ASX Announcement

19 June 2009

Australian Education Trust – Unitholder Update

ABC (Receivers & Managers Appointed) Update

Australian Education Trust (AET) (ASX:AEU) provides the following update to its recent announcements in relation to its exposure to ABC Learning Centres Limited (Administrators Appointed) (Receivers and Managers Appointed) and a number of its subsidiaries (ABC).

This update addresses matters relevant to ABC's Receivers & Managers; AET's leasing and sales activities; the outcome of the ABC2 leasing program; AET's discussions with the Receivers of ABC Learning Centres Limited; AET's financing arrangements; distributions and outlook.

1. Key Summary

- 80 of 89 centres nearing successful transfer as part of ABC2;
- Continued suspension of the distribution for the June quarter;
- Previous guidance as to performance unaltered;
- Sale program expected to return approximately 88% of book value for closed childcare centres;
- Leasing results confirm rental levels to be consistent with market expectations; and
- ABC Receivership may extend for significantly longer than initially expected.

2. ABC2

ABC2 centres are those childcare centres placed under the control of PPB, the Court Appointed Receiver (CAR), since 1 January 2009. AET owned 89 centres within this category. These centres represent annualised rental of $8.6m p.a. and 23% of the AET portfolio.

Consistent with the previous market update of 15 April, Management is now able to confirm the outcome of the ABC2 process now that documentation has been finalised in almost all cases. AET has secured new operators for 78[1] centres (88%) through an assignment of the existing leases. Those leases have now been assigned to 22 individual entities. The largest two new operators are Mission Australia with 21 centres and NutureOne with 13 centres.

AET has achieved a number of positive outcomes for its ABC2 centres, including:

- Maintaining its standard lease structure (triple net with CPI increases);
- Maintaining the headline rentals reserved under the leases;
- Minimising rental downtime;
- Strengthening its security position through rental guarantees; and
- Using the opportunity to add diversity to the tenant base.

[1] One transaction for 11 AET centres is yet to be finally documented but this is expected to be completed by the end of the June.

The key highlights are as follows:

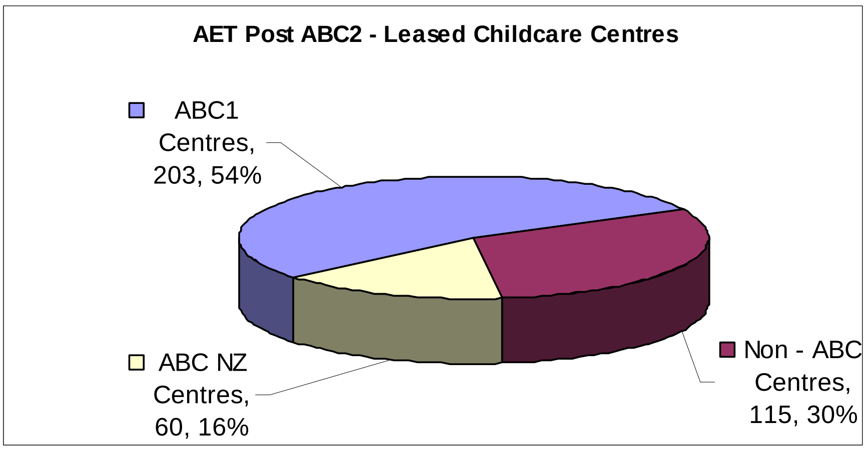
- Suitable outcomes for 80 of 89 ABC2 centres were negotiated, with 78 leases being assigned and two centres sold;
- In all instances, bank guarantees or rental bonds, up to a six month's gross rent have been negotiated and will be held by AET post completion. The value of this security, should all assignments complete, is estimated at approximately $2.8m. AET did not previously hold such security for these sites from ABC;
- Minor rental concessions were required in a small number of instances. The rental concessions are equivalent to approximately 1.77 months rental across the ABC2 category (or 0.4 months across the entire portfolio). The concessions end mostly in 2009 with a small number extending into 2010 and amount to approximately $1.2m;
- Only one centre attracted a reduction in the lease rent, by approximately $6,000 per annum.
- Nine centres did not find a suitable operator and will be closed and marketed as part of the wider sales and leasing campaign. The book value of the centres is $8.4m;
- The two centres which were sold as part of ABC2 achieved in-excess of their book value; and
- Rental levels for the ABC2 centres have now been market tested and are representative of market rents, on a normalised operating basis.

Rental concessions negotiated were required to attract operators to a small number of underperforming centres whose operating performance had deteriorated. Those concessions are short term in the context of the standard AET 15 year lease. Importantly, rental levels will revert to those reserved under the pre-existing leases at the end of the concession period (with any accompanying annual rental increases).

AET has borne a higher than expected expense level in negotiating the ABC2 procedure, primarily a function of increased legal fees incurred over those previously forecast.

The nine centres that have not yet found suitable operators will be offered to the general market through a sale and leasing program. The receivers are expected to terminate their arrangements with respect to these nine centres and rental income will no longer being received.

The profile of the new tenants adds diversity to the income base which, assuming the finalisation of the last 11 centre transaction, should provide the following tenant profile for AET:



The Directors believe this is overall a very good outcome in what are testing market conditions and the unusual circumstances surrounding ABC2, which were unfortunately represented as less desirable due to ABC's poor performance.

3. ABC 1

ABC1 childcare centres are those centres that continue operations under the ABC Learning Centres (Receivers and Managers Appointed) brand. There are approximately 720 centres in total of which AET owns 203 centres or 28%. These operations continue under the control of the Receiver McGrath Nicol and the Administrator, Ferrier Hodgson.

As detailed in the previous announcements, Ferrier Hodgson's administration period has been extended from 31 March 2009 to 30 September 2009 by order of the Federal Court. By default, this extends the moratorium period and the benefits available to the Receiver, McGrath Nicol, to the same date.

Our discussions with the Receiver indicate that they are working towards stabilising the ABC1 business and are contemplating a sale program thereafter. Affidavits lodged by the Receiver in March 2009 to the Federal Court foresaw that the Receiver needed to establish a financial and trading track record for the restructured business before a sale could be concluded. Based upon management's perceived timing, this would result in a sale in late 2009 or possibly early 2010.

AET is receiving full rent from the Receiver and the Receivers have advised us that the centres are being appropriately maintained as would otherwise be expected. Normal property management functions to ensure compliance with leases are being undertaken by AET.

Based on the decision by the Receivers to keep the centres in ABC1 operating in preparation for sale, AET believes it is reasonable to expect all leases to be adopted by new operators on existing terms, in accordance with the assignment provisions of each lease.

The objective is to work closely with the Receiver throughout the ABC1 sales process to ensure a positive long term solution for AET.

4. ABC New Zealand

ABC New Zealand (ABC NZ) is a wholly owned subsidiary of the ABC Learning Centres (Receivers & Managers Appointed) Ltd. The New Zealand subsidiary is not in receivership or liquidation however, the Receiver, McGrath Nicol is in effective control of the business and has sought to sell the NZ business through an Expression of Interest campaign. AET owns 60 centres in New Zealand which represents approximately $42.2m in capital value or 9% of the AET portfolio.

Guidance provided by McGrath Nicol was that a formal sales process for ABC NZ's business and leasehold interests was expected to be completed before 30 June 2009. It is now our expectation that this may now extend into the second half of 2009.

AET is currently involved in the sales process to ensure that the new tenant (or tenants) represent viable long term operators. AET liaises closely with McGrath Nicol to ensure that the terms of the leases and lease transfer requirements, should they be required, are met. In the meantime, rent continues to be paid on a monthly basis for the childcare centres.

5. Sales & Leasing Program

In March 2009, AET entered into a sale and leasing program to find solutions for closed childcare centres that ABC, through the benefit of the Receiver's moratorium period, had exited together with development sites that had been purchased for the development of new ABC childcare centres. In both instances, the Receiver has disclaimed the leases and the agreement for leases which otherwise bound ABC to the properties.

(a) Closed Centres

<u>Sale Outcomes:</u>

To date, AET has entered into arrangements to sell 13 existing childcare centres for a total value of $10.7m. Three sales remain conditional, but management believe that the conditional terms can be satisfied by the respective purchasers. The terms of the sales are typically based around a 10% deposit with cash settlements within 60 days.

Sales to date have returned 103% of the original (pre 31 December 2008) book values assigned to those centres. The sales were conducted on a vacant possession basis with no operating business or chattels present. The sale results would otherwise have been closer to approximately 107% of original book value if not for significant markdowns in value to reflect incomplete ABC refurbishment works at two centres.

AET's book value for the sale properties, originally assessed by independent valuation, were then considered on a going concern basis, assuming an operational and solvent childcare centre tenant in ABC. The majority of those valuations were undertaken in 2007 and 2008.

A number of sale negotiations are active. AET estimates that for all of the closed centres it expects to sell or has sold, it should achieve approximately 88% of its pre-impairment book value, before sale costs.

Over the 2009 financial year, AET has also sold four other properties, all prior to the failure of ABC, for total proceeds of $7.9m, providing a profit over book value of approximately $1.3m or 21% after sale costs.

The sales are a very good outcome for AET in what is the most difficult real estate environment since the last recession. The sales highlight the strength of the secondary market for childcare centres and provide a significant weight of current evidence to support the underlying values of AET's assets.

Leasing Outcomes:

AET has entered into arrangements to lease four centres with active discussions being held on nine more. Of those four, headline rental levels either close to or higher than the preceding ABC rental level has been achieved. Concessions have been minimal and in a similar outcome to the ABC2 process, rental guarantees have been negotiated as additional security. A similar result is expected for the remaining centres currently being considered for lease.

(b) Development Sites

A program to dispose of the development sites has been run concurrently with that for the existing childcare centres. The development sites program is indicative of the general market place for land where conditions are significantly harder through a lack of development activity and availability of finance for development property.

To date, three sites have been sold for approximately $4.6m. This is in excess of book value (+7%) however, this may prove to be misrepresentative of the overall outcome expected for the development sites. There are 20 development sites in total in Australia and ten in New Zealand that AET is looking to sell with an overall book value of $21.8m. It is expected that AET will suffer a loss on these sites, expected to be in the vicinity of 25%, the direct result of the loss of development activity and the previous value assigned to the agreements to lease with ABC, which have now fallen away.

6. Current Centre Summary

With ABC2 nearing its conclusion and after the sales and leasing activity, an update as to the composition of the AET portfolio(1) is as follows:

	Number of Centres	% of Total Number of Centres	Carrying Value $m's (31 Dec 2008)	Previous Rent (pa) $m's	Ongoing Current Rent (pa) $m's
Operating Properties					
ABC 1 (under the control of McGrath Nicol)	203	46.2%	228.0	20.4	20.4
ABC New Zealand (not in Administration)	60	13.7%	42.2	3.6	3.6
ABC 2 – Leases assigned (2)	67	15.3%	75.4	6.7	6.7
ABC 2 (under the control of PPB) – Leases likely to be assigned	11	2.5%	12.9	1.1	1.1
ABC 2 (under the control of PPB) – Closed / Likely to Close	9	2.1%	8.4	0.7	-
ABC 2 – Sold	2	0.5%	1.5	0.1	-
Non ABC Centres	16	3.6%	14.6	1.3	1.3
ABC/NELC Centres (under the control of McGrath Nicol)	8	1.8%	8.8	0.8	0.8
Closed Centres					
Centres Sold (3)	13	3.0%	10.5	1.0	-
Centres Expected to be Sold	7	1.6%	4.1	0.4	-
Centres Leased	4	0.9%	7.0	0.6	0.6
Centres Expected to be Leased (2)	9	2.1%	6.7	0.6	0.6
Development Sites					
Australia (4)	20	4.6%	21.8	-	-
New Zealand (4)	10	2.3%	5.5	-	-
Total	**439**		**447.4**	**37.3**	**35.1**

(1) There have been some classification adjustments made from the previous announcement on 27 February 2009
(2) Prior to any rental incentives
(3) Includes Conditional Sales
(4) Site rental received prior to ABC receivership

7. Debt Funding /Financial Charges Ratio

As detailed in AET's previous announcements, management has entered into a standstill arrangement with its debt providers to reflect the non-compliance with its Financial Charges Ratio (FCR) as at 31 December 2008. This arrangement has been extended through to 30 June 2009. AET has entered into discussions regarding a longer term arrangement with its financiers that will reduce the frequency of the standstill agreements in the short term.

The ASX announcement of 27 February 2009 indicated that AET was unlikely to meet its FCR for the period to 30 June 2009. Subject to final auditing, this now appears to be the case, as a direct result of lost rental income and significant non-recurring expenses due to ABC's failure.

All debt providers continue to be supportive of AET's strategy in dealing with ABC's failure. The expectation is of a period of stability around late 2009 but this will be largely dependant upon the progress of the ABC1 business sale. The ABC2 program is now close to finalisation and with further activity expected in the sales and leasing programs, AET's position is expected to strengthen as current non-income producing assets are minimised and debt repaid as appropriate.

AET's debt facility agreements are currently ABC specific and will need to be restructured to reflect the changing nature of the income base amongst other changes.

8. Distribution

In February 2009 AET announced that it would make an announcement in June regarding the June quarter distribution once the outcome of the sale program, ABC2 and ABC1 were better understood. At this point in time, the Directors have resolved to continue the suspension of distributions for at least the June quarter.

This decision is consistent with AET's stated policy of conserving cash resources as well as building a stronger balance sheet to provide a suitable defence to future challenges that may arise with the sale of ABC1.

The purpose of the suspension has been to retain and build where possible cash reserves to provide against further potential negative events should they occur whilst ABC remains in Receivership. These external events and any impact on AET cannot be predicted however, prudent policy as well as recent experience on ABC2 dictates that the defensive stance is the prudent and correct one.

Due to the uncertainty regarding the completion of the ABC1 process, the Directors believe that an ongoing suspension of the distributions is required.

As a means of measuring performance, had the distribution been payable, initial estimates, subject to the full year audit would have provided a distribution of approximately 6 cents per unit, consistent with the most recent guidance.

9. Outlook

AET's strategy in dealing with the failure of ABC has been to systematically address each risk component with a view to minimising the long term downside to AET's unitholders. This needed to be achieved whilst maintaining a strong balance sheet to allow for unforseen or negative outcomes.

Although there have been some success and positive signs in diminishing the risk created by ABC's failure and poor general economic conditions, a level of risk remains regarding the successful completion of the ABC1 sale.

AET expects to have new multiple tenants who represent viable long term childcare operators as a result of the ABC 2/PPB and ABC New Zealand sales process. Previous guidance indicated that management expected a stronger outlook by 30 June 2009. With a sale of ABC1 potentially not concluding until early in 2010, we are unable to provide any greater certainty on new tenants for ABC1 at this time. We do believe however, that the completion of the ABC2 process and the selling and re-leasing of closed centres provides significant confidence in AET's strength, particularly from an underlying asset value perspective. Although the ultimate outcome of ABC1 is uncertain, the economic risk associated with ABC1 leases should be less than was faced for ABC2.

The Directors are focused on ensuring the best possible long term result can be achieved out of the externally managed ABC1 and New Zealand sale processes and Management continues to play as active a role as possible in protecting the interests of the Unitholders.

The outlook for the future is for further challenging market conditions given the general economic climate, but with a view to a return to a sustainable distribution model that AET enjoyed prior to ABC's demise, but now potentially with a diversified tenant base and income stream. The long term leasing model adopted by AET remains relevant.

Management continues to take a proactive position in relation to all matters surrounding ABC. Assuming a static portfolio with no forecast acquisition activity and barring further unforeseen circumstances, management envisages a return to a more stable environment for AET in early 2010.

Management will provide further updates to the market once matters progress in relation to pertinent items noted.

Nick Anagnostou
Director / Fund Manger

Lula Liossi
Investor Relations Manager
+61 3 8601 2668