

E A Securities Limited

Responsible Entity for C & P North East Australia Development Fund

Directors Meeting 15 June 2010

Fund Overview:

Update – ASIC Reg Guide 46 – Unlisted Property Schemes – Improving disclosures for retail investors

There is continued action in progress, to ensure ongoing compliance.

- new templates / format for directors reports & newsletters
- new website – completed and updated regularly
- Current Supplementary PDS
- Review Ongoing Disclosure Requirements

Information Table

(Updated to 31st March 2010, unaudited management accounts)

Gearing Ratio	0.62 - The funds policy is to be within the .5 - .7 range, with short term variations based on stages in property value add process. (Updated Quarterly)					
Interest Cover	1.78 times - The fund aim is to maintain an interest cover above 1.5 times over the medium term. (Updated Quarterly)					
Scheme Borrowings;	Lender	Security Assets	Principal	Annual Interest Rate	Commence	Expiry
	(Sub trust – C & P Gold Coast Property Fund)					
	Perpetual ACF Colonial First State Fund	Centremark Sth Tweed	\$4.5M	7.75% Variable	1/10/09	1/11/10
		Centremark Sth Tweed	\$750,000	7.75% Variable	1/10/09	1/11/10
	Perpetual ACF Perpetual Inv Fund	Centremark Nerang Riverside	\$6.93M	8.58% Variable	1/06/10	1/09/10
Centremark Nerang Riverside		\$669,240	8.58% Variable	1/06/10	1/09/10	

	Perpetual ACF Perpetual Inv Fund	Centremark Withcott Town Centre	\$1.435M	8.95% fixed	7/5/08	7/5/11
	Ellesmere Pty Ltd	CentreMark Withcott Lot 5 Jones Rd	\$1.5M	8% Fixed	17/12/09	16/12/10
	Airport Central Partnership	CentreMark Withcott	\$409 814	8.75% Variable	16/12/09	
	(Sub trust – C&P Hervey Bay Property Trust)					
	Perpetual ACF Colonial First State Fund	31 Main St and 37 Main St	\$714,600	8.3% Variable	31/10/05	1/11/10
Portfolio Diversification	<p>The funds intentions as outlined in the PDS is to acquire value add growth assets in the commercial / retail / service sector in growth regions on North East Australia. To date we have 4 centres geographically spread across the regions of NSW Northern Coastal Border town of Tweed Heads, South East Queensland Corner regional centre of Nerang, Hervey Bay Qld and Brisbane/Ipswich/Toowamba regional Development Corridor - township of Withcott. These are all medium sized service centres with a range of tenant mix spread across commercial, health & community service providers, a mix of small food and broad based retailers. Tenant lease mix of 1, 3, 5 & 10 year leases plus options. The intention was to further grow the portfolio to give further diversification and further spread individual tenant risk. Due to the ongoing effects of the Global Financial Crisis for the Property Trust Sector, the fund has reviewed it activities to determine its medium term future, with respect to funding availability and cost. This will see reduced portfolio diversification over time, as fund is wound down.</p>					
Valuation Policy	<p>The Responsible Entity gets the properties valued at least every 3 years, and more frequently where funders require or major improvements occurred. These valuations will be undertaken only by suitably qualified valuers.</p>					
Related Party Transactions	<p>The Responsible Entity (E A Securities Ltd) contracts out the property management services to associated parties related to Mark Walsh. C & P Properties Group also provides at market rates shopping centre management services. Renewable Energy Company has a property maintenance & cleaning division which completes alongside other service providers for handyman and other maintenance services. A Mark Walsh related entity has a small unit holding (approx 10%) in the holding trust, but not a director. The Responsible Entity has a conflicts policy and the other unrelated directors have set guidelines for management to follow to ensure any work on commercial arms length basis.</p>					
Distribution Practices	<p>The fund aims to provide regular distributions in each income year. However the making of distributions is subject to the performance of the fund and the available cash flow to fund distributions. Distributions may comprise a mix of net income and a return of invested capital to</p>					

	<p>unit holders. During the past year the distribution was principally a return of capital and this is likely to continue until the asset value add phase is complete. Therefore ongoing distributions will be dependant on continued cash flow being available. Depending upon the timing of the further Equity Allotment and timing of Withcott Capital Expenditure requirements pre Sale, forecasts predict that without further short term borrowings reduction of the current monthly cash distribution will be required. The current distribution of 2.25c per unit p.a. is reviewed regularly by the Responsible Entity.</p>
Withdrawal Rights	<p>The underlying assets of the fund are illiquid, and therefore an investment in the fund should be considered illiquid. A Unit Holder does not have the right to request redemption of their units. There is no established market for the sale of units issued.</p> <p>The Responsible Entity does have the ability to offer redemption but at this point of time and in the foreseeable future the Responsible Entity will not be making an offer.</p>

Fund Redirection

The managers are continuing to study the medium term effects of the Global Financial Crisis on the current and future operations of NEADF and look to determine the best way forward for the unit holders. The funds stated objectives are;

- Acquire a well diversified portfolio of value add growth assets in growth regions of North East Australia, with a debt to equity ratio within the 50% - 70% range providing a gearing situation for unit holders. Over the medium to long term above average returns are anticipated, but the gearing would increase fund volatility. Intention was also to make regular monthly cash distributions over the life of the fund, when possible.

The major factors affecting the trust in meeting its medium to long term objectives are;

- The Global Financial Crisis (GFC) and resulting loss of investor confidence occurring during the early growth building phase of the fund has hindered the fund's ability to raise the required equity capital to ensure the fund could grow to its optimum size, giving the required economies of scale to provide the cost efficiency and portfolio diversification desired for unit holders.
- The GFC drastically changed the dynamics of the Commercial Property Funding market in Australia, and continues to do so. This market was basically divided into 3 sectors, 50% of funding being provided by the local Australian Major Banks, 25% funded by Institutional Retail First Mortgage Funds and 25% funded by large International Banks. The later 2 sectors providing 50% of the funds closed down almost immediately after the GFC hit, now some 2 years ago. The international banks withdrew back to their home bases as Government's nationalised or provided financial support to stop bank failures. The Australian Government offered a deposit guarantee for our Banks' to stimulate much needed general confidence, but by not extending this to the institutional retail mortgage trusts, redemption requests froze this sector. These

events put huge pressure on listed equities and property owners to inject further equity capital at a time of low confidence, in some cases almost wiping out existing unit holders equity. Although some stability has occurred, continued market volatility is hampering the process of either repaying or refinancing of the loans from these two sectors. The Australian Banks, although not affected to the same extent as their international peers, the market concerns and their existing high level of exposure to the Australian Commercial Property Sector meant that they would not be in a position to immediately pick up all the loans from the exiting sector players. The sheer size and magnitude of the situation and failure of the government to assist the market in providing short/medium term solutions will see this market continue to struggle for several more years to come. This supply – demand distortion is providing an ideal environment for the local banks and others to extort substantially higher margins and costs, in some instances over double. This is making it important to reduce debt and gearing levels.

- With investor confidence low, property sales within the Commercial Property Market, almost were non existent in 2009 with the exception of a few “fire sales”. Late 2009 and early 2010 has seen some increase in turnover of properties, although not at the same price level, pre GFC.
- Future market uncertainty remains with the prospect of higher interest rates, continuing large debt rollovers, lack of government sector support and a prospect of a difficult leasing environment. This will see net rents under pressure as tenants’ ability to pay diminishes and local and state governments increase taxes and fees for services (or lack of).
- The ability to raise capital in this current environment is limited and most commonly investors are wanting to contribute at a substantial discount to Net Tangible Asset Value. This dilutes existing unit holder equity.

Taking all these factors into account the recommendation is made to look at a orderly sale of the trusts assets , pay off the debt and return of equity to unit holders upon winding up of the fund, ideally by 30th June 2011.(subject to satisfactory market conditions)

Loan Refinancing

Centremark Nerang Riverside loan facility with Perpetual Investment Fund (due March 2010) has been successfully rolled over, but in line with the current market conditions, increased interest rate margins and quarterly reviews of facility now apply. Ashe Morgan is continuing to facilitate this funding arrangement.

Equity Allotment

Further allotment under the Supplementary PDS is now not expected as the intention of the fund is to wind up over the next 12 -18 months.

Asset Sales Programme

Subject to board approval, the intention is to firstly sell Nerang Centre due to the current market favour of good fully leased retail service centres, with further rent and development upside. Agent estimates are for a sale price of between \$10.5M and \$11.5M. The intention is to retire debt to cut interest servicing costs of the fund as they are increasing as rates rise.

We are looking to then seek interest for the Hervey Bay shops, once a new tenant is found for Shop 1, 31 Main St.

With the approval of the Withcott Town Centre DA and lease progressing with IGA, our intention is to further the sale upside potential of this asset by delaying the sale process until major tenancies are locked in and further costing analysis completed. As soon as any upside in leasing occupancy occurs at South Tweed and/or state government approval of the proposed new LEP for South Tweed Area, a sales marketing programme will commence for this property.



Mark Walsh
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