CHAIRMAN'S STATEMENT

PEPPERCORN INVESTMENT FUND

Unitholder Meeting

2.00 pm

Wednesday November 12, 2003

ASX Lecture Theatre

Australian Stock Exchange

Level 5, Riverside Centre

123 Eagle Street, Brisbane

CHAIRMAN'S STATEMENT

Ladies and Gentlemen, as set out in the documents accompanying the Notice of Meeting, the purpose of convening this meeting is to seek your approval to allow the placement of 13.282 million units in PIF at a price of $1.20 per unit. The placement has been made conditionally through Wilson HTM Limited and will raise $15.94 million prior to issue costs.

The funds raised will be used to acquire a further 31 childcare centres, which will bring the total centres in the fund's portfolio to 115 centres, an increase of 37%. When PIF listed on the ASX in May 2003 it indicated that it expected to acquire 30-50 centres per annum, subject to market conditions. This placement confirms the growth strategy adopted by PIF remains intact and will be maintained in the future. The centres have been sourced by Peppercorn Management Group and are expected to progressively settle through to February 2004.

The acquisition of the additional centres will take the total assets of the Fund to approximately $136 million. Earnings per unit is forecast to increase by 22% in the year to 30 June 2005 compared to the expected result for the year to 30 June 2004.

Peppercorn Management Group continues to provide a pipeline of quality assets for inclusion in the Fund. This is consistent with the Peppercorn Management Group's strategy of consolidating a fragmented industry and providing the Fund with the opportunity to acquire centres that achieve key operational benchmarks.

The Fund was very fortunate to have available for purchase a number of very good centres so soon after the settlement of those contracted at the time of the initial public offering of units. We were able to start to acquire these on a conditional basis and once it was obvious that this was going to be successful we started work on the fund raising.

Facilities with the bank had been put in place but these needed to be fine-tuned to meet the new requirements. The major consideration was focused on the equity requirements of around $16 million.

In this regard the Fund has two choices; to go to an entitlement issue or raise the funds by way of a private placement.

After careful consideration the placement route was chosen for a number of reasons. Perhaps the most important was that the Fund had completed its IPO and had raised $20 million only a few months earlier; and there was still some selling from those on the unit register. The other important influencing factor was that Wilson HTM was confident about being able to attract a number of good sized institutions which had the advantage of broadening the unitholder base and providing a better balance between retail and institutional investors.

Another important factor was certainty of outcome. A placement can be completed very quickly and so we would then know where we stood.

Placements do have some advantages over entitlement issues especially in the way we currently have to contract for centres, but we are mindful of the desirability of offering new issues to existing holders and the Fund will certainly do this from time to time in the future, and opportunities will certainly exist for unitholders to participate.

The other issue I need to address is the question of the price which in retrospect looks quite generous. At the time there was still some volatility in the price and there was not yet an established pattern of trading.

The $1.20 issue price was a discount of only 6% from the weighted average for the previous month and 2% to the weighted average since listing. We don't think an entitlement issue could have been done at a better price and a target price was needed in order to make the acquisition and fund raising work in terms of it being earnings per unit accretive.

Because Peppercorn Investment Fund has only been listed since May, the Australian Securities and Investments Commission required that a form of prospectus be produced at this time even though the issue was only to professional investors. A year out from listing a prospectus will not be required. It is very difficult to understand ASIC requirements in this regard.

Another issue which is worth commenting on is the question of the entitlement of the new unitholders to a full half year's distribution. This has become standard practice for listed trusts and in fact PIF is today changing its constitution to allow this to happen and be in step with market practice and requirements.

On the face of it this seems most advantageous to the new holders. But when you think about it, it is perfectly logical. If an investor buys a unit on the market today then embedded in the value of that unit is the forthcoming distribution (to be paid in February 2004 in this case). So a proper valuation of the unit and entitlement at any one time is reflected in the current price. When a placement or entitlement issue is priced by the Fund then it will be done so by reference to the then market price. If the entitlements were not the same, one would expect a differential in the pricing to compensate for this.

This has been a very lengthy discussion on the background to the approvals being sought today. I thought it was worthwhile to take the time to explain the background because it is important unitholders understand the issues for the future.

Peppercorn Investment Fund is a dynamic fund. It is not a stagnant investment fund. It has opportunities to continue to grow through a supply of centres managed by the leader in the field, Peppercorn Management Group. Although the two organisations, Peppercorn Investment Fund and Peppercorn Management Group have Peppercorn in the name, and even though we work closely together, they are completely independent and each focused on its own mission. Peppercorn Investment Fund's mission is to acquire centres identified by Peppercorn Management Group which meet strict investment criteria, for the benefit of its unitholders, and Peppercorn Management Group will focus on the management of those and other centres.

The new group of centres coming within a year of the acquisition of initial centres in December 2002, and the IPO in May, has clearly demonstrated PIF's ability to acquire centres in a way that is earnings per unit accretive. This in turn has led to recognition of the Fund's growth opportunities and re-rating of the units by the market.

On today's price there is a handsome gain in value over the initial issue price of $1.15.

In addition, unitholders can look forward to a distribution at the end of February.