

16 March 2008

## Results for the Half Year Ended 31 December 2008

The Directors of the Responsible Entity, Austock Funds Management Limited (“AFML”) present a summary of the financial results of The Australian Social Infrastructure Fund (“ASIF”) for the half year ended 31 December 2008. A complete copy of ASIF’s 31 December 2008 audit reviewed accounts is available at [www.asifund.com.au](http://www.asifund.com.au).

### Financial Highlights

The result for the half year to 31 December 2008 was a net loss of \$11.4 million. Excluding the impact of the total impairment charges of \$13.7 million ASIF delivered a distributable profit of \$2.3 million compared to a net profit of \$2.5 million in the 2007 corresponding period. ASIF’s distributable profit for the six months ending 31 December 2008 decreases to \$0.009 million when the \$2.3 million impairment attributable to the Api Fund loan is treated as a realised loss. The loss on the Api loan became a realised loss in March 2009 when the loan was fully discharged.

The table below provides a comparison of ASIF’s results for the half year ended 31 December 2008 and the previous corresponding half year:

<b>\$'000</b>	<b>31 Dec 2008</b>	<b>31Dec 2007</b>
<b>Revenue</b>		
Lease income	4,139	4,174
Distributions/Dividend income	652	342
Interest income	1,042	45
Outgoings reimbursement	44	378
Changes in fair value of investment properties	135	1,992
Net gain on disposal of investment property	-	170
Other income	29	-
<b>Total revenue</b>	<b>6,041</b>	<b>7,101</b>
<b>Expenses</b>		
Finance costs	2,682	1,411
Impairment of Api loan	2,279	-
Impairment of financial assets held at fair value through profit or loss	8,370	-
Impairment of investment properties	3,183	-
Other expenses from ordinary activities	213	192
Outgoings reimbursement	44	378
Impairment of trade and other receivables	25	-
Responsible entity’s remuneration	684	615
<b>Total expenses</b>	<b>17,480</b>	<b>2,596</b>
<b>Net profit/(loss) attributable to unitholders</b>	<b>(11,439)</b>	<b>4,505</b>
Distributions to unitholders	(626)	(3,297)
<b>Total changes in net assets attributable to unitholders</b>	<b>(12,065)</b>	<b>1,208</b>
<b>Earnings per unit</b>	<b>cents</b>	<b>cents</b>
Basic earnings per unit	(40.21)	15.84
Diluted earnings per unit	(40.21)	15.84
Distributable earnings per unit	0.03	8.95



## Portfolio

The table below summarises ASIF's current investment portfolio and net tangible asset calculation as at 31 December 2008 and the previous corresponding half year:

(\$000's)	31 Dec 2008	30 June 2008
Investment Properties	95,744	98,774
Securities		
School Development Trusts	3,457	11,827
CIB Fund	6,981	6,981
Other Listed Securities	9,087	-
Other Unlisted Securities	6,588	-
Other Assets	3,422	21,682
<b>Total Gross Assets</b>	<b>125,279</b>	<b>139,264</b>
Borrowings	59,009	58,991
Other Liabilities	1,401	1,898
<b>Net Equity</b>	<b>64,869</b>	<b>78,375</b>
Number of units on Issue	28,450	28,450
NTA per unit (\$)	2.28	2.75

## Debt Funding

ASIF has a \$64 million debt facility with the National Australia Bank (NAB) which is due to expire on 30 June 2010. As at 31 December 2008 the debt facility was drawn to \$59.4 million. The interest rate payable on the debt is variable and has varied between 4.6% and 7.6% excluding the NAB's margin over the 6 month period ending 31 December 2008. In August 2008 the NAB increased its margin on the bank debt from 1.4% to 1.75%. The NAB further increased its margin to 3% in February 2009.

## Childcare Centres

ASIF's 56 childcare centres were leased to ABC Learning Centres Limited ("ABC"). ABC was placed into receivership on 6 November 2008. Since that time, the centres have been split into various categories as follows:

	No of Childcare Centres	Carrying Value \$000's	Current Rent (pa) \$000's
<b>Operating Properties</b>			
ABC 1 (under the control of McGrath Nicol)	42	62,060	5,524
ABC 2 (under the control of PPB)	7	9,115	816
ABC/NELC Centres (under the control of McGrath Nicol)	1	1,400	121
<b>Closed Centres</b>	6	8,955	845
<b>Total Child Care Centre Properties</b>	<b>56</b>	<b>81,530</b>	<b>7,306</b>

### **ABC 1**

ABC 1 centres remain under the control of McGrath Nicol (ABC Receiver). The 42 ABC 1 centres owned by ASIF form part of 720 centres that continue to be operated by ABC. It is understood that McGrath Nicol will embark on a sales process for these centres around mid 2009. The sales process will likely be for the business and require an assignment of existing leases. ASIF has established a commercial business relationship with McGrath Nicol and rent and recoverable expenses continue to be paid on a monthly basis.

### **ABC 2**

ABC 2 centres are under control of PPB (the Court approved receiver). These centres were initially funded by the Federal Government until 31 March 2009. On 26 February 2009, PPB announced that 180 binding offers had been received for the 241 centres under their control. We understand that each offer may include more than one centre. We are working closely with PPB to ensure that the new tenant (or tenants) represent viable long term operators. On 13 March 2009, the Federal Government announced that it would extend its funding support for these centres until 15 May 2009. PPB are conducting a formal sales process for the business and leasehold interests which was initially scheduled to be completed by 31 March 2009. As part of the 13 March 2009 announcement PPB has undertaken to announce the final outcome for all centres no later than 15 April 2009. Rent for these centres has been received until 31 March 2009.

### **ABC / Neighbourhood Early Learning Centres Pty Ltd (“NELC”)**

The one ABC/NELC centre is leased to ABC and managed by NELC. On 19 February 2009, McGrath Nicol requested an assignment of this lease to Bright Horizons Australia Childcare Pty Ltd (“BHAC”), a related entity of NELC. We are currently liaising with BHAC to ensure they represent a viable long term operator. In the meantime, rent continues to be paid on a monthly basis.

### **Closed Centres**

These 6 centres have been closed as a result of ABC being placed into receivership on 6 November 2008. ASIF has appointed Jones Lang LaSalle (“JLL”) to manage an Expressions of Interest (“EOI”) process to invite interest from prospective buyers or tenants for 5 of the closed centres. EOIs close on 25 March 2009. The sixth centre is not part of the EOI campaign as it was substantially damaged by fire and is currently being rebuilt. The book value of the 5 centres to be sold or leased is approximately \$7.4 million. Based on unsolicited interest received prior to the appointment of JLL from both prospective purchasers and tenants, ASIF is hopeful of realising book values or maintaining existing rents. No rent is being received for these centres. The annual rent on these centres was approximately \$845,000 per annum. The proceeds from sale of these properties will be used to pay down debt.

ASIF’s consent is required prior to any leases being assigned to alternative operators.

### **Repayment of Api Loan**

The \$20 million loan from ASIF to Api was due to be repaid not later than 31 December 2008. The loan was repaid via the transfer of all the securities owned by Api to ASIF. The prices at which the securities were transferred was determined by Grant Thornton acting as an independent expert. Grant Thornton valued all of Api’s securities at a total value of \$18 million. As a result, ASIF became entitled to acquire all of the securities owned by Api. As the total value of Api’s investments was less than \$20 million owed, ASIF incurred a loss of approximately \$2 million on repayment of the loan. Api also failed to pay ASIF approximately \$0.3 million in interest which increased ASIF’s total loss to \$2.3 million. The loss is reflected as an impairment in ASIF’s 31 December 2008 accounts as the loan had not been fully discharged by 31 December 2008. The loan was fully discharged by 9 March 2009 and as a result the loss of \$2.3 million became a realised loss.



### **ASIF's Investment in Schools**

ASIF has investments in three School Development Trusts ("SDTs"). The SDTs were formed to acquire and develop three private schools. Two of the schools being Casey and Melton have been completed and are currently operating. The third school being Penrith was not constructed and currently comprises a vacant parcel of land. ASIF's total investment in the three SDTs was \$11.8 million.

Considerable attention has been given to the fair value of these investments as at 31 December 2008. In assessing the fair value of ASIF's investment in the three SDTs, the following factors have been considered:

- the current declining economic environment;
- the current tenants inability to raise ongoing working capital impacting its ability to pay rent;
- general increase in property yields and investors current adversity to risk;
- the age of the valuations adopted by the SDTs; and
- a key assumption in the June 2007 valuations that the tenant was well capitalised and able to meet its rent and operating cost obligations has not been met.

Based on this review an impairment charge of \$8.4 million (71%) has been made against ASIF's investment in the SDTs which reduces the fair value of ASIF's investments in the SDTs to \$3.5 million.

Given the specialised nature of schools and the current state of the general economic climate, the value of the schools is likely to be maximised by finding an alternative well capitalised lessee. The continued operation of the schools should enhance the schools appeal to alternative lessees and assist in securing an alternative lessee on the best possible terms. There are current ongoing discussions with alternative school lessees.

### **Investment Properties**

Investment properties are measured at fair value and revalued on a regular basis to ensure the carrying amount of each property does not differ materially from its fair value at the balance date. Consistent with the requirement to independently value each property on a regular basis each property is independently valued every two years. The valuations are undertaken on an annual rolling basis. In the first half of 2008 ASIF had 14 properties revalued with a further 4 properties revalued in July 2008. Additional valuations will be undertaken during the six month period ending 30 June 2009.

Having regard to the current economic circumstances, considerable attention has been given to the fair value of ASIF's investment properties as at 31 December 2008. In assessing the current carrying value of ASIF's investment properties, consideration has been given to the following factors:

- ASIF's current weighted average property yield is 8.43% per annum.
- Independent expert guidance (in lieu of valuations) on current property yields and market rents for the childcare centres owned by ASIF. This guidance has indicated that there is an expectation that yields may have softened over the last 6 months.
- That ASIF's major tenant, ABC is in receivership.
- That since the last valuations, passing rentals have increased in accordance with the leases by approximately 4% pa, which has the effect of partially offsetting any upward movement in yields.
- Significant interest being expressed in the leaseholds being offered in the ABC 2/PPB EOI process for 241 ABC centres and the 43 centres that are currently being marketed for sale or lease by Jones Lang LaSalle.
- The leases are long term and not subject to any substantial variations in rent as found in more traditional commercial markets.



- The average carrying value per property is around \$1.4 million and ASIF's properties are within a price range that remains relatively liquid with continued purchase activity.
- The "property risk premium" above the 10 year Treasury Bond Rate has increased significantly since June 2008.

Based on this review an impairment charge of \$3.2 million has been made. During the second half, the outcome of both the ABC2/PPB process and the sale/leasing campaign of 5 of the ASIF's centres will be known. The results of these processes combined with ASIF's normal annual valuation process will provide more precise data in determining any adjustments required to the fair value of ASIF's investment properties at 30 June 2009.

### **Distribution**

Total distributions paid for the half year ended 31 December 2008 was 2.20 cpu (2007: 11.59 cpu). Distributions were paid for the months of August and September 2008 at a rate of 1.1 cpu per month. ASIF's distribution is currently suspended and as outlined in our letter dated 3 February 2009, ASIF's distribution policy will be reviewed in April 2009 when it is expected there will be greater clarity around the future of ABC and ASIF's childcare centres.

The purpose of suspending distributions is to retain and build where possible cash reserves and to provide against further potential negative events should they occur whilst ABC remains in receivership. These external events and any impact on ASIF cannot be predicted however, prudent policy dictates that a defensive stance should be adopted.

### **Outlook**

ASIF is currently restructuring to reflect the challenging economic environment and changes incurred as a direct result of ASIF's major tenant ABC being placed in receivership. Management is focused on repositioning ASIF to ensure that its underlying value is maximised over the medium to long term.

The information contained in this release should be read in conjunction with ASIF's Half-Year Financial Report as at 31 December 2008 which is available for download from ASIF's website at [http://www.asifund.com.au/reports\\_publications/half\\_year\\_financials.aspx](http://www.asifund.com.au/reports_publications/half_year_financials.aspx)

In these challenging times, management has implemented cost-saving measures to minimise ASIF's expenditure where possible. As previously advised, ASIF updates will be uploaded on ASIF's website and will also be sent to unitholders via email. We are committed to keeping ASIF's investors well informed and update our website as often as possible. I strongly encourage unitholders and advisors who have not provided their email address details to do so by sending your details to [llossi@austock.com](mailto:llossi@austock.com).

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