

30 June 2009

Austock Childcare Fund – Unitholder Update

The Directors of Austock Property Management Limited (APML), the responsible entity of the Austock Childcare Fund (ACF) provides the following update 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; ACF's leasing and sales activities; the outcome of the ABC2 leasing program; ACF's discussions with the Receivers of ABC Learning Centres Limited; distributions and outlook.

1. Key Summary

- Six of seven centres have successfully transferred as part of ABC2; one transaction is yet to be finally documented, but is expected to be completed in the immediate future;
- ABC Receivership may extend for significantly longer than initially expected into 2010;
- A preliminary distribution for the year cannot yet be determined, subject to the outcome of negotiations with a tenant and the final audit of the fund. On completion of these events, a final distribution calculation will be undertaken; and
- Three centres have been sold as part of the sale and leasing program

2. ABC2

ABC2 centres are those childcare centres placed under the control of PPB, the Court Appointed Receiver (CAR), since 1 January 2009. ACF owned 7 centres within this category. These centres represent annualised rental of \$0.7m p.a. and 23% of the ACF portfolio.

Consistent with the previous unitholder update, Management is now able to confirm the outcome of the ABC2 process now that documentation has been finalised in almost all cases. This has taken longer than would otherwise have been considered timely and has delayed the announcement to unitholders as a result. Management's view was that to release data regarding the fund and the ABC2 process at an earlier date may have been detrimental to our negotiations for ABC2.

ACF has secured new operators for all seven¹ centres, 5 through an assignment of the existing leases and two new lease agreements. Those leases have now been assigned to three individual entities; the largest operator is Leading Childcare Pty Ltd.

ACF 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 for six of seven leases;
- Minimising rental downtime;
- Strengthening its security position through rental guarantees; and
- Using the opportunity to add diversity to the tenant base.

Minor rental concessions were required in two instances. The rental concessions are equivalent to ~4 month's rental across ACF's ABC2 properties. The concessions end in 2009 and amount to approximate \$48,740; 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). A rent reduction was required for one centre of approximately \$17k p.a. to attract a new tenant.

¹ One transaction for 1 ACF centre is yet to be finally documented but this is expected to be completed early in July.



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 ACF owns 11 centres or 2%. These operations continue under the control of the Receiver McGrath Nicol and the Administrator, Ferrier Hodgson.

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.

ACF 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 ACF.

Based on the decision by the Receivers to keep the centres in ABC1 operating in preparation for sale, ACF 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 solution for ACF.

4. Sales & Leasing Program

In March 2009, ACF 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. The Receiver disclaimed the leases which otherwise bound ABC to the properties.

(a) Closed Centres

To date, ACF has sold three existing childcare centres for a total value of \$2.45m. In addition, two smaller centres are currently under offer with proceeds expected to be approximately \$800k. ACF offered the properties as part of a national for sale or lease program, allowing for the highest value to be obtained, either through income (lease) or capital value (sale). The program was instigated in this format to ensure that a centre could be re-leased as a means of maintaining capital value. The sales were conducted on a vacant possession basis with no operating business or chattels present.

All of these properties have been disclaimed by the Receiver and represents the lower quartile of the ACF portfolio. The sales will return a loss in comparison to book value for the fund as a direct result of the following factors:

- The centres disclaimed were of an older style and required significant upgrading works to maintain value on a vacant possession basis;
- These older centres were more reliant on the ABC lease covenant to maintain capital value, than underlying land and building value; and
- There appears to be an oversupply situation in some areas that has impacted on demand and value.

Accordingly, the loss of the ABC covenant has resulted in significant capital value losses (from book value) in order to achieve sales at market levels. The ABC covenant had been recently renewed for a ten year term in 2008, immediately prior to the last valuation, and accordingly, was a significant factor in the assessment of value. Based on market conditions, the value ultimately achievable for the remaining ACF sites will be representative in those instances of Alternative Use Value. Management has procured further valuations to better recognise alternate use values in these instances.



The key area affecting ACF is Bundaberg, Nth Queensland where an over supply of childcare centres, reduced demand and ABC's poor overall operating performance has seen limited demand for the three sites. One property has been sold at close to book value with two more to be sold at significant discounts to historical book values, reflecting their older style and vacant possession nature.

The net proceeds from the sales will be utilised to reduce debt.

5. Current Centre Summary

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

	Number of Centres	% of Total Number of Centres	Carrying Value \$000's (31 Dec 2008)	Previous Rent (pa) \$000's	Ongoing Current Rent (pa) \$000's
Operating Properties					
ABC 1 (under the control of McGrath Nicol)	11	34.4	12,290	1,014	1,014
ABC 2 – Leases assigned / New Leases	6	18.8	6,470	559	559
ABC 2 (under the control of PPB) – Lease assignment under negotiation	1	3.1	1,220	98	98
Non ABC Centres	4	12.5	4,600	378	378
Non ABC Centres sold	1	3.1	1,080	96	-
ABC/NELC Centres (under the control of McGrath Nicol)	2	6.3	2,360	192	192
Closed Centres					
Centres Sold	2	9.4	2,190	186	-
Centres Under Offer to be Sold	2	6.3	1,560	130	-
Centres Under Offer to be Leased	1	3.1	800	70	70
Centres Available to be Sold or leased	1	3.1	630	55	-
Total	31	100.0	33,200	2,778	2,241

6. Distribution

In March 2009, ACF 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 postponed the decision regarding the final distribution for the June quarter. This is a result of uncertainty regarding the outcome of negotiations with a tenant with respect to a lease termination payment for one property and unpaid rent on another two properties. If a satisfactory outcome is achieved by ACF, a final distribution, subject to final audit, may be made of approximately 2.0 cents per unit. This would bring the total distributions for the year ending 30 June 2009 to approximately 4 cents. It is unfortunate that these external circumstances have not allowed ACF to be more definite regarding distributions.

However, if a satisfactory outcome is not achieved in negotiations with the tenant, it will be likely that there will not be a final distribution. The final outcome should be known by the end of August 2009, although we will endeavour to advise you as soon as possible. The Directors are acutely aware of the importance of the distribution to the unitholders, particularly for self funded retirees whose reliance on the income flow is generally greater, particularly in the current economic environment.

With respect to future distributions, due to the uncertainty regarding the completion of the ABC1 process, the Directors believe that a suspension of the distributions may be likely to occur again in the future. This is based on ACF'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. Management will advise of its decision regarding further distributions in September 2009.

These external events and any impact on ACF cannot be predicted however, prudent policy as well as recent experience on ABC2 dictates that the defensive stance is the prudent and correct one.



7. Outlook

ACF'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 ACF's unitholders. To date, the ABC2 risk appears to have been mitigated. This needed to be achieved whilst maintaining a strong balance sheet to allow for unforeseen 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.

ACF expects to have new multiple tenants who represent viable long term childcare operators as a result of the ABC 2/PPB 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. 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 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, the unknown outcome of ABC1.

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 ACF in early 2010.

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

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