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8 August 2012

Dear Shareholder

On behalf of the Directors of Austock Group Limited ("Austock" or "Company"), I am pleased to invite you to attend a General Meeting of Shareholders of the Company to be held on Wednesday, 12 September 2012 at Austock's offices at Level 12, 15 William Street, Melbourne, Victoria, 3000. The meeting will commence at 10.30 a.m. and registration will open from 10 a.m.

The purpose of the meeting is to consider:

1. the proposed sale of Austock's property funds management business to Folkestone Limited; and
2. the proposed on-market buy-back of up to 27 million shares in the Company.

Sale of property funds management business to Folkestone

Austock has been considering the sale of its property funds management business since late 2011. Following the disposal of its securities business in March 2012 and the appointment of a new board of directors over the period from December 2011 to May 2012, the proposal that the property funds management business be sold gained impetus as the new Directors were apprised of the Company's financial position. Directors formed the view that whilst the property funds management platform had considerable potential Austock alone did not have the capacity to help it achieve that potential. Austock received approaches from a number of potential purchasers, including Folkestone. For the reasons outlined in the Notice of General Meeting, the Directors have concluded that the proposed sale to Folkestone is the most appropriate proposal to put to Shareholders for consideration.

A summary of the material terms of the Share Sale Agreement between Austock and Folkestone was announced on 9 July 2012. The following update is provided:

- **Break fee** – the Share Sale Agreement provided for a break fee to be paid by Austock in certain circumstances. Generally, this was capped at \$250,000 but in limited circumstances it may have been increased to \$500,000. Austock and Folkestone have now agreed that the maximum break fee payable under the Share Sale Agreement will be capped at \$250,000 in all circumstances.
- **Issue of Folkestone shares to Austock** – the Share Sale Agreement provided that the purchase price of \$11 million would be paid 70% in cash and 30% in Folkestone shares, subject to the approval of the PDF Board/Innovation Australia to Austock acquiring the shares. The PDF Board has not given its approval to Austock acquiring the shares. Consequently, Folkestone has elected to pay the entire consideration in cash.

On-market share buy-back

Subject to completion of the sale of the property funds management business to Folkestone, Directors intend to undertake an on-market buy-back of up to 27 million shares in the Company. Directors consider that the buy-back will provide liquidity for those Shareholders who may wish to sell down their holding in Austock and will provide Directors with an important instrument for capital management.

Your vote is important and, on behalf of the Board, I encourage you to vote by attending the General Meeting, or by completing and returning, in the enclosed reply paid envelope, the proxy form included with the Notice of General Meeting. You can also lodge a proxy form online at: www.boardroomlimited.com.au/vote/austockgm2012. The Board of Directors of Austock unanimously recommend that Shareholders vote in favour of the resolutions to be considered at the General Meeting.

If you have any questions about the resolutions to be considered at the General Meeting, please do not hesitate to contact Austock by email on investorrelations@austock.com or by telephone on +61 3 8601 2049.

On behalf of the Directors of Austock, I take this opportunity to thank you for your ongoing support.

Yours faithfully,

A handwritten signature in blue ink, appearing to read 'F. G. A. Beaumont', with a large, stylized flourish at the end.

F. G. A. Beaumont
Independent Non-Executive Chairman

Austock Group Limited
ABN 90 087 334 370

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NOTICE OF GENERAL MEETING

**A General Meeting of the members of Austock Group Limited (“Company”)
will be held at the offices of the Company
at Level 12, 15 William Street, Melbourne VIC 3000
on Wednesday, 12 September 2012 at 10.30 a.m.**

BUSINESS

1. Sale of Austock Property Funds Management Business

To consider and if thought fit pass the following resolution as an ordinary resolution:

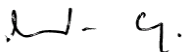
"That for the purpose of Listing Rules 11.1 and 11.2 and for all other purposes, the Company is authorised to sell the Austock Property Funds Management Business on the basis described in the Explanatory Statement accompanying this Notice of General Meeting."

2. On-market share buy-back

To consider and if thought fit pass the following resolution as an ordinary resolution:

"That, subject to and conditional upon completion of the sale of the Austock Property Funds Management Business, for the purpose of section 257C of the Corporations Act 2001 (Cth), and for all other purposes, the Company is authorised to buy-back on-market up to 27 million fully paid ordinary shares on the terms described in the Explanatory Statement accompanying this Notice of General Meeting."

By order of the Board.



Amanda Gawne
Company Secretary

8 August 2012

Voting Entitlements

In accordance with section 1074E(2)(g) of the Corporations Act 2001 (Cth) and Regulation 7.11.37 of the Corporations Regulations 2001 (Cth), the Board of Austock Group Limited has determined that a shareholder's voting entitlement at this meeting will be taken to be the entitlement of the person shown in the register of members as at 7 p.m. on Monday, 10 September 2012. Transactions registered after that time will be disregarded in determining the shareholders entitled to attend and vote at the meeting.

NOTES

Proxies

- A member entitled to attend and vote at this meeting is entitled to appoint a proxy (who need not be a member of the Company) to attend and vote in the member's place. A proxy form accompanies this Notice of General Meeting for this purpose.
 - A proxy form must be signed by a member or his or her attorney and, in the case of a joint holding, by each of the joint holders.
 - Members who are entitled to cast two or more votes may appoint not more than two proxies to attend and vote at this meeting. Members wishing to appoint a second proxy should request an additional proxy form from the Company's share registry – Boardroom Pty Limited. Where two proxies are appointed, both forms should be completed with the nominated proportion or number of votes each proxy may exercise. If no such proportion or number is specified, each proxy may exercise half of the votes. Fractions of votes are to be disregarded.
 - Where a member appoints 2 proxies, on a show of hands neither proxy may vote if more than one proxy attends and on a poll each proxy may only exercise votes in respect of those shares or voting rights the proxy represents.
 - The appointment of one or more duly appointed proxies will not preclude a member from attending this meeting and voting personally. If the member votes on a resolution, the proxy must not vote as the member's proxy on that resolution.
 - Any instrument appointing a proxy in which the name of the appointee is not completed is regarded as given in favour of the chairman of the meeting.
 - In the case of joint holders of shares, if more than one holder votes at the meeting, only the vote of the first named of the joint holders in the share register of the Company will be counted.
 - To be effective, proxy forms (and the power of attorney or other authority (if any) under which it is signed (or an attested copy)) must be received by the Company at its registered office or delivered in person, by mail or by fax to the Company's Share Registry's office (details below). Proxy forms may also be lodged online by visiting www.boardroomlimited.com.au/vote/austockgm2012. Completed proxy forms must be received no later than 48 hours before the appointed time of the meeting.
 - The Company's Share Registry details are as follows:
 - Boardroom Pty Limited
 - Level 7, 207 Kent Street, Sydney, NSW 2000
 - GPO Box 3993, Sydney, NSW, 2001
 - Facsimile: +61 2 9290 9655
 - Proxies given by a corporation must be signed either under seal or under the hand of a duly authorised attorney. In addition, should the constitution of a corporation permit the execution of documents without using a common seal, the documents must be signed by two directors or a director and company secretary, or for a proprietary company that has a sole director who is also a company secretary, that director.
 - If a body corporate is appointed as proxy, please write the full name of that body corporate (eg, Company X Pty Ltd). Do not use abbreviations. The body corporate will need to ensure that it:
 - appoints an individual as its corporate representative to exercise its powers at meetings, in accordance with section 250D of the Corporations Act; and
 - provides satisfactory evidence of the appointment of its corporate representative prior to commencement of the meeting.
- If no such evidence is received before the meeting, then the body corporate (through its representative) will not be permitted to act as your proxy.

Body corporate representatives

- A corporation, by resolution of its directors, may authorise a person to act as its representative to vote at the meeting.
- A representative appointed by a corporation may be entitled to execute the same powers on behalf of the corporation as the corporation could exercise if it were an individual member of Austock.
- To evidence the authorisation, either a certificate of corporate body representative executed by the corporation or under the hand of its attorney or an equivalent document evidencing the appointment will be required
- The certificate or equivalent document must be produced prior to the meeting.

EXPLANATORY STATEMENT

INTRODUCTION

The purpose of this Explanatory Statement (which is included in and forms part of this Notice of General Meeting) is to provide Shareholders with an explanation of the resolutions to be considered at the General Meeting on Wednesday, 12 September 2012. Defined terms used in this Explanatory Statement are explained in section 3 Glossary.

1. SALE OF AUSTOCK PROPERTY FUNDS MANAGEMENT BUSINESS

1.1 Background

On 9 February 2012, Austock announced that it had sold the assets of its securities business to Intersuisse Holdings Pty Ltd and the sale was subsequently completed on 12 March 2012. Following the sale, Austock became a focused funds manager with two core businesses, namely the Austock Property Funds Management Business and Austock Life.

Over the period from December 2011 to May 2012, the Board of Austock was fully reconstituted with George Beaumont Q.C (Independent Non-Executive Chairman), Bill Bessemer (Chief Executive Officer), Martin Ryan and Jonathan Tooth (Non-Executive Directors) joining the Board. Following the sale of its securities business, Austock declared that it would be “completely debt free and poised to pursue strategic opportunities in the funds management sector”.

It became apparent to the new Austock Directors that there were a number of matters to which they needed to give their immediate attention. These were:

- The “free” capital level, that is capital over and above regulatory and working capital requirements, was approximately \$1.5 million - \$2 million.
- There were potentially additional capital resources above the free capital level in the range of \$3.5 million - \$4.5 million which was subject to liquidating the Company’s ASX listed share investments and satisfying contingent debtor claims.
- There were real prospects that the overall capital position could be reduced by the costs involved in defending third party claims and pursuing the payment of fees owed to Austock, each arising from the operation of the securities business.
- The ability of Austock to originate new investment opportunities was limited.
- The ability of Austock to support its existing investee companies was limited:
 - in the case of the Austock Property Funds Management Business, whilst it is very well managed, it faced challenges in growing its platform, either by acquisition or initiation, due to the lack of available capital. The Funds managed by the Austock Property Funds Management Business had delivered only gradual organic growth in FUM from uplifts in valuations of existing assets. Many in the market saw Austock and the Funds as vulnerable to acquisition by opportunistic parties. The loss of key Austock Property staff would seriously affect the value of the Austock Property Funds Management Business.
 - in the case of Austock Life, the business had grown solidly in the difficult post GFC market and had increased its FUM over the last two years from \$175 million to \$300 million. It has achieved this result requiring only a nominal capital contribution from Austock. Whilst the focus for Austock Life has been the build-up of FUM and the creation of capital value, the business became profitable in FY12.

Directors formed the view that whilst the Austock Property platform had considerable potential Austock alone did not have the capacity to help it achieve that potential. Moreover, Directors felt that Austock Life offered the better alternative for the generation of Shareholder value and the use of capital.

The Directors' view was heightened by their concern that the Austock Property Funds Management Business and the best interests of the unitholders of the Funds were not adequately protected from predatory action which could result in a diminution in value of the unitholders' capital and, by association, Shareholders not receiving full value for their investment.

Accordingly, the Austock Board sought to identify a party with a common approach as well as origination and financial capability with which the Company could joint venture its interest in the Austock Property Funds Management Business. Austock has received approaches from parties interested in acquiring the Austock Property Funds Management Business including an approach from Folkestone in November 2011. The Folkestone proposal was considered to be the best way forward as it dealt with the Directors' concerns as articulated above and satisfied the criteria set out in section 1.6 Reasons for the Directors Recommending the Sale. On 9 July 2012, Austock announced that it had reached agreement for the Sale of Austock Property to Folkestone. Details are set out in Section 1.4 The Sale and Section 1.11 Material Terms of the Share Sale Agreement.

1.2 Requirement for Shareholder Approval

Shareholder approval for the Sale is being sought under ASX Listing Rules 11.1 and 11.2 which provide that if an entity proposes to make a significant change to the nature or scale of its activities (and if ASX requires), or if the significant change involves the entity disposing of its main undertaking, the entity must seek shareholder approval to do so. It is not entirely clear whether or not these Listing Rules apply to the Sale, but the Company considers it appropriate to seek the approval of Shareholders to remove any doubt.

More generally, Austock has determined that as a matter of good corporate governance and as part of an open and transparent process it is appropriate to seek shareholder approval for the Sale.

1.3 Indicative Timetable

The following is the current indicative timetable:

Event	Proposed date
Austock Shareholders' meeting to consider the resolutions	12 September 2012
Completion of First Tranche Sale Shares	14 September 2012 (assuming all Conditions satisfied or waived)
Completion of Second Tranche Sale Shares	30 September 2013 (unless accelerated)

1.4 The Sale

On 9 July 2012 Austock advised that it had reached agreement for the Sale of Austock Property to Folkestone. The Austock Property Funds Management Business includes a platform in social infrastructure assets that manages four managed investment schemes:

- Australian Education Trust (AET) is the largest Australian listed property trust investing in early learning properties within Australia and New Zealand (ASX:AEU). As at 31 December 2011, the Trust had total assets of approximately \$355 million and 331 properties in its portfolio.
- The Australian Social Infrastructure Fund (ASIF) is an ASX listed retail property trust that primarily invests in social infrastructure assets (ASX:AZF). Its direct property portfolio includes early learning facilities, a medical centre and self-storage facility. In addition, ASIF has investments in property securities. As at 31 December 2011, ASIF had total assets of approximately \$106 million and 51 properties in its portfolio.
- Austock Childcare Fund (ACF) is a fixed term unlisted property fund. The Fund's portfolio consists of the freehold interests in 24 childcare centres located in Queensland and South

Australia. As at 31 December 2011, ACF had total assets of approximately \$26 million.

- CIB Fund is a closed wholesale unit trust that was established in June 2001. The Fund was primarily set up to enable a group of investors to acquire a portfolio of police and law court buildings. The Fund's current portfolio includes nine 24-hour police stations and two law court complexes. As at 31 December 2011, the Fund had total assets of \$68 million.

The Sale will be effected by the transfer by Austock of all of its shares in Austock Property to Folkestone in two tranches. The purchase price is \$11 million payable in cash in two tranches:

- The first tranche (65%) is payable on Completion.
- The second tranche (35%) is payable in cash on 30 September 2013 unless accelerated (refer below). Austock is entitled to a 35% share of profits from the Business over the period that it retains that equity share. Acceleration of the second tranche payment may occur at Folkestone's election in the event of a change of control of Austock.

The Sale will also release the regulatory capital invested in Austock Property of approximately \$3 million on a 65%/35% basis, consistent with the two tranches. The balance of the statutory reserve requirement will be returned to Austock at the Second Tranche Completion (35%).

No capital gains tax is expected to be payable by Austock in relation to the Sale.

If Resolution 1 is approved, then following Completion and after allowing for transaction and other expenses, Austock expects to have net cash of approximately \$12 million - \$13 million, of which \$8.5 million - \$9.5 million is free capital. This amount does not include the Second Tranche Completion payment and is prior to using any funds to undertake the Buy-Back detailed in section 2.

1.5 About Folkestone

Folkestone is an ASX listed (ASX:FLK) real estate investment, development and funds management company.

In March 2011, a new Board and senior management team led by Greg Paramor joined Folkestone to transform it into an active real estate investment, development and funds management company. The new team recapitalised the Company in the first half of 2011 raising \$31.5 million in difficult equity market conditions.

The Folkestone Board and the management team have a wide variety of experience in managing listed and unlisted real estate and financial services businesses. Folkestone's Managing Director, Greg Paramor, was the co-founder of Growth Equities Mutual, Paladin Australia and the James Fielding Group. Greg was the CEO of Mirvac Group between 2004 and 2008. The Board and the rest of the management team have held senior positions in a variety of real estate, financial services and legal businesses.

Folkestone intends to build upon Austock's existing, well managed real estate funds management platform in a sustainable way, paying due regard to the integrity of each Fund's assets and the interests of their respective unitholders. It is committed to a strong corporate governance framework that aligns the interests of all stakeholders in a transparent way.

For further information on Folkestone please visit www.folkestone.com.au

1.6 Reasons for the Directors Recommending the Sale

The Austock Directors unanimously recommend that Shareholders vote in favour of Resolution 1.

In making this recommendation, the Austock Directors considered the advantages and disadvantages of the Sale, including those factors discussed in this Explanatory Statement.

The Austock Directors also considered whether there were alternatives which are likely to produce a better outcome for Shareholders and unitholders of the Funds. However, none of these are considered to provide the same value and certainty as the Sale, including execution, funding, timing certainty and future direction. The Austock Directors also consider that Folkestone provides stability

and skills with respect to the Funds for the benefit of unitholders in the Funds and Austock Property management. After careful consideration, your Directors have concluded that the proposed Sale to Folkestone is the most appropriate proposal to submit to Shareholders for their consideration.

With some of the Austock Directors having been involved in the inception of the Austock Property Funds Management Business in 2000, they recognise that the Austock Property Funds Management Business is not a conventional asset that can be traded or sold at will. The Business does not own material assets but instead derives its income from management fees paid for performing its role as responsible entity of the Funds. As the unitholders in the Funds have the right to requisition a change of manager, any proposed new owner of the responsible entities must have the skills, resources and capability to operate the Funds effectively and in an appropriate manner. Moreover, part of that capability is derived from the staff and management personnel of the Funds. Accordingly, any sale process needs to involve parties who are suitable and in particular satisfy the criteria listed below, as Austock Shareholders will only benefit from the Sale as contemplated should all Funds remain intact as at Completion.

The Sale was assessed against a number of criteria, including:

Price	While seeking to maximise the price, it was necessary to balance this against other factors, particularly the interests of all stakeholders including the unitholders of the Funds and Austock Property management and staff.
Ongoing Interest	Austock wished to maintain an ongoing interest in the Business and therefore looked to transact with a party that demonstrated the capital base and the skills to enhance the business.
Unit Holder Interests	The Funds are ultimately owned by the Funds' unitholders and therefore unitholders best interests on any transaction must be considered.
Staff and Management Acceptance	Austock Property has an excellent team who have performed exceptionally in difficult markets. They are critical in continuing the excellent relations that Austock Property has with unitholders.
Pooled development fund status	Austock seeks to maintain its registration as a pooled development fund under the Pooled Development Funds Act 1992 (Cth).

For the reasons specified below, the Austock Directors have concluded that, in the absence of a superior proposal, the Sale represents the best outcome for all stakeholders of the available alternatives considered by the Board. Accordingly, the Austock Board believes that the Sale is in the best interests of Shareholders.

(a) **Appropriate, reasonable and fair price**

The Austock Directors have received approaches from parties interested in acquiring the Austock Property Funds Management Business.

The Directors believe that the price negotiated with Folkestone for the Sale is appropriate, reasonable and fair. A multiple of 2% of FUM compares well to other recent sales of similar property funds management platforms. Transactional evidence highlights a range of between 0.9% and 2.5% of FUM. The most recent transaction is the proposed sale of the PFA Diversified Property Trust (with FUM of \$444.5 million) by APGF Management Limited to Charter Hall Group for a facilitation fee of \$5 million, amounting to 1.12% of FUM. Using an EBITDA multiple as an alternate valuation methodology confirms that the transactional price is at the higher end of recent transactions. Both valuation methodologies confirm pricing for well managed businesses.

The Sale also offers other benefits to Austock including the sharing of premises and facilities at Level 12, 15 William Street, Melbourne thus limiting Austock's financial exposure on the remaining 4 years of its lease and assisting with operating costs.

(b) **Fund unitholders interests**

The independent directors of the responsible entity for each of the Funds have considered the Sale and consider that it is not adverse to the interests of unitholders in those Funds. Austock and Folkestone management have, since the announcement of the Sale, canvassed both major and smaller unitholders of the Funds and generally found unitholders to be understandably cautious, particularly in light of recent stability and good performance of the Funds, but ultimately supportive of the Sale.

(c) **Staff and management acceptance**

The independent directors and management of Austock Property have been involved in the transaction and their views as to the suitability of any prospective new owner have been taken into account in considering offers. The senior executives of the Austock Property Funds Management Business believe that the alignment with a solely property focussed organisation will be beneficial to unitholders of the Funds and will also allow for expansion of the business platform.

(d) **Pooled Development Fund status**

The Sale has been structured on terms which do not jeopardise Austock's status as a pooled development fund.

1.7 Potential Disadvantages if the Sale Proceeds

The Sale has potential disadvantages and risks that Shareholders should consider in deciding whether or not to vote in favour of Resolution 1. The Austock Directors consider that these disadvantages and risks are outweighed by the Sale's advantages and the Sale is in the best interests of Shareholders. However, Shareholders should consider their individual circumstances and make their own determination.

The key disadvantages associated with the Sale are:

(a) **Austock will lose a consistent income stream**

Based on unaudited figures for FY12, revenue from the Austock Property Funds Management Business was \$4.7 million and similar revenue is expected in FY13.

(b) **Single source of income**

Following completion of the sale of Austock Property, Austock will have a predominant source of income, being that of the Austock Life business (including Austock Services).

(c) **Loss of efficiencies and synergies**

Following completion of the Sale of Austock Property, some cost efficiencies and synergies between Austock, the Austock Property Funds Management Business and Austock Life will be lost.

(d) **Potential superior proposal**

If Resolution 1 is not passed or the Sale does not otherwise proceed, it is possible that at some time in the future an alternative proposal may be submitted to Austock that offers greater value for Shareholders than that which would be realised under the Sale. However, as noted below, the Austock Directors are not presently aware of any superior proposal.

1.8 What happens if the Sale does not proceed?

In the event that Shareholders vote to reject Resolution 1:

(a) **Austock will continue to hold its Austock Property Funds Management Business**

If Resolution 1 is not passed, Austock will continue to hold its interest in the Austock Property Funds Management Business. The Business will be vulnerable to acquisition by opportunistic

parties and Austock will not have capital to invest and grow the Business.

(b) **Break fee is payable**

If Resolution 1 is not passed, a break fee of \$250,000 is payable by Austock to Folkestone. Further details about when a break fee is payable by Austock are set out in section 1.11.

(c) **Austock may need to raise additional capital**

In view of the relatively low levels of free capital, Austock may need to consider raising additional capital if the Sale does not proceed.

(d) **Share buy-back will not proceed**

If Resolution 1 is not passed, the Buy-Back detailed in section 2 will not be undertaken.

1.9 What will Austock look like if the Sale of Austock Property proceeds?

Following the Sale, Austock will comprise a number of investments or assets:

(a) **Austock Life**

Austock Life is licenced under the Life Insurance Act 1995 and is unrestricted as to the classes of life insurance business it can undertake. This includes investment based and risk based policies, disability insurance, education bonds and annuity business.

Austock Life's major focus has been on insurance bonds, a market segment that is re-emerging with the increasing hurdles associated with superannuation investment. Products include Imputation Bonds incorporating a master fund platform, ChildBuilder and Tax-Paid Term Deposits. The innovative design of these products has resulted in Austock Life achieving the highest growth rate of all participants in its market.

Austock Directors believe that Austock Life is in a dynamic growth stage with FUM increasing from \$175 million to \$300 million over the past 2 years to 30 June 2012 and during FY12 achieving its maiden net profit after tax. The business has consistently added capital value to Austock and Directors are confident it will continue to do so.

There is a growing interest in Austock Life both domestically and abroad and scope exists to grow this business both organically and through arrangements with others.

Whilst Austock Property has been valued by the Sale at 2% of FUM, Austock Life is considered to have a higher funds/valuation multiple typically applying to life insurance investment businesses. Such businesses have consistently been valued or been sold at attractive multiples reflecting the longer term nature and stability of FUM.

(b) **Austock Services**

Austock Services provides a full suite of quality administrative services including registry, unit pricing, fund and tax accounting.

Austock Services has been integral to the growth of Austock Life and will continue to be so, although it does have clients external to Austock Life.

The business is profitable and has scope for expansion although this needs to be undertaken cautiously given the likely growth in Austock Life and its demands.

(c) **Cash**

Following the Sale of Austock Property and after allowing for transaction and other expenses, Austock expects to have net cash of approximately \$12 million - \$13 million, of which \$8.5 million - \$9.5 million is free capital. This amount does not include the Second Tranche Completion payment (\$3.85 million).

The Sale leaves Austock in a comfortable liquidity position, even after allowing for working capital and present and possible future regulatory requirements.

Directors have determined that, subject to shareholder approval, part of the cash resources will be used to undertake an on-market buy-back of up to 27 million of its shares on issue. Details of the Buy-Back are outlined in section 2.

(d) **Intellectual Property and Licencing**

Directors also believe that Austock's structure, and its various licences, some of which will be difficult to duplicate, enhances its attractiveness.

1.10 No Superior Proposal Has Emerged

As at the date of this Explanatory Statement, Austock has not received a proposal from any third party that would, in the opinion of the Austock Directors, provide a superior outcome for Shareholders and unitholders of the Funds than the outcome that would be achieved under the Sale with Folkestone.

It is possible that a competing proposal may be received by the Company prior to the date of the General Meeting. If a competing proposal is received prior to the date of the General Meeting, your Directors will give due consideration to it in accordance with their duties, including assessing whether it constitutes a superior proposal or has the potential to become a superior proposal. Your Directors will update Shareholders accordingly in relation to any receipt before the General Meeting of a competing proposal that may cause the Board to change or withdraw its current recommendation in favour of the Sale.

Under the terms of the Share Sale Agreement, a break-fee is payable to Folkestone by Austock in certain circumstances, including if Shareholders do not approve the Resolution (refer to section 1.11). In addition, Austock has agreed not to, without the approval of Folkestone, solicit or respond to any other proposal in relation to the Sale Shares or the assets of the Austock Property Funds Management Business.

1.11 Material Terms of the Share Sale Agreement

The Share Sale Agreement sets out the terms on which Austock has agreed to sell Austock Property to Folkestone. The following contains a summary of key terms and conditions of the Share Sale Agreement.

Consideration

Broadly, consideration payable by Folkestone for the Sale Shares is \$11 million (in aggregate) to be satisfied as follows:

- (a) in respect of the First Tranche Sale Shares:
- (i) \$3.85 million in cash payable to Austock at Completion (which is expected to occur in September 2012); and
 - (ii) \$3.3 million of Folkestone Shares based on Folkestone's audited Net Tangible Assets (NTA) as at 30 June 2012 (which is expected to be approximately \$0.12 per Folkestone Share) to be issued to Austock at Completion subject to the following:
 - A. if the actual Folkestone NTA is less than \$0.12 per Folkestone Share, Folkestone will have the option (acting reasonably and following consultation with Austock) to pay this in cash at Completion rather than by issuing Folkestone Shares to Austock;
 - B. if paragraph A occurs and the Folkestone Share price as at the date which is 5 business days prior to Completion is greater than \$0.12, Austock will have the option to elect to receive that element of the purchase price by Folkestone Shares issued to it at \$0.12 per Folkestone Share; and

- C. if the PDF Board/Innovation Australia does not approve the issue to Austock of the Folkestone Shares as consideration, Folkestone can elect to pay this in cash at Completion, rather than by issuing Folkestone Shares to Austock; and
- (b) in respect of the Second Tranche Sale Shares, \$3.85 million in cash payable to Austock at Second Tranche Completion, which is expected to occur on 30 September 2013 (unless timing for Second Tranche Completion is accelerated at Folkestone's election in the event of a change of control of Austock).

On 6 August 2012, Austock received notification from the PDF Board/Innovation Australia that it has not approved the issue of Folkestone Shares to Austock. As a result, Folkestone has elected to pay for the First Tranche Sale Shares entirely in cash.

Conditions to Completion

Completion of the Sale Shares is conditional on the following conditions:

- (a) Folkestone's confirmation that no material adverse issues have been identified during due diligence (this confirmation has been provided by Folkestone);
- (b) Shareholders passing Resolution 1;
- (c) PDF Board/ Innovation Australia approval for the Sale (as noted above under "Consideration", the PDF Board has not approved the issue of Folkestone Shares to Austock. Folkestone has elected to pay cash to Austock in lieu of issuing Folkestone Shares);
- (d) Austock Property executing a sub-lease to occupy part of the premises occupied by Austock with the consent of the landlord and any other third party (Austock is in the process of arranging this and obtaining the landlord's consent); and
- (e) consent to the Sale being obtained from the financiers to the Funds and any third party under a change of control provision in any material contract (each financier has either provided their consent or confirmed that consent is not required. Austock is in the process of obtaining the required third party consents).

Broadly, either party may terminate the Share Sale Agreement by notice to the other party at any time before Completion if any condition has not been satisfied or waived before the End Date.

No Shop

Austock must not, without the approval of Folkestone, solicit or respond to any other proposal in relation to the Sale Shares or the assets of Austock Property.

Pre-Completion Obligation and Restrictions

Austock must comply with certain pre-Completion obligations, including procuring that Austock Property conducts the Business in the ordinary and usual course with its usual business practices and does not make any significant change to the nature and scale of any activity comprised in the Business.

Austock must comply with certain pre-Completion business restrictions, including procuring that Austock Property does not, except with the Folkestone's consent or as otherwise contemplated by the Share Sale Agreement, issue any new securities, declare any dividends, alter the constitution or trust deed of any of the Funds, enter into any material capital expenditure commitments, enter into, terminate or vary any material contracts, commence any form of dispute resolution or settle any material claims or proceedings. Austock will not require any consent of Folkestone to any of the actions necessary to undertake any reorganisation to be undertaken by Austock prior to Completion.

Termination

Folkestone may terminate the Share Sale Agreement if at any time before Completion:

- (a) Austock is in breach of the pre-Completion obligations and restrictions (referred to above), and such breach has or is likely to have a material adverse effect on the Business, or
- (b) Folkestone becomes aware of any proposal (a) to remove the responsible entity of any of the Funds or (b) which would result in any person acquiring a relevant interest in more than 35% of the units of any Fund, which has been, or which Folkestone, acting reasonably, believes is likely to be put to the members of the relevant Fund (Hostile Proposal).

Break-fee

If before the End Date, the Share Sale Agreement is terminated by either party as a result of a Condition not being satisfied (other than the Condition relating to PDF Board/Innovation Australia approval) or by Folkestone in the manner described above under "Termination", Austock is required to reimburse Folkestone for any third party costs incurred by it in connection with the Sale (subject to a maximum of \$250,000).

Restraint

Austock must not carry on, possess financial interests in or provide services to any business which is same or substantially similar to, or competitive with the Business for a period of up to two years after Completion within Australia. Austock must also not induce or encourage any employee of the Business to leave the employment or interfere with the relationship between the Business and its customers, employees or suppliers within one year after the Completion.

Warranties

The Share Sale Agreement also contains customary representations and warranties by Austock in relation to the Business as well as a tax indemnity.

Austock Property Dividend

Austock is entitled to a 35% share of the profits from the Business until Second Tranche Completion.

1.12 Interests of Directors and Voting Rights

No Director has any interest in the Sale other than in the capacity as Shareholder, and no Director has any shareholding in Folkestone.

The Company will disregard any votes cast on Resolution 1 by Folkestone or any other person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary shares, if Resolution 1 is passed, or an associate of any such persons. However, the Company will not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by a person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

1.13 Directors' Recommendation

For the reasons set out in this Explanatory Statement, your Directors unanimously recommend that Shareholders vote in favour of Resolution 1.

If Shareholders cannot attend the General Meeting, they are encouraged to complete the accompanying proxy form and return or lodge it in accordance with the directions on the form. Completed proxy forms must be received no later than 48 hours before the appointed time of the meeting.

The chairman of the meeting intends to vote all undirected proxies in favour of Resolution 1. If you wish to appoint the chairman of the meeting as your proxyholder but do not want him to cast your vote in favour of Resolution 1, you should complete the appropriate box on the proxy form directing him to vote against or abstain from voting on Resolution 1.

2. ON MARKET SHARE BUY-BACK

2.1 Background

Directors are focused on ensuring that the price of the Company's shares reflects the underlying value of its various activities and capabilities. Accordingly, Directors have decided to undertake an on-market share buy-back. This will provide liquidity for those Shareholders that may wish to sell down their holding in Austock and will provide Directors with an important instrument for capital management.

Whilst many Shareholders will be prepared to await the next stage in Austock's future, others may wish to exit. Directors are fully mindful of this and will seek to balance the needs of both. Also, Directors have and will continue to diligently review any proposal that may see Austock aligned with other financial services groups or can enhance value.

2.2 The Buy-Back

As at 7 August 2012, the Company had 133,928,412 fully paid ordinary shares on issue. The Company proposes to buy-back up to 27 million shares, or approximately 20% of its shares on issue.

Subject to Resolution 1 and Resolution 2 being passed and to Completion of the Sale, the Company may elect to commence the Buy-Back after Completion until the earlier of 12 months, the day that the maximum number of shares has been bought back or an earlier date determined by the Directors. The Company will not buy-back shares during any blackout period under the Company's Share Trading Policy. The next blackout period after the date of the meeting commences on 1 January 2013 and ends 3 business days after the date on which the Company lodges with ASX its preliminary results for the half year ending 31 December 2012, expected to be in late February / early March 2013.

Also, the Company will only buy-back shares at a time and at a price which the Directors determine in their discretion at the time having regard to the interests of Shareholders (as a whole) and all prevailing circumstances then applying.

The Company will offer to buy-back shares on market through transactions on the ASX. Any Shareholder who sells their shares on ASX may be participating in the Buy-Back if, at that time, the Company is buying back shares in the ordinary course of trading on the ASX. The Buy-Back only applies to fully paid shares and does not apply to partly paid shares.

The shares will be bought back at the quoted selling price of the Company's shares on the ASX. In accordance with ASX Listing Rule 7.33, the price payable by the Company to buy-back the shares cannot be more than 5% above the average market price per share for the last 5 days on which trades were recorded before the day of the buy-back. As at 7 August 2012, the Company's share price on the ASX was 15 cents.

The Company will cancel all shares that are bought back and reserves the right to suspend or terminate the share buy-back at any time and to buy-back less than 27 million shares.

The Company has appointed BBY Limited to act on its behalf in relation to the Buy-Back. The Company will incur brokerage costs to buy-back shares. The cost to the Company of the Buy-Back is dependent on the number and price of shares bought back.

As at the date of the Explanatory Statement, no person has disclosed a relevant interest in the Company of more than 11% based on the current shares on issue. Accordingly, even if the Buy-Back is completed in full, no person should have a relevant interest in more than 20% of the Company's shares based upon current shareholdings.

2.3 Requirement for shareholder approval

The Corporations Act 2001 (Cth) allows a company to buy-back its own shares if the buy-back does not materially prejudice the company's ability to pay its creditors and it follows the procedures required in the Act. Shareholder approval is required for a share buy-back if a company proposes to buy-back more than 10% of its total shares on issue over a 12 month period.

2.4 Implications of the Buy-Back on the Company

The Buy-Back will reduce the cash in the Company and the number of shares on issue. On the basis that the Buy-Back acquires shares at less than what Directors deem to be the underlying value of the Company's shares, the result should see an increase in the underlying value of the Company's shares. For the avoidance of doubt, the reported net tangible asset per Company share will differ from the underlying value of the Company's shares as assessed by the Directors.

The Company intends to release its 2012 Annual Report in late August 2012, prior to the date of the meeting. The Annual Report will contain up to date audited financial information to 30 June 2012. Accordingly, Shareholders may wish to acquaint themselves with the Annual Report before determining how to vote on Resolution 2 as this will contain more detailed and definitive information regarding the Company's financial position which is not yet available.

2.5 Advantages and disadvantages of the Buy-Back

The Directors have identified a number of advantages and disadvantages associated with the Buy-Back:

(a) Advantages

- The Buy-Back is considered to be an appropriate use of surplus cash in the absence of an investment opportunity. It reduces the uncertainty for Shareholders in relation to the use of the Company's surplus cash. For details regarding surplus cash, please see section 1.
- Subject to market conditions, whilst the Buy-Back is active, it is likely to add materially to the demand on-market for the Company's shares, thereby providing greater opportunities for Shareholders to dispose of their shares.
- Participation in the Buy-Back is voluntary - Shareholders are free to choose whether they wish to sell into the Buy-Back or retain their shares and should seek their own advice as to whether they should participate in the Buy-Back.
- Purchases on-market can be tailored by the Company to changing market conditions.
- The Company has the flexibility to adjust the volume of shares bought back (subject to a maximum of 27 million shares) and can stop buying back shares on-market at any time.
- Implementation of the Buy-Back is simple.

(b) Disadvantages

- Upon implementation of the Buy-Back, there will be a reduction in the available cash levels and the ability of the Company to use that cash for new investments or other corporate purposes.
- Shareholders who wish to sell their shares on-market have no assurance as to the price, volume or timing of sales as these factors will depend on market dynamics.
- After the Buy-Back is completed, there is likely to be a decrease in the Company's ASX free-float and possibly a reduction in ASX trading volumes and liquidity in the Company's shares.
- If the Buy-Back is implemented and William Bessemer, Martin Ryan and Jonathan Tooth (and their associates) do not participate in it, then their respective interests in the remaining shares will increase from the current levels of 10.83%, 8.15% and 6.03% respectively.

2.6 Consequences if approval is not given to the Buy-Back

If approval is not given to Resolutions 1 and 2 and Completion does not occur, the Company will not buy-back the shares and the Directors will examine other corporate initiatives to increase shareholder value.

2.7 Other material considerations

Advice has been received that there are no adverse taxation implications for the Company in undertaking the Buy-Back.

2.8 Directors' intentions and recommendation

Notwithstanding that the Directors are eligible to participate in the Buy-Back, it is not the present intention of any Director to participate. Those intentions, however, may change without notice. Any participation by Directors will be disclosed to the market.

The Austock Directors unanimously recommend that Shareholders vote in favour of the Buy-Back. In making this recommendation, the Austock Directors considered the advantages and disadvantages of the Buy-Back, including those factors discussed in this Explanatory Statement.

If Shareholders cannot attend the General Meeting, they are encouraged to complete the accompanying proxy form and return or lodge it in accordance with the directions on the form. Completed proxy forms must be received no later than 48 hours before the appointed time of the meeting.

The chairman of the meeting intends to vote all undirected proxies in favour of Resolution 2. If you wish to appoint the chairman of the meeting as your proxyholder but do not want him to cast your vote in favour of Resolution 2, you should complete the appropriate box on the proxy form directing him to vote against or abstain from voting on Resolution 2.

3. GLOSSARY

In this Explanatory Statement and the attached Notice of General Meeting, the following defined terms have the meaning as set out below.

ASX means ASX Limited.

Austock (or **Company**) means Austock Group Limited (ASX: ACK).

Austock Board (or **Board**) means the board of directors of Austock.

Austock Director (or **Director**) means a member of the Austock Board.

Austock Life means Austock Life Limited.

Austock Property means Austock Property Funds Management Pty Ltd and its subsidiaries.

Austock Property Funds Management Business (or **Business**) means the businesses carried on by Austock Property, including acting as the responsible entity for listed and unlisted funds investing in childcare and early learning centres, income producing social infrastructure assets and police stations and law courts complexes.

Austock Services means Austock Services Pty Ltd.

Austock Share means a fully-paid ordinary share in the capital of Austock.

Buy-Back means the proposed on-market buy-back of up to 27 million shares on issue in the Company as described in this Explanatory Statement.

Completion means completion of the First Tranche Sale Shares in accordance with the terms and conditions of the Share Sale Agreement.

Conditions means each condition set out in the Share Sale Agreement, which are summarised in section 1.11 of this Explanatory Statement.

End Date means 17 September 2012 or any other date agreed between Austock and Folkestone.

First Tranche Sale Shares means the number of shares in Austock Property which constitute 65% of its issued capital as at Completion.

Folkestone means Folkestone Limited (ASX: FLK).

Folkestone Share means a fully-paid ordinary share in the capital of Folkestone.

FUM means funds under management.

Funds means Australian Education Trust, The Australian Social Infrastructure Fund, Austock Childcare Fund and CIB Fund.

Resolution 1 means the resolution set out in the attached Notice of General Meeting in relation to the Sale of Austock Property.

Resolution 2 means the resolution set out in the attached Notice of General Meeting in relation to the Buy-Back.

Sale means the proposed sale of the Austock Property Funds Management Business by way of the sale of the shares in Austock Property by Austock to Folkestone under the terms of the Share Sale Agreement, and as described in this Explanatory Statement.

Sale Shares means the First Tranche Sale Shares and the Second Tranche Sale Shares.

Second Tranche Completion means completion of the Second Tranche Sale Shares in accordance with the terms and conditions of the Share Sale Agreement.

Second Tranche Sale Shares means the number of shares in Austock Property which constitute 35% of its issued capital as at Completion.

Shareholder means a holder of fully-paid ordinary shares in Austock.

Share Sale Agreement means the Share Sale Agreement dated 9 July 2012 between Austock and Folkestone governing the Sale (as amended).

FOR ALL ENQUIRIES CALL:
(within Australia) 1300 737 760 (outside Australia)
+61 2 9290 9600

FACSIMILE
+61 2 9290 9655

Name and Address

ALL CORRESPONDENCE TO:
Boardroom Pty Limited
GPO Box 3993
Sydney NSW 2001
Australia

Your Address

This is your address as it appears on the company's share register. If this is incorrect, please mark the box with an "X" and make the correction on the form. Securityholders sponsored by a broker should advise your broker of any changes. **Please note, you cannot change ownership of your securities using this form.**

YOUR VOTE IS IMPORTANT

FOR YOUR VOTE TO BE EFFECTIVE IT MUST BE RECORDED BEFORE 10.30 am (Melbourne time) on **MONDAY 10 SEPTEMBER 2012**

To lodge proxy form online:

Reference Number:

Please note it is important you keep this confidential



STEP 1 : VISIT www.boardroomlimited.com.au/vote/austockgm2012

STEP 2: Enter your holding/Investment type

STEP 3: Enter your Reference Number and VAC: <VAC NUMBER>

TO VOTE BY COMPLETING THE PROXY FORM

STEP 1 Appointment of Proxy

Indicate here who you want to appoint as your Proxy
If you wish to appoint the Chairman of the Meeting as your proxy, mark the box. If you wish to appoint someone other than the Chairman of the Meeting as your proxy please write the full name of that individual or body corporate. If you leave this section blank, or your named proxy does not attend the meeting, the Chairman of the Meeting will be your proxy. A proxy need not be a security holder of the company. Do not write the name of the issuer company or the registered securityholder in the space.

Proxy which is a Body Corporate

Where a body corporate is appointed as your proxy, the representative of that body corporate attending the meeting must have provided an "Appointment of Corporate Representative" prior to admission. An Appointment of Corporate Representative form can be obtained from the company's securities registry.

Appointment of a Second Proxy

You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the company's securities registry or you may copy this form.

To appoint a second proxy you must:

- (a) complete two Proxy Forms. On each Proxy Form state the percentage of your voting rights or the number of securities applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded.
- (b) return both forms together in the same envelope.

STEP 2 Voting Directions to your Proxy

You can tell your Proxy how to vote

To direct your proxy how to vote, place a mark in one of the boxes opposite each item of business. All your securities will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of securities you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on a given item, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

STEP 3 Sign the Form

The form **must** be signed as follows:

Individual: This form is to be signed by the securityholder.

Joint Holding: where the holding is in more than one name, all the securityholders must sign.

Power of Attorney: to sign under a Power of Attorney, you must have already lodged it with the registry. Alternatively, attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: this form must be signed by a Director jointly with either another Director or a Company Secretary. Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. **Please indicate the office held by signing in the appropriate place.**

STEP 4 Lodgement of a Proxy

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below not later than 48 hours before the commencement of the meeting at **10.30 am on Wednesday, 12 September 2012**. Any Proxy Form received after that time will not be valid for the scheduled meeting.

Proxies may be lodged using the reply paid envelope or:

BY MAIL - Share Registry – Boardroom Pty Limited, GPO Box 3993, Sydney NSW 2001 Australia

BY FAX - + 61 2 9290 9655

IN PERSON - Share Registry – Boardroom Pty Limited, Level 7, 207 Kent Street, Sydney NSW 2000 Australia

Lodge proxy form online at:

www.boardroomlimited.com.au/vote/austockgm2012
or turnover to complete the Form ➔

Attending the Meeting

If you wish to attend the meeting please bring this form with you to assist registration.

AUSTOCK GROUP LIMITED

<Address 1>
 <Address 2>
 <Address 3>
 <Address 4>
 <Address 5>
 >

<BARCODE>

STEP 1 - Appointment of Proxy

I/We being a member/s of **Austock Group Limited** and entitled to attend and vote hereby appoint

the Chairman of the Meeting (mark with an 'X') **OR**

If you are not appointing the Chairman of the Meeting as your proxy please write here the full name of the individual or body corporate (excluding the registered Securityholder) you are appointing as your proxy.

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy at the **General Meeting of Austock Group Limited to be held at the offices of the Company, Level 12, 15 William Street, Melbourne VIC 3000 on Wednesday, 12 September 2012 at 10.30 am** and at any adjournment of that meeting, to act on my/our behalf and to vote in accordance with the following directions or if no directions have been given, as the proxy sees fit.

The Chairman of the Meeting will vote all undirected proxies in favour of the resolutions.

STEP 2 - Voting directions to your Proxy – please mark to indicate your directions

Business		For	Against	Abstain*
Resolution 1	Sale of Austock Property Funds Management Business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2	On-market share buy-back	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

*If you mark the Abstain box for a particular item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

STEP 3 - PLEASE SIGN HERE This section *must* be signed in accordance with the instructions overleaf to enable your directions to be implemented.

Individual or Securityholder 1	Securityholder 2	Securityholder 3
Sole Director and Sole Company Secretary	Director	Director/Company Secretary

Contact Name Contact Daytime Telephone Date / / 2012