

 **THE AUSTRALIAN**

April 23, 2008 12:36am AEST

## **Eddy's counting not simple as ABC**

MARTIN COLLINS: John Durie | April 23, 2008

**ABC Learning's Eddy Groves has taken giant steps towards restoring some credibility in his empire but the slew of accounting and other changes unveiled yesterday show he has as long way still to travel.**

The company is not the ideal model for Prime Minister Kevin Rudd's one-stop-shop for childhood education.

Once the market gets over the fact that the company - which was to report a profit of at least \$161 million as of April 8 - will now report a loss of at least \$80 million, there is some more digesting to be done.

There is the book loss on the deconsolidation of the US business into the Morgan Stanley joint venture which is costing \$280 million.

This suggests something about the accounting that Eddie used to use.

Those mythical compensation payments from kindergarten developers, which appeared in the latest financial results, have been scrapped.

But the company will still earn a management fee on the projects and book savings in interest costs on any delays in the projects.

The Morgan Stanley deal reduces debt, albeit not by as much as previously planned, and thankfully will not come with the planned dilutive convertible note issue.

This also means the loss of the planned additional \$150 million in quasi-equity and, while myriad property sales are planned, the group's balance sheet is still not pristine.

The whole structure is still subject to bank approval and many moving parts - like the asset sales and possible new bond debt.

James Black, chief financial officer since September 2006, has decided to leave, which might raise some questions and a search.

On the good-news front, a quality chairman, in David Ryan, has been appointed to run the board in the place of Sallyanne Atkinson. And some other long-timers - like Austock's Bill Bessemer and Australian boss Martin Kemp - will step down from the board.

Change is happening for the good but ABC Learning is still on the stable but critical list.

### **Battle ahead for ASX chief**

COMMONWEALTH Bank's Ralph "Malta" Norris's entry into the Australian Securities Exchange debate highlights the battle ahead of ASX boss Rob Elstone.

Norris, like QBE chairman John Cloney, expressed concern that the fundamental conflict between running the exchange and regulating trading risked the market's integrity.

They are both right to point to the conflict, but wrong in their conclusion.

Qantas chief Geoff Dixon doesn't like spending money but if his safety controls fail and planes start falling out of the sky, his business suffers.

The same theory applies to the ASX, but Elstone has the benefit of simply blaming someone else - it's ASIC that has the real power - anyone but the incompetents at the ASX.

ASIC boss Tony D'Aloisio changed the structure of the supervisory board when he ran the ASX to make it independent which, in hindsight, was the wrong move.

If market supervision is fundamental to the ASX then the chief executive should be in charge.

The risk, when high-profile folk like Norris and Cloney start joining the looney-tune brigade and blaming the regulators for everything, is that politicians might panic and increase regulation.

That would help ensure the punters won't make as much money on the next boom.

Thankfully, the present Government's public statements indicate it understands that investing in stocks is risky, and just as you can make money in rising markets you lose it in falling markets.

The latter might show some faults in the regulatory system just as it has highlighted some major problems with corporate models from outfits like Opes prime, and the likes of ABC Learning, Allco, Centro et al, most of which had nothing to do with the regulator.

The Government seems to be delaying decisions on the modifications to the disclosure rules and to the possible opening of more exchange licences until after the upcoming federal budget.

Norris et al could perhaps suggest an alternative to the ASX as the front-line supervisor and one could argue it's not as easy as it looks.

The starting point is for the regulator to regulate and that's where the ASX has failed.

The alternative - creating a new body with control over stockbrokers and fulfilling the basic beat-police role - would ultimately have to deal with the ASX.

Elstone should draw a line in the sand and show that he is capable of handling the conflict by taking full responsibility for regulation, finding a replacement for outgoing supervision boss Eric Mayne and placing some appropriately high-profile heads on sticks to show he is as good as his word.

### **Duo seek a clean \$250m**

LIGHTHOUSE Infrastructure and Viradis Energy are combining to raise \$250 million for a clean-energy development fund.

This is the first new venture from Lighthouse, which was created last year by former Hastings boss Mitch King and Deutsche Bank's Clinton Wood.

Viradis is already in the clean-energy space for existing projects so the new venture takes them into development and pre-commercial activities.

### **Drill results not so flash**

THE Nexus-Anzon marriage has had more twists than a second rate soap opera and it seems another one is coming with expectations running high, suggesting that any deal will have to be on substantially revised terms.

The reason being that the much-trumped Anzon Basker Manter field is not looking as good as previously expected and, if so, reserve estimates will have to be downgraded materially.

Anzon is trading at around \$1.40 a share and Nexus at \$1.48 a share ahead of an announced bid price of \$1.75 which, at last look, simply won't be happening.

Nexus owns 20 per cent of Anzon and of course Anzon last year bid for Nexus.

The deal was first announced in late January, has travelled through the scheme of arrangement processes and simply needs final shareholder approval before getting the final court tick of approval.

Trouble is, the meeting has been adjourned because the last drilling results were not flash and the folk at Nexus are understandably keen to get a few facts before agreeing to hand over 71c cash per share plus its own stock.

The talk says both sides still want to deal but Nexus wants one on materially different terms if suggestions of a 40 per cent downgrade in reserves are close to the mark.

### **Railroading royalty**

ASCIANO'S Mark Rowsthorn will play host to royalty next week when Prince Sultan Bin Mohammed Bin Saud arrives in Melbourne to check out the Pacific National rail operations.

The Saudi prince is part of the Tarbot consortium which won the Saudi Landbridge concession to build an east-west railroad in the country, with Asciano to take a 5 per cent equity stake for up to \$100 million and then be the operator.

Next week's meetings will be to sign the appropriate forms to formalise the deal.

It also underlines the growing ties between Australia and the Middle East as shown by the recent appointment of NAB's low-profile Australian boss Ahmed Fahour to the board of the Dubai International Finance Exchange and work by the likes of Leighton in the region.

---

*Copyright 2008 News Limited. All times AEST (GMT +10).*