

## ASX Announcement

23 June 2008

### FUND UPDATE

The Directors of Austock Property Management Limited (“APML”), the responsible entity of the Australian Education Trust (“Trust”), are pleased to provide this update on recent activities.

In summary this update deals with the following:

- An increase in centre property numbers of 19 in the second half to 440 at 30 June 2008;
- A pipeline of 7 centres and committed capital expenditure over the next 9 months of ~\$7.0m;
- Valuations of property will see an increase in NTA per unit from 31 December 2007 of \$1.32;
- Debt to property investment was 59.6% at 31 May 2008 prior to revaluations of property;
- The Trust has been and is in compliance with its banking covenants;
- Current weighted average interest cost of 8.1%;
- The Trust has long term triple net leases with CPI based annual rent adjustments;
- Tenants are complying with their lease obligations including the payment of rent; and
- The estimated distribution for the quarter to 30 June 2008 of 2.7 cents brings the annual distribution to 13.7 cents for the financial year.

### Centre Property Update

Set out below is a summary of the movements in centre property numbers:

	<b>No. of Centre Properties</b>
30 June 2007	388
Acquisitions Settled	54
Disposals settled	5
Current Balance	437
To be settled	3
Forecast 30 June 2008	440



This represents a net increase of 19 for the 6 months to 30 June 2008. The carrying value of the property portfolio as at 31 May 2008 was \$435.5m before the impact of the periodic valuations currently being undertaken.

#### *Disposal of Properties*

The trust has sold 5 centre properties for the year compared to 19 for the year ended 30 June 2007. The total net gain over carrying value on the sale of these 5 properties is approximately \$290,000 compared to \$806,000 for the previous year.

The Trust has instigated a program to sell a further 9 properties (with a value of ~\$6m) in the ordinary course of its activities. These are now likely to be completed in the second half of this calendar year.

#### *Acquisition and Development Pipeline*

As at 31 December 2007, the Trust had a pipeline of 72 centre property acquisition opportunities comprising 16 contracted properties and 56 properties under negotiation. In view of the changing economic environment and the increased cost of debt the Trust has significantly scaled back on this pipeline.

As detailed above 19 centre properties have been settled since 31 December 2007. There are now only 7 properties that remain in the pipeline to be settled in the period after 30 June 2008 with ~\$0.5m remaining to be paid on these acquisitions.

The Trust will continue to fund development of existing development sites that it currently owns. At present there are twelve developments underway that are expected to be completed by March 2009. The cost to complete these development sites is approximately \$6.5m.

#### **Valuation Program**

In accordance with its cyclical property valuation policy that adopts current year valuations for approximately 50% of its portfolio, the Trust has instructed valuations for approximately 170 properties. These will be completed with relevant dates of either 30 April or 30 June 2008.

The market for child care centres remains reasonably buoyant with the most recent evidence not indicating any reduction in value levels or demand. This is a function of price (typically less than \$2m) and the nature of the marketplace in which child care assets are typically traded. With greater diversification via location and limited exposure to any one particular asset (through an average value of approximately \$1m) the trust has primary exposure (when considered individually) to a market less effected by the current tightness in credit markets. The market for childcare centres is in our experience becoming wider and numerically deeper.

Consistent with the Trust's approach to valuations, preliminary valuation numbers returned indicate an increase in values across the portfolio currently being assessed as at 30 April 2008. Based on the current annualised rentals, the property portfolio is currently being carried at a rental yield of approximately 8.6%, prior to any revaluation adjustment.

Net Tangible Assets per Unit at 31 December 2008 was \$1.32. This is expected to increase once the above valuations are finalised and adopted.

## Debt Facilities

The Trust has current debt facilities as at 31 May 2008 as follows:

Facility (\$m)	Facility Limit	Facility Drawn	Available Balance
2 Year Evergreen Bill Facility	\$100.0	\$99.6	\$0.4
Stand By Facility	\$15.0	\$12.5	\$2.5
Senior Secured Notes – 7 Years	\$77.7	\$77.7	-
Senior Secured Notes – 10 Years	\$70.0	\$70.0	-
Totals	\$262.7	259.8	\$2.9

The Trust does not anticipate drawing down any additional debt before 30 June 2008. Total debt to property investment as at 31 May 2008 was 59.6% before taking into account any increase flowing from the periodic valuations referred to above.

The existing evergreen facility is subject to an annual review which is to be completed by 30 June 2008 and includes provisions to extend the facility beyond its current expiry date of 30 April 2009.

### *Debt Covenants*

The Debt Facilities have two principal covenants being:

- Loan to Value Ratio of 65% for Freehold Property and 50% for Leasehold Property; and
- Financial Charges Ratio (Interest Cover) of 1.75%.

The Trust does not have a market capitalisation covenant or any other covenant linked to its unit price.

The Trust has been and continues to be in compliance with its debt covenants.

In an announcement dated 1 February 2008, accompanying the results for the six months to 31 December 2007, the Trust reported that it had been provided with approved terms for additional debt facilities and was negotiating to increase available facilities by up to \$50m. In view of the scaling back of the acquisition of centre properties referred to above the Trust did not need to proceed with these proposed facilities.

The Trust is currently negotiating to increase available debt facilities to match the revised acquisition and development profile of the trust and will advise the market when the details are finalised.

### *Interest Rate Management*

In order to manage its interest rate exposure the Trust has in place interest rate swap arrangements with the following profile:



<b>Date</b>	<b>Hedged Amount AUD</b>
To July 2008 (30 July)	\$200m
To July 2011	\$140m
To July 2014	\$70m
To July 2017	\$35m

The total current hedged amount of \$200m represents approximately 77% of the total amount of debt as at 31 May 2008. The trust is currently considering options with respect to further hedging arrangements and in particular the \$60m of interest rate swaps which mature on 30 July 2008.

The Trust will update unitholders on its interest rate management arrangements at the time of releasing its results for the year ended 30 June 2008 which is expected to be in late July 2008. These hedging arrangements will impact on the weighted average interest costs associated with its debt facilities for the year to 30 June 2009.

#### *NAIC Rating on Senior Secured Notes*

As part of the Trust's debt restructuring in 2007, the Trust issued A\$147.7m of Senior Secured Notes to North American Pension Fund Investors. Those notes are subject to a yearly rating undertaken by the National Alliance of Insurance Commissioners (NAIC) in the United States. NAIC has issued a lower rating of NAIC-3 rather than the NAIC-2 rating expected by both the investors and the Trust.

The lower rating was due to concerns at the time about the uncertain financial position of the Trust's major tenant ABC Learning Centres Limited (**ABC**). Under the terms of the Senior Secured Notes the rating takes effect from April 2008 and results in a penalty of 100 basis points which has added ~\$370,000 in interest costs for the quarter to 30 June 2008.

With the support of the Note Holders, the Trust is working towards the lodgement of an appeal which we expect will be assessed once the Trust's Financial Statements for the year ended 30 June 2008 are finalised at the end of July 2008. The rating assessment was made before ABC had announced in late April that it had signed a definitive agreement with Morgan Stanley Private Equity (MSPE) for the sale of a 60% interest in its US business. Since then ABC has also announced that its banking syndicate has consented to the sale and on the 10 June announced an \$82.2 million placement of new shares to MSPE Asia and Lazard Asset Management. They have stated that the proceeds from these transactions will be used to significantly reduce debt.

#### *Weighted Average Interest Costs*

Taking into account the interest rate swap arrangements the weighted average interest cost (inclusive of all margins and fees payable) at 31 December was 7.30%.

The Trust's current variable interest rate is ~8.41% (inclusive of margins and fees) and its current weighted average interest cost is 8.09%. This includes the penalty interest on the Senior Secured Notes. If the appeal is successful and the penalty interest is removed the equivalent current weighted average interest cost would be 7.52%.



## **Lease Arrangements and Rental Income**

In June 2007 the Trust and its major tenant ABC amended all existing and new freehold leases to incorporate a 15 year initial term and annual CPI rent increases. The Trust has triple net leases in place for all of its properties. The revised lease structure provides the trust with greater security as well as annual rent increases in line with movements in the CPI.

APML believes that the Australian and New Zealand business of ABC continues to provide a strong lease covenant with consistent rental flow which also supports the valuation of the Trust's property portfolio. ABC continues to pay its rent and satisfy its obligations under those leases. The most recent reviews to CPI have yielded an increase of 4.24% p.a. Should the June quarter CPI index be above the March quarter index and there is anecdotal evidence to suggest this may occur, it will provide the trust with a stronger rental review profile for the forthcoming year.

APML also maintains its view that the Australian and New Zealand child care industries remain strong with continued support from both Government and Opposition parties.

In addition to rental income received under the terms of its lease agreements the Trust has received some supplementary rental income under the terms of the Alliance Agreement with ABC entered into at the time the Trust was restructured in December 2004 and amended on several occasions since that time.

This supplementary rental income initially provided support for the Trust in the period following the restructure. Subsequently, it has provided compensation to the Trust for a number of changes made to the alliance agreement to reflect market changes, and amendments to the commercial arrangements that exist between the parties. These amounts are agreed between the parties on a regular basis. These arrangements are likely to expire by December 2008.

Based on reasonable assumptions of CPI based increases in rent, the timing of completion of construction on new centres, the timing of any acquisitions and disposals and as well as other matters we expect rental income for the year (excluding any supplementary income) from the leasing of the existing portfolio to be in the range of \$38.5m to \$39m for the year to 30 June 2009.

## **Estimated Distribution for the Quarter to 30 June 2008**

The Trust announced on 19 June 2008 an estimated distribution for the quarter to 30 June 2008 of 2.7 cents per unit. The quantum of this distribution is subject to finalisation of the 30 June 2008 financial statements and in particular the rental income/supplementary rental income which remains subject to final agreement.

The amount of 2.7 cents per unit brings the distribution for the current year to 13.7 cents per unit compared to 14.6 cents for the year to 30 June 2007.

The Trust has followed a policy of paying distributions equivalent to its distributable income which reflects its net cash earnings. As a result of the combination of higher variable interest costs, the penalty interest payable as a result of the lower rating on the senior secured notes, lower than anticipated property acquisitions, lower interest income, the reduced profit earned from the sale of properties and several other factors, the Trust has reduced its distribution for the quarter to 30 June 2008 to reflect its earnings for the financial year. This estimated quarterly distribution is not necessarily representative of future quarterly distributions.



### **Outlook for Financial Year 2009**

While APML has provided some guidance above in relation to rental income, interest costs and other matters in this announcement we are not in a position at this time to provide guidance in respect of net earnings or the level of distributions for the 2009 financial year due to some of the variables discussed above.

Further information will be provided at the time of the release of the results for the financial year to 30 June 2008 in late July.

Vin Harink  
Chief Executive Officer  
Austock Property Management Limited  
AFSL No. 281544

For further information contact:

Lula Lioffi  
Investor Relations Manager  
61 3 8601 2668