ASX Announcement

Tuesday, 15 November 2011

Australian Education Trust - Fund Update

1. **Assignment of New Zealand Leases Completed**
2. **Property Revaluation Increases**
3. **Reduced Debt Levels**
4. **Distribution Forecast Upgrade**

Austock Property Management Limited (APML) as the responsible entity of the Australian Education Trust (AET or the Fund) provides the following update to Unitholders:

1. Assignment of New Zealand Leases

As announced on 26 September 2011, ABC Developmental Learning Centres (NZ) Limited (ABC NZ) had entered into an agreement with Kidicorp Limited (Kidicorp) for the sale of the business assets of ABC NZ. The transaction as it relates to AET's centres in New Zealand settled on 15 November 2011.

i. Transaction Background

- Kidicorp is the purchaser of the business assets of ABC NZ. Kidicorp has been assigned all of the Fund's 56 New Zealand childcare centre leases (~12% of AET's portfolio by carrying value as at 30 June 2011), with completion occurring on 15 November 2011. The Fund's Board and Financiers provided their consent to the assignment after conducting a due diligence of Kidicorp.

- The assignments ensure the uninterrupted operation of all of AET's 56 New Zealand childcare centres with no change in rental income or entitlements to AET. No incentive, inducement or allowance, financial or otherwise, was provided by AET's Management.

- In respect to the New Zealand portfolio, AET has negotiated a similar 'pooled' bank guarantee as received for its other major tenants, significantly enhancing its level of security from that previously held from ABC NZ. The value of that security is approximately NZ$3 million.

- All transaction costs incurred by the Fund in respect of the assignments are expected to be recovered.

As previously advised, Management has recovered NZ$3 million (~A$2.4 million) from ABC NZ in relation to the settlement of the claim against ABC NZ in respect to the New Zealand development sites. The proceeds have been received in full and applied to reduce debt.

ii. About Kidicorp

The acquisition of the ABC NZ businesses by Kidicorp is expected to number 123 in total, assuming that all landlords' consents are obtained. This will make Kidicorp the largest private operator of childcare centres in New Zealand. Prior to the acquisition, Kidicorp was the operator of in excess of 100 childcare centre businesses in New Zealand and employed 8,000 people with an annual turnover of ~NZ$100 million.

Kidicorp's management will absorb the existing ABC businesses on an individual centre basis and as such it does not inherit ABC NZ's corporate or capital structures. Kidicorp provided a detailed business plan and analysis that has been considered as part of the assignment request. Management has considered Kidicorp's financial forecasts and business model and based on that information, believes it to be a viable operator of the 56 AET childcare properties in New Zealand.

The lease assignments to Kidicorp are viewed favourably by Management as Kidicorp has a long history of providing early learning services within the New Zealand market and is capable of integrating the centres into its business. Based on the financial information provided, both businesses on a stand-alone basis are profitable with strong occupancy levels.

2. Property Revaluations

Since 30 June 2011, Management arranged 42 independent property valuations in Australia in accordance with the Fund's rolling triennial valuation program. The result of these valuations is a net increase of $2.7 million or 5.2% of the value of those assets. Further revaluations will be undertaken throughout the year.

The increase in valuations reflects a combination of greater certainty returning to the early learning sector and small adjustments in capitalisation rates, together with an increase in rental income since the last valuation.

3. Debt Levels

Management has reduced debt by $5 million since 30 June 2011, from $140 million to $135 million. This has been achieved by using the funds received from the New Zealand development site compensation claim (~A$2.4m) and the proceeds from the sale of two properties (one operating and one non-operating).

AET's bank calculated Loan to Value Ratio ("LVR") position has reduced to 39.5% due to the debt reduction and increase in property valuations. A LVR below the 40% threshold provides AET with an additional reduction in bank margin of 0.1% on the total debt balance. This is equivalent to an annual reduction in interest cost of $0.135 million based on the current debt level. Unitholders should note that a decrease in the value of assets in the future could see the higher margin reinstated should the LVR exceed 40%.

4. Costs

Management is focused on reducing the Fund's non-recoverable expenses as a means of increasing distributions to Unitholders. This includes recovery of historical costs, where they have been available to the Fund. Management has been able to recover previous year's costs relating to proposals for the assignment of leases from ABC NZ of $0.2 million. It also includes the recovery of unpaid rent from a previous tenant of approximately $0.15 million. Both of these items will result in a one-off positive increase to the forecast distribution for FY12.

One potential significant expense for AET Unitholders is the Fund's legal expenses. In order to reduce the cost to the Fund of external legal advisors together with increasing the quality of outcomes of AET's legal activities, APML has maintained an in house legal resource to meet these objectives. This has been achieved and Management has reduced the expected legal costs for the year, which is accretive to the forecast distribution.

As part of the cost reduction program, Management is working hard to reduce non-recoverable property related expenses. This may yield further benefits in the future.

5. FY12 Distribution Forecast

Management's previous FY12 distribution guidance in August 2011, was 9.0 cents per unit. Reduced operational and interest costs together with recovery of previous year's expenses has had a positive impact on the Fund's distribution forecast for FY12. Taking into account the assumptions previously outlined regarding continued tenant performance and the cost of debt, Management is now forecasting a full year FY12 distribution of **9.6 cents per unit.**

The September 2011 quarter's distribution of 2.25 cents per unit, based on the previous guidance, was paid on 20 October 2011. An announcement regarding the December quarter's distribution will be made on or before 19 December 2011.

6. Asset Management

i. Sales and Lettings

As noted in previous guidance, AET had 6 properties that were otherwise for sale or lease which are non-income producing. One of those properties has been sold at a small premium to book value. Two other properties are subject to transactions including one property to be sold (contracted but not yet unconditional) and another is the subject of a leasing negotiation. New marketing campaigns for the three remaining properties are about to commence.

One centre whose lease expiry was now due has closed its operations. We will seek either a new tenant or a sale, dependent upon market conditions and best outcome for the Fund. The loss of rent in this instance is not material.

One further operational property was sold since 30 June 2011 at a premium to book value. Management believed that the property would require significant capital expenditure in the forthcoming years as it was of age and was one of a small number of properties in the portfolio that are not subject to a triple net lease. The sale was concluded on the basis that it was an appropriate redeployment of capital as the asset had reached optimal value in the medium term. It will also assist in refining the portfolio's quality.

ii. Earthquake Insurance for the New Zealand Portfolio

Management recently tendered the Insurance cover for the New Zealand portfolio, seeking competitive insurance arrangements. Management has successfully negotiated new insurance cover for the New Zealand portfolio. The cost of the insurance forms part of tenant's outgoings costs and has been paid by the tenant under the Fund's triple-net lease structure. On 29 September 2011 the Fund's insurer announced that it would no longer be offering earthquake cover in New Zealand. It has confirmed that it will honour the earthquake cover on the agreed AET centres for the term of AET's new 1 year policy which commenced two weeks prior to that announcement.

The new policy excludes earthquake cover from 9 centres in the Christchurch region. None of AET's centres suffered any material damage in the earthquakes of late 2010 and early 2011 and all remain operational. Management is looking into alternative earthquake insurance options and investigating whether Government support to the insurance industry may be provided.

The risk to AET on the 9 centres extends to the value of the improvements and the associated loss of rent that may occur due to an earthquake event. It does not extend to any potential claim by a tenant on AET where an earthquake event renders a centre incapable of operation, i.e. for loss of profits or any consequential loss.

7. Goodstart Early Learning Brand Launched

Goodstart's (AET's major tenant) Chief Executive Officer Julia Davison and the Minister for Childcare, the Hon Kate Ellis MP, announced today that more than 650 ABC Learning centres across Australia will be officially renamed Goodstart Early Learning. Goodstart has owned and operated the former ABC Learning centres – Australia's largest childcare and early learning network – since 2010, with a workforce of more than 15,000 staff caring for and education more than 72,000 children. All centres across Australia will transition from ABC Learning to Goodstart Early Learning including new signage over the coming months. AET considers this to be another positive development by Goodstart in further improving the early learning landscape for Australia's children.

8. Outlook

The Fund's outlook remains positive with increasing childcare occupancy levels for our existing tenants. The Fund's major tenant, Goodstart, provided its annual report that revealed performance in line with their first year forecast. Ongoing movements in the CPI index in Australia (last 3.5% p.a.) and New Zealand (last 4.6% p.a.) should produce reasonable rental growth across the portfolio in 2012-13. Overall income levels are subject to continued tenant performance and foreign exchange variability.

The assignment of the New Zealand leases to Kidicorp should provide further stability for the Fund into the future. This, together with the Goodstart rebranding program removes the last remaining links with the former ABC Learning Centres business.

Management remains focused on providing reliable quarterly distributions in line with its forecasts. Reducing costs is a key deliverable as well as ensuring that the existing portfolio performs to its maximum. Management is seeking to deal with the remaining non-income producing properties in the short term. Proceeds from the sales of these properties will be used to further reduce debt.

9. Investor Relations

Unitholders are invited to call our Investor Relations Manager, Lula Liossi with any queries regarding the management of the Fund. Boardroom Pty Limited is the Fund's Registry and can be contacted on 1300 737 760 with respect to any queries in relation to your unitholding. All of the Fund's publications are available on its website www.educationtrust.com.au, including the Fund Profile that periodically summarises the Fund's overall financial position and asset base, under the website heading of "Reports & Publications/Other Reports".

Please contact our Investor Relations Manager if you have any queries.

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Further information

The Australian Education Trust internet site, www.educationtrust.com.au is a source of information for Unitholders. It includes details of AET and its Manager, announcements, current activities and historical information. The site provides access to annual and half-year reports and also AET updates covering matters of relevance to investors.