

ASX Announcement

24 May 2010

Australian Education Trust Fund Update –193 ABC1 Leases to be Assigned

Australian Education Trust (AET) (ASX:AEU) provides the following update regarding the progress of the transition of AET's 193 ABC1 leases to a new tenant and the status of its sales/leasing campaign.

Key Highlights

(i) Assignment of Leases

- GoodStart Childcare Limited will take an assignment of the Funds 193 ABC1 childcare centre leases, with completion expected to occur on 28 May 2010. The Funds' Board and Financier have given approval to proceed with the assignments.
- The assignments will see the continued and uninterrupted operation of 193 childcare centres with no reduction in income or entitlements as a result. No financial incentive, inducement or allowance was provided by Austock Property Management Limited (APML).
- New lease security arrangements will be put in place for circa \$12.9m.
- Management will recover most assignment costs and all outgoings unpaid by ABC in respect to the 193 centres as part of the transaction.

(ii) Sales Activity & Debt Facilities

- The asset sales program has successfully achieved sufficient sales to meet the \$80m amortisation target. This is subject to the remaining sales settling in accordance with the contract dates.
- The sales campaign has seen sales achieved at book values on an aggregate basis.
- Management is reviewing its funding position with respect to its debt arrangements.

1. GoodStart New Tenant of 193 former ABC1 Childcare Properties

The Directors of APML have given approval to proceed with the assignment to GoodStart Childcare Limited (GoodStart) of AET's leases of 193 childcare properties, which were leased to ABC Learning Centres Limited and subsidiaries (Receivers and Managers Appointed) (ABC). The assignments are expected to occur on or about 28 May 2010.

The approval is subject to execution of formal lease assignment documentation and satisfaction by GoodStart and ABC of various pre-conditions to assignment including provision of a pooled security of circa \$12.9 million by way of bank guarantee.

Given the nature and complexity of the ABC Receivership, Management has endeavoured to keep as many childcare properties operating as possible and negotiate with the ABC Receiver the best possible terms in difficult circumstances. At the same time, Management's concern was to expedite the successful completion of the assignment of all leases in its ABC1 portfolio to minimise disruption to parents, children and staff of the childcare properties who have been subject to uncertainty for a long period of time.

(a) An Overview of GoodStart

AET has undertaken an extensive assessment of GoodStart, given the operator would be AET's largest tenant, with approximately 63% of its portfolio, to ensure the interests of Unitholders were adequately protected and to mitigate any future negative events should they occur. The not-for-profit group GoodStart will, on completion, be leasing 193 of AET's properties as the purchaser of the former ABC Learning Centres Ltd business assets. GoodStart is supported and funded by the Federal Government and has sourced funding from NAB as well as from the social capital sector. In addition, the Company has been granted exemption from payroll tax, income tax, concessional FBT benefits and relief from one off stamp duties in some areas. These benefits are estimated to be ~\$20m per annum to the GoodStart business

GoodStart is expected to operate approximately 670 properties under the ABC banner. The four principal not-for-profit members represented on the Goodstart Board of Directors are;

- Mission Australia (Mission) is an organisation that assists the disadvantaged in the community. Mission's annual turnover in 2008/2009 was over \$300m and it provided assistance for over 280,386 Australians. Mission Australia is an existing tenant of AET, independently leasing 20 childcare properties.
- The Brotherhood of St Laurence (BSL) is an independent organisation with strong Anglican and community links which works to free Australia from poverty. BSL provides services such as job training, placement programs, disability care, early childhood development programs as well as services for indigenous Australians, refugees and migrants. BSL had assets over \$85 million at 30 June 2009.
- The Benevolent Society is Australia's oldest charity established in 1813 with its main mission to give a voice to women, children, older people, those with disabilities and people experiencing poverty. At 30 June 2009 the charity had assets over \$80 million, with over 750 staff and volunteers Australia-wide.
- Social Ventures Australia (SVA) was established in 2002 by The Benevolent Society, The Smith Family, WorkVentures and AMP Foundation. SVA provides support to the portfolios of non-profit organisations, consults to the broader non-profit sector and develops social sector partnerships.

GoodStart Management has provided a detailed business analysis and plan that has been considered as part of the assignment request. The APML Board of Directors has approved, subject to the completion of documentation to its satisfaction and provision of security, to assign the leases to GoodStart Childcare Limited.

Management has considered GoodStart's financial forecasts and business model and based on that information, believes it to be a viable operator of the 193 AET childcare properties.

(b) Assignment of Leases

An overview of the lease arrangements with GoodStart are as follows:

- Assignment of the leases with the existing ABC triple net structure. Pursuant to the triple net structure, all outgoings and costs of repairs and maintenance, including periodic redecoration, are to be met by the tenant (not including Qld and Vic land tax ~\$2m);
- No incentives, rent holidays or reductions were granted and there has been no variation to rent or rental review mechanisms. The exception is for 9 properties for which a right to exit after 2 years has been given if the properties do not operate profitably;
- Addition of a 6 month gross rent pooled bank guarantee (circa \$12.9m). The bank guarantee has been incorporated into each lease, is reviewable annually and includes a portfolio default provision should the collective security due to AET be deficient at any time, subject to notice periods. The pooling arrangement allows AET to call on the guarantee on any one default up to a maximum of \$750,000 which can be drawn from the pooled guarantee. The guarantee extends through to 2035;
- All rental has been paid and will be payable by the Receiver in accordance with the leases until the assignment date, as a precondition to the assignment;
- Pre-receivership outgoings in relation to the 193 leases to be assigned to GoodStart, unpaid by ABC prior to its collapse, will be recovered in full. This amount does not include compensation in respect to other former ABC sites previously disclaimed, including for capital losses incurred by AET which would otherwise only be claimable as an unsecured creditor;
- The majority of AET's costs relating to the assignment will be recovered from the Receiver; and
- In respect to the whole portfolio, AET will post completion, hold bank guarantees supporting its tenants to the amount of approximately \$16m, together with other directors and personal guarantees.

2. Debt Funding

AET had debt of \$217.5m as at 31 December 2009 relative to gross assets of \$397.8m. As part of AET's debt arrangements, there is a requirement to meet a base debt amortisation payment of \$80m by 30 June 2010. As outlined in the half year accounts, payments of \$42m had been made as at 31 December 2009, leaving further base debt payments due of \$38m.

The remaining payment of \$38m will be funded from the proceeds of the asset sale campaigns. To date, unconditional contracts of sale have been executed totalling \$36.9m all of which have either settled or are due to settle prior to 30 June 2010. A further conditional contract to the value of \$1.0m may also settle prior to 30 June 2010. Assuming that all of the unconditional contracts settle as expected, it is expected that AET will meet the amortisation target either through further sales or through cash reserves.

As many property sales have already settled, Management has already repaid \$25m of the \$38m payment.

AET will not meet the stretch target debt repayment level of \$104 million (base \$80m) by 30 June 2010. As outlined in previous announcements, the consequence of not meeting this stretch target is not a default of the facility but rather the NAB and the Noteholders will charge, effective from 1 July 2010, a further 0.5% pa margin on all debt. As detailed below, Management of AET is actively reviewing its current debt financing arrangements with the purpose of achieving a long-term sustainable debt structure that will reflect what Management believe to be the significantly improved risk profile of AET.

AET's gearing ratio¹ has been reduced from 54% as at 31 December 2009 to 51% through the repayment of borrowings. Management intends to further reduce its gearing level by 30 June 2010 with further repayments in accordance with the amortisation program.

AET is in compliance with the covenants of its debt facility.

(a) Refinancing of Debt

Management is currently actively reviewing its debt position in order to achieve the following:

- Potential early repayment of the Senior Secured Noteholders;
- Margins that may reflect the improved risk profile of AET following the move away from the receivership of its major tenant and the reduced gearing levels through asset sales;
- Greater certainty as to the debt funding of AET with all debt currently maturing on 31 July 2011; and
- Cessation of debt amortisation targets.

Management is continuing discussions with its major debt provider, NAB which has expressed its support and intention of continuing to be AET's long-term banking partner.

3. Distributions

A condition of the current debt funding arrangements with both the NAB and the Noteholders is that no distributions are to be made without the prior consent of both parties. Critical to recommencing distributions is the completion of the assignment of ABC1 leases and the repayment of \$80m of debt as at 30 June 2010.

On the basis that all milestones will be reached, Management will be seeking approval from the NAB to resume distributions as soon as possible.

4. Asset Sales Program

The asset sales program has been successful in providing capital for the purposes of debt repayment. The collective value of the sales to date is ~\$36.9m. This compares with a book value of those assets as at 31 December 2009, before any impairment adjustment or sales expenses of ~\$37m. The sales have been of closed properties, vacant development sites and a number of leased childcare properties across Australia.

A small number of leased and vacant properties remain for sale and management will continue to market the properties until an acceptable deal can be concluded.

¹ Gearing is calculated by net borrowings (borrowings less cash) / investment properties

5. Property Summary

AET's childcare property portfolio is categorised as follows:

	No of Properties	Carrying Value \$000's	Current Rent (pa) \$000's
Operating Properties			
GoodStart	193	216,646	20,709
ABC New Zealand (not in administration)	58	39,557	3,523
Other Tenants	80	85,855	8,422
Total	331	342,058	32,654
Operating Properties			
Contracted / Not Settled	7	6,570	
Development Sites			
Australia Available For Sale	4	2,660	
Australia Contracted / Not Settled	5	2,960	
New Zealand Available For Sale	1	121	
New Zealand Contracted / Not Settled	1	121	
Closed Properties			
Available for Sale/Lease	5	3,455	
Contracted / Not Settled	2	1,560	
Total Properties as at 24 May 2010	356	359,505	32,769

GoodStart: Formerly ABC1 properties, now tenanted to GoodStart. Occupancy continues in accordance with the lease agreements on foot, formerly the ABC Triple Net lease.

New Zealand: ABC New Zealand is not in administration, however, ABC Learning Centres Limited owns the shares in the New Zealand subsidiary and as shareholder, McGrath Nicol is handling the sale of the NZ business. We have been advised McGrath Nicol is in discussions with prospective purchases and management will update Unitholders as soon as an agreement has been reached. The ABC Receiver has advised that this business continues to perform well and has maintained a strong occupancy level during its management.

Other Tenants: A marketing campaign was instigated with a number of operating properties (formerly the childcare properties that were supported by the Government and the businesses sold to independent operators) being placed on the market.

Management is in discussions with the proposed new operator, Bright Horizons Australian Childcare, in relation to 8 AET childcare properties tenanted by ABC and operated by NELC. A decision in relation to the assignment is expected shortly.

Closed Properties: These properties were closed as a result of ABC being placed into receivership on 6 November 2008. Currently, 5 properties remain to be sold/leased with a book value of \$3.5m. The properties continue to be marketed with the net proceeds used to repay debt.

Development Sites: These sites were purchased under contractual obligations, including a formal agreement to lease with ABC, to develop new properties in both Australia and New Zealand. The majority of the sites have been sold with 5 properties remaining to be sold with a book value of \$2.8m. The properties continue to be marketed with the net proceeds used to repay debt.

6. Outlook

Management's priority is to work towards the assignment of AET's leases to GoodStart and the completion of the sales/leasing campaign.

Management has strived to achieve the best possible outcome in difficult circumstances, whilst aiming to protect unitholder's interests. AET has suffered effects from ABC being placed into Receivership and to minimise future potential risk, has given its in principal consent to leases be assigned to GoodStart subject to various pre-conditions including the pooled security as outlined.

Management is of the opinion that based on the information available to it; GoodStart appears to represent a viable tenant with rigorous financial, compliance and reporting regimes that should enable it to meet its tenancy obligations.

The Directors recognise the support and patience of Unitholders during this uncertain period which has extended well beyond expectations.

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