ACQUISITION BY ABC OF 115 CHILD CARE BUSINESSES AND RESTRUCTURE OF PEPPERCORN INVESTMENT FUND

A.B.C. Learning Centres Limited ("ABC") (ASX:ABS) and Peppercorn Investment Fund ("PIF") (ASX:PIV) through its Responsible Entity, DDH Graham Limited ("DDH") today announced that they have signed a conditional business sale agreement in relation to the acquisition of 115 childcare centre businesses from PIF.

ABC's CEO (Operations), Eddy Groves said: "ABC is pleased to have finalised the Sale Agreement with PIF. The acquisition of 115 childcare businesses will cement ABC as Australia's leading provider of childcare and early learning facilities."

The Chief Executive of DDH, Mr David Graham said that "the proposal is one which is expected to advantage PIF unit-holders by providing certainty moving forward. ABC's commitment to significantly grow the property trust through the supply of childcare properties should underpin PIF's long-term future."

As part of the acquisition of the childcare centre businesses, ABC will enter into long term lease arrangements with PIF on commercial terms that will provide greater certainty of income in the future.

Acquisition of Childcare Businesses

The key terms of the acquisition of the 115 childcare businesses are:

- Purchase Price of $42 million (plus an amount up to a maximum of $2.23 million relating to the potential acquisition of an additional 3 childcare centre businesses should they settle prior to completion and the proposed expansion of an existing centre);
- Purchase Price to be satisfied by a cash payment of $15 million on completion and the balance to be satisfied by the transfer to PIF of childcare centre properties nominated by ABC; and
- Completion of the Business Sale Agreement is subject to a number of conditions precedent which are summarised in the Annexure.

Restructure of PIF into a Property Trust

ABC and PIF have executed an Alliance Agreement and have agreed, subject to unitholder approval and a favourable ruling being received from the Australian Taxation Office that PIF be restructured into a property trust following the sale of the childcare centre businesses to ABC. To this extent the parties have agreed the following:

- They wish to see PIF grow significantly from its base of 115 childcare properties. ABC expects that in addition to PIF's existing pipeline of properties, ABC will provide additional properties, anticipated to be around 90 in the 18 months to 30 June 2006, from its own acquisition and development program. These transfers will be in part settlement of the outstanding Purchase Price and thereafter properties will be acquired by PIF through increasing its target gearing range to between 50% to 60%. On the basis that the trust can fund future acquisitions, this level of growth is anticipated to continue beyond the 2006 financial year.
- Acknowledging ABC's role in sourcing property for PIF, PIF will pay ABC a 2.5% property acquisition fee for all properties sourced by them. This fee will replace the acquisition fee currently payable to Peppercorn Management Group Limited. In relation to all properties acquired in the twelve months to 31 December 2005, an additional incentive fee of 5% will be paid. This reflects the commitment by ABC to deliver an initial line of freehold properties.
- ABC will pay PIF a rental subsidy to supplement its earnings until the period ending 31 December 2007. Further details are set out in the Annexure. The subsidies have been increased since the Heads of Agreement. The rental subsidy will cease to be payable in the event that there is a change of control in PIF.

PIF expects to pay a pre-tax distribution for the period ending 31 December 2004 of 5.5 cents. This is lower than previously announced due to the impact of one-off restructuring costs and the operational result being lower than expected. It is expected that this distribution will have a significant tax deferred component

Based on the assumptions noted above and on due diligence carried out to date by ABC, it is also expected that PIF will be in a position to pay a distribution of approximately 6.5 cents per unit (pre-tax) for the six months to 30 June 2005 and approximately 13.7 cents (pre-tax) for the year to 30 June 2006. This represents a distribution in excess of 13.0 cents (pre-tax) in respect of the calendar year ending 31 December 2005.

On completion of the restructuring (and subject to receipt of a favourable tax ruling), it is anticipated that PIF will be a pure property trust paying untaxed distributions in respect of the period after 30 June 2005.

Unitholders Meeting

A meeting of unitholders is expected to be held in mid December 2004 at which time the unitholders will be asked to vote on resolutions in relation to the above transactions. An Independent Expert has been appointed to provide a report to unit-holders and advise them whether the proposed transactions are in the best interests of unitholders. This report will be included in an Explanatory Memorandum which will be sent to unitholders shortly.

In view of the proposed restructure of PIF, DDH and ABC have agreed that, subject to various approvals, a new responsible entity nominated by ABC will become the Responsible Entity. This is expected to be achieved by DDH being replaced as the Responsible Entity by a wholly owned subsidiary of DDH and the control of that subsidiary being transferred to ABC or its nominee in exchange for a payment by ABC of $2 million.

Austock Corporate Finance is acting as financial adviser and Freehills as legal adviser to ABC.

ABN Amro Morgans is acting as financial adviser and Mallesons Stephen Jaques as legal adviser to PIF.

9 November 2004

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ANNEXURE – Transaction Summary

ABC has today entered into a conditional business sale agreement with DDH Graham Limited ("DDH"), the responsible entity of PIF, to acquire certain business assets used in the childcare centres (other than any freehold property) from PIF for $42,000,000 (plus an amount up to a maximum of $2,225, 877 reflecting the proposed acquisition of an additional 3 childcare centre businesses and the proposed expansion of an existing centre) ("Business Sale Agreement"). If DDH acquires any more childcare centre businesses prior to completion with ABC's consent, the purchase price will increase by the value of those businesses.

Completion of the Business Sale Agreement is subject to a number of conditions precedent which can be summarised as follows:

- ABC being satisfied, on or before 12 November 2004, with the results of any investigations by it into the affairs of DDH relating to its role as responsible entity of PIF and the PIF businesses;
- no material adverse change affecting the PIF business, the business assets or the financial or trading position or prospects of the PIF business has occurred prior to the unitholders meeting to consider the transaction;
- the retirement of DDH as the responsible entity of PIF, a new special purpose wholly owned subsidiary of DDH ("DDH Sub") obtaining an AFS licence to act as responsible entity of PIF, the appointment of DDH Sub as responsible entity of PIF (with unitholder approval if necessary), and all the issued shares in DDH Sub being transferred to ABC and/or a nominee of ABC (with unitholder approval, if ABC requires).
- PIF unitholders approving any resolutions necessary for the sale of the business assets to ABC under the Business Sale Agreement and the restructure of PIF into a property trust;
- approval of the PMG Scheme by the Supreme Court of Queensland and the PMG Scheme becoming effective;
- National Australia Bank Limited consenting to the change of responsible entity, the sale of the business assets and providing any other consent necessary or desirable in relation to the transactions;
- the agreement of the terms of the Sale Agreement relating to the transfer of properties by ABC to PIF in part satisfaction of the purchase price; and
- the custodian of PIF agreeing to execute a deed terminating existing arrangements between PIF and PMG.

The purchase price is to be satisfied by:

- $15 million in cash being paid at completion; and
- the balance of the purchase price being satisfied through the transfer to PIF of the freehold title of certain childcare centre properties nominated by ABC.

Upon completion PIF will terminate the existing arrangements with PMG. The responsible entity of PIF and Peppercorn Holding No. 4 Pty Ltd (a subsidiary of PMG) (**Peppercorn Holdings**) will enter into leases of the properties on which the childcare business are situated to Peppercorn Holdings. As a result of the termination of the existing PMG arrangements DDH will repay an outstanding loan in respect of capital expenditure, employee entitlements and an amount in respect of contingent liabilities to Peppercorn Holdings.

The responsible entity of PIF and ABC have entered into an alliance agreement pursuant to which, among other matters:

(a) the responsible entity will pay to ABC:

    (1) a property acquisition fee of 2.5% of the value of each property identified by ABC as suitable for acquisition by PIF and which is acquired by PIF after completion; and

    (2) in addition to the property acquisition fee, an incentive fee of 5% of the value of each property identified by ABC as suitable for acquisition by PIF and which is acquired by PIF prior to 31 December 2005; and

(b) ABC will pay the responsible entity of PIF, a rental subsidy of:

(1) $2.4 million for 6 months to 30 June 2005 (reduced appropriately if completion occurs after 31 December 2004);

(2) $1.7 million for the 6 months to 31 December 2005;

(3) $1.0 million for the 6 months to 30 June 2006;

(4) $0.6 million for the 6 months to 31 December 2006;

(5) $0.4 million for the 6 months to 30 June 2007; and

(6) $0.2 million for the 6 months to 31 December 2007,

in order to support PIF until it is fully invested.

The rental subsidy will cease to be payable from the time that there is a change in control of PIF (including the replacement of the Responsible Entity by a party other than one nominated by ABC). No payments will be made under the Alliance Agreement until completion of the Business Sale Agreement has occurred.

Following completion, and subject to a favourable ruling being received from the Australian Taxation Office, it is intended that PIF:

- would be converted into a listed property trust with an initial portfolio of childcare centre properties; and
- would have the ability to invest in a broad range of properties including childcare centres and schools.

The Business Sale Agreement contains limited warranties and indemnities and is expected to be completed in December 2004.