

24 May 2010

The Australian Social Infrastructure Fund Update

The Australian Social Infrastructure Fund (ASIF) provides the following update regarding the progress of the transfer of ASIF's 42 ABC1 leases to GoodStart Childcare Limited (GoodStart), extension of its current debt facility which is due to expire on 30 June 2010 and distributions.

ASIF currently owns 51 childcare properties, two commercial properties and has investments in a number of listed and unlisted securities. ASIF's 51 childcare properties can be categorised as follows:

	No of Childcare Properties	Carrying Value \$000's	Comments
ABC1 (under control of ABC Receivers)	42	61,245	New leases to be entered into with GoodStart
Other Childcare Properties	8	9,951	Previously assigned to new operators
Closed Property	1	950	Conditional contract of sale entered into
Total	51	72,146	

1. GoodStart - New Tenant for 42 former ABC1 Childcare Properties

As has been previously highlighted to unitholders ASIF has been negotiating the transfer of 42 ABC1 childcare leases to GoodStart. Following extensive negotiations ASIF has agreed, subject to the completion of documentation and satisfaction by GoodStart and ABC of assignment pre-conditions to enter into 42 new leases with GoodStart for its ABC1 childcare properties. Completion of this process is expected to occur on 28 May 2010.

ASIF has undertaken an extensive assessment of GoodStart, given the operator would be ASIF's largest tenant to ensure the interests of unitholders are adequately protected and to mitigate any future negative events, should they occur. GoodStart which is a not-for-profit organisation is supported and funded by a number of parties including the Federal Government, the National Australia Bank (NAB) as secured lender and several social capital providers. In addition, GoodStart has been granted exemption from payroll tax, income tax, concessional FBT benefits and relief from one off stamp duties in some areas. The value of these benefits to GoodStart is estimated to be approximately \$20m per annum. GoodStart will operate approximately 670 properties under the ABC banner. The four principal not-for-profit members represented on the GoodStart Board of Directors are Mission Australia, The Brotherhood of St Laurence, The Benevolent Society and Social Ventures Australia.

The 42 new leases with GoodStart will essentially be on the same terms and conditions as the existing leases with ABC. An overview of the lease arrangements with GoodStart are as follows:

- Triple net lease structure retained. Pursuant to the triple net structure, all outgoings and costs of repairs and maintenance are to be met by the tenant;
- No incentives, rent holidays or net rent reductions were granted and there has been no variation to the rent review mechanisms. The exception is for 4 properties for which a right to exit after 2 years has been granted to GoodStart; if the properties do not meet GoodStart's performance criteria;



- Addition of a 6 month gross rent pooled bank guarantee (circa \$3.6m). The bank guarantee has been incorporated into each lease, is reviewable annually and includes a portfolio default provision should the collective security due to ASIF be deficient at any time, subject to notice periods. The pooling arrangement allows ASIF to call on the guarantee on any one default up to a maximum of \$750,000 which can be drawn from the pooled guarantee.
- All rental has been paid and will be payable by the Receiver in accordance with the leases until the assignment date, as a precondition to the assignment; and
- Pre-receivership outgoings in relation to the 42 leases to be assigned to GoodStart, unpaid by ABC prior to its collapse, will be recovered in full.

2. Refinancing of Debt

As previously advised, ASIF has commenced discussions with the NAB regarding the extension of its existing debt facility which is due to expire on 30 June 2010. Having regard to:

- ASIF's decision to proceed with the assignment to GoodStart with an expected completion date of 28 May 2010;
- repayment of bank debt by ASIF from a peak of \$59.4 million as at 30 June 2008 to \$49.9 million in April 2010;
- gearing level of 44%;
- sales and valuations confirming the underlying value of ASIF's assets; and
- stabilised market conditions;

ASIF believes it is well placed to negotiate an extension of its debt facility post 30 June 2010.

3. Distributions

A condition of ASIF's debt funding arrangements is that NAB must authorise all distributions to unitholders. The NAB requested that distributions be suspended until the completion of the ABC1 sale and successful transfer of ASIF's 42 ABC1 properties to a new operator. With the transfer expected to complete by the end of May, Management will be seeking NAB's approval to recommence distributions by not later than July 2010. Subject to NAB approval, Management intends to pay a distribution to unitholders for the year ending 30 June 2010. The amount payable will be announced prior to 30 June 2010.

4. Outlook

The successful completion of the transfer of ASIF's ABC1 leases to GoodStart and the negotiation of an extension of its debt facility, both of which are expected to be completed by next month, are seen as positive steps towards recommencing distributions and maximising unitholder value.

Management would like to recognise the support and patience of unitholders during this uncertain period which has extended well beyond expectations.

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