type: none"> <li>• lower revenue; and</li> <li>• higher expenses.</li> </ul>	<p>The overall investment strategy is designed to hold assets in markets where rental growth opportunities are highest.</p> <p>The Fund is sufficiently diversified so that no single tenant represents more than 10% of the Fund's income. This reduces the risk of any single tenant materially affecting the Fund's income.</p> <p>The Fund's interest rate is 84% hedged, which provides certainty to the amount of regular interest payable.</p> <p>This also reduces the risk any increase in interest rates may have on expenses and means expenses can be planned with more certainty.</p>

# Orchard Hybrid Property Fund

## Fund overview

Inception date	May 2003	Distribution status	Annually in June <sup>^</sup>
Total asset value	\$9.916m	Withdrawal status	On hold
Unit price	\$0.9881*	<sup>^</sup> Payment is dependent on the Fund's financial position at the time.	

\* This is the last unit price struck prior to the Fund being closed to new applications on 8 October 2008.

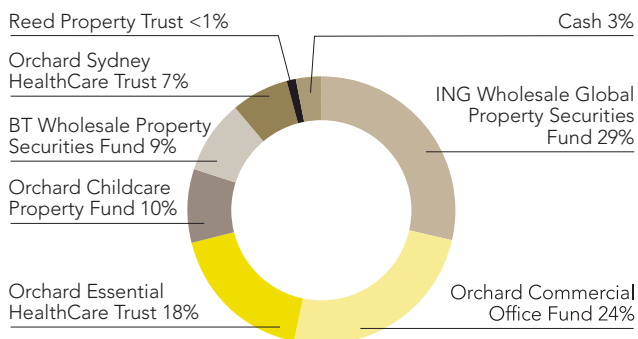
## Portfolio overview

Number of directly held properties	0	Number of indirect investments	7
------------------------------------	---	--------------------------------	---

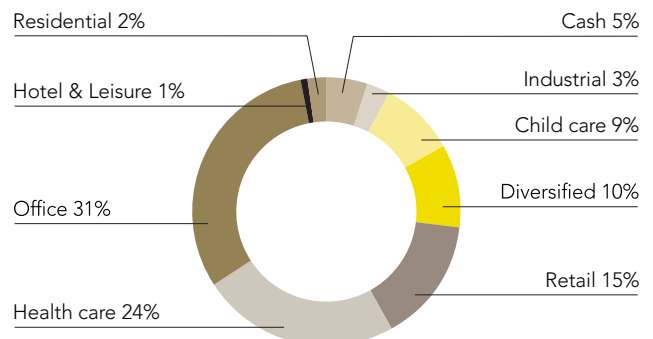
## Asset allocation

Unlisted property	Global listed property	Australian listed property	Cash and other assets
60%	29%	9%	2%

## Investment by value



## Sector allocation



## Five largest investments as at 31 August 2008

Property Security	% of Fund	\$ Value	Sector
ING Wholesale Global Property Securities Fund	29%	\$2.79m	Global Real Estate Investment Trusts (REITs)
Orchard Group - Commercial Office Fund	24%	\$2.33m	Office
Orchard Group - Essential HealthCare Trust	18%	\$1.69m	Health care
Orchard Group - Childcare Property Fund	10%	\$0.89m	Child care
BT Wholesale Property Securities Fund	9%	\$0.87m	Australian REITs

## Tenancy details

Not applicable.

# Orchard Hybrid Property Fund

## Debt overview

Description	Actual
Total direct borrowings	n/a
Total direct borrowing facility limit	n/a
Average interest rate (p.a.)	n/a
Gearing ratio as at 30 June 2008	n/a
Look through gearing <sup>1</sup> as at 30 June 2008	48%
Interest cover ratio (times) as at 30 June 2008	n/a
Hedged component	n/a

1. Look through gearing reflects the ratio of net borrowings to total assets adjusted for relevant borrowings of investments in third party funds and joint ventures.

## Fund cash flow

As at 30 June 2008	Amount
Operating income	\$1.4m
Operating expenses	\$0.1m
Net operating cash flow	\$1.3m

## Performance<sup>^</sup>

As at 30 September 2008	Distribution yield <sup>1</sup> (% p.a.)	Capital growth <sup>2</sup> (% p.a.)	Total return <sup>3</sup> (% p.a.)	Benchmark return (% p.a.) <sup>4</sup>	Performance differential (% p.a.)	Tax-deferred proportion <sup>5</sup> (%)
1 year	5.12	-9.44	-4.32	-7.79	3.47	57
3 years	9.55	0.70	10.25	10.55	-0.29	48
5 years	9.26	4.49	13.75	13.25	0.50	64
Since inception (May 2003)	9.28	3.48	12.76	12.10	0.66	70

1 The distribution yield is equal to the total return less capital growth, assuming reinvestment of distributions. 2 The capital growth is the change in unit price, annualised for the relevant period. 3 The total return is equal to the change in unit price including reinvestment of distributions, annualised for the relevant period. 4 Benchmark is currently 50% Australian Government 10yr Bond Rate + 3%; 30% UBS Investors Global Real Estate Index (A\$ Hedged); 15% S&P/ASX 200 Property; Accumulation Index; 5% UBS Bank Bill Index. Prior to September 2007, the Benchmark was InTech 50/50 Composite Index. 5 The tax-deferred proportion relates to the distribution received. It does not apply to the capital growth component of the total return. Figures are for the relevant period ended 30 June 2008.

<sup>^</sup> Past performance is no indication of future performance. For the 2009 financial year, we expect distribution yields will be lower than those indicated in the table above.

## Managing risks in the current climate

Key risk	Description	Strategy
Financing	<p>The risk of:</p> <ul style="list-style-type: none"> <li>being unable to refinance debt obligations when due; and</li> <li>breaching covenants of existing debt facilities.</li> </ul> <p>The above risks may lead to:</p> <ul style="list-style-type: none"> <li>forced sales of assets;</li> <li>a higher interest cost charged by the debt provider;</li> <li>a requirement to amortise debt over time; and</li> <li>a direction by a debt provider to stop income distributions.</li> </ul>	<p>At the present time this Fund does not have a debt facility and there are no immediate plans to put a debt facility in place.</p> <p>We continue to monitor the debt positions of underlying funds to ensure the Fund is not exposed to excessive financing risk.</p>

# Orchard Hybrid Property Fund

## Managing risks in the current climate continued

Key risk	Description	Strategy
Valuation	<p>The risk of asset values falling, which may impact the equity value and unit price of the Fund and adversely affect achievement of banking covenants.</p>	<p>Steps taken to address valuation risk include:</p> <ul style="list-style-type: none"> <li>ongoing monitoring of underlying investments as per the Fund's risk management controls; and</li> <li>selling out of unlisted Funds where possible as values are expected to decline in these Funds in the short to medium term.</li> </ul> <p>Orchard has moved to annual distributions to help protect against valuations and related financing risks.</p>
Income	<p>The risk of the Fund's income reducing as a result of:</p> <ul style="list-style-type: none"> <li>lower revenue;</li> <li>lower distributions; and</li> <li>higher expenses.</li> </ul>	<p>We monitor the underlying investments, on an ongoing basis, as per our risk management controls.</p> <p>Our strategy to address income risk includes:</p> <ul style="list-style-type: none"> <li>selling unlisted funds where possible; and</li> <li>moving to an annual payment of income distributions in line with the underlying Orchard Funds.</li> </ul>

# Orchard Primary Infrastructure Fund

## Fund overview

Inception date	September 2004
Total asset value	\$125m
Unit price	\$0.8010*

\* This is the last unit price struck prior to the Fund being closed to new applications on 31 March 2008.

Distribution status	Annually in June <sup>^</sup>
Withdrawal status	On hold

<sup>^</sup> Payment is dependent on the Fund's financial position at the time.

## Portfolio overview

Number of directly held properties

18

Number of indirect investments

1

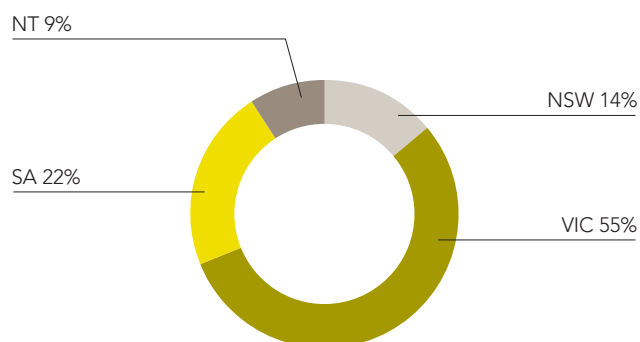
Total number of properties Fund has exposure to

19

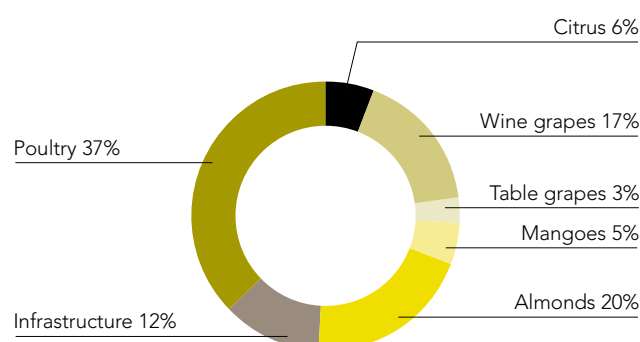
## Asset allocation

Direct property	Unlisted property	Cash and other assets
91%	4%	5%

## Geographic allocation



## Sector allocation<sup>1</sup>



<sup>1</sup> The Fund invests in the land and infrastructure that underpins primary production.

## Five largest directly held assets

Description	Valuation	Valuation date	Capitalisation rate*	Valuer
Qualco West Vineyard	\$19.0m	December 2007	N/A	Gaetjens Pickett Valuers
Lake Carpul Almonds	\$13.0m	November 2007	N/A	Gaetjens Pickett Valuers
Baiada - Woodleigh, Curlew NSW	\$8.9m	December 2007	N/A	Tremain Prowse
Lake Powell Almonds	\$8.5m	December 2007	N/A	Gaetjens Pickett Valuers
Baiada - Lynwood, Tamworth NSW	\$7.3m	December 2007	N/A	Tremain Prowse

\* Rural valuations based on direct comparison rather than capitalisation rates.

# Orchard Primary Infrastructure Fund

## Tenancy details

Occupancy rate	100%	Weighted average lease expiry (WALE)	13.5 years
----------------	------	--------------------------------------	------------

## Lease expiry profile

Expires within	Vacant	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017+
(%)	0	0	0	0	0	0	0	0	0	17.90	82.10

## Top tenants (direct portfolio)

Tenant	Property	% direct income
Baiada	Various	34.09
Seven Fields	Various	22.52
Select Harvests	Lake Powell and Lake Carpul	18.41
McGuigan Simeon Wines	Qualco Vineyard	16.53

## Debt overview

Description	Actual
Total direct borrowings	\$76.0m
Total direct borrowing facility limit	\$80.2m
Average interest rate (p.a.)	7.45%
Gearing ratio <sup>1</sup> as at 30 June 2008	65%
Look through gearing <sup>2</sup> as at 30 June 2008	n/a
Interest cover ratio <sup>3</sup> (times) as at 30 June 2008	1.96
Hedged component	81%

## Fund cash flow

As at 30 June 2008	Amount
Operating income	\$14.2m
Operating expenses	\$9.6m
Net operating cash flow	\$4.6m

1. Gearing ratio is calculated as total interest bearing liabilities divided by total assets. A higher gearing ratio means a higher reliance on external liabilities (primarily borrowings) to fund assets. This exposes the scheme to increased funding costs if interest rates rise. A highly geared scheme has a lower asset buffer to rely upon in times of financial stress.  
 2. Look through gearing reflects the ratio of net borrowings to total assets adjusted for relevant borrowings of investments in third party funds and joint ventures. 3. Interest Cover Ratio gives an indication of the Fund's ability to meet its interest payments from earnings. The higher the ratio the easier the Fund can meet its interest expense.

## Debt maturity profile

Financier	Ownership	Drawn	Undrawn	Maturity <sup>1</sup>
Commonwealth Bank of Australia (CBA)	Direct	\$70.5m	\$4.2m	December 2008 <sup>2</sup> : \$10.0m December 2017: \$60.5m
Orchard Diversified Property Fund (DPF)	Direct	\$5.5m	-	n/a <sup>3</sup>
CBA - Sunwest <sup>4</sup>	Indirect	\$3.8m	-	December 2008: \$3.8m <sup>4</sup>

1. Maturity relates to drawn funds only. 2. The \$10m tranche is an annual facility and the Orchard Primary Infrastructure Fund (PIF) is in the process of negotiating an extension for a further 12 months. Orchard believes that a portion of this tranche may be rolled into the December 2017 expiry tranche, rolled for a further 12 months and/or be required to be paid down. No binding agreement has been reached with CBA to date. PIF has ceased making distributions and accordingly, should any amount be required to be repaid by PIF there will be funds available, as Orchard believes that any amortisation would be made from free cash flow. If CBA required amortisation above the level of free cash flow, this would be funded by the sale of assets. 3. DPF can request loan repayment with 30 days notice. There are no financial covenants associated with the facility. 4. CBA and Sunwest are currently negotiating the terms for the extension of this facility which Orchard believes will be extended for a further three years. This debt is required to be paid down to \$3.3m due to a revaluation of the property. This repayment is factored into PIF's cash flows and is readily available.

# Orchard Primary Infrastructure Fund

## Position in relation to key debt covenants<sup>1</sup> as at 30 June 2008

	Covenant limit	Actual covenant	LVR % decline in property value before covenant breach <sup>2</sup>	Status
<b>CBA</b>				
Bank interest cover ratio	1.50x	1.70x	-	Compliant
Loan value ratio	59.0%	53.0% <sup>a</sup>	2%	Compliant
<b>CBA - Sunwest</b>				
Loan value ratio	60.0%	58.0%	0% <sup>b</sup>	Compliant

1. Financiers each use their own method for calculating interest cover ratio and gearing which is why this figure is different to the figure in the Debt Overview section. 2, a, b. Refer to the table below for a description of current position in relation to covenants and mitigants of potential breaches.

## Additional information regarding the Fund's LVR capacity

Financier	Status
<b>a. CBA</b>	<p>It is expected the facility will be fully drawn by November 2008, at which time the LVR will be 57%, with 2% headroom in the event of property revaluations.</p> <p>If a revaluation is requested and the LVR limit is breached the Orchard Primary Infrastructure Fund (the Fund or PIF) will seek first to obtain a waiver or re-negotiate the LVR limit with CBA. In the event CBA is not willing to provide a waiver or to amend the LVR limit PIF will seek to negotiate an amortisation program based on free cash flows.</p> <p>If CBA were to require full repayment of the facility as a result of the LVR breach then PIF would seek to use existing available cash and if required sell properties to repay CBA. As PIF has only borrowed 57% of the value of the property it is likely that the realisation of the property will be sufficient to repay CBA in full. Should the realisation of the property be insufficient, CBA's recourse is limited to PIF assets.</p>
<b>b. CBA (Sunwest)</b>	<p>CBA and Sunwest are currently negotiating the terms for the extension of this facility. Orchard believes that the facility will be extended for a further three years and that the debt will be required to be paid down to \$3.3m, due to a revaluation of the property. This repayment is factored into PIF's cash flows and is readily available.</p>

## Performance<sup>^</sup>

As at 30 September 2008	Distribution yield <sup>1</sup> (% p.a.)	Capital growth <sup>2</sup> (% p.a.)	Total return <sup>3</sup> (% p.a.)	Tax-deferred proportion <sup>4</sup> (%)
1 year	6.89	-21.11	-14.22	100
3 years	8.78	-7.13	1.65	100
Since inception (February 2004)	9.11	-4.73	4.39	100

1. The distribution yield is equal to the total return less capital growth, assuming reinvestment of distributions. 2. The capital growth is the change in unit price, annualised for the relevant period. 3. The total return is equal to the change in unit price including reinvestment of distributions, annualised for the relevant period. 4. The tax-deferred portion relates to the distribution received. It does not apply to the capital growth component of the total return. Figures are for the relevant period ended 30 June 2008.

<sup>^</sup> Past performance is no indication of future performance. For the 2009 financial year, we expect distribution yields will be lower than those indicated in the table above.

# Orchard Primary Infrastructure Fund

## Managing risks in the current climate

Key risk	Description	Strategy
Financing	<p>The risk of:</p> <ul style="list-style-type: none"> <li>being unable to refinance debt obligations when due; and</li> <li>breaching covenants of existing debt facilities.</li> </ul> <p>The above risks may lead to:</p> <ul style="list-style-type: none"> <li>forced sales of assets;</li> <li>a higher interest cost charged by the debt provider;</li> <li>a requirement to amortise debt over time; and</li> <li>a direction by a debt provider to stop paying income distributions.</li> </ul>	<p>The main debt facility for the Orchard Primary Infrastructure Fund (the Fund) expires in 2017 so the refinancing risk is not immediate. A working capital facility of \$10m is reviewed every 12 months. We manage the risk of this not being renewed by negotiating on a continual basis with the bank. We are closely monitoring the current loan to value ratio (LVR) of 65% and interest cover ratio (ICR) of 1.5 times in the current economic and drought conditions.</p> <p>All of the Fund's leases are on fixed increases and triple net leases which means that the tenant pays operating and capital expenditure. This reduces the variability of the net income and helps to ensure the ICR is not breached.</p>
Valuation	<p>The risk of asset values falling which may:</p> <ul style="list-style-type: none"> <li>have an adverse impact on equity value and unit price of the Fund;</li> <li>cause a breach of banking covenants; and</li> <li>require the application of a greater proportion of Fund income to service debt, resulting in lower distributable income.</li> </ul>	<p>The characteristics of the Fund's assets which will help mitigate the effect of current market conditions are:</p> <ul style="list-style-type: none"> <li>long term leases (13.5 years); and</li> <li>high valuation yields which inherently take into account risky conditions.</li> </ul> <p>We are attempting to reduce gearing in order to minimise the effect of falling asset values on unit holder equity.</p> <p>The strategy of paying annual distributions at year's end if cash is available will ensure all spare cash generated by the fund through ongoing activities that would normally be paid as distributions is held within the Fund in order to minimise potential LVR breaches.</p> <p>Orchard has moved to annual distributions to help protect against the impact of falling valuations and related financing risks.</p>
Income	<p>The risk of the Fund's income reducing as a result of:</p> <ul style="list-style-type: none"> <li>lower revenue; and</li> <li>higher expenses.</li> </ul>	<p>At 13.5 years, the weighted average lease expiry (WALE) of the Fund is exceptionally long, with regular fixed rental increases. There is therefore limited market risk in terms of rents decreasing.</p> <p>The main risk is tenant default which could be caused by a range of factors, including climatic conditions. This is controlled by managing the assets properly and intensively, which involves assessing in detail the farming operations to ensure they meet best practice and to ensure the operations are able to sustain the rents.</p> <p>The leases are triple net, which means that the tenant pays operating and capital expenditure costs, limiting the Fund's expense risk.</p> <p>81% of the Fund's interest costs are hedged. This ensures a portion of interest costs are fixed and therefore Fund expenses can be estimated with some certainty.</p>

# Orchard Social Infrastructure Trust

## Trust overview

Inception date	July 2007
Total asset value	\$11m
Unit price	\$1.0203*

\* This is the last unit price struck prior to the Fund being closed to new applications on 8 October 2008.

Distribution status	Annually in June <sup>^</sup>
Withdrawal status	On hold

<sup>^</sup> Payment is dependent on the Trust's financial position at the time.

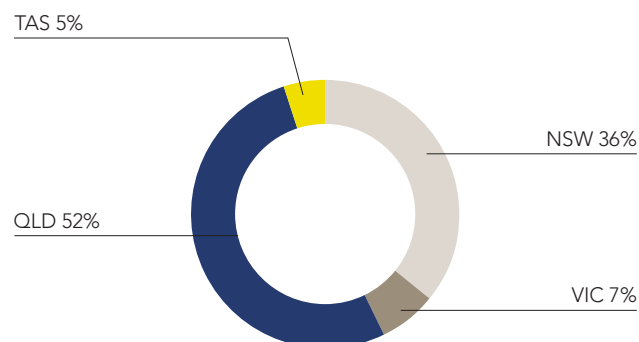
## Portfolio overview

Number of directly held properties	0	Number of indirect investments	1	Total number of properties Fund has exposure to	13
------------------------------------	---	--------------------------------	---	---	----

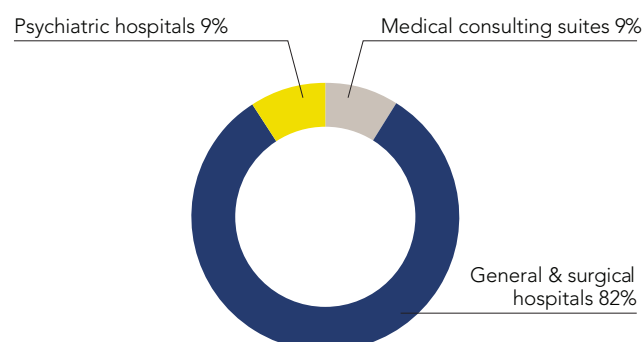
## Asset allocation

Unlisted property	Cash and other assets
95%	5%

## Geographic allocation



## Sector allocation



## Five largest indirectly held assets

Property	Valuation	Valuation date	Capitalisation rate	Valuer
Allamanda Private Hospital	\$60.3m	14 April 2008	9.00%	Ernst & Young
North Gosford Private Hospital	\$27.6m	30 April 2008	9.75%	Ernst & Young
Allamanda Surgicentre	\$13.3m	30 June 2007	7.50%	Ernst & Young
East Maitland Private Hospital	\$12.3m	5 December 2007	8.75%	Ernst & Young
South Eastern Private Hospital	\$11.9m	30 April 2008	11.47%	Ernst & Young

# Orchard Social Infrastructure Trust

## Tenancy details (indirect portfolio)

Occupancy rate	100%
----------------	------

Weighted average lease expiry (WALE)	22.4 years
--------------------------------------	------------

## Lease expiry profile

Expires within	2009	2010	2011	2012	2013	2014	2015	2016+
(%)	1.9	0.3	0.3	1.3	0.3	0	0	95.8

## Top five tenants (indirect portfolio)

Tenant	Property	% Indirect property income
Healthe Care Australia	11 out of the 13 properties	60.11%
Healthscope Ltd	Allamanda Private	32.70%
Queensland Surgicentre Southport Pty Ltd	Allamanda Surgicentre and Brockway House	3.66%
BCN Management Services Pty Ltd	Allamanda Surgicentre and Brockway House	1.11%
Radioladmin Services Pty Ltd	Allamanda Surgicentre	1.01%

## Debt overview

Description	Actual
Total direct borrowings	n/a
Total direct borrowing facility limit	n/a
Average interest rate (p.a.)	n/a
Gearing ratio as at 30 June 2008	n/a
Look through gearing <sup>1</sup> as at 30 June 2008	59%
Interest cover ratio (times) as at 30 June 2008	n/a
Hedged component	n/a

<sup>1</sup> Look through gearing reflects the ratio of net borrowings to total assets adjusted for relevant borrowings of investments in third party funds and joint ventures.

## Trust cash flow

As at 30 June 2008	Amount
Operating income	\$329,000
Operating expenses	\$108,000
Net operating cash flow	\$221,000

## Performance<sup>^</sup>

As at 30 September 2008	Distribution yield <sup>1</sup> (% p.a.)	Capital growth <sup>2</sup> (% p.a.)	Total return <sup>3</sup> (% p.a.)	Tax-deferred proportion <sup>4</sup> (%)
1 year	6.20	2.03	8.23	100
Since inception (July 2007)	6.61	1.62	8.23	100

1. The distribution yield is equal to the total return less capital growth, assuming reinvestment of distributions. 2. The capital growth is the change in unit price, annualised for the relevant period. 3. The total return is equal to the change in unit price including reinvestment of distributions, annualised for the relevant period. 4. The tax-deferred portion relates to the distribution received. It does not apply to the capital growth component of the total return. Figures are for the relevant period ended 30 June 2008.

<sup>^</sup> Past performance is no indication of future performance. For the 2009 financial year, we expect distribution yields will be lower than those indicated in the table above.

# Orchard Social Infrastructure Trust

## Managing risks in the current climate

Key risk	Description	Strategy
Financing	<p>The risk of:</p> <ul style="list-style-type: none"> <li>being unable to refinance debt obligations when due; and</li> <li>breaching covenants of existing debt facilities.</li> </ul> <p>The above risks may lead to:</p> <ul style="list-style-type: none"> <li>forced sales of assets;</li> <li>a higher interest cost charged by the debt provider;</li> <li>a requirement to amortise debt over time; and</li> <li>a direction by a debt provider to stop Trust distributions.</li> </ul>	<p>At the present time the Orchard Social Infrastructure Trust (the Trust) does not have a debt facility and there are no immediate plans to put a debt facility in place.</p> <p>The Trust owns units in the Essential HealthCare Trust (EHCT) which has a debt facility in place with Bank of Scotland International (BOS). It is due for repayment in March 2011, at a time when liquidity is expected to be better than is currently the case.</p> <p>A recent upward revaluation of EHCT assets has brought the LVR down to 63.6%, which is under the debt facility covenant of 70%.</p> <p>Regardless of this, we will look for opportunities to further reduce EHCT's debt facility in order to reduce the sensitivity of investor returns to a change in the value of the properties.</p>
Valuation	<p>The risk of asset values falling, which may:</p> <ul style="list-style-type: none"> <li>impact the equity value and unit price of the Trust;</li> <li>cause a breach of banking covenants; and</li> <li>require the application of a greater proportion of Fund income to service debt, resulting in lower distributable income.</li> </ul>	<p>The Trust will closely monitor the operations of EHCT to ensure that asset values appear reasonable.</p> <p>During April 2008, six assets of EHCT were revalued representing \$128 million of aggregate value.</p> <p>We will be mindful of opportunities to reduce debt through the disposal of selective assets. The weighted average lease expiry of the Trust is 22.4 years, resulting in limited leasing risk in the portfolio and providing some support to asset valuations.</p> <p>Orchard has moved to annual distributions to help protect against the impact of falling valuations and related financing risks.</p>
Income	<p>The risk of the Trust's income reducing as a result of:</p> <ul style="list-style-type: none"> <li>lower revenue; and</li> <li>higher expenses.</li> </ul>	<p>EHCT is characterised by tenant concentration risk with Health Care Australia representing approximately 60% of the Trust's income. Whilst this tenant continues to trade and meet all rental obligations, we also monitor its business to understand any potential risks.</p> <p>In the immediate term, EHCT is not facing a refinancing, however, in two years time when the refinance is to occur, the cost of debt may be higher than is currently the case. This may result in an increase to the interest expense and a reduction in the distributable income of the Trust.</p> <p>More than 80% of the lettable area of EHCT portfolio is leased to operators on triple net leases where all property expenses and building refurbishment expenses are the responsibility of the tenant, thereby reducing EHCT expenses.</p> <p>The Orchard Social Infrastructure Trust will continue to closely monitor the operations of EHCT, particularly in relation to any changes that may occur to the distribution policy of the Trust.</p>



Orchard Childcare Property Fund ARSN 106 891 641  
Orchard Commercial Office Fund ARSN 112 310 380  
Orchard Diversified Property Fund ARSN 093 304 379  
Orchard Hybrid Property Fund ARSN 096 350 533  
Orchard Primary Infrastructure Fund ARSN 110 813 851  
Orchard Social Infrastructure Trust ARSN 125 629 058

Orchard Securities Pty Limited ABN 16 091 909 376 AFSL No. 241053 has prepared this Report for general information only. It does not take into account your current or future financial circumstances. You should consider these matters and read the relevant Product Disclosure Statement (PDS) before you make an investment decision on holding or acquiring units in these products. To obtain a current PDS, please ask your financial adviser, call Orchard Investor and Adviser Services on 1800 008 494, or visit [www.orchardfunds.com](http://www.orchardfunds.com).

Orchard Capital Investments Limited ABN 23 077 235 879 AFSL No. 233190 is the issuer of interests in Orchard Childcare Property Fund, Orchard Commercial Office Fund, Orchard Diversified Property Fund, Orchard Hybrid Property Fund, Orchard Primary Infrastructure Fund and Orchard Social Infrastructure Trust. This company is a related body corporate of Orchard Securities Pty Limited.

Whilst due care has been taken in the compilation of this report, and we believe that the information contained herein is based on reliable current relevant information, we do not guarantee the absolute accuracy of such information or the integrity of source material, nor do we accept responsibility for any errors and omissions which may subsequently be found evident in our appraisal.

[www.orchardfunds.com](http://www.orchardfunds.com)

For more information contact us on 1800 008 494 or speak with your financial adviser.