

8th January 2009

## Austock Childcare Fund Update – Temporary Suspension of Quarterly Distribution

The Austock Childcare Fund (ACF) provides the following update to its previous announcements relating to its exposure to ABC Learning Centres Limited (Administrators Appointed) (Receivers and Managers Appointed) and a number of its subsidiaries (ABC).

### Update on the Receivership and Appointment of a Second Receiver

ABC Learning Centres Limited (ABC), which is the tenant of 26 childcare centres owned by ACF and related entities of ABC, were placed into receivership and under voluntary administration on 6 November 2008. The entire Australian ABC entity was placed in the control of ABC's Banking Syndicate's appointed Receiver, McGrath Nicol to oversee the business operations.

The involvement of the Federal Government has seen the ABC group split into two entities for the purposes of the Receivership. ABC1, under the control of McGrath Nicol will continue to operate the business which includes approximately 720 ABC centres. A court appointed Receiver, PPB now controls the operations of ABC2 which are the 241 government supported centres whose operations have been extended to 31 March 2009.

ACF's management is now in discussions with both Receivers and the Federal Government to best protect and negotiate an outcome in the best interests of ACF's unitholders. These discussions are ongoing and to date have not yet revealed any significant form of long term certainty around the future of ABC that the Fund can be reliant upon.

### Impact of ABC Being Placed into Voluntary Administration & Receivership

As at 30 June 2008, the 26 childcare centres represented approximately 83% of ACF's total assets and annual rental income. ABC typically pays rent monthly in advance to ACF and this rent together with the recovery of property expenses otherwise provided for under the lease agreements has been disrupted since the appointment of the Receiver.

Under the terms of ACF's leases with ABC, the appointment of the Receivers and Administrators constitutes an immediate event of default which would ordinarily allow ACF to terminate the leases and re-enter into possession of the childcare centres. However, during the voluntary administration period, the *Corporations Act 2001* confers a statutory moratorium in favour of ABC. This has the effect of preventing ACF from terminating the leases or entering into possession of the centres without the consent of the Administrators or the leave of the court.

As noted in the table below, the Receiver has to date formally indicated that it no longer wishes to occupy two centres and has stopped all rental payments for those properties. In accordance with the provisions of the *Corporations Act 2001*, the Receiver has the ability to provide further notices to ACF of other centres not yet identified where it wishes to terminate the leases (should this occur, ACF will issue an appropriate update). This provides for greater uncertainty and it should not be assumed that the short term income producing abilities of only two ACF centres are at risk at this point in time.

### Impact on ACF

The most previous correspondence of 15 December 2008 indicated that 10 centres would remain under the ABC1 entity, that seven were under the ABC2 entity and that seven centres within ACF's portfolio remained unaccounted for. As previously noted, Management has written to the Receiver, McGrath Nicol, requesting that the unaccounted for centres be addressed. To date, we have not received a response to these queries.

Our enquiries and investigations reveal the previous lists provided by the Receiver to contain errors in the description of centres as well as some centres not appearing on either the 'ABC1' or 'ABC2' list. Utilising the most up to date information available and through our own enquiries, the post receivership profile of the 26 ABC centres in the ACF portfolio, subject to the Receivers confirmation, is understood to be as follows:

Item	Category	No. (Change from previous in brackets)
1	Confirmed centres to remain open under the McGrath Nicol 'ABC1' receivership	11 (+1)
2	Confirmed centres to remain open until 31 March under the PPB 'ABC2' government directed receivership	7 (0)
3	Centres that have been closed by the Receiver	2 (0)
4	Unaccounted for centres	6* (-1)
5	Add Non-ABC centres	5 (0)
	<b>Total</b>	<b>31 (0)</b>

\* Rental income not received for two of the six 'unaccounted for' centres in addition to the Closed Centres

Once the Receiver has confirmed the status of the unaccounted for centres, we will provide a further update.

The high level of uncertainty which currently surrounds ABC and how it might impact on ACF can be summarised into three key areas:

- Four centres (Item 3 & part 4) close and rental and income ceases until another appropriate tenant can be installed;
- Up to seven centres cease providing income from 31 March 2009 (Item 2) until another appropriate tenant can be installed; and
- Further uncertainty regarding the 'unaccounted for' centres remains.

The Receivership event has negatively impacted on the earnings of the Fund through a loss of existing and previously forecast future income through the closure of 2 ACF centres and non payment of rent on a further two centres. We have assumed that these later two centres will also close.



In addition, unpaid property expenses, payable by ABC in the pre-administration period, remained outstanding. The Fund ultimately incurred these expenses in its capacity as landowner. These broadly relate to State Land Tax (partial), Council Rates and Taxes and other property related holding expenses that would otherwise have been recoverable from, or paid by ABC under the lease agreements. These additional expenses, together with the uncertainty regarding the future of ABC and specifically ACF's leases to ABC have in Management's view lead to the adoption of a conservative policy on distributions where the December quarter distribution will be suspended at least until 31 March 2009 when ACF's environment may be better understood.

This conservative position reflects the current challenging economic times and we believe it to be in the best interests of ACF and its unitholders.

The purpose of the suspension is to retain and build where possible cash reserves to provide against further potential negative events should they occur whilst ABC remains in Receivership. You may be aware that as a result of ABC's problems, other childcare groups have also fallen into financial difficulties, including CFK, 123 Global and LaLiberte, all of whom are now in liquidation. Although ACF has no direct exposure to these particular groups, there is considerable uncertainty in the sector which could indirectly impact on ACF in some form. These external events and any impact on ACF cannot be predicted however, prudent policy dictates that a defensive stance should be adopted.

Suspension of the distribution will strengthen ACF's financial position (assuming rent continues to be paid under the remaining operating centres) and will improve ACF's ability to meet future challenges and costs which may eventuate as a result of ABC's Receivership.

Importantly, the suspension of the distribution should not be interpreted as a cancellation of the distribution. It is a pre-emptive and defensive position by which the longer term interests of the fund and its unit holders are better protected. A re-forecast of ACF's position once greater certainty returns will allow for the resumption of distributions including any accrued distributions that remain.

#### **Overview – ACF's Childcare Centres**

No of Centres	31 of which 26 are ABC tenanted
Geographic Spread – No of Centres	Queensland 28, South Australia 3
Current Book Value	\$33.37 million
Current Debt	\$13.76 million
Loan to Value Ratio	41.3%

#### **Sale and Leasing Campaign**

Management have embarked upon a leasing and or sales process for the vacant centres with a view to releasing them or where appropriate selling the assets should this present itself as the most advantageous outcome. Sale proceeds would be used to reduce debt. There has been a good level of interest in the centres to date.



## **ABC in Administration**

In relation to the appointment of an Administrator and Receiver to ABC, the Fund is represented on the ABC Committee of Creditors. The Fund will lodge a claim as appropriate for losses incurred in the pre-administration period.

## **Further Updates**

Management will provide further updates to the market once it has progressed its discussions with the Receivers and the Federal Government.

ACF Fund Updates will be uploaded on ACF's website and will also be sent to unitholders who have provided their email address. We are committed to keeping ACF's investors well informed and update our website as often as possible. We strongly encourage unitholders and advisors who have not provided their e-mail address details to do so by sending them to [lliossi@austock.com](mailto:lliossi@austock.com)

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