

Orchard Diversified Property Fund - funding update

Orchard Capital Investments Limited (**Orchard**) as responsible entity for the Orchard Diversified Property Fund (**DPF**) provides the following information by way of update. This update was included in a disclosure notice lodged with the Australian Securities and Investments Commission on 13 November 2009.

DPF has a commercial bill facility of \$194.5 million with Bank of Scotland, International (**BOSI**). BOSI has security over DPF's financial assets (primarily investments in managed investment schemes). DPF used free cash flows to meet amortisation requirements and repay \$16.9 million during the 2009 financial year, and has a further requirement to repay \$59.5 million by 31 December 2009. Due to illiquidity in the unlisted market, there is minimal opportunity to dispose of DPF's financial assets to meet this requirement.

DPF was in breach of the Net Tangible Value (**NTV**) and Gearing Ratio covenants during the 2009 financial year and at 30 June 2009. BOSI has provided a term sheet issuing waivers for all covenant breaches up to and including 30 June 2009. While the term sheet addresses prior waivers, it does not address the likely breaches for the September 2009, December 2009, and March 2010 quarters or the amortisation requirement by 31 December 2009. BOSI is aware of the likely breaches and of DPF's inability to meet:

- the amortisation requirement of \$59.5 million by 31 December 2009;
- full payment of interest expense; and
- capital expenditure requirements.

Based on its historical actions and oral indications from BOSI, Orchard has reasonable expectation that waivers will be provided if breaches eventuate and interest may be capitalised.

BOSI has provided oral indication that it may fund completed capital expenditure works and capital expenditure works in progress relating to the direct assets held within the NAB security pool by capitalising its interest. BOSI has also provided oral indication that reasonable consideration will be given to requests to fund future essential capital expenditure relating to the direct assets held within the NAB security pool, which if not carried out may be detrimental to asset values. BOSI has confirmed its intention to work with DPF and its other financiers to facilitate the ability of DPF to continue as a going concern.

The maturity of the facility remains 31 August 2010, by which time it is expected that DPF, BOSI and NAB will have entered into an in principle agreement that will be the basis for longer term funding arrangements by both banks. If by 31 January 2010 (or later as may be otherwise agreed between BOSI and DPF) BOSI in its absolute discretion determines it is not satisfied with the progress made between it, NAB and any other stakeholder bank in relation to the longer term stabilisation of DPF, then an event of default may arise.

DPF has a commercial bill facility of \$229.7 million with NAB. NAB has security over the majority of DPF's direct property assets. DPF was in breach of the Net Tangible Assets and Gearing Ratio as at 30 June 2009. Waivers have been issued to 31 October and subsequently NAB has agreed not to test the Net Tangible Assets and Gearing Ratio covenants until 31 March 2010 when it is expected that an intercreditor arrangement will have been agreed in principle with BOSI, thus providing DPF with more certainty of continued bank support. The maturity of the facility has been reset to 31 March 2010 (previously 30 June 2011). If by 31 January 2010 (or later as may be otherwise agreed between NAB and DPF) NAB in its absolute discretion determines it is not satisfied with the progress made between it, BOSI and any other stakeholder bank in relation to the longer term stabilisation of DPF, then an event of default will arise. As part of the continuing negotiations with NAB, independent valuations were requested to be undertaken for seven of the nine investment properties within NAB's security pool. It is anticipated that these will be finalised prior to 30 November 2009.



Funds Management

NAB has also provided oral indication that reasonable consideration will be given to requests to fund future essential capital expenditure relating to the direct assets held within its security pool, which if not carried out may be detrimental to asset values.

DPF has a commercial bill facility of \$9.6 million with Commonwealth Bank of Australia (**CBA**) expiring in February 2010, which is currently in breach as the Loan to Value Ratio (**LVR**) exceeds the 65% covenant. CBA has security over Lighthouse Plaza Shopping Centre in Port Macquarie, NSW and DPF is in the process of marketing this property for sale, with the proceeds to be used to repay debt. CBA has been advised, and has agreed to this strategy. A potential buyer has commenced due diligence for a price of \$11.3m, with settlement due 60 days from exchange of contract.

Orchard Sustainable Canberra Trust (**OSCT**), a wholly-owned subsidiary of DPF, has a commercial bill facility of \$39.5 million with CBA. The facility defines the measurement of the LVR covenant against external valuations. The most recent external valuation was \$60.7 million, adopted upon acquisition in September 2007. On the basis of the directors' valuation of \$50.0 million, OSCT's LVR is above the required limit of 65%, but does not trigger a breach. Under the facility, the next external revaluation is not required until June 2010. Orchard will seek to renegotiate covenants and obtain waivers should a breach eventuate.

One of DPF's wholly-owned entities, Orchard NZ Diversified Property Fund (**DPF NZ**), has a loan facility of NZ \$62.6 million from CBA which represented 8% of the DPF consolidated bank debts as at 30 June 2009. The waiver that DPF NZ had previously received for the LVR and the amendment to the Interest Cover Ratio (**ICR**) covenants expired on 30 April 2009, after which the covenants were in breach. CBA has provided credit approval for an extension of the entire facility and to waive the LVR and ICR covenants to 31 December 2010. Conditions of the credit approval require independent valuations of the investment properties before 31 December 2009, and that any capital expenditure is met from operating cash flows of DPF. CBA's recourse is limited to the assets of DPF NZ.

Please contact the Orchard Investor and Adviser Services team on 1800 008 494 if you have any questions.