

Important update to all Orchard Unit Holders and Shareholders

Due to increasing media speculation, unit holder and shareholder enquiries, Orchard Funds Limited (Orchard) and Orchard Capital Investments Limited (the Responsible Entity) provide the following update regarding the Orchard recapitalisation/sale process.

Background

Over the last six months Orchard has run a recapitalisation/sale process designed to provide unit holders and shareholders of our business the best possible outcome. To this end:

- The Orchard board of directors has retained KMPG Corporate Finance to run the recapitalisation/sale process and advise the Responsible Entity (which acts on behalf of unit holders) and Orchard (which acts on behalf of shareholders);
- The objective of directors is to achieve the best possible result for all unit holders in our funds, whilst balancing the needs of our shareholders;
- Formal board protocols have been established in conjunction with Orchard's legal advisers to ensure potential conflicts of interest are properly managed and that unit holders' interests are optimised in this process;
- An independent advisory council (IAC) was established to consider proposals and provide feedback and advice to the Orchard and Responsible Entity boards. The IAC members are representatives from some of the country's large national and boutique dealer groups who predominantly represent unit holders invested in Orchard managed funds as well as Orchard shareholders;
- Two new independent directors were recently appointed to both the Orchard and Responsible Entity boards to enhance corporate governance and ensure the introduction of fresh thinking; and
- A list of key criteria to evaluate all bids from a unit holder perspective has been adopted by the Responsible Entity board, as follows:
 - Capability to best manage, protect and enhance the interests of unit holders;
 - Strategies proposed to allow resumption of distributions;
 - Strategies proposed to provide unit holders access to their capital; and
 - Ability to successfully negotiate with key fund financiers.

Current Status

Orchard has announced that Cromwell Group (Cromwell) has been granted an exclusive period of 30 days (Exclusivity Period) to conduct due diligence and refine its proposal to assume management of all funds managed by Orchard with the exception of the Essential Healthcare Trust and Orchard Primary Infrastructure Fund.

The decision to grant Cromwell exclusivity is reflective of its strong experience and track record as a responsible entity of unlisted property funds; and good relationships with many of the dealer groups that have been associated with Orchard over many years.

During the Exclusivity Period, Cromwell will be refining its proposal and fund strategies in order to present their final bid to the independent directors of both Orchard and the Responsible Entity. Cromwell will be engaging key fund financiers with the objective of negotiating and ratifying new terms and conditions. This is particularly crucial with respect to Orchard's Diversified Property Fund, which has both of its key banking facilities expiring within the next few months.

Cromwell will also be engaging with the IAC and key dealer groups to explain its proposed strategies for the funds and seek feedback.

Alternative Proposals

The recapitalisation/sale process run by KPMG Corporate Finance has attracted strong interest in Orchard's funds management business. In the case of the Essential Healthcare Trust – a single fund solution has been given priority over a desire by some whole of Orchard bidders to keep the business intact.

Due to confidentiality reasons Orchard will not comment or elaborate on competing proposals, other than to say that it has not received any competing proposals which are capable of acceptance by financiers. Without the support of the funds' financiers no proposal can proceed.

Orchard has and will continue to support proposals that are in the best interests of unit holders. In some cases, Orchard notes that the sale of selected assets in a fund may present the best outcome for unit holders, particularly where the issue of new capital would be dilutive to existing unit holders' equity position.

Summary

In summary:

- Cromwell has been given a 30 day exclusive period to refine its proposal, seek the support of key fund financiers and present its final proposal to the independent directors of Orchard for their approval;
- Any final proposal will require support and/or approval from Orchard's stakeholders; and
- Orchard has and will continue to support proposals that are in the best interests of unit holders.

In the coming weeks, we will continue to work towards a positive result for all Orchard stakeholders across the entire Orchard platform.



Charles Macek
Chairman



David Hinde
Chief Executive Officer

Orchard Funds Limited ACN 097 125 874
Orchard Capital Investments Limited ACN 077 235 879