



A.B.C. Learning Centres Limited

ABN 93 079 736 664

Annual Report 2007



WELCOME TO THE MANY FACES OF ABC LEARNING CENTRES

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2006–2007 HIGHLIGHTS

2006–2007 has been a year of significant expansion for the Groups operations:

September 2006 – Acquisition of Children's Courtyard LLP, United States

September 2006 – Acquisition of Hutchison's Child Care Services Limited, Australia

December 2006 – Acquisition of Busy Bees Group Limited, United Kingdom

January 2007 – Acquisition of La Petite Holdings Inc, United States

February 2007 – Acquisition of Forward Steps Holdings Limited, New Zealand

Income \$1,696.4m

+115%

Operating profit after tax \$143.1m

+76%

Earnings per share 36c

+29%

Financial Highlights

	2007	2006	% Change 2006/2007
Income	\$1,696.4m	\$790.8m	115
Operating profit after tax	\$143.1m	\$81.5m	76
Earnings per share – basic	36.0 cents	27.8 cents	29
Final dividend – fully franked	9.0 cents	8.0 cents	13
Full year dividend – fully franked	17.0 cents	15.0 cents	13

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AMANDA
4 YEARS OLD
TUTOR TIME
FARMINGTON HILLS
MICHIGAN
UNITED STATES

CHAIRMAN'S REPORT

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This has been a milestone year for your Company. It's been a period where we expanded significantly through major acquisitions in the United States and the United Kingdom.

ABC Learning is now a truly international organisation at the forefront of providing quality educational and development care for children around the world. This is a remarkable record considering the business first listed with just 43 centres in 2001.

While this is a rapid expansion in anyone's terms, our international acquisition program has been part of a considered strategy to grow the business in our chosen markets where we can add significant value.

That has been one of the hallmarks of our success: thoroughly researching opportunities and then undertaking acquisitions, both in Australia and overseas, that are in the best long-term interests of our shareholders and, of course, the children entrusted into our care.

Since listing, we have now successfully completed several strategic acquisitions, which have all contributed to the incremental growth of the Company. To help fund our recent expansion we raised over \$1 billion in additional capital, which has delivered the added benefit of adding further respected institutions to our share register to support our growth opportunities.

With the acquisition of La Petite, we now have over 1,015 centres throughout the US. This market is 15 times larger than the Australian market and represents a major opportunity for us. The US is also similar to Australia in terms of the demographics: women are now better educated, more career

focused and are delaying having families, which is increasing demand for quality childcare services.

The US Government has recognised this demand and is making further financial commitments in the area of childcare, which creates greater opportunities for us to grow our business further.

While there are similarities to the Australian market it is important that we recognise the unique cultural aspects of each of the international markets in which we operate. This is something the Board recognised as particularly important when we visited the US during the year.

Our business strategy must recognise these local issues, which is why, for example, we will maintain the separate identities of the companies we have acquired in the US. The same is true for our business in the UK where we established a presence with the acquisition of Busy Bees.

The year was also a period where we consolidated our strong domestic position in continuing to be the leading provider of quality childcare services across Australia/New Zealand. While we face growth constraints due to our market position, our priority continues to be providing first-rate childcare facilities. Demand continues to be strong as more families look for childcare facilities that are well run and can enhance their children's development.

While it has been a year of exceptional growth for the Company, we must never lose sight of our initial premise, to provide first-rate quality education and care for the children in our centres. The guiding principles upon which the company was founded remain as relevant and important today, no matter how large the Company becomes.

That's why, for example, we have integrated the operational and administrative functions of the business, because it allows our centre staff to focus more of their time in providing an exciting and challenging learning environment for the children.

We are fortunate within our company to have a team of loyal and dedicated staff who have chosen childcare, not just as their job, but also as their vocation. Over the course of the year it has been my privilege to meet a number of our staff in our centres, and I know first hand how dedicated they are at providing the best possible care and education for the children in our centres.

The growing demand for childcare services around the world continues to provide major opportunities for the Company. As in the past, we will assess each one on its merits, mindful they must add shareholder value and also form a logical part of a globally integrated ABC offering.

The Company now enters a period where it is important for us to focus on building on the great achievements we have made. We are focused on driving the benefits and synergies that will come from our various businesses around the world, while recognising the importance of delivering localised services.

On behalf of the Board, I would like to particularly acknowledge the contribution of all staff who make such a valuable contribution to the company, and our shareholders who have supported us. We look forward to another exciting year of achievement.



Sallyanne Atkinson AO
Chairman

CEO's REPORT

Over the past year ABC Learning has made a significant leap in its global expansion strategy, with the key acquisitions of La Petite Academy in the US and Busy Bees in the UK. These investments provide significant growth potential, add geographic diversity to our earnings base and provide considerable opportunities for amalgamation to continue momentum across our various businesses.

We have also continued to grow the business organically and strengthened our operational structure and focus.

Results

This year the Company reported a net profit after tax of A\$143.1 million, up 75.6% on the previous year. The Group's revenues grew to \$1,696.4 million with an EBITDA of \$314.5 million.

The Company also reported an earnings per share of 36 cents.

Further expansion into the US

We announced our largest acquisition to date in the US in December 2006, with the purchase of childcare provider, La Petite Academy. La Petite operates over 600 centres in over 39 states, for children aged from six weeks to 12 years. This was a significant acquisition for the Group and builds on our recent purchases in this market.

The rationale behind this acquisition was relatively straightforward: it provides us with a significant footprint to grow our presence in one of the largest childcare markets in the world. It also enables us to achieve greater synergies through the amalgamation of centres and other initiatives.

We have been carefully building our US presence for the past 18 months as part of a strategy to grow our US earnings.

Our US strategy will also include further regional acquisitions. We will also look to further consolidate our position among our existing brands in the US. Each of our brands occupies a unique position or 'kerb' appeal in the US. They have different price points, location and curriculum programs which enable the business to appeal to a range of different customers in the regions where we operate.

The US expansion can also present different challenges. We were faced with a situation, for example, where only some of the companies we acquired provided health insurance for their staff. We have now addressed this issue and we now provide health insurance for staff in all centres in our portfolio. This helps to reduce staff turnover, which in turn leads to greater occupancy in those centres.

Supporting and developing these different brands, forms the basis of our immediate strategy, while we look to create further efficiencies through amalgamating back office reporting and administration.

Entry into the UK market

The acquisition of Busy Bees in December 2006 gave the company an excellent footprint into the UK market.

The UK holds a number of attractions for us to grow our earnings profile. The market has seen significant growth over the past 10 years, and a number of recent government initiatives are designed to ensure that the childcare market in the UK will continue to expand.

Busy Bees has a network of 35 owned and 12 managed centres and operates an innovative voucher system through its client companies. Under this system, Busy Bees provides tax-efficient childcare vouchers to corporations, which then in turn, offer salary sacrifice benefits to their employees. We believe this voucher system has significant merit and we are currently assessing its potential application to other markets.

Australia/New Zealand

While our recent expansion plans have necessarily focused on the UK and the US, we remain determined to grow our strong position in Australia/New Zealand.

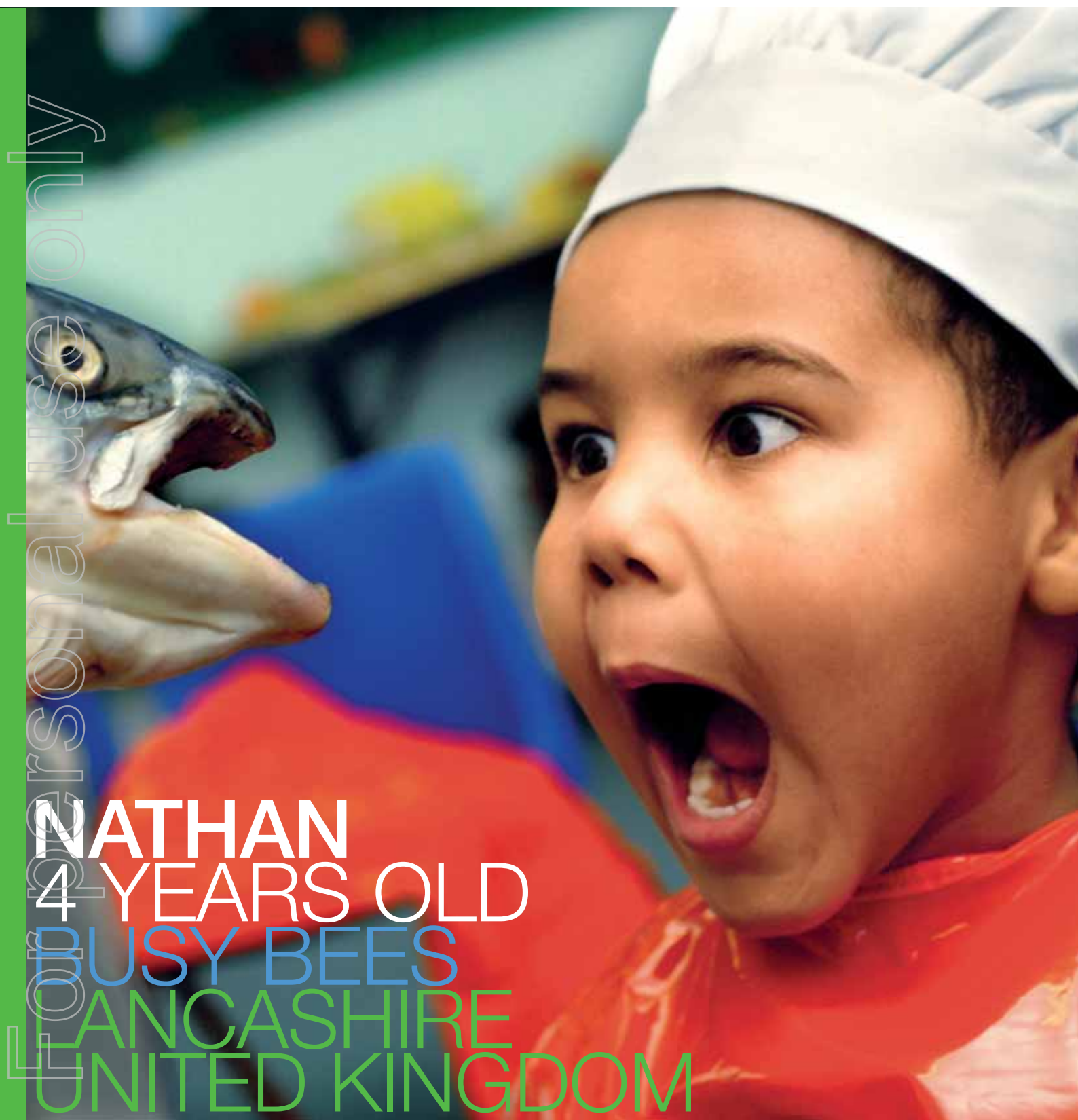
In February 2007, we acquired 49 childcare centres in New Zealand by purchasing Forward Steps, bringing our total number of centres in New Zealand to over 100.

In the Australian/New Zealand market we are targeting between 400–500 centres over the next three years which represents a 40–50% increase on our current portfolio. We expect there may be some divestments from our portfolio, however, we are well on track to continue to grow our position in the domestic market.

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JILLIAN AND ALICIA
4 YEARS OLD
LA PETITE ACADEMY
CHICAGO ILLINOIS
UNITED STATES



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NATHAN
4 YEARS OLD
BUSY BEES
LANCASHIRE
UNITED KINGDOM

CEO's REPORT CONTINUED...

Our acquisition strategy has provided scale, and importantly provides the opportunity of enhanced choice of centres for our corporate partners. This is an important part of our future strategy to build our corporate business further.

Capital Raising

During the course of the year, our shareholders approved a significant capital raising program to fund our ongoing acquisition program. Personally, I am delighted in the overwhelming support we received for this raising, which I believe, represents a strong endorsement of our business strategy and is also a strong capital management initiative.

A significant aspect of this capital raising was the placement to Everitt Investments Pte Ltd, a wholly owned subsidiary of Temasek Holdings (Private) Limited. Temasek has an extensive history as a supportive, long-term investor and we are delighted to welcome them to our share register.

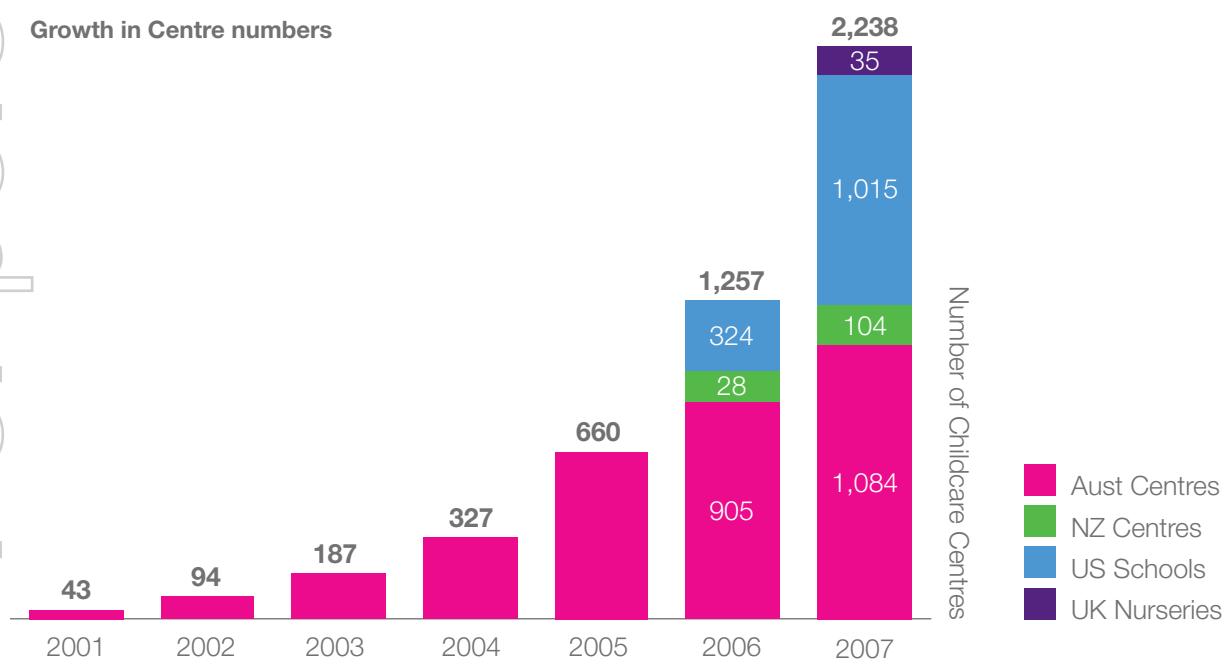
As a company, we have an excellent track record of continued earnings per share growth and, building on this capital management program, we continue to focus our efforts on maintaining that growth for our shareholders.

During the course of the year, ABC Learning has continued to achieve outstanding progress. We have significantly expanded both the scope and size of our business, while remaining true to our commitment to quality in all our centres.

The outlook for our business remains positive and we will continue to selectively acquire and build centres to respond to community needs in our key chosen markets of the US, UK and Australia/New Zealand.

Edmund S Groves
CEO Operations (Global)

Growth in Centre numbers



Note: Centre numbers exclude franchise and managed centres and includes all centre closures

ABC's EDUCATION

Dr Le Neve Groves
CEO Education

Across our Company, across the globe, we recognise and understand that each child and their family are unique and our early childhood services and programs reflect this diversity.

While current research and best practice continue to guide ABC's early childhood philosophy, each part of the global operation also works to ensure we offer the flexibility of service delivery which enables the special needs of children and their families to be met.

The ABC Learning Centres Experience – Australia and New Zealand

The ABC LifeSmart Curriculum™, launched in 2006, was developed after extensive research and 19 years' educational practice in Australia. The LifeSmart curricula covers all developmental areas and focuses on literacy, numeracy and computer skills development, and is the first national early childhood curriculum.

Here at ABC, we are excited by the educational opportunities this curriculum framework offers our children.

In New Zealand, the LifeSmart Curriculum™ reflects and expands on the Te Whariki guidelines established by the NZ Ministry of Education.

Within each early childhood environment we offer a range of educational activities to actively engage children and enhance all developmental areas, promote their confidence and independence and assist our children in their transition to compulsory schooling.

The Tutor Time Experience – USA

The principles of the Tutor Time® LifeSmart Curriculum™ follow the guidelines for developmentally appropriate practice established by the National Association for the Education of Young Children.

The Tutor Time program, which is based on extensive research, focuses on the developmental theory of multiple intelligences.

Tutor Time has arranged these multiple intelligences into eight distinct streams of intelligence or 'smartness'

- WordSmart;
- MathSmart;
- BodySmart;
- DesignSmart;
- MusicSmart;
- NatureSmart;
- PeopleSmart; and
- MeSmart.

The Tutor Time classrooms incorporate learning centres which enable the children to explore and investigate all eight areas, and to build problem-solving and critical thinking skills.

Tutor Time teachers supplement these experiences with group activities that focus on a variety of themes. This curriculum gives children the tools they need to grow and develop into the leaders of tomorrow.

Tutor Time centres create a learning atmosphere ideal for early childhood education with age-specific classrooms, play places and personal spaces. Everything, from the layout of the rooms to the furniture inside, is designed to encourage exploration, investigation, problem solving and discovery – ultimately fostering a child's self-esteem and helping develop their love of learning.

The Childtime Experience – USA

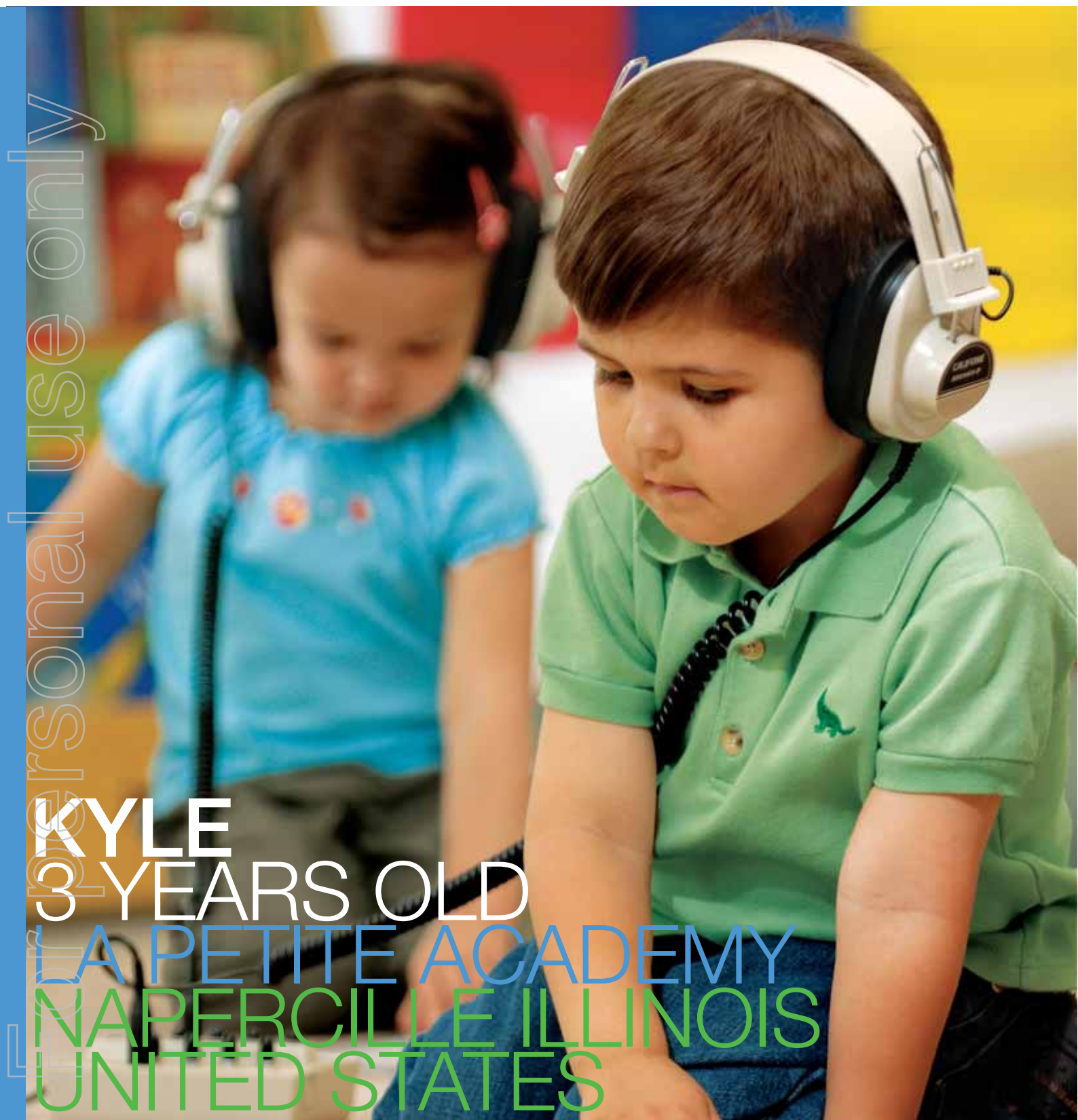
Childtime recognises that children are naturally curious and that they learn best when they are actively engaged. Childtime's unique curriculum, The Empowered Child™, gives children the guidance and the freedom to construct their own body of knowledge in ways most meaningful to them.

Through hands-on sensory-oriented activities, the teachers guide and support the children in their acquisition of critical science, maths, reading and writing concepts. Every day, children are given a variety of activities that involve them in concepts and empower them to find ways to learn that are specific to their needs.

Designed by early education specialists, and inspired by the Reggio Emilia approach to early learning, the Empowered Child curriculum is based on the work of respected child development and early education theorists Piaget, Erikson and Vygotsky. The curriculum principles follow the guidelines for developmentally appropriate practice set out by the National Association for the Education of Young Children.



MORGAN
4 YEARS OLD
ABC LEARNING CENTRES
JINDALEE QUEENSLAND
AUSTRALIA



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KYLE
3 YEARS OLD
LA PETITE ACADEMY
NAPERVILLE ILLINOIS
UNITED STATES

ABC's EDUCATION CONTINUED...

The Children's Courtyard curriculum provides an active learning approach that supports the development of reading, writing, maths, science and social skills in a fun, hands-on environment.

The Children's Courtyard Experience – USA

The Children's Courtyard curriculum provides an active learning approach that supports the development of reading, writing, maths, science and social skills in a fun, hands-on environment. The program includes daily explorations in music and movement, creative arts, foreign languages and educational technology.

Since children have different learning styles and cultures, the Children's Courtyard teaching approach takes each child's individuality into account. To enrich the children's educational experiences, the teachers draw material from various organisations, including the High/Scope Educational Research Foundation, Scholastic and McGraw-Hill/Wright Group.

At the Children's Courtyard, learning isn't only for the children – teachers receive ongoing professional development at 'lab schools'. Under the mentorship of education specialists and master teachers, our teachers expand their skills at these unique company training facilities.

The Montessori Unlimited Experience

Montessori Unlimited is the largest group of traditional Montessori schools in the US. The 28 Montessori Unlimited schools in Florida, Georgia, Illinois, Missouri, Oregon and Texas serve approximately 3,300 children.

The schools do not use the corporate Montessori Unlimited name, preferring to use local names that link their schools to the community or neighbourhood.

Montessori Unlimited classrooms provide planned environments designed to stimulate each child's interest in reading, maths, geography and science.

Classic Montessori materials are used in the classrooms, including puzzle maps and trinomial cubes, with each piece meticulously designed according to official Montessori specifications.

Teachers emphasise learning through all five senses and encourage children to learn at their individual pace. The students work in mixed age group classrooms, allowing social development and creating an atmosphere in which the older children spontaneously share knowledge with the younger children.

The La Petite Academy Experience

The Journey® curriculum, which follows the early learning goals outlined by the National Association for the Education of Young Children, was designed by La Petite Academy education department experts.

The curriculum takes a total approach to learning and begins with the five main areas of development – language, cognitive, socio-emotional, physical and creative arts. Teachers create their age-appropriate lesson plans and themes from over 7,500 suggested activities that focus on a specific learning objective.

The La Petite Kids of Character program provides meaningful ways for children to develop positive character traits, such as teamwork, kindness, honesty, respect and perseverance. The program contains more than 250 character development activities and areas of focus, with a different trait reviewed each month during the school year.

ABC's EDUCATION CONTINUED...

In 2007, the National Institute of Early Childhood Education (NIECE) consolidated delivery of training services across Australia.

The Busy Bees Experience – UK

Working within the Birth to Three Matters and Early Years Foundation Stage framework, Busy Bees nurseries respond to the individual needs of the children and families in their communities.

The Birth to Three program is a national curriculum which recognises and values the efforts, achievements and individuality of children.

The program highlights the interrelationship between growth, learning and development and the environment in which children are cared for and educated.

The foundation stage of the program commences at the age of three years, with children working toward the six early learning goals that cover the key areas of a child's development

- Personal Social and Emotional Development;
- Communication, Language and Literacy;
- Mathematical Development;
- Knowledge and Understanding of the World;
- Physical Development; and
- Creative Development.

Activities are planned based on the key interests and developmental stage of each child. The role of the teacher is to provide activities which will promote and challenge all areas of development and to encourage, guide and be an active partner in children's play and learning.

NIECE – The Early Childhood Experience at a Tertiary Level – Australia

In 2007, the National Institute of Early Childhood Education (NIECE) consolidated delivery of early childhood services training across Australia.

While continuing to provide specialised training in children's services qualifications, NIECE has also expanded its activities to include courses in management, training and assessment, and out of school hours care.

These new courses will enable our centre personnel to gain skills, knowledge and professional development in areas associated with their roles as early childhood education professionals.

NIECE now also offers workshop courses through eNIECE, an online learning platform.

NIECE is in the process of increasing the number of professional development centres in each State, providing central locations for ABC Centre staff to access study support and facilities.



MADISON AND JAZIYA
4 AND 3 YEARS OLD
ABC LEARNING CENTRES
EIGHT MILE PLAINS
QUEENSLAND
AUSTRALIA

BOARD OF DIRECTORS

Mrs Sallyanne Atkinson AO **Chairman**

Non-Executive Director

Sallyanne Atkinson is a former Lord Mayor of Brisbane, Australian Senior Trade Commissioner to Paris, and Chairman of Queensland Tourism. She is a director of several public companies and associations, including APN News & Media Limited, and The Australian Ballet. She is chairman of the Federal Ministerial Taskforce on Dementia, and of the Crawford Fund (Qld). Sallyanne is also a Special Representative for Queensland, South East Asia in the Queensland State Government.

Among Sallyanne's many achievements; she has received several awards, including Officer of the Order of Australia and was recently awarded an Honorary Doctorate by the Australian Catholic University. She is a Fellow of the Australian Institute of Management, Australian Institute of Company Directors, and Australian Institute of Planning.

Sallyanne holds a Bachelor of Arts degree from the University of Queensland.

Edmund Groves **CEO Operations (Global)** **Executive Director**

Eddy Groves is co-founder of ABC and was the architect behind ABC's Listing on the ASX in 2001. He is renowned as one of Australia's business leaders and brings over 19 years' experience in the childcare industry. Eddy has primary responsibility for financial and operational matters. He also provides industry acknowledged skills in acquisition strategy, centre location and design, business development and corporate strategic planning. He is among Australia's leading public speakers and regularly addresses a range of business and childcare industry forums and events.

Dr Le Neve Groves **CEO Education** **Executive Director**

Le Neve Groves is co-founder of ABC, CEO of Education and Principal of the National Institute of Early Childhood Education (formerly ABC Early Childhood Training College). Le Neve holds several early childhood qualifications, including a

Diploma of Teaching Primary/Preschool, Bachelor of Education, Master of Education and a PhD in Education.

Le Neve assists in the development of and oversees all early childhood philosophies, policies, practices and curricular in the ABC Group. Since the inception of ABC, Le Neve has supported the design and implementation of ABC's high quality care and educational programs for which we have received 17 industry awards. Le Neve is also the Chairman of ABC's Risk Management Committee.

Le Neve was awarded the Centenary Medal in 2002 for her contribution to early childhood services.

Mr Martin Kemp **CEO Operations** **(Australia and New Zealand)** **Executive Director**

Martin Kemp has 17 years' experience in the childcare industry and has, in that time, co-founded a number of childcare groups, including Premier Early Learning Centres. He has owned, managed, operated, acquired or developed over 1,000 childcare centres throughout Australia and New Zealand.

Martin holds a Bachelor of Engineering (Hons) degree and a Masters of Engineering Science degree and is a member of the Institution of Engineers Australia. He has extensive project management experience in multi-million dollar projects around Australia.

Martin has been a member of the Commonwealth Child Care Advisory Council, President of the Queensland Professional Childcare Centres Association, President of the Australian Confederation of Child Care, President of the Queensland Private Childcare Centres Employers Organisation and a Foundation Board Member of the Australian Childcare Centres Association (federal employer organisation).

Mr William Bessemer **Non-Executive Director**

Bill Bessemer is currently Chairman of Austock Group Limited.

He has extensive experience and practical corporate skills covering debt and equity

raisings, financial structuring, mergers, acquisitions and business recoveries.

Bill holds a Bachelor of Economics degree from the University of Queensland, a Masters of Business Administration degree from the University of Melbourne and is a Certified Practising Accountant.

Mr David Ryan AO **Non-Executive Director**

David Ryan is the non-executive chairman of The Transurban Holdings Limited and is a non-executive director of Lend Lease Corporation Limited. He is also the non-executive chairman of Tooth & Co Limited. He is a member of the Advisory Board of Virgin Management Asia-Pacific Pty Ltd.

David has extensive business experience through his current and former roles which include holding senior executive management positions in public companies and being a member of a number of public company boards.

David is well credentialed to provide support to the ABC board as a Non-Executive Director.

The Hon. Lawrence Anthony **Non-Executive Director**

Larry Anthony is currently a board member of Macquarie Media Group, Indue Ltd and the National Chairman for the Duke of Edinburgh's Awards Australia.

Larry has had experience in government sectors and finance, including roles with Merrill Lynch and Potter Warburg. He is a former Federal Minister for Children and Youth Affairs, Community Services and the Parliamentary Secretary for Trade. He is also involved with various charities across Australia.

Larry holds a Bachelor of Commerce degree from the University of New South Wales, a diploma from the Australian Institute of Company Directors, a diploma of Applied Finance and Investment and is a Member of the Banking and Securities Institute of Australia and a Fellow of the Australian Institute of Company Directors.



From left to right: **The Hon. Lawrence Anthony**, **Mr Edmund Groves**, **Dr Le Neve Groves**, **Mr William Bessemer**, **Mr Martin Kemp**, **Mr David Ryan**, **Mrs Sallyanne Atkinson**.



REBEKAH
TEACHER

ABC LEARNING CENTRES
EIGHT MILE PLAINS
QUEENSLAND
AUSTRALIA

ABC Learning Centres Limited

ABN 93 079 736 664

Financial Report for the year
ended 30 June 2007

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Corporate Governance Statement

Corporate Governance

The Company is committed to implementing the highest standards of corporate governance. In determining what those high standards should involve, the Company has turned to the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations. The Company is pleased to advise that the Company's policies are consistent with those ASX guidelines.

Where the Company's corporate governance practices do not correlate with the practices recommended by the Council, the Company is working towards compliance.

1. Board of Directors

1.1 Role of the Board

The Board's role is to govern the Company rather than to manage it. In governing the Company, the Directors must act in the best interests of the Company as a whole. It is the role of senior management to manage the Company in accordance with the direction and delegations of the Board and the responsibility of the Board to oversee the activities of management in carrying out these delegated duties.

In carrying out its governance role, the main task of the Board is to drive the performance of the Company. The Board also monitors the Company's compliance with all of its contractual, statutory and any other legal obligations, including the requirements of any regulatory body. The Board has the final responsibility for the successful operations of the Company.

To assist the Board carry out its functions, it has a Code of Conduct to guide the Directors, the Chief Executive Officers, the Chief Financial Officer and other key executives in the performance of their roles.

1.2 Composition of the Board

To add value to the Company the Board has been formed so that it has effective composition, size and commitment to adequately discharge its responsibilities and duties. The names of the Directors and their qualifications and experience are stated on page 27 along with the term of office held by each of the Directors. Directors are appointed based on the specific governance skills required by the Company and on the independence of their decision-making and judgment.

The Company recognises the importance of Non-Executive Directors and the external perspective and advice that Non-Executive Directors can offer. Mrs Sallyanne Atkinson (Chairman), Mr William Bessemer, Mr David Ryan and the Hon. Larry Anthony are all Non-Executive Directors. In addition to being Non-Executive Directors, Mrs Sallyanne Atkinson, Mr David Ryan and the Hon. Larry Anthony also meet the following criteria for independence adopted by the Company.

An Independent Director:

1. is a Non-Executive Director;
2. is not a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
3. within the last three years has not been employed in an executive capacity by the Company or another group member, or been a Director after ceasing to hold any such employment;
4. within the last three years has not been a principal of a material professional adviser or a material consultant to the Company or another group member, or an employee materially associated with the service provided;
5. is not a material supplier or customer of the Company or another group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
6. has no material contractual relationship with the Company or other group member other than as a Director of the Company;
7. has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company; and
8. is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company.

A majority of Non-Executive Directors on the Board are independent Directors. The Board currently has three independent Directors and four non-independent Directors.

Mr William Bessemer is a Non-Executive Director of the Company and is also the Chairman and shareholder of Austock Group Limited which owns the Company's corporate advisors and as such does not meet the Company's criteria for independence. However, as one of the founding Directors of the Company, his experience and knowledge of the Company makes his contribution to the Board such that it is appropriate for him to remain on the Board.

As the Company is now a global operation, the Board needs to carefully consider an appropriate and relevant Board structure for the future before it appoints further Directors.

1.3 Responsibilities of the Board

In general, the Board is responsible for, and has the authority to determine, all matters relating to the policies, practices, management and operations of the Company. It is required to do all things that may be necessary to be done in order to carry out the objectives of the Company.

Without intending to limit this general role of the Board, the principal functions and responsibilities of the Board include the following.

1. **Leadership of the Organisation:** overseeing the Company and establishing codes that reflect the values of the Company and guide the conduct of the Board, management and employees.
2. **Strategy Formulation:** working with senior management to set and review the overall strategy and goals for the Company and monitoring that there are policies in place to govern the operation of the Company.
3. **Overseeing Planning Activities:** overseeing the development of the Company's strategic plan and approving that plan as well as the annual and long term budgets.
4. **Shareholder Liaison:** promoting effective communications with shareholders through an appropriate communications policy and promoting participation at general meetings of the Company.
5. **Monitoring, Compliance and Risk Management:** overseeing the Company's risk management, compliance, control and accountability systems and monitoring and directing the financial and operational performance of the Company.
6. **Company Finances:** approving expenses in excess of those approved in the annual budget and approving and monitoring acquisitions, divestitures and financial and other reporting.
7. **Human Resources:** appointing, and, where appropriate, removing the Chief Executive Officers (CEOs) and Chief Financial Officer (CFO) as well as reviewing the performance of the CEOs and monitoring the performance of senior management in their implementation of the Company's strategy.
8. **Safeguarding the Health, Safety and Wellbeing of Employees:** in conjunction with the senior management team, developing, overseeing and reviewing the effectiveness of the Company's occupational health and safety systems to promote the wellbeing of all employees.
9. **Delegation of Authority:** delegating appropriate powers to the CEOs to enable the effective day-to-day management of the Company and establishing and determining the powers and functions of the Committees of the Board.

Full details of the Board's role and responsibilities are contained in the Board Charter, a copy of which is available upon request.

1.4 Board Policies

1.4.1 Conflicts of Interest

Directors must:

- disclose to the Board actual or potential conflicts of interest that may or might reasonably be thought to exist between the interests of the Director and the interests of any other parties in carrying out the activities of the Company; and

- if requested by the Board, within seven days or such further period as may be permitted, take such necessary and reasonable steps to remove any conflict of interest.

If a Director cannot or is unwilling to remove a conflict of interest then the Director must, in accordance with the Corporations Act, absent himself or herself from the room when discussion and/or voting occurs on matters about which the conflict relates.

1.4.2 Commitments

Each member of the Board is committed to spending sufficient time to enable them to carry out their duties as a Director of the Company.

1.4.3 Confidentiality

In accordance with legal requirements and agreed ethical standards, Directors and key executives of the Company have agreed to keep confidential, information received in the course of the exercise of their duties and will not disclose non-public information except where disclosure is authorised or legally mandated.

1.4.4 Continuous Disclosure

The Board has designated the Company Secretary as the person responsible for overseeing and coordinating disclosure of information to the ASX as well as communicating with the ASX. In accordance with the ASX Listing Rules the Company immediately notifies the ASX of information:

1. concerning the Company that a reasonable person would expect to have a material effect on the price or value of the Company's securities; and
2. that would, or would be likely to, influence persons who commonly invest in securities in deciding whether to acquire or dispose of the Company's securities.

1.4.5 Education and Induction

New Directors undergo an induction process in which they are given a full briefing on the Company. This includes meetings with key executives, tours of the premises, an induction package and presentations. Information conveyed to new Directors include:

- details of the roles and responsibilities of a Director with an outline of the qualities required to be a successful Director;
- formal policies on Director appointment as well as conduct and contribution expectations;
- details of all relevant legal requirements;
- a copy of the Board Charter;
- guidelines on how the Board processes function;
- details of past, recent and likely future developments relating to the Board including anticipated regulatory changes;
- background information on and contact information for key people in the organisation including an outline of their roles and capabilities;
- an analysis of the Company;

Corporate Governance Statement

- a synopsis of the current strategic direction of the Company including a copy of the current strategic plan and annual budget; and
- a copy of the Constitution of the Company.

In order to achieve continuing improvement in Board performance, all Directors are encouraged to undergo continual professional development. Specifically, Directors are provided with the resources and training to address skills gaps where they are identified.

1.4.6 Independent Professional Advice

The Board collectively and each Director has the right to seek independent professional advice at the Company's expense, up to specified limits, to assist them to carry out their responsibilities.

1.4.7 Related Party Transactions

Related party transactions include any financial transaction between a Director and the Company and will be reported in writing to each Board meeting. Unless there is an exemption under the Corporations Act from the requirement to obtain shareholder approval for the related party transaction, the Board cannot approve the transaction.

1.4.8 Shareholder Communication

The Company respects the rights of its shareholders and to facilitate the effective exercise of those rights the Company is committed to:

1. communicating effectively with shareholders through releases to the market via ASX, the Company's website, information mailed to shareholders and the general meetings of the Company;
2. giving shareholders ready access to balanced and understandable information about the Company and corporate proposals;
3. making it easy for shareholders to participate in general meetings of the Company; and
4. requesting the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

The Company also makes available a telephone number and email address for shareholders to make enquiries of the Company.

1.4.9 Trading in Company Shares

The Company has a Share Trading Policy under which Directors, members of senior management and other employees likely to be in possession of unpublished price sensitive information and their associates may not trade in the Company's securities during the following "blackout periods" commencing:

- 30 days prior to the release by the Company of its half-yearly results to the ASX and concluding 2 days after such release; and

- 30 days prior to the release by the Company of its annual results to the ASX and concluding 2 days after such release.

In addition, consistent with the law, designated officers are prohibited from trading in the Company's securities while in the possession of unpublished price sensitive information concerning the Company. Unpublished price sensitive information is information regarding the Company, of which the market is not aware, that a reasonable person would expect to have a material effect on the price or value of the Company's securities.

Notice of an intention to trade must be given prior to trading in the Company's securities as well as a confirmation that the person is not in possession of any unpublished price sensitive information. The completion of any such trade by a Director must also be notified to the Company Secretary who in turn advises the ASX.

1.4.10 Performance Review/Evaluation

Generally, it is the policy of the Board to conduct an internal evaluation of its performance annually. The Board's performance will be measured against both qualitative and quantitative indicators. The objective of this evaluation is to provide best practice corporate governance to the Company.

The Board underwent an independent review of its performance by external management consultants in October 2006. The results of the review have been documented and considered by the Board.

1.4.11 Attestations by CEO and CFO

In accordance with the Board's policy, the CEO and the CFO made the attestations recommended by the ASX Corporate Governance Council as to the Company's financial condition prior to the Board signing this Report.

2. Board Committees

2.1 Audit Committee

Below is a summary of the role, composition and responsibilities of the Audit Committee. Further details are contained in the Audit Committee's Charter.

2.1.1 Role

The Audit Committee is responsible for reviewing the integrity of the Company's financial reporting and overseeing the independence of the external auditors.

2.1.2 Composition

During the 2007 financial year, the Audit Committee consisted of four members. Members are appointed by the Board from amongst the Non-Executive Directors, a majority of whom are also independent. The members of the Audit Committee are Mr David Ryan (Committee Chairman), Mrs Sallyanne Atkinson, Mr William Bessemer and the Hon. Larry Anthony. All members can read and understand financial statements and are otherwise financially literate and Mr David Ryan, the Chairman, is a qualified accountant with experience in financial and accounting matters. The details of the member's qualifications may be found in their Director Profiles on page 27.

The Audit Committee held four meetings throughout the year and details of attendance of the members of the Audit Committee are contained in the following table.

	August 2006	February 2007	May 2007	June 2007
Mr David Ryan	✓	✓	✓	✓
Mrs Sallyanne Atkinson	✓	X	✓	✓
Mr William Bessemer	✓	✓	✓	✓
Hon. Larry Anthony	✓	X	✓	✓

2.1.3 Responsibilities

The Audit Committee reviews the audited annual and half-yearly financial statements and any reports which accompany published financial statements before submission to the Board and recommends their approval.

The Audit Committee also recommends to the Board the appointment of the external auditor and each year, reviews the appointment of the external auditor, their independence, the audit fee, and any questions of resignation or dismissal.

2.2 Nomination and Remuneration Committee

Below is a summary of the role, composition and responsibilities of the Nomination and Remuneration Committee. Further details are contained in the Nomination and Remuneration Committee's Charter.

2.2.1 Role

The role of the Nomination and Remuneration Committee is to help achieve a structured Board that adds value to the Company by ensuring an appropriate mix of skills are present in Directors on the Board at all times and to assist the Board in fulfilling its responsibilities in respect of establishing appropriate remuneration levels and incentive policies for employees.

2.2.2 Composition

Mrs Sallyanne Atkinson (Committee Chairman), Mr Eddy Groves and Mr David Ryan are the current members of the Nomination and Remuneration Committee the majority of whom are independent non-executive Directors.

The Nomination and Remuneration Committee held two meetings throughout the year and details of attendance of the members of the Committee are contained in the following table.

	May 2007	June 2007
Mrs Sallyanne Atkinson	✓	✓
Mr Eddy Groves	✓	✓
Mr David Ryan	✓	✓

2.2.3 Responsibilities in respect of Nominations

The responsibilities for nominations include devising criteria for Board membership, reviewing the need for various skills and experience on the Board and where appropriate identifying specific individuals for nomination as Directors for review by the Board. The Committee also oversees management succession plans, including the CEO's and evaluates the Board's performance and makes recommendations for the appointment and removal of Directors.

2.2.4 Criteria for selection of Directors

Directors are appointed based on the specific governance skills required by the Company. Given the size of the Company and the business it operates, the Company aims at all times to have at least one Director with experience in the childcare industry. In addition, Directors should have the relevant blend of personal experience in:

- accounting and financial management;
- legal skills; and
- CEO-level business experience.

2.2.5 Responsibilities in respect of Remuneration

The responsibilities of the Committee include setting policies for senior officers' remuneration, setting the terms and conditions of employment for the Chief Executive Officers, reviewing and making recommendations to the Board on the Company's incentive schemes and superannuation arrangements, reviewing the remuneration of both Executive and Non-Executive Directors and making recommendations to the Board on any proposed changes and undertaking an annual review of the Chief Executive Officers' performance, including, setting with the Chief Executive Officers goals for the coming year and reviewing progress in achieving these goals.

2.2.6 Remuneration Policy

Details of the Board's policy on remuneration are set out on pages 29 to 38 of the Directors' Report which incorporates the Company's remuneration report.

2.3 Risk Management Committee

Below is a summary of the role, composition and responsibilities of the Risk Management Committee. Further details are contained in the Risk Management Committee's Charter.

2.3.1 Role

The role of the Risk Management Committee is to ensure that the Company is able to manage a diverse and complex range of significant risks. The committee is also responsible for establishing policies on risk oversight and management.

2.3.2 Composition

The members of the Risk Management Committee are:

- Dr Le Neve Groves (Committee Chairman);
- Mr William Bessemer; and
- Mr Martin Kemp.

Corporate Governance Statement

The Risk Management Committee held five meetings during the year and details of attendance of the members of the Committee are contained in the following table.

	July 2006	September 2006	October 2006	March 2007	May 2007
Dr Le Neve Groves	✓	✓	✓	✓	✓
Mr William Bessemer	✓	✓	✓	✓	✓
Mr Martin Kemp	X	✓	X	X	✓

2.3.3 Responsibilities

The duties and responsibilities of the Risk Management Committee include:

- Assessing the internal processes for determining and managing key risk areas, particularly:
 - non-compliance with laws, regulations, standards and best practice guidelines, including environmental and industrial relation laws;
 - litigation and claims; and
 - relevant business risks other than those that are dealt with by other specific Board Committees.
- Establishing that the Group has an effective risk management system and that major risks to the Group are reported at least annually to the Board.
- Receiving from management reports on all suspected and actual frauds, thefts and breaches of laws.
- Evaluating the process the Group has in place for assessing and continuously improving internal controls, particularly those related to areas of significant risk.
- Assessing whether management has controls in place for unusual types of transactions and/or any potential transactions that may carry more than an acceptable degree of risk.
- Meeting periodically with key management, internal and external auditors and compliance staff to understand and discuss the Group's control environment.

3. Company Code of Conduct

As part of its commitment to recognising the legitimate interests of stakeholders, the Company has a Code of Conduct to guide compliance with legal and other obligations to legitimate stakeholders. These stakeholders include shareholders, employees, clients, customers, government authorities, creditors and the community as a whole. The Code includes the following:

Responsibilities to Shareholders and the Financial Community Generally

The Company complies with the spirit as well as the letter of all laws and regulations that govern shareholders' rights. The Company has processes in place designed to ensure the truthful and factual presentation of the Company's financial position and prepares and maintains its accounts fairly and accurately in accordance with the generally accepted accounting and financial reporting standards.

Responsibilities to Clients, Customers and Consumers

Each employee has an obligation to use their best efforts to deal in a fair and responsible manner with each of the Company's clients, customers and consumers. The Company for its part is committed to providing clients, customers and consumers with fair value.

Employment Practises

The Company endeavours to provide a safe workplace in which there is equal opportunity for all employees at all levels of the Company. The Company does not tolerate the offering or acceptance of bribes or the misuse of Company assets or resources.

Obligations Relative to Fair Trading and Dealing

The Company aims to conduct its business fairly and to compete ethically and in accordance with relevant competition laws. The Company strives to deal fairly with the Company's customers, suppliers, competitors and other employees and encourages its employees to strive to do the same.

Responsibilities to the Community

As part of the community the Company:

- is committed to conducting its business in accordance with applicable environmental laws and regulations and encourages all employees to have regard for the environment when carrying out their jobs;
- encourages all employees to engage in activities beneficial to their local community; and
- supports community charities.

Responsibility to the Individual

The Company is committed to keeping private information from employees, clients, customers, consumers and investors confidential and protected from uses other than those for which it was provided.

Conflicts of Interest

Employees and Directors must avoid conflicts as well as the appearance of conflicts between personal interests and the interests of the Company.

How the Company Complies with Legislation Affecting its Operations

Within Australia, the Company strives to comply with the spirit and the letter of all legislation affecting its operations. Outside Australia, the Company will abide by local laws in all countries in which it operates. Where those laws are not as stringent as the Company's operating policies, particularly in relation to the environment, workplace practises, intellectual property and the giving of "gifts", Company policy will prevail.

How the Company Monitors Compliance with its Code

The Board, management and all employees of the Company are committed to implementing this Code of Conduct and each individual is accountable for such compliance. Disciplinary measures may be imposed for violating the Code.

Directors' Report

Your Directors present their Report on the Company and its controlled entities (referred to hereafter as the Group) for the financial year ended 30 June 2007.

Directors

The names of the Directors in office at any time during the year and to the date of this report are:

Mrs Sallyanne Atkinson AO
Mr Edmund S Groves
Dr Le Neve A Groves
Mr William E Bessemer
Mr Martin Kemp
Mr David Ryan AO
Hon. Lawrence Anthony

Directors have been in office since the start of the financial year until the date of this report unless otherwise stated.

Principal Activities

The principal activities of the Group during the financial year were the provision of childcare services, education and childcare voucher processing.

Operating Results

The consolidated profit of the Group for the financial year after providing for income tax amounted to \$143.1 million (2006: \$81.5 million).

Dividends Paid or Recommended

The Directors have declared a fully franked final dividend of 9 cents per share. The dividend will be franked at a rate of 30%. The final dividend will be paid on 28 September 2007.

Dividend	Date paid	Dividend per share	Total dividend
Ordinary Shares – Final dividend for the year ended 30 June 2006	29 September 2006	8 cents franked to 100%	\$31,477,324
Preference Shares – Final dividend for the year ended 30 June 2006	30 November 2006	16.9212 cents franked to 100%	\$2,030,543
Ordinary Shares – Interim dividend for the year ended 30 June 2007	30 March 2007	8 cents franked to 100%	\$31,651,359
Preference Shares – Interim dividend for the year ended 30 June 2007	31 May 2007	16.8288 cents franked to 100%	\$2,019,457
Preference Shares – Final dividend prior to conversion to ordinary shares	13 June 2007	1.2021 cents franked to 100%	\$144,252

Review of Operations

The past year has continued to be one of planned substantial growth. The operations of the Group have now developed to the point where the group cares for children in Australia, New Zealand, the United States of America and the United Kingdom. Through the acquisition of the Busy Bees Group in the United Kingdom this year, the Group has entered the childcare voucher processing market.

The consolidated net profit after income tax attributable to the members of the company amounted to \$143.1 million. This represents an increase of \$61.6 million or 75.6% from the prior year. This increase from the prior year is due to a full year contribution from centres that were owned at 30 June 2006 and part contributions from centres and the voucher business acquired throughout the 2007 year.

EBITDA has increased from \$153.5 million to \$314.5 million for the year ended 30 June 2007, an increase of \$161.0 million. From an operational perspective each of the Group's geographic and industry segments has performed in line with management's expectations. The continued performance of the business as a whole will enable the Group to pay 51.6% of its current year profits as dividends.

Total dividends for the year ended 30 June 2007 of 17 cents per share have been paid or declared this year. Earnings per share of 36.0 cents were in line with management's expectations, a 30% increase from 30 June 2006.

During the financial year the Group has focused on optimising its existing centres' performance as well as identifying and securing quality acquisitions that complement the existing portfolio of centres and also meet the Group's investment criteria.

The year ended 30 June 2007 has been a year of significant expansion of the Group's operations. The following were some of the milestones of the group during the year.

On 6 September 2006, the Group acquired Children's Courtyard LLP, based in Arlington, Texas, for US\$66 million. Children's Courtyard was the 9th largest childcare provider in the United States of America. Children's Courtyard LLP operated 74 centres on 46 campuses at the date of acquisition.

On 25 September 2006, the Group completed its acquisition of Hutchison's Child Care Services Limited for \$99.4 million. Hutchison's owned 87 centres throughout Australia.

On 18 December 2006, the Group acquired Busy Bees Group Limited, a company based in Birmingham, England. Busy Bees Group Limited was the 5th largest provider of childcare in the United Kingdom as well as being one of the leading childcare voucher providers in the United Kingdom. Busy Bees Group Limited operated 48 childcare centres at the date of acquisition.

On 29 December 2006, the Group disposed of one of its wholly owned subsidiaries Judius Pty Ltd to Funtastic Limited and entered into a long term supply arrangement. Part of the sale consideration was the issue of 29,117,647 shares in Funtastic Limited to the Group, giving the Group 17.99% ownership of Funtastic Limited.

On 26 January 2007, the Group acquired La Petite Academies, Inc, a company based in Chicago in the United States of America. As a result of this acquisition the Group became the second largest private childcare provider in the United States of America, just 11 months after entering the United States market. La Petite Academies operates 650 academies in 36 states.

On 2 February 2007, the Group acquired Forward Steps Limited, a company based in Auckland, New Zealand. Forward Steps Limited operated 49 centres throughout New Zealand at the date of acquisition.

On 13 June 2007 the Group issued 6,000,000 Unsecured Subordinated Reset Convertible Notes. This issue raised \$600,000,000 which was used to repay some of the Group's existing bank debt. These notes were subsequently listed on the Australian Securities Exchange.

The Group will continue to identify and acquire assets that meet its acquisition and investment criteria. It will also manage, enhance and continue to review its portfolio of centres to maximise both value for the shareholders and continue to provide quality early childhood education in all its centres around the world.

Significant Changes In State Of Affairs

The following significant changes in the state of affairs of the Group occurred during the year:

- (i) On 13 June 2007, the Group finalised a syndicated multi-option bank facility for \$1,480 million.
- (ii) On 13 June 2007, the Group converted the 12 million Redeemable Converting Preference Shares into 12 million ordinary shares.
- (iii) On 13 June 2007, the Group issued 6 million Unsecured Subordinated Reset Convertible Notes.

Significant Events After Balance Date

Development of Treasury Policy

Subsequent to year end, the group has developed a comprehensive Treasury Policy that has established a framework that seeks to:

- Manage financial risk and volatility
- Identify, capture, manage and report all financial exposure and risks
- Protect the Group's financial assets from adverse market fluctuations
- Enhance the Group's profitability by managing financial risks
- Utilise treasury management products to reduce and control financial risks
- Plan for the appropriate levels of funds to be available at the appropriate time to support the Group's strategic objectives

As part of the Policy on 27 July 2007 the company executed Interest Rate Swaps with counterparties in respect of AUD and USD denominated bank borrowings in order to mitigate interest rate risk. In respect of the Subordinated Reset Convertible Note borrowings, on 27 July 2007 the company has also entered into a Forward Start Swap from 13 December 2007 until the first reset date of 13 June 2010 at a base rate of 7.02%.

Issue of Shares via Placement

On 6 July 2007 following approval at an Extraordinary General Meeting, the company issued 55,000,000 ordinary shares at \$7.30 per share to Everitt Investments Pte Ltd (a wholly owned subsidiary of Temasek Holdings (Private) Limited).

Directors' Report

ASX Listing of Unsecured Subordinated Reset Convertible Notes

On 13 July 2007, the company listed the 6,000,000 Unsecured Subordinated Reset Convertible Notes on the Australian Securities Exchange under the code "ABSG".

Proposed Acquisition of Leapfrog Nurseries Group

On 13 August 2007, the company announced that its subsidiary, Busy Bees Group Limited, had entered into an agreement to purchase the Leapfrog Nurseries group from Nord Anglia Education plc in the United Kingdom for £31.2 million. The acquisition includes 88 childcare centres and a freehold and long leasehold property portfolio of 41 centres valued at £40.9 million. The acquisition is subject to the approval of the shareholders of Nord Anglia Education plc at a meeting expected to be held in September 2007.

Sale of Childcare Centres

On 13 July 2007, the Group entered into an agreement to sell 45 childcare centres located in Australia (and included in the Australian segment information) for a total value of \$40.2 million. The sale of the centres is part of the ongoing plans by Management to optimise the operations of the Group.

No other matter or circumstance has arisen since 30 June 2007 that has significantly affected, or may significantly affect:

- (a) the Group's operations in future financial years; or
- (b) the results of those operations in future financial years; or
- (c) the Group's state of affairs in future financial years.

Future Developments

It is likely the Group will continue to acquire and develop childcare centres in locations throughout Australia, New Zealand, the United States of America and the United Kingdom.

Environmental Issues

The Group's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

Options

During and since the end of the financial year an aggregate nil (2006: 1,912,191) share options were granted to directors and executives of the Company and the Group as part of their remuneration.

During and since the end of the financial year no options have been exercised.

Shares under option or issued on exercise of options

Details of un-issued shares or interests under option as at the date of this report are:

Issuing entity	Number of shares under option	Class of shares	Exercise price of option	Expiry date of options
A.B.C. Learning Centres Limited	1,912,191	Ordinary	\$7.35	27 January 2011

The holders of these options do not have the right, by virtue of the option, to participate in any share issue or interest issue of any other body corporate or registered scheme.

Information on Directors

Sallyanne Atkinson AO	Chairman – Non-Executive Director.
Appointed	3 October 2000.
Qualifications	Bachelor of Arts (University of Queensland), Fellow, Australian Institute of Management, Fellow, Australian Institute of Company Directors, Fellow, Australian Institute of Planning, Fellow, Australian Marketing Institute, Doctor of the University (Hon) Australian Catholic University, Doctor of the University (Hon) Griffith University, Doctor of the University (Hon) University of Queensland.
Experience	<p>Sallyanne Atkinson is a former Lord Mayor of Brisbane, Australian Senior Trade Commissioner to Paris and Chairman of Queensland Tourism. She is a director of several public companies and associations, including APN News & Media Limited and The Australian Ballet. She is chairman of the Federal Ministerial Taskforce on Dementia and of the Crawford Fund (QLD).</p> <p>Among Sallyanne's many achievements, she has received several awards including Officer of the Order of Australia. She is a Fellow of the Australian Institute of Management, the Australian Institute of Company Directors, the Australian Marketing Institute and the Australian Institute of Planning. She is a Paul Harris Fellow of Rotary International and a Melvin Jones Fellow of Lions International.</p>
Interest in shares and options	695,000 ordinary shares.
Special Responsibilities	Member of the Audit Committee and Chairman of the Nomination and Remuneration Committee.
Edmund S Groves	Chief Executive Officer. Executive Director.
Appointed	15 August 1997.
Qualifications	Member, Australian Institute of Company Directors.
Experience	<p>Eddy Groves is co-founder of ABC and was the architect behind ABC's listing on the ASX in 2001.</p> <p>Eddy brings over 19 years' experience in the child care industry.</p>
Interest in shares and options	20,000,000 ordinary shares.
Special Responsibilities	<p>Eddy has primary responsibility for financial and operational matters. He also provides industry acknowledged skills in acquisition strategy, centre location and design, business development, and corporate strategic planning. He regularly addresses a range of business and child care industry forums and events.</p> <p>Member of the Nomination and Remuneration Committee.</p>
Dr Le Neve A Groves	Chief Executive Officer – Education. Executive Director.
Appointed	15 August 1997.
Qualifications	Diploma of Teaching Primary/Preschool, Bachelor of Education (University of South Australia), Master of Education (University of South Australia), Doctor of Education (University of South Australia), Member, Australian Institute of Company Directors.
Experience	<p>Le Neve Groves is co-founder of ABC, CEO of Education and Principal of the National Institute of Early Childhood Education. Le Neve was awarded the Centenary Medal in 2002 for her contribution to early childhood services. Le Neve is currently Queensland State Director for Young Media Australia.</p>
Interest in shares and options	17,013,000 ordinary shares.
Special Responsibilities	<p>Le Neve assists in the development of, and oversees, all early childhood philosophies, policies, practises and curricular in the ABC Group. Since the inception of ABC, Le Neve has supported the design and implementation of ABC's high quality programs, for which ABC has received 17 industry awards.</p> <p>Chairman of the Risk Management Committee.</p>

Directors' Report

Martin V Kemp

Chief Executive Officer – Operations (Australia and New Zealand).
Executive Director.

Appointed	28 November 2001.
Qualifications	Bachelor of Engineering (Hons) (University of Queensland), Master of Engineering Science (University of Sydney), Member of Institution of Engineers, Australia.
Experience	<p>Martin has 17 years experience in the child care industry and has, in that time, co-founded a number of child care groups, including Premier Early Learning Centres. He has owned, operated, managed, acquired or developed over 1,000 child care centres throughout Australia and New Zealand.</p> <p>He has extensive project management experience in multimillion dollar projects around Australia.</p> <p>Martin has been a Member of the Commonwealth Childcare Advisory Council, President of the Queensland Professional Childcare Centres Association, President of the Australian Confederation of Childcare, President of the Queensland Private Childcare Centres Employers Organisation and a Foundation Board Member of the Australian Childcare Centres Association (Federal Employer Organisation).</p>
Interest in shares and options	12,000,000 ordinary shares.
Special Responsibilities	Primary responsibility for all operations in Australia and New Zealand. Member of the Risk Management Committee.

William E Bessemer

Non-Executive Director.

Appointed	15 August 1997.
Qualifications	Bachelor of Economics (University of Queensland), Master of Business Administration (University of Melbourne), Certified Practising Accountant.
Experience	<p>Bill Bessemer is currently chairman of Austock Group Limited. Bill has extensive experience and practical corporate skills covering debt and equity raisings, financial structuring, mergers, acquisitions and business recoveries.</p> <p>During the past three years Bill has also served as a non-executive director of Timbercorp Limited.</p>
Interest in shares and options	105,000 ordinary shares.
Special Responsibilities	Member of the Audit Committee and Risk Management Committee.

David J Ryan AO

Non-Executive Director.

Appointed	26 June 2003.
Qualifications	Bachelor of Business Studies (NSW University of Technology), Fellow, Australian Institute of Company Directors, Fellow, Certified Practising Accountant.
Experience	<p>David Ryan is the non-executive chairman of Transurban Holdings Limited Group and is a non-executive director of Lend Lease Corporation Limited. He is also the non-executive chairman of Tooth & Co Limited. He is a member of the Advisory Board of Virgin Management Asia-Pacific Pty Ltd.</p> <p>David has extensive business experience through current and former roles, which include senior executive management positions in public companies and being a member of a number of public company boards.</p> <p>During the past three years David has also served as a non-executive director of Virgin Blue Holdings Limited.</p>
Interest in shares and options	245,705 ordinary shares.
Special Responsibilities	Chairman of the Audit Committee and a member of the Nomination and Remuneration Committee.

Hon Lawrence J Anthony	Non-Executive Director.
Appointed	16 March 2005.
Qualifications	Bachelor of Commerce (University of New South Wales), Diploma of Applied Finance and Investment, Fellow, Australian Institute of Company Directors, Member, Banking and Securities Institute of Australia.
Experience	Larry Anthony is currently a board member of Macquarie Media Group, Indue Ltd, and the National Chairman for the Duke of Edinburgh's Awards Australia. Larry has had experience in government sectors and finance, including roles with Merrill Lynch and Potter Warburg. He is a former Federal Government Minister for Children and Youth Affairs, Community Services and the Parliamentary Secretary for Trade. He is also involved with various charities across Australia.
Interest in shares and options	117,337 ordinary shares.
Special responsibilities	Member of the Audit Committee.

Information On Company Secretary

Ms Jillian G Bannan	Company Secretary.
Appointed	8 March 2004.
Qualifications	Bachelors of Law and Commerce from James Cook University, Queensland, Member of the Queensland Law Society, Affiliate of Chartered Secretaries Australia.
Experience	Jillian Bannan was appointed Company Secretary in 2004. She commenced with ABC in 2003 and is also General Counsel for the Group. Prior to joining ABC, Jillian worked as a solicitor in private practice, principally in the commercial and corporate fields. Jillian holds Bachelors of Law and Commerce degrees. She is a member of the Queensland Law Society and an affiliate of Chartered Secretaries Australia.

Remuneration Report

The Directors of the Company present the Remuneration Report prepared in accordance with section 300A of the *Corporations Act 2001* for the Company and the consolidated entities for the year ended 30 June 2007.

The Company's remuneration strategy is designed to attract, retain and motivate appropriately qualified and experienced directors and senior executives. Details of the Company's remuneration strategy for the 2007 financial year are set out in this Remuneration Report. This Remuneration Report forms part of the Directors' Report.

Non-Executive Directors

The fees paid to Non-Executive Directors are set at levels which reflect both the responsibilities of, and the time commitments required from, each Non-Executive Director to discharge their duties. Fee levels are set having regard to independent professional advice and the fees paid by comparable companies. The fees paid to Non-Executive Directors are not linked to the performance of the Company.

Executive Directors and Senior Executives

In the 2005–2006 year, executive remuneration comprised a fixed cash component for executive directors and a combination of a fixed cash component and fixed share component for senior executives.

In June 2006, shareholders approved a new remuneration structure for Executive Directors at an extraordinary general meeting. Executive Director remuneration under the new structure comprises both a fixed component and an at-risk component which is intended to remunerate executives for increasing shareholder value and for achieving financial targets and business strategies. It is also designed to attract and retain high calibre executives.

An overview of the elements of the 2006–2007 remuneration structure is set out in Table 1.

A more detailed discussion of each element is contained in this Remuneration Report.

Directors' Report

Table 1 – Overview of Elements of 2006–2007 Remuneration Structure

	Elements of remuneration	Non-Executive Directors	Executives Directors	Australia Senior Executives	US Senior Executives	UK Senior Executives	Discussion in Remuneration Report
Fixed remuneration	Fees	✓	✗	✗	✗	✗	Pg 30
	Salary	✗	✓	✓	✓	✓	Pg 31
	Superannuation	✓	✓	✓	✓	✓	Pg 31
	Other benefits	✓	✓	✓	✓	✓	Pg 31
At-risk remuneration	Short term incentive	✗	✓	✗	✓	✓	Pg 31
	Long term incentive	✗	✓	✗	✓	✓	Pg 31
Post-employment	Notice periods and termination payments	✗	✓	✓	✓	✓	Pg 31

Section 1 – Non-Executive Directors' Remuneration (Audited)

A. Board Policy on Remuneration – Attracting and retaining high calibre directors

Non-Executive Directors' fees, including committee fees, are set by the Board within the maximum aggregate amount of \$400,000 approved by shareholders. This amount was approved in 2003.

In order to maintain Non-Executive Directors' independence and impartiality, their remuneration is not linked to the performance of the Company. In setting fee levels, the Remuneration and Nomination Committee, which makes recommendations to the Board, takes into account:

- the Company's existing remuneration policies;
- fees paid by comparable companies;
- the general time commitment required from Directors and the risks associated with discharging the duties attaching to the role of Director; and
- the level of remuneration necessary to attract and retain Directors of a suitable calibre.

Details of the membership of the Remuneration and Nomination Committee and its responsibilities are set out on page 21 of the Corporate Governance Statement.

Fees

Non-Executive Directors received a fee of \$60,000 (2006: \$40,000) per annum in relation to their services as Directors. The Chairman, taking into account the greater time commitment required, received a fee of \$120,000 (2006: \$80,000). The Company does not pay additional fees for membership of the Board's committees.

In accordance with rule 7.3(f) of the Company's constitution, Directors are also permitted to be paid additional fees for special duties. Such fees are not included in the aggregate remuneration cap approved by shareholders. No such fees were paid during the year (2006: nil).

Directors are also entitled to be reimbursed for all business related expenses, including travel on Company business, as may be incurred in the discharge of their duties.

Superannuation contributions, in addition to the fees above, are also made on behalf of the Non-Executive Directors in accordance with the Company's statutory superannuation obligations.

The Board will continue to review its approach to Non-Executive Director remuneration to ensure it remains in line with general industry practice and best practice principles of corporate governance.

Retirement Benefits

In the past, the Company has not paid retirement benefits to Non-Executive Directors. It is not the intention of the Board to initiate payment of retirement benefits.

B. Details of Remuneration

Details of Non-Executive Directors' remuneration for the year ended 30 June 2007 are set out in the following table. All values are in Australian dollars unless otherwise stated.

Table 2 – Non-Executive Director Remuneration

2007	Directors' Fees \$'000	Superannuation Contributions ¹ \$'000	Other ² \$'000	Total \$'000
S Atkinson (Chairman)	120	11	–	131
L J Anthony ³	60	5	–	65
W E Bessemer	–	–	60	60
D J Ryan	60	5	–	65
Total	240	21	60	321

2006	Directors' Fees \$'000	Superannuation Contributions ¹ \$'000	Other ² \$'000	Total \$'000
S Atkinson (Chairman)	80	7	–	87
L J Anthony ³	40	4	–	44
W E Bessemer	–	–	40	40
D J Ryan	40	4	–	44
Total	160	15	40	215

1 Superannuation contributions made on behalf of Non-Executive Directors to satisfy the Company's obligations under applicable Superannuation Guarantee legislation.

2 Includes the cost of motor vehicles provided by the Company (inclusive of applicable fringe benefits tax).

3 Refer to note 27 for information regarding other services provided to ABC by related parties.

Section 2 – Executive Director and Senior Executive Remuneration (Audited)

The disclosures in this section relate to the executives listed below, being the Executive Directors and the senior executives with authority and responsibility for planning, directing and controlling the activities of the Company and the Group during the financial year. This group of executives are the key management personnel as defined in AASB124 "Related Party Disclosures" and includes the five most highly remunerated Company and Group executives during the financial year.

Table 3 – Executive Directors and Senior Executives

2007	Executive Directors and Senior Executives	Position	
	E S Groves	Chief Executive Officer	Group
	L A Groves	Chief Executive Officer – Education	Group
	M V Kemp	Chief Executive Officer – Operations (Australia and New Zealand)	Australia
	J C Black	Chief Financial Officer (since 6 September 2006)	Group
	J G Bannan	Company Secretary and General Counsel	Group
	W Davis	Chief Executive Officer – USA	United States
	J Woodward	Chief Executive Officer – UK	United Kingdom

2006	Executive Directors and Senior Executives	Position	
	E S Groves	Chief Executive Officer	Group
	L A Groves	Chief Executive Officer – Education	Group
	M V Kemp	Chief Executive Officer – Operations (Australia and New Zealand)	Australia
	J M Reynolds	Chief Operating Officer	Australia
	M P Loveday	Chief Financial Officer	Group
	J G Bannan	Company Secretary and General Counsel	Group
	W Davis	Chief Executive Officer – US	United States
	F Jerneycic	Chief Financial Officer and Treasurer	United States
	K Myers	Chief Operating Officer	United States
	S Smith	Human Resources Vice President	United States

Directors' Report

Board Policy on Remuneration – Rewarding individual and Company performance

The remuneration of the Executive Directors and senior executives is designed to reward executives for increasing shareholder value and for achieving financial targets and business strategies. It is also set to attract, retain and motivate appropriately qualified and experienced executives. Accordingly, the Board considers it desirable for remuneration packages of Executive Directors and senior executives to include both a fixed component and an at-risk or performance related component (comprising both short-term and long-term incentives). The Board views the at-risk component as an essential driver of the Company's high performance culture. Where the Company's remuneration practices do not correlate with the policy, the Company is working towards compliance.

The Nomination and Remuneration Committee has recommended, and the Board has adopted, a policy that remuneration will:

- (a) reinforce the short, medium and long-term financial targets and business strategies of the Company as set out in the strategic business plans endorsed by the Board;
- (b) provide a common interest between executives and shareholders; and
- (c) be competitive in the markets in which the Company operates in order to attract, motivate and retain high calibre executives.

Company Performance

The benefits to the Company and its shareholders of the Board's policy on Executive Director and senior executive remuneration are demonstrated by the Company's growth and development over the last five years.

Earnings

The Company's earnings for the five years to 30 June 2007 are summarised in Table 4.

Table 4 – Earnings

	Year ended 30 June 07* \$'m	Year ended 30 June 06* \$'m	Year ended 30 June 05** \$'m	Year ended 30 June 04** \$'m	Year ended 30 June 03** \$'m
Income	1,696.4	790.8	292.7	96.4	40.9
EBITDA	314.5	153.5	68.1	27.7	17.0
NPAT	143.1	81.5	52.3	21.4	12.1

* 2007 and 2006 stated under AIFRS. Previous years stated under AGAAP.

2005, 2004 and 2003 revenue balances are stated at the net licence fees received. Refer to note 1 "Change of Accounting Policies" for details of the change in policy.

Shareholder Wealth

Table 5 shows the Company's Total Shareholder Return, basic earnings per share, dividends per share and the share price from 2003 to 2007, all of which are measures of the consequences of Company performance on shareholder wealth.

Table 5 – Shareholder Wealth

	Year ended 30 June 07	Year ended 30 June 06	Year ended 30 June 05	Year ended 30 June 04	Year ended 30 June 03
Share price ¹	\$6.92	\$6.40	\$5.58	\$3.70	\$3.10
Total dividends paid	17 cents	15 cents	11 cents	10 cents	7 cents
Franked dividends	100%	100%	100%	100%	100%
EPS	36.0 cents	27.8 cents	25.7 cents ²	17.5 cents ²	14.0 cents ²
Total Shareholder Return	10.8%	17.4%	53.8%	22.6%	20.1%

1 The amount disclosed is the closing price of the Company's shares on the ASX on 30 June of the relevant year.

2 2005 and prior years EPS is calculated under the former AGAAP requirements.

As can be seen from the results provided, the Company has experienced consistent growth in earnings per share of approximately 157% over the last five years, resulting in:

- an increase in the Company's share price; and
- EPS average annual increase of 30%.

Components of Remuneration

Executive Directors

As indicated above, the Executive Directors were paid a fixed cash remuneration package for the 2005–2006 year. Each Executive Director currently maintains a shareholding in the Company which is not part of their remuneration package. The three Executive Directors' shareholding is in excess of 10% of the issued capital of the Company. This indicates that the Executive Directors have an interest in the long-term outcome for the Company.

As the Company has rapidly grown, the Board determined that it was prudent to put in place a more relevant and suitable remuneration structure. This new structure was approved by shareholders at an extraordinary general meeting held on 7 June 2006.

The new remuneration structure for Executive Directors has the following components (refer to Table 1):

1. Fixed remuneration; and
2. Performance-based at-risk remuneration, comprising:
 - Short-Term Incentive (STI) – based on annual performance at an individual, business unit and Company level; and
 - Long-Term Incentive (LTI) – based on sustained creation of shareholder value over a three year period.

The Board aims to achieve a balance between fixed and performance-related components of remuneration that reflect market conditions at each job and seniority level.

The relative proportion of Executive Directors' total remuneration packages that is performance-based is set out in Table 6 below:

Table 6 – Proportion of Fixed and At-Risk Remuneration

	% of Total Target Remuneration (Annualised)		
	Fixed Remuneration	Performance-based Remuneration	
		STI*	LTI**
Executive Directors	50	25	25

* The STIs are based on target.

** The LTIs are based on target.

The proportion of Total Target Remuneration is based on the various Executive Directors meeting their targeted rewards. Should the stretch rewards be met, the proportion of remuneration which is performance-based will be higher than stated above, in accordance with the plan rules.

Senior Executives (Australia)

Remuneration for senior executives in the Australian operations has the following components:

1. Fixed remuneration; and
2. Fixed number of ordinary shares.

This remuneration structure was introduced in 2003 and senior executives entered into five year service agreements on this basis. This structure includes an issue of shares that is not dependent upon the satisfaction of any performance conditions. The rationale behind this was to encourage the alignment of personal and shareholder interests. The Company believes this policy to have been effective in increasing shareholder wealth over the past 3 years. It is the intention of the Company to introduce a remuneration structure similar to the new structure in place for Executive Directors on expiry of the existing service agreements.

Directors' Report

Senior Executives (United States of America)

Remuneration for Senior Executives has the following components:

1. Fixed remuneration; and
2. Performance-based at-risk remuneration, comprising:
 - (a) Cash Bonus – based on annual performance at a Company level;

The level of cash bonus payable to the senior executives will be based on a percentage of their salary for achieving percentages of the EBITDA budget goal (and prorated for levels in between) set by the Company at the beginning of the financial year.

% of EBITDA Goal Achieved	% of Salary
80% or less	0%
90%	25%
100%	50%
110%	75%
120% or more	100%

This cash bonus was structured to focus the senior executives' remuneration on achieving the financial targets set by the Company.

In assessing whether the senior executives have achieved these goals, the Company will calculate the percentage of EBITDA goal achieved from the Company's audited financial report.

- (b) Performance Share Bonus – based on annual performance at a Company level;

The performance share bonus is equal to at least 50% of the senior executives' current fixed remuneration taken as ordinary shares. The price payable for the shares is the market share price on 1 July of the financial year to which the bonus accrues.

The performance share bonus is based on the achievement of a percentage of EBITDA budget goal achieved (and prorated for levels in between):

% of EBITDA Goal Achieved	% of Award Vested
80% or less	0%
90%	50%
100%	100%

The rationale behind the performance share bonus was to encourage the alignment of personal and shareholder interests.

In assessing whether the senior executives have achieved these goals, the Company will calculate the percentage of EBITDA goal achieved from the Company's audited financial report.

The Board aims to achieve a balance between fixed and performance-related components of remuneration that reflect market conditions at each job and seniority level.

The relative proportion of US senior executives' total remuneration packages that is performance-based is set out in the table below:

	% of Total Target Remuneration (Annualised)		
	Fixed Remuneration	Performance-based Remuneration	
		STI*	LTI
US Senior Executives	50	50	–

* The STIs are based on target performance.

The proportion of total target remuneration is based on the various senior executives meeting their targeted rewards. Should the stretch rewards be met, the proportion of remuneration which is performance-based will be higher than stated above, in accordance with the executives' employment agreements.

Senior Executives (United Kingdom)

Remuneration for Senior Executives has the following components:

1. Fixed remuneration; and
2. Performance-based at-risk remuneration, comprising:
 - (a) Cash Bonus – based on annual performance at a Company level;

The level of cash bonus payable to the senior executives will be based on a percentage of their salary for achieving percentages of the EBITDA budget goal (and prorated for levels in between) set by the Company at the beginning of the financial year.

% of EBITDA Goal Achieved	% of Salary
80% or less	0%
90%	25%
100%	50%
110%	75%
120% or more	100%

This cash bonus was structured to focus the senior executives' remuneration on achieving the financial targets set by the Company.

In assessing whether the senior executives have achieved these goals, the Company will calculate the percentage of EBITDA goal achieved from the Company's audited financial report.

- (b) Performance Share Bonus – based on annual performance at a Company level;

The performance share bonus is equal to at least 50% of the senior executives' current fixed remuneration taken as ordinary shares. The price payable for the shares is the market share price on 1 July of the financial year to which the bonus accrues.

The performance share bonus is based on the achievement of a percentage of EBITDA budget goal achieved (and prorated for levels in between):

% of EBITDA Goal Achieved	% of Award Vested
80% or less	0%
90%	50%
100%	100%

The rationale behind the performance share bonus was to encourage the alignment of personal and shareholder interests.

In assessing whether the senior executives have achieved these goals, the Company will calculate the percentage of EBITDA goal achieved from the Company's audited financial report.

The Board aims to achieve a balance between fixed and performance-related components of remuneration that reflect market conditions at each job and seniority level.

The relative proportion of UK senior executives' total remuneration packages that is performance-based is set out in the table below:

	% of Total Target Remuneration (Annualised)		
	Fixed Remuneration	Performance-based Remuneration	
		STI*	LTI
UK Senior Executives	50	50	–

* The STIs are based on target performance.

The proportion of total target remuneration is based on the various senior executives meeting their targeted rewards. Should the stretch rewards be met, the proportion of remuneration which is performance-based will be higher than stated above, in accordance with the executives' employment agreements.

Directors' Report

Fixed Remuneration – All Executive Directors and Senior Executives

The terms of employment for all Executive Directors and senior executives contain a fixed remuneration component. This is expressed as a dollar amount that the executive may take in a form agreed with the Company. Fixed remuneration is made up of base salary, exclusive of superannuation contributions and benefits, including fringe benefits tax. This amount of remuneration is not dependent upon performance and is set by reference to appropriate benchmark information for an individual's responsibilities, performance, qualifications, experience and location.

Service Agreements

The remuneration and other terms of employment for Executive Directors and the senior executive team are formalised in their service agreements.

Duration of Contract

Under the terms of the service agreements:

- (a) the Executive Directors continue to be employed until their employment is terminated;
- (b) the senior executives (Australia) have a five year employment term;
- (c) the senior executives (US) have a three year employment term; and,
- (d) the senior executives (UK) have a three year employment term.

Notice Periods and Payments on Termination

The service agreements provide for termination payments to be made in certain circumstances. In particular, the Company may terminate the employment of:

- (a) the Executive Directors on six months' notice; and
- (b) the Australian, US and UK executives on three months' notice.

The Company may make a payment in lieu of notice.

In general, a senior executive must give the Company at least 90 days' notice of resignation. In certain circumstances, such as a substantial diminution of responsibility, the Company may be deemed to have terminated the employment of the senior executive and will be liable to make compensation payments.

Termination payments payable to the senior executives if the Company terminates their contract of employment will not, in general, exceed 18 months' fixed salary (except in relation to the US executives who, if terminated without cause are entitled to the balance of their unpaid employment agreement). The Company makes provision for employee entitlements in accordance with applicable Accounting Standards.

Sign-on Incentives

As part of the acquisition of the Learning Care Group, Inc, in January 2006, an issue of options valued at \$5,403,302 (at date of issue) was made to key US executives as part of their consideration for agreeing to hold office. Such payments were made by the Company to compensate those US executives for bonuses they forfeited from their previous employer on agreeing to take up employment with the Company.

These options will vest at the rate of 20% per year on each anniversary, or upon earlier cessation of employment (the executives' service agreements have an initial three year employment term). Shares issued upon exercise of options will rank equally in all respects with existing fully paid ordinary shares.

Remuneration Paid

Details of the remuneration paid to Executive Directors and each of the named senior executives are set out in the following table.

	Short-term employee benefits				Post-Employment Benefits	Share-based payment			Total	% consisting of options
	Salary & fees	Bonus	Non-monetary	Other	Super-annuation	Other long-term employee benefits	Equity Instruments	Options & rights		
2007	'000	'000	'000	'000	'000	'000	'000	'000	'000	%
A\$										
E S Groves	494	–	151	–	44	8	–	–	697	–
L A Groves	494	–	41	–	44	8	–	–	587	–
M V Kemp	494	–	–	–	44	8	–	–	546	–
J C Black	740	–	3	–	35	8	–	–	786	–
J G Bannan	110	–	25	–	10	7	313	–	465	–
US\$										
W Davis	491	–	–	9	4	–	737	–	1,241	–
UK£										
J Woodward*	79	119	–	7	–	–	–	–	205	–

* accrued from December 2006

	Short-term employee benefits				Post-Employment Benefits	Share-based payment			Total	% consisting of options
	Salary & fees	Bonus	Non-monetary	Other	Super-annuation	Other long-term employee benefits	Equity Instruments	Options & rights		
2006	'000	'000	'000	'000	'000	'000	'000	'000	'000	%
A\$										
E S Groves	350	–	10	–	32	8	–	–	400	–
L A Groves	350	–	34	–	32	8	–	–	424	–
M V Kemp	300	–	–	–	27	8	–	–	335	–
J M Reynolds	195	–	27	–	18	7	284	–	531	–
M P Loveday	110	–	–	–	10	7	258	–	385	–
J G Bannan	153	–	26	–	9	7	155	–	350	–
W Davis	–	–	–	–	–	–	–	3,060	3,060	100
F Jerneycic	–	–	–	–	–	–	–	1,060	1,060	100
K Meyers	–	–	–	–	–	–	–	946	946	100
S Smith	–	–	–	–	–	–	–	336	336	100
US\$										
W Davis*	187	98	4	–	4	–	–	–	293	–
F Jerneycic*	106	56	–	–	4	–	–	–	166	–
K Meyers*	106	56	–	–	–	–	–	–	162	–
S Smith*	80	42	–	–	3	–	–	–	125	–

* Remuneration accrued since 11 January 2006.

Directors' Report

In accordance with the requirements of the Accounting Standards, remuneration includes a proportion of the notional value of equity compensation granted or outstanding during the year. The notional value of equity instruments which do not vest during the reporting period is determined as at the grant date and is progressively allocated over the vesting period. The amount included as remuneration is not related to or indicative of the benefit (if any) that individual executives may ultimately realise should the equity instruments vest. The notional value of options as at the date of their grant has been determined in accordance with AASB 2 applying the Black Scholes valuation method and is based on the following assumptions:

Grant Date	27 January 2006
Expiry Date	27 January 2011
Price at grant date	\$7.61
Exercise Price	\$7.35
Number of options	1,912,191
Dividend Yield	1.84%
Volatility	28.992%
Risk Free Rate	5.31%
Vesting Date	20% on 27 January 2007 20% on 27 January 2008 60% on 27 January 2009*

* Unless the contract for employment is renewed, in which case the options will continue to vest at 20% per annum.

It is the Company's belief that all US executives will remain in employment with Learning Care Group Inc. for the duration of their contract, and as such, all options will vest according to the conditions of the options granted.

Meetings of Directors

During the financial year, 23 meetings of directors (including committees) were held. Attendances were:

	Directors' Meetings				Committee Meetings			
	Number eligible to Attend	Number attended	Number eligible to Attend	Number attended	Number eligible to Attend	Number attended	Number eligible to Attend	Number attended
S Atkinson	12	12	4	3	2	2	–	–
E Groves	12	12	–	–	2	2	–	–
L A Groves	12	12	–	–	–	–	5	5
W Bessemer	12	11	4	4	–	–	5	5
M Kemp	12	11	–	–	–	–	5	2
D Ryan	12	11	4	4	2	2	–	–
L Anthony	12	11	4	3	–	–	–	–

Indemnifying Officers or Auditor

During or since the end of the financial year the Company has paid or agreed to pay insurance premiums as follows:

The Company has paid premiums to insure each of the Directors against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of Director of the Company, other than conduct involving a wilful breach of duty in relation to the Company. The policy prohibits the disclosure of the premium paid.

The Company has entered into agreements to indemnify officers of the Company against any damages in relation to any act or omission of the officer in fulfilling his/her duties as an officeholder. The agreements provide for the company to pay all damages and costs which may be awarded against the officer. The indemnity does not apply to the extent that any damages result from any wilful neglect, wilful default or dishonesty by the officer or to any claim by the Company against the officer.

Proceedings on Behalf of the Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 40.

Non-Audit Services

The Board of Directors in accordance with advice from the Audit Committee is satisfied that the provision of the non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the services in respect of the due diligence on the issue of the Unsecured Subordinated Reset Convertible Notes and other independent assurance services did not compromise the external auditor's independence.

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 5 to the financial statements.

Rounding of Amounts

The Company is an entity to which ASIC Class Order 98/100 applies. Accordingly, amounts in the financial statements and Directors' report have been rounded to the nearest hundred thousand dollars or, in some cases, to the nearest thousand dollars.

Signed in accordance with a resolution of the Board of Directors.

On behalf of the Directors



Sallyanne Atkinson AO
Chairman



Edmund S Groves
Director

Signed at Brisbane on the 27th day of August 2007

Auditor's Independence Declaration

to the Directors of A.B.C. Learning Centres Limited



PITCHER PARTNERS

ACCOUNTANTS AUDITORS & ADVISORS

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AN INDEPENDENT MEMBER OF BAKER TILLY INTERNATIONAL - OFFICES THROUGHOUT THE WORLD

AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF A.B.C. LEARNING CENTRES LIMITED

As lead engagement partner for the audit of A.B.C. Learning Centres Limited and its controlled entities for the year ended 30 June 2007, I declare that, to the best of my knowledge and belief in relation to the audit, there have been:

- (a) no contraventions of the auditor independence requirements of the Corporations Act 2001; and
- (b) no contraventions of any applicable code of professional conduct.

Pitcher Partners

PITCHER PARTNERS

S A Green
Partner

Brisbane, 27 August 2007

Independent Audit Report

to the Members of A.B.C. Learning Centres Limited



PITCHER PARTNERS

ACCOUNTANTS AUDITORS & ADVISORS

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AN INDEPENDENT MEMBER OF BAKER TILLY INTERNATIONAL - OFFICES THROUGHOUT THE WORLD

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF A.B.C. LEARNING CENTRES LIMITED

We have audited the accompanying financial report of A.B.C. Learning Centres Limited ("the company") and its controlled entities ("the group"). The financial report comprises the Balance Sheet as at 30 June 2007, and the Income Statement, Statement of Changes in Equity and Cash Flow Statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the Directors' Declaration of the group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

We have also audited the remuneration disclosures contained in the Directors' Report. As permitted by the Corporations Regulations 2001, the company has disclosed information about the remuneration of Directors and executives ("remuneration disclosures"), required by Accounting Standard AASB 124 Related Party Disclosures, under the heading "Remuneration Report" on pages 22 to 32 of the Directors' Report and not in the financial report.

Director's Responsibility for the Financial Report and the AASB 124 Remuneration Disclosures contained in the Directors' Report

The Directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

In Note 1, the Directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

The Directors of the company are also responsible for the remuneration disclosures contained in the Directors' Report.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement. Our responsibility is to also express an opinion on the remuneration disclosures contained in the Directors' Report based on our audit.

An Independent Queensland Partnership. ABN 32 862 011 478

Independent Audit Report

to the Members of A.B.C. Learning Centres Limited



INDEPENDENT AUDIT REPORT TO THE MEMBERS OF A.B.C. LEARNING CENTRES LIMITED (continued)

Auditor's Responsibility (continued)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the remuneration disclosures contained in the Directors' Report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement in the financial report and the remuneration disclosures contained in the Directors' Report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report and the remuneration disclosures contained in the Directors' Report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report and the remuneration disclosures contained in the Directors' Report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

Auditor's Opinion on the Financial Report

In our opinion,

- (a) the financial report of A.B.C. Learning Centres Limited is in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's and group's financial positions as at 30 June 2007 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- (b) the consolidated financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Auditor's Opinion on the AASB 124 Remuneration Disclosures contained in the Directors' Report

In our opinion the remuneration disclosures that are contained on pages 22 to 32 of the Directors' Report, and identified as being subject to audit, comply with Accounting Standard AASB 124.

A stylized signature of the firm Pitcher Partners.

PITCHER PARTNERS

Brisbane, 27 August 2007

A handwritten signature of S A Green.

S A Green
Partner

Directors' Declaration

In the Directors' opinion:

- (a) The attached financial statements and notes set out on pages 44 to 99 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the company and consolidated entity's financial position as at 30 June 2007 and of their performance, as represented by the results of their operations, changes in equity and cash flows, for the year-ended on that date;
- (b) There are reasonable grounds to believe that A.B.C. Learning Centres Limited will be able to pay its debts as and when they become due and payable; and
- (c) The audited remuneration disclosures set out on pages 30 to 38 of the Directors' Report comply with Accounting Standard AASB 124 *Related Party Disclosures* and the *Corporation Regulations 2001*.


The Directors have been given the declarations required by s295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Directors.

On behalf of the Directors



Sallyanne Atkinson AO
Chairman



Edmund S Groves
Director

Signed at Brisbane on the 27th day of August 2007

Income Statement

for the financial year ended 30 June 2007

		Consolidated		Company	
	Note	2007 \$m	2006 \$m	2007 \$m	2006 \$m
Revenue from continuing operations	2(a)	1,659.0	768.7	132.8	67.5
Other income	2(b)	37.4	22.1	7.9	–
Total Income		1,696.4	790.8	140.7	67.5
Changes in inventories of finished goods		(9.6)	(14.7)	–	–
Employee benefits	2(c)	(912.4)	(405.6)	(9.1)	(7.6)
Depreciation and amortisation	2(c)	(38.9)	(14.3)	–	–
Impairment	2(c)	(1.0)	(11.3)	(1.0)	(1.0)
Finance costs	2(c)	(92.2)	(22.8)	(72.7)	(19.5)
Rental and other property expenses		(256.3)	(117.8)	–	–
Children catering and consumables		(64.4)	(27.0)	–	–
Advertising and promotions		(16.4)	(8.8)	–	–
Insurances		(13.5)	(6.1)	(0.5)	(0.3)
Communication		(11.6)	(4.9)	–	–
Travel and motor vehicle expenses		(21.3)	(6.9)	(0.1)	–
Net foreign exchange losses		(5.1)	–	(21.0)	–
Other expenses		(55.9)	(29.9)	(1.9)	(1.2)
Profit before income tax expense		197.8	120.7	34.4	37.9
Income tax (expense)/benefit	3(a)	(54.7)	(39.2)	7.4	(4.2)
Profit attributable to members of the parent entity		143.1	81.5	41.8	33.7
Earnings per share:					
Basic (cents per share)	19	36.0	27.8		
Diluted (cents per share)	19	36.0	27.8		

The above income statement should be read in conjunction with the accompanying notes

Balance Sheet

as at 30 June 2007

	Note	Consolidated		Company	
		2007 \$m	2006 \$m	2007 \$m	2006 \$m
Current assets					
Cash and cash equivalents	29	227.8	132.5	68.8	57.6
Trade and other receivables	6	66.1	112.7	34.1	40.5
Other financial assets	7	54.9	–	54.9	–
Inventories	8	0.7	5.5	–	–
Other	9	30.4	17.6	0.3	0.2
		379.9	268.3	158.1	98.3
Non-current assets classified as held for sale		12.0	7.6	–	–
Total current assets		391.9	275.9	158.1	98.3
Non-current assets					
Trade and other receivables	6	4.3	3.0	–	–
Other financial assets	7	120.2	63.6	3,004.9	1,765.9
Property, plant and equipment	10	549.6	248.6	0.9	1.6
Deferred tax assets	3	110.0	34.7	11.8	8.8
Intangible Assets	11	2,891.1	1,530.8	–	–
Total non-current assets		3,675.2	1,880.7	3,017.6	1,776.3
Total assets		4,067.1	2,156.6	3,175.7	1,874.6
Current liabilities					
Trade and other payables	12	272.5	121.4	42.3	11.5
Borrowings	13	1,149.7	8.1	808.3	–
Current tax liabilities	3	12.3	14.1	9.6	13.4
Provisions	14	19.4	9.5	–	–
Total current liabilities		1,453.9	153.1	860.2	24.9
Non-current liabilities					
Other payables	12	12.3	16.3	–	–
Borrowings	13	610.4	235.9	583.1	210.1
Deferred tax liabilities	3	87.4	20.8	2.3	–
Provisions	14	1.5	2.0	–	–
Total non-current liabilities		711.6	275.0	585.4	210.1
Total liabilities		2,165.5	428.1	1,445.6	235.0
Net assets		1,901.6	1,728.5	1,730.1	1,639.6
Equity					
Issued capital	15	1,744.5	1,635.0	1,744.5	1,635.0
Reserves	16	(15.4)	1.0	2.8	0.5
Retained earnings	17	172.5	92.5	(17.2)	4.1
Total equity		1,901.6	1,728.5	1,730.1	1,639.6

The above balance sheet should be read in conjunction with the accompanying notes

Statement of Changes in Equity

for the financial year ended 30 June 2007

Consolidated

	Ordinary shares \$m	Foreign currency translation reserve \$m	Employee equity-settled benefit reserve \$m	Available- for-sale revaluation reserve \$m	Retained earnings \$m	Total attributable to equity holders of the entity \$m
Balance at 1 July 2006	1,635.0	0.5	1.1	(0.6)	92.5	1,728.5
Gain/(loss) on available-for-sale investments	–	–	–	2.4	–	2.4
Translation of asset revaluation reserve	–	–	–	–	–	–
(Gain)/loss transferred to the income statement on disposal	–	–	–	(2.4)	–	(2.4)
Exchange differences arising on translation of foreign operations	–	(18.7)	–	–	–	(18.7)
Net income recognised directly in equity	–	(18.7)	–	–	–	(18.7)
Net profit for the period	–	–	–	–	143.1	143.1
Total recognised income & expense for the period	–	(18.7)	–	–	143.1	124.4
Transactions with equity holder's in their capacity as equity holders						
Issue of shares/share based payments expense	109.3	–	2.3	–	–	111.6
Share issue costs	(0.3)	–	–	–	–	(0.3)
Related income tax	0.5	–	–	–	–	0.5
Dividends	–	–	–	–	(63.1)	(63.1)
	109.5	–	2.3	–	(63.1)	48.7
Balance at 30 June 2007	1,744.5	(18.2)	3.4	(0.6)	172.5	1,901.6

The above statement of changes in equity should be read in conjunction with the accompanying notes

Statement of Changes in Equity

for the financial year ended 30 June 2006

Consolidated

	Ordinary shares \$'m	Foreign currency translation reserve \$'m	Employee equity-settled benefit reserve \$'m	Available-for-sale revaluation reserve \$'m	Asset revaluation reserve \$'m	Retained earnings \$'m	Total attributable to equity holders of the entity \$'m
Balance at 1 July 2005	636.1	–	–	–	114.0	45.1	795.2
Changes in accounting policies	–	–	–	–	(114.0)	–	(114.0)
Restatements	–	–	–	–	–	(0.6)	(0.6)
As restated	636.1	–	–	–	–	44.5	680.6
Related income tax on revaluations	–	–	–	0.3	–	–	0.3
Gain/(loss) on available-for-sale investments	–	–	–	(0.9)	–	–	(0.9)
Exchange differences arising on translation of foreign operations	–	0.5	–	–	–	–	0.5
Net income recognised directly in equity	–	0.5	–	(0.6)	–	–	(0.1)
Net profit for the period	–	–	–	–	–	81.5	81.5
Total recognised income & expense for the period	–	0.5	–	(0.6)	–	81.5	81.4
Transactions with equity holder's in their capacity as equity holders							
Issue of shares/share-based payments expense	1,012.7	–	1.1	–	–	–	1,013.8
Share issue costs	(19.6)	–	–	–	–	–	(19.6)
Related income tax	5.8	–	–	–	–	–	5.8
Dividends	–	–	–	–	–	(33.5)	(33.5)
	998.9	–	1.1	–	–	(33.5)	966.5
Balance at 30 June 2006	1,635.0	0.5	1.1	(0.6)	–	92.5	1,728.5

The above statement of changes in equity should be read in conjunction with the accompanying notes

Statement of Changes in Equity

for the financial year ended 30 June 2007

Company

	Ordinary shares \$m	Foreign currency translation reserve \$m	Employee equity-settled benefit reserve \$m	Available- for-sale revaluation reserve \$m	Retained earnings \$m	Total attributable to equity holders of the entity \$m
Balance at 1 July 2006	1,635.0	–	1.1	(0.6)	4.1	1,639.6
Related income tax on revaluations	–	–	–	–	–	–
Gain/(loss) on available-for-sale investments	–	–	–	2.4	–	2.4
(Gain)/loss transferred to the income statement on disposal	–	–	–	(2.4)	–	(2.4)
Exchange differences arising on translation of foreign operations	–	–	–	–	–	–
Net income recognised directly in equity	–	–	–	–	–	–
Net profit for the period	–	–	–	–	41.8	41.8
Total recognised income & expense for the period	–	–	–	–	41.8	41.8
Transactions with equity holder's in their capacity as equity holders						
Issue of shares/share based payment expense	109.3	–	2.3	–	–	111.6
Share issue costs	(0.3)	–	–	–	–	(0.3)
Related income tax	0.5	–	–	–	–	0.5
Dividends	–	–	–	–	(63.1)	(63.1)
	109.5	–	2.3	–	(63.1)	48.7
Balance at 30 June 2007	1,744.5	–	3.4	(0.6)	(17.2)	1,730.1

The above statement of changes in equity should be read in conjunction with the accompanying notes

Statement of Changes in Equity

for the financial year ended 30 June 2006

Company

	Ordinary shares \$'m	Foreign currency translation reserve \$'m	Employee equity-settled benefit reserve \$'m	Available-for-sale revaluation reserve \$'m	Asset revaluation reserve \$'m	Retained earnings \$'m	Total attributable to equity holders of the entity \$'m
Balance at 1 July 2005	636.1	–	–	–	–	4.5	640.6
Changes in accounting policies	–	–	–	–	–	–	–
Restatements	–	–	–	–	–	(0.6)	(0.6)
As restated	636.1	–	–	–	–	3.9	640.0
Related income tax on revaluations	–	–	–	0.3	–	–	0.3
Gain/(loss) on available-for-sale investments	–	–	–	(0.9)	–	–	(0.9)
Exchange differences arising on translation of foreign operations	–	–	–	–	–	–	–
Net income recognised directly in equity	–	–	–	(0.6)	–	–	(0.6)
Net profit for the period	–	–	–	–	–	33.7	33.7
Total recognised income & expense for the period	–	–	–	(0.6)	–	33.7	33.1
Transactions with equity holder's in their capacity as equity holders							
Issue of shares/share-based payments expense	1,012.7	–	1.1	–	–	–	1,013.8
Share issue costs	(19.6)	–	–	–	–	–	(19.6)
Related income tax	5.8	–	–	–	–	–	5.8
Dividends	–	–	–	–	–	(33.5)	(33.5)
	998.9	–	1.1	–	–	(33.5)	966.5
Balance at 30 June 2006	1,635.0	–	1.1	(0.6)	–	4.1	1,639.6

The above statement of changes in equity should be read in conjunction with the accompanying notes

Cash Flow Statement

for the financial year ended 30 June 2007

		Consolidated		Company	
	Note	2007 \$m	2006 \$m	2007 \$m	2006 \$m
Cash flow from operating activities					
Receipts from customers		1,663.6	632.4	41.0	1.0
Payment to suppliers and employees		(1,323.0)	(500.6)	9.3	(2.0)
Interest received		15.9	5.0	8.3	4.4
Interest and other costs of finance paid		(112.6)	(22.2)	(92.4)	(18.9)
Income tax paid		(37.0)	(25.4)	10.6	(24.8)
Net cash provided by/(used in) operating activities	29(g)	206.9	89.2	(23.2)	(40.3)
Cash flows from investing activities					
Payment for investments		(91.6)	(23.8)	(68.2)	(21.3)
Proceeds on sale of investments		103.7	9.6	84.4	–
Trust distribution		2.5	–	2.5	–
Proceeds from repayment/ (amounts advanced to) related party loans		–	–	(693.9)	(502.4)
Proceeds from repayment/ (amounts advanced to) related parties		–	0.3	–	–
Amounts advanced to other parties		(82.0)	(24.5)	(23.9)	(24.0)
Payment for property, plant and equipment		(259.2)	(134.0)	–	(0.9)
Proceeds from sale of property, plant & equipment		28.3	27.9	–	–
Payment for childcare licences		(491.7)	(354.6)	–	(3.8)
Proceeds from sale of childcare licences		30.1	8.0	–	–
Proceeds from/(payments for) other intangibles		(4.4)	(1.9)	–	–
Payment for businesses	25	(815.1)	(358.3)	(489.9)	(340.6)
Net cash used in investing activities		(1,579.4)	(851.3)	(1,189.0)	(893.0)
Cash flows from financing activities					
Proceeds from issues of equity securities		19.1	994.7	19.1	994.7
Payment for share issue costs		(0.3)	(19.6)	(0.3)	(19.6)
Proceeds from borrowings		1,629.5	5.5	1,265.3	5.5
Repayment of borrowings		(113.5)	(108.5)	(21.5)	(1.9)
Dividends paid		(39.2)	(22.0)	(39.2)	(22.0)
Net cash provided by financing activities		1,495.6	850.1	1,223.4	956.7
Net increase in cash and cash equivalents		123.1	88.0	11.2	23.4
Cash and cash equivalents at the beginning of the year		131.7	44.1	57.6	34.2
Effects of exchange rate changes on the balance of cash held in foreign currencies		(35.2)	(0.4)	–	–
Cash and cash equivalents at the end of the year	29(a)	219.6	131.7	68.8	57.6

The above cash flow statement should be read in conjunction with the accompanying notes

Notes to the Financial Statements

for the financial year ended 30 June 2007

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Notes to the Financial Statements

for the financial year ended 30 June 2007

Note 1. Summary of accounting policies

Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the *Corporations Act 2001*, Accounting Standards and Interpretations, and complies with other requirements of the law. Accounting Standards include Australian equivalents to International Financial Reporting Standards ('AIFRS'). Compliance with AIFRS ensures that the consolidated financial statements and notes of the consolidated entity comply with International Financial Reporting Standards ('IFRS'). The parent entity financial statements and notes also comply with IFRS except for the disclosure requirements in IAS 32 'Financial Instruments: Disclosure and Presentation' as the Australian equivalent Accounting Standard, AASB 132 *Financial Instruments: Disclosure and Presentation* does not require such disclosures to be presented by the parent entity where its separate financial statements are presented together with the consolidated financial statements of the consolidated entity.

The financial statements were authorised for issue by the directors on 27 August 2007.

Basis of accounting

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of AIFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities

(including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment and investment property. Cost is based on the fair values of the consideration given in exchange for assets.

Rounding of amounts

The company has applied the relief available to it under ASIC Class Order 98/0100 and accordingly, amounts in the financial report and directors' report have been rounded off to the nearest hundred thousand dollars, or in some cases to the nearest thousand dollars.

(a) Principles of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) (referred to as 'the Group' in these financial statements). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All inter-company balances and transactions between entities in the Group, including any unrealised profit or losses, have been eliminated on consolidation. Where controlled entities have entered or left the Group during the year, their operating results have been included from the date control was obtained or until the date control ceased.

(b) Foreign currency

(i) Functional and presentation currencies

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold or borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the income statement as part of the gain or loss on sale where applicable.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(c) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed as incurred over the period of the borrowing.

(d) Impairment of assets

Goodwill, childcare licences and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment losses are recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease to the extent of previous revaluation increments relating to that specific asset.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase to the extent of previous revaluation increments relating to that specific asset. Impairment losses recognised for goodwill are not subsequently reversed.

(e) Provisions

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation and a reliable estimate can be made of the amount of obligation.

The amount recognised as a provision is the best-estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

Onerous contracts

An onerous contract is considered to exist where the Group has a contract under which the unavoidable cost of meeting the contractual obligations exceed the economic benefits estimated to be received. Present obligations arising under onerous contracts are recognised as a provision to the extent that the present obligation exceeds the economic benefits estimated to be received.

Restructuring

A provision for restructuring is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are

Notes to the Financial Statements

for the financial year ended 30 June 2007

Note 1. Summary of accounting policies continued
both necessarily entailed by the restructuring and not associated with ongoing activities of the entity.

(f) Segment reporting

A business segment is a group of assets and operations engaged in providing services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

(g) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

The company and its wholly-owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. A.B.C. Learning Centres Limited is the head entity in the tax-consolidated group. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members

of the tax-consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and relevant tax credits of the members of the tax-consolidated group are recognised by the company (as head entity in the tax consolidated group).

Due to the existence of a tax funding arrangement between the entities in the tax consolidated group, the amounts are recognised as payable to or receivable by the company and each member of the group in relation to the tax contribution amounts paid or payable between the parent entity and other members of the tax-consolidated group in accordance with the arrangement. Further information about the tax funding arrangement is detailed in note 3. Where the tax contribution amount recognised by each member of the tax-consolidated group for a particular period is different to the aggregate of the current tax liability or asset and any deferred tax asset arising from unused tax losses and tax credits in respect of the period, the difference is recognised as a contribution from (or distribution to) equity participants.

(h) Property, plant and equipment

Land, buildings, plant & equipment, leasehold improvements and transport equipment are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present values as at the date of acquisition. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Land is not depreciated. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight-line method. Depreciation on other assets is calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives as follows:

Buildings – 20 years
Plant and equipment – 2 to 15 years
Property improvements – 5 years
Transport equipment – 10 to 20 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(d)).

Gains and losses on disposals are determined by comparing the proceeds from sale with the carrying amount. These are included in the income statement.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

(i) Leases

Leases of property, plant and equipment, where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings as appropriate. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated on a straight line basis over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease. Contingent rentals are recognised as expenses in the periods in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are initially recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

(j) Investments and other financial assets

Classification

The Group classifies its investments in the following categories; financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and in the case of assets classified as held-to-maturity re-evaluates this designation at each reporting date.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling and/or repurchasing in the near term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets.

(iii) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Recognition and Derecognition

Purchases and sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place are recognised on the trade date (i.e. the date that the Group commits to purchase or sell the asset). Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through the profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in other income or other expenses in the period in which they arise. Gains and losses arising from changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in equity in the available-for-sale revaluation reserve.

Fair Value

The fair value of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using

Notes to the Financial Statements

for the financial year ended 30 June 2007

Note 1. Summary of accounting policies continued valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity specific inputs.

Impairment

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments classified as available-for-sale are not reversed through the income statement.

(k) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities, which are not an incremental cost relating to the actual draw-down of the facility, are recognised as part of the borrowing and amortised on a straight line basis over the term of the facility.

Redeemable converting preference shares are classified as liabilities. The dividends on these preference shares are recognised in the income statement as interest expense.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled, or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or other expenses.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(l) Trade and other payables

Trade payables and other accounts payable are recognised when the Group becomes obliged to make future payments resulting from the purchase of goods and services.

(m) Inventories

Inventories are valued at the lower of cost and net realisable

value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventory on hand by the method most appropriate to each particular class of inventory, with the majority being valued on a first in first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs necessary to make the sale.

(n) Employee benefits

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables and provisions in respect of employees' services up to the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long service leave and other long term employee benefits

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Share based payments

Equity settled share-based payments with employees and others providing similar services are measured at the fair value of the equity instrument at the grant date. Fair value is measured at the closing price in the case of shares granted or by use of a Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. Further details on how the fair value of equity settled share-based transactions has been determined can be found in note 31.

The fair value determined at the grant date of the equity settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

The above policy is applied to all equity-settled share-based payments that were granted after 7 November 2002 that vested after 1 January 2005.

(iv) Profit-sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(v) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than twelve months after balance sheet date are discounted to present value.

(vi) Retirement benefit obligations

Contributions to the defined contribution funds of employees are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or reduction in the future payments is available.

(o) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(p) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, discounts and allowances, rebates and amounts collected on behalf of third parties. The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of the revenue is not considered to be reliably measurable until all contingencies relating to the sales have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue from the rendering of a service (including voucher processing and franchise services) is recognised upon delivery of the service to the customers. Where the service to be provided is subject to a contract that requires the services to be provided over a period of time, revenue is recognised by reference to the percentage of completion, based on the actual service provided as a proportion of the total services provided.

In certain instances, the Group engages licencees to operate centres either on behalf of the Group or using the Group's intellectual property and intangible assets. To reflect the substance of each of these transactions, the Group has considered the available guidance in AASB 118 *Revenue* and where the outcome of that assessment is inconclusive, the Group has considered the guidance contained within the

United States Financial Accounting Standards Board Emerging Issues Task Force publication "99-19 Reporting Revenue Gross as a Principle versus Net as an Agent". Where licencees operate centres as agents, the Group recognises the gross amounts of revenue and expenses incurred in operating the centres.

Interest revenue is recognised on a time proportional basis using the effective interest method.

Dividend revenue is recognised when the right to receive a dividend has been established.

Royalty revenue is recognised when the right to receive the royalty has been established.

(q) Goods and services tax ("GST")

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

(r) Acquisitions of assets

The purchase method of accounting is used for all acquisitions of assets (including business combinations) regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their market price as at the date of exchange, unless in rare circumstances, it can be demonstrated that the published market price as at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of the acquisition. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets

Notes to the Financial Statements

for the financial year ended 30 June 2007

Note 1. Summary of accounting policies continued
acquired is recorded as goodwill. If the cost of acquisition is less than the Group's share of the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

(s) Intangible assets

Childcare licences

Childcare licences are intangible assets and are recorded at cost, less any accumulated amortisation and impairment. Licences are acquired either as part of a business combination or by way of separate acquisition. Licences acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. Licences acquired by way of separate acquisition are recorded at cost of acquisition, which includes directly attributable costs.

Childcare licences include the following components:

- childcare licences for owned operational centres.
- acquisitional pipeline resulting from a business combination accounted for in accordance with AASB 3 *Business Combinations* and representing acquired rights to future childcare licences, where developers are in the process of developing childcare facilities and obtaining childcare licences.
- fees paid to developers in advance where they are contracted to develop childcare facilities and ABC has a right to acquire the childcare business from the developer on completion.

The useful life of licences is assessed at the time of acquisition and currently all licences have been assessed as having an indefinite useful life. The assessment of the licences as having an indefinite useful life is based on the licences having renewal terms of between two and three years with the cost of renewal being insignificant. The Group intends to renew the licences continuously and evidence supports its ability to do so. Where licences are assessed as having an indefinite useful life, they are not amortised but are subject to an annual test for impairment. Each period, the useful life is reviewed to determine whether events and circumstances continue to support an indefinite useful life assessment for the licence.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included as an intangible asset. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is not amortised and instead is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. On disposal of an operation or an entity within a Cash Generating Unit ("CGU"),

the attributable amount of goodwill is included in the determination of the profit or loss on disposal of the operation.

For the purpose of impairment testing, goodwill is allocated to each of the Group's CGUs, or groups of cash generating units, that are expected to benefit from the synergies of the combination.

If the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU (or group of CGUs), the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU (or group of CGUs) and then to the other assets of the CGU (or group of CGUs) pro-rata on the basis of the carrying amount of each asset in the CGU (or group of CGUs). An impairment loss recognised for goodwill is recognised in the income statement and is not subsequently reversed.

Other Intangibles

Other intangible assets include financial and childcare systems and educational curriculum and are recorded at cost less amortisation and impairment. Amortisation of other intangible assets is calculated using the straight line method to allocate their cost over their estimated useful lives as follows:

- curriculum – 15 years
- financial systems – 2.5 years

(t) Earnings per share

Basic earnings per share

Basic earnings per share is determined by dividing net profit after income tax attributable to members of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other finance costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(u) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are included in the cost of the acquisition as part of the purchase consideration.

If the entity reacquires its own equity instruments, e.g., as a result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss

is recognised in the income statement and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

(v) Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as held for sale and stated at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

Impairment losses are recognised for any initial or subsequent write down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from the other liabilities in the balance sheet.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the income statement.

(w) Trade and other receivables

Trade and other receivables, which generally have 30 day terms are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for any uncollectible amounts.

Collectibility of trade and other receivables is reviewed on an ongoing basis. Amounts that are known to be uncollectible are written off when identified. An allowance for doubtful debts is raised when there is objective evidence that the group will not be able to collect the debt.

(x) Comparatives

In addition to changes made to comparatives as a result of the changes in accounting policies and restatements described below, a number of other comparative amounts have been adjusted to ensure consistent disclosure with the current year.

These additional adjustments have been minor in nature and have not resulted in any adjustment to the reported profit after tax or net assets of the Group or Company.

The main other adjustments to comparatives occurred in note 7 "Other Financial Assets", note 11 "Intangible Assets", and in note 12 "Trade and Other Payables", where the allocation of balances within line items in the notes has been adjusted.

Changes in Accounting Policy

During 2007 the Group considered its accounting policies for a number of matters as a result of the continuing evolution of the professional interpretation of Australian and International accounting pronouncements. Where necessary, the Group has changed its accounting policies so as to present more relevant and reliable information regarding the Group's financial position and performance, as represented by the results of its operations, its changes in equity and its cash flows.

Revenue Recognition

Previously the Group recognised revenue from licensees on the basis of the net licence fees received from each licensee. During the period the Group considered recent guidance issued by standard setting bodies (including the International Financial Reporting Interpretations Committee-IFRIC) and as a result reassessed the substance of the arrangements with the licensees under the guidance provided within the United States Financial Accounting Standards Board Emerging Issues Task Force publication "99-19 Reporting Revenue Gross as a Principle versus Net as an Agent". Following this reassessment, the Group has elected to change its accounting policies to better reflect the commercial and economic substance of the licence arrangements and provide information which the directors regard as more relevant and reliable. Under the changed method of revenue recognition, where the substance of the arrangement is such that the licensee acts as the agent of the Group, the Group recognises the gross amounts of revenue and expenses incurred in operating these centres.

The change in accounting policy has been applied retrospectively and the impact of the change is to increase the Group's revenue from rendering of services by \$415.8 million (2006: \$163.0 million) and increase the Group's employee benefits expense by \$415.8 million (2006: \$163.0 million). As a result of the changes, there has been no impact on earnings before interest, tax, depreciation, amortisation and impairment or profit after tax in the 2006 or previous reporting periods. There has been no change to the balances recorded in the Company's accounts.

Childcare Licences

In prior periods, the directors had considered that there was an active market for childcare licences and as a result had adopted a fair value basis for recording childcare licences. During the period, the directors have considered the evolving interpretation of AIFRS including recent interpretive guidance by regulators and as a result reassessed the existence of an active market for childcare licences.

Notes to the Financial Statements

for the financial year ended 30 June 2007

Note 1. Summary of accounting policies continued

Following this reassessment the Group has elected to change its accounting policy and apply the cost basis for recording childcare licences. Under the changed method, childcare licences are recorded at cost, less any accumulated amortisation and impairment. The directors consider that this change will result in the provision of more reliable information as the value of the licences will not be subject to sources of judgement and estimation uncertainty.

The change in accounting policy has been applied retrospectively and as a result comparative information has been restated. The impact of the change for the Group at 30 June 2006 is to: decrease the value of childcare licences by \$165.9 million; decrease the value of the asset revaluation reserve by \$108.9 million; and decrease the value of deferred tax liabilities in respect of the revaluations by \$57.0 million. As a result of the changes, there has been no impact on earnings before interest, tax, depreciation, amortisation and impairment or profit after tax. The decrease in the value of deferred tax liabilities of \$57.0 million has also been reflected in the balances recorded in the company's accounts. There has been no other impact on the balances recorded in the company's accounts.

Restatements

Finance Costs

The Redeemable Converting Preference Shares included in the 2006 financial report as non current borrowings, included transaction costs of \$1.9 million as deferred borrowing costs. The deferred borrowing costs should have been amortised over the life of the borrowings with \$0.3 million recognised as an expense in the 2006 financial report. For the year ended 30 June 2006 this misstatement had the effect of understating finance costs by \$0.3 million (2005: \$0.3 million). The effect was also to overstate the profit of the Group and Company for the year ended 30 June 2006 by \$0.3 million (2005: \$0.3 million).

The cumulative effect of the restatement is to decrease retained earnings at 30 June 2006 by \$0.9 million (2005: closing retained earnings decrease of \$0.6 million). The misstatement has been corrected by restating each of the affected financial statement line items for the prior year as described above.

Accounting for the tax-consolidated group

The Company is the head entity in an Australian tax-consolidated group. In the 2006 financial report, the deferred tax assets and deferred tax liabilities of all subsidiaries in the tax-consolidated group were recorded in the Company's accounts on the basis that it was the head entity in the tax-consolidated group. This treatment did not comply with the revised requirements that were introduced by Urgent Issues Group Interpretation 1052 *Tax Consolidation Accounting*. The Company has now transferred the deferred tax assets and deferred tax liabilities relating to each subsidiary in the tax-consolidated group from the Company to the subsidiary in both the current and comparative years. After adjusting for the change in accounting policy in respect of the revaluation of childcare licences referred to above,

the misstatement had the effect on the Company's accounts of overstating the deferred tax assets by \$5.4 million, overstating the deferred tax liabilities by \$3.2 million and understating the tax related receivable/payable by \$2.2 million. The misstatement has had no effect on the balances recorded in the Group accounts.

As a result of the misstatement there has been no impact on earnings before interest, tax, depreciation, amortisation and impairment or profit after tax of either the Group or the Company. The misstatement has been corrected by restating each of the affected financial statement line items for the prior year as described above.

Related party disclosures

Disclosures in the 2006 financial report did not include any disclosures of other transactions with a director related entity of Hon. L. Anthony. During the 30 June 2006 year, an entity associated with Hon. L. Anthony provided consulting services to the Group with a value of \$110,000. The comparative disclosures in the 30 June 2007 financial report have been restated to include the omitted disclosures.

Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in note 1, management has made judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable, the results of which form the basis of making these judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Group's accounting policies

The following are the critical judgements (apart from those involving estimations, which are dealt with below), that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Revenue recognition:

The Group has reassessed the relationship between certain subsidiaries and licensees, as described above in "Change of Accounting Policies" (refer note 1(p)).

Lease expense accruals:

The Group has entered into a number of lease agreements in respect of centre leases. In certain cases, the leases include fixed increases that are required to be recognised over the term of the lease (refer note 1(i)). In most cases the leases include option periods and management has applied judgement in

determining whether the option periods are likely to be exercised and therefore whether the term of the lease should include those option periods. Generally, management has now determined that the option periods will not be exercised, but rather that the leases will be renegotiated to extend the term of the lease and include further additional option periods, thereby securing the future operation of centres.

Allocation of valuation of assets in business combination:

As part of the acquisition accounting for acquisitions described in note 25, management have determined the allocation of the fair value of the identifiable assets and liabilities based on the available evidence, including using cash flow models and independent valuation specialists.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Impairment of intangible assets:

Determining whether intangible assets are impaired requires an estimation of the value-in-use of the cash generating units to which the intangible assets have been allocated. The value-in-use calculation requires the entity to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate present value. Details of the impairment calculations are provided in note 11.

Useful lives of property, plant and equipment:

As described in note 1(h), the Group reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. The useful life of plant and equipment is subject to estimation as increased use may shorten the available life of the relevant assets.

Adoption of New and Revised Standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. The adoption of these new and revised Standards and Interpretations has resulted in changes to the Group's accounting policies in the following areas but has not affected the amounts reported for the current or prior years:

- employee benefits (AASB 2004-03 "Amendments to Australian Accounting Standards");
- forecast intra-group transactions (AASB 2005-01 "Amendments to Australian Accounting Standards");
- investments classified as at fair value through profit or loss (AASB 2005-04 "Amendments to Australian Accounting Standards");

- rights to cash reimbursement for expenditure required to settle a provision (AASB 2005-05 "Amendments to Australian Accounting Standards");
- common control transactions (AASB 2005-06 "Amendments to Australian Accounting Standards");
- financial guarantee contracts (AASB 2005-09 "Amendments to Australian Accounting Standards").

Future Impact of New Standards and Interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2007 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

AASB 7 Financial Instruments: Disclosures and consequential amendments to other accounting standards resulting from its issue, is effective for periods beginning on or after 1 January 2007 and replaces the presentation requirements of AASB 132. In addition, AASB 2005-10 makes additional amendments to other standards as a result of the issue of AASB 7. The Group has completed an initial assessment of the additional requirements of the standard and consequential amendments and considers that additional disclosures will be required of the Group's financial instruments and share capital.

AASB 8 Operating Segments was released by the AASB in February 2007 and is effective for periods beginning on or after 1 January 2009 and must therefore be applied by the Group in its financial statements for the year ended on 30 June 2010. In addition, AASB 2007-3 makes additional amendments to other standards as a result of the issue of AASB 8. At this time, the Group has not quantified the changes that are likely to be required as a result of the adoption of standard and consequential amendments, however, it is expected that the standard will result in changes to the segment disclosures required to be made in the financial reports.

AASB 101 Presentation of Financial Statements, revised standard effective for annual reporting periods beginning on or after 1 January 2007. The revised standard will not affect any of the amounts recognised in the financial statements, and is not expected to significantly change disclosures presented in the financial report.

AASB Interpretation 10 Interim Financial Reporting and Impairment, new interpretation effective for annual reporting periods commencing on or after 1 November 2006. The interpretation prohibits the reversal of certain impairment charges recognised in an interim reporting period in a subsequent annual report. The Interpretation is not expected to have any significant impact on the Group.

Notes to the Financial Statements

for the financial year ended 30 June 2007

Note 1. Summary of accounting policies continued
AASB Interpretation 11 AASB 2 Group and Treasury Share Transactions was issued in February 2007 and is applicable to the Group's 30 June 2008 financial report. The impact of the interpretation is that share-based payment transactions with employees of the subsidiaries of the Group are likely to require recognition in the accounts of the subsidiary. As at the date of this report, the Group is considering the impact of the application of this interpretation.

AASB 2007-4 Amendments to Australian Accounting Standards arising from ED151 and Other Amendments was issued in April 2007 and makes amendments to a number of Australian Accounting Standards to introduce various accounting policy options, delete various disclosures presently required, and to make a number of editorial amendments. AASB 2007-4 is applicable to annual reporting periods beginning on or after 1 July 2007 and must therefore be applied by the Group in its financial statements for the year ended on 30 June 2008.

Whilst a large number of Accounting Standards are amended by AASB 2007-4, key accounting policy options introduced by AASB 2007-4 relate to:

- the measurement and presentation of government grants
- the accounting for jointly controlled entities using the proportionate consolidation method
- the presentation of the cash flow statement

At the date of preparation of this financial report, the Group has not decided on which optional accounting treatments may be adopted, if any, on the initial application of AASB 2007-4. Accordingly the directors are continuing to evaluate the potential financial impact of AASB 2007-4 on the financial statements. However, in the Group's financial statements for the year ended 30 June 2008, certain information may no longer be disclosed, or may be disclosed in an alternative manner, due to amendments made by AASB 2007-4 to the disclosure requirements of various Accounting Standards.

	Consolidated		Company	
Note 2. Profit from Operations	2007 \$m	2006 \$m	2007 \$m	2006 \$m
(a) Revenue				
Revenue from continuing operations consisted of the following items:				
Revenue from the rendering of services	1,615.7	753.3	23.4	–
Voucher income	12.2	–	–	–
Dividends:				
Subsidiaries	–	–	63.1	35.5
Other entities	1.2	4.3	1.2	–
Franchise Fees (USA)	10.3	5.7	–	–
Trust Distribution	2.5	–	2.5	–
Interest revenue:				
Bank deposits	5.0	4.2	3.0	3.7
Interest-bearing loans	10.4	1.1	5.0	1.1
Related Parties	–	–	34.6	27.2
Other	1.7	0.1	–	–
	1,659.0	768.7	132.8	67.5
(b) Other income				
Gain/(loss) on disposal of property, plant, equipment and childcare licences	15.3	22.2	(0.6)	–
Gain/(loss) on disposal of investments	15.1	(0.1)	1.5	–
Change in fair value of financial assets held at fair value through the income statement	7.0	–	7.0	–
Total other income	37.4	22.1	7.9	–
Total revenue and other income from continuing operations	1,696.4	790.8	140.7	67.5
(c) Profit before income tax				
Profit/(loss) before income tax has been arrived at after charging the following expenses:				
Finance costs:				
Interest on loans	77.6	17.1	58.4	14.7
Dividends on instruments classified as financial liabilities	6.9	4.5	6.9	4.5
Other finance costs	7.7	1.2	7.4	0.3
Total finance costs	92.2	22.8	72.7	19.5
Net bad and doubtful debts arising from:				
Other entities	3.4	1.1	–	–
Impairment of goodwill	1.0	1.0	–	–
Impairment of investments	–	–	1.0	1.0
Impairment of property, plant and equipment	–	1.9	–	–
Impairment of childcare licences	–	8.4	–	–
Total impairment	1.0	11.3	1.0	1.0

Notes to the Financial Statements

for the financial year ended 30 June 2007

	Consolidated		Company	
	2007 \$m	2006 \$m	2007 \$m	2006 \$m
Note 2. Profit from Operations continued				
Depreciation of non-current assets	36.5	14.2	–	–
Amortisation of non-current assets	2.4	0.1	–	–
Total depreciation and amortisation	38.9	14.3	–	–
Operating lease rental expense	185.1	94.3	–	–
Employee benefits expense:				
Superannuation contributions	6.1	10.8	–	–
Share-based payments	9.1	7.6	9.1	7.6
Other employee benefits	897.2	387.2	–	–
Total employee benefits expense	912.4	405.6	9.1	7.6
	Consolidated		Company	
	2007 \$m	2006 \$m	2007 \$m	2006 \$m
Note 3. Income Taxes				
(a) Income tax recognised in profit				
Tax expense/(income) comprises:				
Current tax expense/(income)	30.8	39.2	(4.6)	5.2
Adjustments recognised in the current year in relation to the current tax of prior years	(1.1)	(0.3)	(2.6)	(0.2)
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	25.0	0.3	(0.2)	(0.8)
Total tax expense/(income)	54.7	39.2	(7.4)	4.2
Attributable to:				
Continuing operations	54.7	39.2	(7.4)	4.2
The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:				
Profit from continuing operations	197.8	120.7	34.4	37.9
Profit from operations	197.8	120.7	34.4	37.9
Income tax expense calculated at 30%	59.3	36.2	10.3	11.4
Equity based payment expenses	2.7	2.3	2.7	2.3
Interest on redeemable convertible preference shares	1.3	1.2	1.3	1.2
Dividends from related entities	–	–	(18.9)	(10.6)
Other non-assessable/non-deductible items	(8.1)	(0.7)	(0.2)	0.1
Effect on varying rates of tax on overseas income	0.6	0.5	–	–
	55.8	39.5	(4.8)	4.4
(Over)/under provision of income tax in previous year	(1.1)	(0.3)	(2.6)	(0.2)
	54.7	39.2	(7.4)	4.2

The tax rates used in the reconciliations are the corporate tax rates of 30%, 30%, 33% and 36.64% payable by Australian, United Kingdom, New Zealand and United States of America corporate entities, respectively, on taxable profits under tax laws in each jurisdiction. There has been no change in the Australian, United Kingdom, New Zealand and United States of America corporate tax rate when compared with the previous reporting period.

	Consolidated		Company	
	2007 \$m	2006 \$m	2007 \$m	2006 \$m
(b) Income tax recognised directly in equity				
The following current and deferred amounts were charged directly to equity during the period:				
Deferred tax:				
Revaluations of available-for-sale securities	–	(0.3)	–	(0.3)
Share issue expenses deductible over 5 years	(0.5)	(3.5)	(0.5)	(3.5)
	(0.5)	(3.8)	(0.5)	(3.8)
(c) Current tax assets and liabilities				
Current tax assets:				
Tax refund receivable	–	–	–	–
	–	–	–	–
Current tax payables:				
Income tax payable attributable to:				
Parent entity	–	3.0	–	3.0
Entities in the tax-consolidated group	9.6	10.4	9.6	10.4
Other	2.7	0.7	–	–
	12.3	14.1	9.6	13.4
(d) Deferred tax balances				
Deferred tax assets:				
Tax losses – revenue	32.4	4.2	–	–
Tax losses – capital	–	–	–	–
Temporary differences	77.6	30.5	11.8	8.8
	110.0	34.7	11.8	8.8
Deferred tax liabilities:				
Temporary differences	87.4	20.8	2.3	–
	87.4	20.8	2.3	–

Notes to the Financial Statements

for the financial year ended 30 June 2007

Note 3. Income Taxes continued

Taxable and deductible temporary differences arise from the following:

			Consolidated			
	Opening balance \$m	Charged to income \$m	Charged to equity \$m	Acquisitions/ disposals \$m	Other \$m	Closing balance \$m
2007						
Gross deferred tax liabilities:						
Property, plant and equipment	(20.2)	(5.3)	–	(52.2)	–	(77.7)
Other items	(0.6)	(8.9)	–	(0.2)	–	(9.7)
	(20.8)	(14.2)	–	(52.4)	–	(87.4)
Gross deferred tax assets:						
Share issue expenses	7.7	(2.4)	0.5	–	–	5.8
Lease straightline accrual	5.5	(2.3)	–	7.9	–	11.1
Employee provisions	5.3	(1.4)	–	8.6	–	12.5
Property, plant and equipment	7.5	(5.6)	–	33.6	–	35.5
Tax losses	4.2	3.7	–	24.5	–	32.4
Other items	4.5	(2.8)	–	11.0	–	12.7
	34.7	(10.8)	0.5	85.6	–	110.0
	13.9	(25.0)	0.5	33.2	–	22.6
Attributable to:						
Continuing operations						22.6
			Company			
	Opening balance \$m	Charged to income \$m	Charged to equity \$m	Acquisitions/ disposals \$m	Other \$m	Closing balance \$m
2007						
Gross deferred tax liabilities:						
Other items	–	(2.3)	–	–	–	(2.3)
	–	(2.3)	–	–	–	(2.3)
Gross deferred tax assets:						
Share issue expenses	7.7	(2.4)	0.5	–	–	5.8
Other items	1.1	4.9	–	–	–	6.0
	8.8	2.5	0.5	–	–	11.8
	8.8	0.2	0.5	–	–	9.5
Attributable to:						
Continuing operations						9.5

Taxable and deductible temporary differences arise from the following:

	Consolidated					
2006	Opening balance \$m	Charged to income \$m	Charged to equity \$m	Acquisitions/ disposals \$m	Other \$m	Closing balance \$m
Gross deferred tax liabilities:						
Property, plant and equipment	(2.1)	(1.4)	–	(16.7)	–	(20.2)
Other items	(0.4)	0.2	–	(0.4)	–	(0.6)
	(2.5)	(1.2)	–	(17.1)	–	(20.8)
Gross deferred tax assets:						
Share issue expenses	4.2	–	3.5	–	–	7.7
Lease straight line accrual	1.7	1.7	–	2.1	–	5.5
Employee provisions	1.9	(0.2)	–	3.6	–	5.3
Property, plant and equipment	–	–	–	7.5	–	7.5
Tax losses	–	(0.8)	–	5.0	–	4.2
Other items	1.0	0.2	0.3	3.0	–	4.5
	8.8	0.9	3.8	21.2	–	34.7
	6.3	(0.3)	3.8	4.1	–	13.9
Attributable to:						
Continuing operations						13.9
	Company					
2006	Opening balance \$m	Charged to income \$m	Charged to equity \$m	Acquisitions/ disposals \$m	Other \$m	Closing balance \$m
Gross deferred tax liabilities:						
Other items	–	–	–	–	–	–
	–	–	–	–	–	–
Gross deferred tax assets:						
Share issue expenses	4.2	–	3.5	–	–	7.7
Other items	–	0.8	0.3	–	–	1.1
	4.2	0.8	3.8	–	–	8.8
	4.2	0.8	3.8	–	–	8.8
Attributable to:						
Continuing operations						8.8

Notes to the Financial Statements

for the financial year ended 30 June 2007

Note 3. Income Taxes continued

(e) Tax Consolidation

Relevance of tax consolidation to the group

The company and its wholly controlled Australian resident entities have formed a tax-consolidated group and are therefore taxed as a single entity. The head entity within the tax consolidated group is A.B.C. Learning Centres Limited.

Nature of tax funding and tax sharing agreements

Entities within the tax consolidated group have entered into a tax funding arrangement and a tax sharing agreement with the head entity. Under the terms of the tax funding agreement, A.B.C. Learning Centres Limited and each of the entities within the tax consolidated group has agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of each entity. Such amounts are reflected in the 'tax related receivable/(payable)' to other entities in the tax consolidated group.

The tax sharing agreement entered into between members of the tax consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations or if an entity should leave the tax consolidated group. The effect of the tax sharing agreement is that each member's liability for tax payable by the tax consolidated group is limited to the amount payable to the head entity under the tax funding arrangement.

Note 4. Key management personnel

Details of key management personnel

The key management personnel of A.B.C. Learning Centres Limited during the year were:

- Mrs S Atkinson AO (Chairman – Non Executive)
- Mr E S Groves (Chief Executive Officer)
- Dr L A Groves (Chief Executive Officer, Education)
- Mr W E Bessemer (Non-Executive Director)
- Mr M V Kemp (Chief Executive Officer – Operations (Australia and New Zealand))
- Mr D J Ryan (Non-Executive Director)
- Hon L J Anthony (Non-Executive Director)
- Mr J Black (Chief Financial Officer)
- Ms J G Bannan (Company Secretary and General Counsel)
- Mr W Davis (Chief Executive Officer – Learning Care Group Inc.)
- Mr J Woodward (Chief Executive Officer – Busy Bees Group Limited)

(a) Key management personnel compensation

The aggregate compensation of the key management personnel of the Group and the company is set out below:

	Consolidated		Company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Australia				
Short-term employee benefits	2,852	1,755	300	200
Post-employment benefits	198	141	21	14
Share-based payment	313	697	313	697
Long-term benefits	39	45	–	–
Termination benefits	–	–	–	–
	3,402	2,638	634	911
United States of America (AUD)				
Short-term employee benefits	636	999	–	–
Post-employment benefits	5	14	–	–
Share-based payment	939	5,403	939	5,403
Long-term benefits	–	–	–	–
Termination benefits	–	–	–	–
	1,580	6,416	939	5,403
United Kingdom (AUD)				
Short-term employee benefits	405	–	–	–
Post-employment benefits	–	–	–	–
Share-based payment	98	–	98	–
Long-term benefits	–	–	–	–
Termination benefits	–	–	–	–
	503	–	98	–

The company has taken advantage of the relief provided by the Corporations Regulation 2M.6.04 and has transferred the detailed key management personnel remuneration disclosures to the Directors' Report. The relevant information can be found in the remuneration report on pages 30 to 38.

(b) Executive share options of A.B.C. Learning Centres Limited

	Balance at 1 July 2006 No.	Granted as compensation No.	Exercised No.	Net other change No.	Balance at 30 June 2007 No.	Balance vested at 30 June 2007 No.	Vested and exercisable No.	Unvested No.
2007								
W Davis	1,083,000	–	–	–	1,083,000	216,600	216,600	866,400
	Balance at 1 July 2005 No.	Granted as compensation No.	Exercised No.	Net other change No.	Balance at 30 June 2006 No.	Balance vested at 30 June 2006 No.	Vested and exercisable No.	Unvested No.
2006								
W Davis	–	1,083,000	–	–	1,083,000	–	–	1,083,000

An initial incentive award of options valued at \$5,403,302 were provided to the senior executives of the Learning Care Group Inc. in return for the execution of their employment agreements.

These options will vest at the rate of 20 per cent per year on each anniversary, or upon earlier cessation of employment. Shares issued upon exercise of the options will rank equally in all respects with existing fully paid ordinary shares.

Further details on options provided as remuneration and shares issued on the exercise of such options, together with the terms and conditions of the options can be found in the remuneration report on page 38 of the Directors' Report.

The following share-based payment arrangements were in existence during the period:

Options series	Number	Grant date	Expiry date	Exercise price \$
1	1,912,191	27-Jan-06	27-Jan-11	7.35

Notes to the Financial Statements

for the financial year ended 30 June 2007

Note 4. Key management personnel continued

(b) Executive share options of A.B.C. Learning Centres Limited continued

In accordance with the terms of the share based payment arrangement, options issued on 27 January 2006 vest as detailed below:

- 382,438 options vest on 27 January 2007
- 382,438 options vest on 27 January 2008
- 1,147,315 options vest on 27 January 2009 or later should employment contracts be renewed.

For further detail on the policy for options granted refer to the remuneration report on page 38 of the Directors' Report.

The weighted average fair value of the share options granted during the financial year is nil (2006:\$5,403,302). Options were priced using a Black Scholes Option Valuation Model. Where relevant, the expected life used in the model has been adjusted based on the details as follows:

The model inputs for options granted on 27 January 2006 included:

- (a) Grant date share price: \$7.61
- (b) Exercise price: \$7.35
- (c) Expected volatility: 28.992%
- (d) Option life: 5.00274 years
- (e) Dividend yield: 1.84%
- (f) Risk-free interest rate: 5.31%

The following reconciles the outstanding share options granted under the ABC Executive option plan at the beginning and end of the financial year:

	2007		2006	
	Number of options No.	Weighted average exercise price \$	Number of options No.	Weighted average exercise price \$
Balance at beginning of the financial year	1,912,191	7.35	—	—
Granted during the financial year	—	—	1,912,191	7.35
Forfeited during the financial year	—	—	—	—
Exercised during the financial year ⁽ⁱ⁾	—	—	—	—
Expired during the financial year	—	—	—	—
Balance at end of the financial year	1,912,191	7.35	1,912,191	7.35
Exercisable at end of the financial year	382,438	7.35	—	—

(i) Exercised during the financial year

The following share options granted under the ABC option plan were exercised during the financial year:

2007 Options series	Number exercised	Exercise date	Share price at exercise date \$
Nil	—	—	—
2006 Options series	Number exercised	Exercise date	Share price at exercise date \$
Nil	—	—	—

(c) Fully paid ordinary shares of A.B.C. Learning Centres Limited

2007	Balance at 1 July 2006 No.	Granted as compensation No.	Received on exercise of options No.	Net other change No.	Balance at 30 June 2007 No.
Directors of A.B.C. Learning Centres Limited					
Ordinary Shares					
S Atkinson	695,000	—	—	—	695,000
E Groves	16,797,500	—	—	2,502,500	19,300,000
L Groves	16,810,500	—	—	202,500	17,013,000
W E Bessemer	105,000	—	—	—	105,000
M V Kemp	10,462,259	—	—	1,187,741	11,650,000
D J Ryan	239,595	—	—	6,110	245,705
L J Anthony	106,622	—	—	10,715	117,337
Other key management personnel of the Group					
Ordinary shares					
J Woodward	—	—	—	—	—
J Bannan	27,000	50,000	—	(25,000)	52,000
W Davis	229,000	—	—	49,500	278,500
J Black	—	—	—	3,000	3,000
2006	Balance at 1 July 2005 No.	Granted as compensation No.	Received on exercise of options No.	Net other change No.	Balance at 30 June 2006 No.
Directors of A.B.C. Learning Centres Limited					
Ordinary Shares					
S Atkinson	695,000	—	—	—	695,000
E Groves	18,595,000	—	—	(1,797,500)	16,797,500
L Groves	18,608,000	—	—	(1,797,500)	16,810,500
W E Bessemer	105,000	—	—	—	105,000
M V Kemp	9,099,545	—	—	1,362,714	10,462,259
D J Ryan	235,000	—	—	4,595	239,595
L J Anthony	25,000	—	—	81,622	106,622
Other key management personnel of the Group					
Ordinary shares					
J Reynolds	112,035	55,000	—	(66,200)	100,835
M Loveday	50,000	50,000	—	(100,000)	—
J Bannan	30,000	30,000	—	(33,000)	27,000
W Davis	—	—	—	229,000	229,000
F Jerneycic	—	—	—	20,000	20,000
K Myers	—	—	—	20,000	20,000
S Smith	—	—	—	15,000	15,000

Notes to the Financial Statements

for the financial year ended 30 June 2007

Note 4. Key management personnel compensation continued

(d) Redeemable converting preference shares of A.B.C. Learning Centres Limited

	Balance at 1 July 2006 No.	Granted as compensation No.	Received on exercise of options No.	Net other change No.	Balance at 30 June 2007 No.
2007					
M V Kemp	50,000	–	–	(50,000)	–
	50,000	–	–	(50,000)	–
2006					
M V Kemp	50,000	–	–	–	50,000
	50,000	–	–	–	50,000

(e) Unsecured Subordinated Reset Convertible Notes

	Balance at 1 July 2006 No.	Granted as compensation No.	Received on exercise of options No.	Net other change No.	Balance at 30 June 2007 No.
2007					
J Black	–	–	–	10	10
J Bannan	–	–	–	5	5
	–	–	–	15	15

(f) Loans to key management personnel

There are no loans made or outstanding with Directors and other key management personnel of the Group, including any related parties at 30 June 2007 (2006: nil).

(g) Other transactions with key management personnel

No amounts were provided for doubtful debts relating to debts due from key management personnel of A.B.C. Learning Centres Limited (2006: Nil).

Amounts receivable from and payable to these related parties are disclosed in notes 6 and 12 to the financial statements.

During the year no loans were advanced by the group to key management personnel (2006: nil).

	Consolidated		Company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Note 5. Remuneration of auditors				
Auditor of the parent entity ⁽ⁱ⁾				
Audit or review of the financial report	1,125	625	123	74
Taxation services	–	–	–	–
Other assurance services	6	8	–	–
Due diligence	45	–	45	–
	1,176	633	168	74
Other auditors				
Auditing the financial report	1,380	164	–	–
Taxation services	119	–	–	–
Due diligence	313	–	–	–
	1,812	164	–	–
	2,988	797	168	74

(i) The auditor of A.B.C. Learning Centres Limited is Pitcher Partners, an independent member of Baker Tilly International.
The services of auditors other than Pitcher Partners are engaged for certain overseas subsidiaries of the Group.

	Consolidated		Company	
	2007 \$m	2006 \$m	2007 \$m	2006 \$m
Note 6. Trade and other receivables				
Current				
Trade receivables	56.4	77.6	2.3	–
Allowance for doubtful debts	(2.4)	(1.5)	–	–
	54.0	76.1	2.3	–
Property settlements receivable	–	20.9	–	–
Tax related receivables ⁽ⁱ⁾	–	–	32.3	39.7
Goods and services tax (GST) recoverable	11.4	0.7	(0.5)	0.5
Related parties	–	–	–	–
Other receivables	0.7	15.0	–	0.3
	66.1	112.7	34.1	40.5
Non-current				
Trade receivables	–	0.4	–	–
Deposits and security bonds	4.3	2.6	–	–
	4.3	3.0	–	–
(i) Tax related receivables relate to subsidiaries.				
	Consolidated		Company	
	2007 \$m	2006 \$m	2007 \$m	2006 \$m
Note 7. Other financial assets				
Loans carried at amortised cost:				
Non-current				
Interest-bearing loans advanced to:				
Other entities ⁽ⁱⁱ⁾	108.0	30.5	59.3	28.2
Non-interest-bearing loans advanced to:				
Subsidiaries	–	–	235.0	980.1
Other entities	1.8	4.8	–	3.0
	109.8	35.3	294.3	1,011.3
Investments carried at cost:				
Non-current				
Investment in subsidiaries	–	–	2,700.7	726.6
Other investments ⁽ⁱ⁾	6.6	1.9	6.1	1.6
	6.6	1.9	2,706.8	728.2
Available-for-sale investments carried at fair value:				
Non-current				
Shares ⁽ⁱ⁾	3.8	26.4	3.8	26.4
Financial assets carried at fair value through profit or loss:				
Current				
Shares-listed entities ⁽ⁱ⁾	54.9	–	54.9	–
Disclosed in the financial statements as:				
Current other financial assets	54.9	–	54.9	–
Non-current other financial assets	120.2	63.6	3,004.9	1,765.9
	175.1	63.6	3,059.8	1,765.9

(i) The Group holds investments in listed and non-listed entities.

(ii) Interest bearing loans are in most cases unsecured and bear interest at a reference rate plus an appropriate margin.

Notes to the Financial Statements

for the financial year ended 30 June 2007

	Consolidated		Company		
Note 8. Inventories	2007 \$m	2006 \$m	2007 \$m	2006 \$m	
Finished goods:					
At cost	0.7	5.5	—	—	
	0.7	5.5	—	—	
	Consolidated		Company		
Note 9. Other current assets	2007 \$m	2006 \$m	2007 \$m	2006 \$m	
Prepayments	30.4	17.6	0.3	0.2	
	30.4	17.6	0.3	0.2	
	Consolidated		Total		
Note 10. Property, plant and equipment	Freehold land and buildings at cost \$m	Property improvements at cost \$m	Plant and equipment at cost \$m	Transport equipment at cost \$m	Total \$m
Gross carrying amount					
Balance at 1 July 2005	1.3	54.9	29.7	8.4	94.3
Additions	2.0	77.3	27.6	2.9	109.8
Disposals	(9.6)	(3.0)	(1.5)	(1.3)	(15.4)
Acquisitions through business combinations	58.1	18.3	11.5	1.1	89.0
Classified as held for sale	(0.3)	—	—	—	(0.3)
Transfers	—	1.2	(1.2)	—	—
Net foreign currency exchange differences	—	—	—	—	—
Balance at 1 July 2006	51.5	148.7	66.1	11.1	277.4
Additions	4.6	151.6	53.4	24.7	234.3
Disposals	(2.1)	(4.5)	(3.9)	(3.2)	(13.7)
Acquisitions through business combinations	54.0	47.4	39.2	2.8	143.4
Classified as held for sale	(1.1)	—	—	—	(1.1)
Disposal of a company	—	—	(0.6)	(0.3)	(0.9)
Transfers	0.4	(2.6)	2.0	0.2	—
Net foreign currency exchange differences	(9.3)	(4.6)	(3.5)	—	(17.4)
Balance at 30 June 2007	98.0	336.0	152.7	35.3	622.0

	Consolidated				
	Freehold land and buildings at cost \$m	Property improvements at cost \$m	Plant and equipment at cost \$m	Transport equipment at cost \$m	Total \$m
Accumulated depreciation/amortisation and impairment					
Balance at 1 July 2005	(0.3)	(3.4)	(5.9)	(1.9)	(11.5)
Disposals	–	2.1	0.7	0.4	3.2
Acquisitions through business combinations	(3.0)	(0.4)	(0.7)	(0.3)	(4.4)
Impairment losses charged to profit ⁽ⁱ⁾	–	(1.9)	–	–	(1.9)
Depreciation expense	(0.5)	(5.6)	(7.2)	(0.9)	(14.2)
Net foreign currency exchange differences	–	–	–	–	–
Balance at 1 July 2006	(3.8)	(9.2)	(13.1)	(2.7)	(28.8)
Disposals	0.3	0.5	1.6	1.5	3.9
Acquisitions through business combinations	(1.3)	(2.3)	(7.3)	(1.6)	(12.5)
Impairment losses charged to profit ⁽ⁱ⁾	–	–	–	–	–
Disposal of a company	–	–	0.4	–	0.4
Transfers	–	–	–	–	–
Depreciation expense	(1.0)	(10.4)	(23.1)	(2.0)	(36.5)
Net foreign currency exchange differences	0.4	–	0.7	–	1.1
Balance at 30 June 2007	(5.4)	(21.4)	(40.8)	(4.8)	(72.4)
Net book value					
As at 30 June 2006	47.7	139.5	53.0	8.4	248.6
As at 30 June 2007	92.6	314.6	111.9	30.5	549.6
	Freehold land and buildings at cost \$m	Property improvements at cost \$m	Company Plant and equipment at cost \$m	Transport equipment at cost \$m	Total \$m
Gross carrying amount					
Balance at 1 July 2005	1.0	–	–	–	1.0
Additions	0.9	–	–	–	0.9
Balance at 1 July 2006	1.9	–	–	–	1.9
Additions	–	–	–	–	–
Disposals	(1.0)	–	–	–	(1.0)
Balance at 30 June 2007	0.9	–	–	–	0.9
Accumulated depreciation/ amortisation and impairment					
Balance at 1 July 2005	(0.3)	–	–	–	(0.3)
Depreciation expense	–	–	–	–	–
Balance at 1 July 2006	(0.3)	–	–	–	(0.3)
Depreciation expense	–	–	–	–	–
Disposal	0.3	–	–	–	0.3
Balance at 30 June 2007	–	–	–	–	–
Net book value					
As at 30 June 2006	1.6	–	–	–	1.6
As at 30 June 2007	0.9	–	–	–	0.9

(i) Impairment losses are included in the line item "impairment" in the income statement. The impairment losses recognised during the period of nil (2006: \$1.9 million) relate to write downs of various items of property, plant or equipment that were held by childcare centres that were closed.

Notes to the Financial Statements

for the financial year ended 30 June 2007

Note 10. Property, plant and equipment continued

	Consolidated		Company	
	2007 \$m	2006 \$m	2007 \$m	2006 \$m
Aggregate depreciation/amortisation allocated, whether recognised as an expense or capitalised as part of the carrying amount of other assets during the year:				
Buildings	1.0	0.5	–	–
Property improvements	10.4	5.6	–	–
Plant and equipment	23.1	7.2	–	–
Transport equipment	2.0	0.9	–	–
	36.5	14.2	–	–

		Consolidated			
		Goodwill \$m	Childcare Licences owned \$m	Childcare Licences under construction \$m	Other \$m
Note 11. Intangible Assets	Note				
Balance at 1 July 2005		37.4	647.6	121.0	0.7
Additions from separate acquisition		–	282.2	61.7	–
Additions from internal developments		–	–	–	1.8
Acquisition through business combinations	25	65.3	305.8	20.0	0.6
Disposals or classified as held for sale		–	(7.3)	–	–
Transfer to childcare licences (owned)		–	73.7	(73.7)	–
Net foreign currency exchange differences		1.1	2.4	–	–
Balance at 30 June 2006		103.8	1,304.4	129.0	3.1
Additions from separate acquisition		–	324.5	175.9	–
Derecognised on disposal of a subsidiary		(3.3)	–	–	–
Additions from internal developments		–	–	–	3.8
Acquisition through business combinations	25	170.4	694.9	–	3.7
Disposals or classified as held for sale		–	(7.5)	–	–
Transfer to childcare licences (owned)		–	96.2	(96.2)	–
Net foreign currency exchange differences		0.1	1.9	–	(0.7)
Balance at 30 June 2007		271.0	2,414.4	208.7	9.9

Accumulated amortisation and impairment

Balance at 1 July 2005	–	–	–	–	–
Amortisation expense	–	–	–	(0.1)	(0.1)
Impairment losses charged to profit ⁽ⁱ⁾	(1.0)	(8.4)	–	–	(9.4)
Balance at 30 June 2006	(1.0)	(8.4)	–	(0.1)	(9.5)
Amortisation expense	–	–	–	(2.4)	(2.4)
Impairment losses charged to profit ⁽ⁱ⁾	(1.0)	–	–	–	(1.0)
Balance at 30 June 2007	(2.0)	(8.4)	–	(2.5)	(12.9)

Net book value

As at 30 June 2006	102.8	1,296.0	129.0	3.0	1,530.8
As at 30 June 2007	269.0	2,406.0	208.7	7.4	2,891.1

(i) During the financial year, the Group assessed the recoverable amount of goodwill, and determined that goodwill associated with the acquisition of Future One Pty Ltd was impaired by \$1 million (2006: \$1 million) as a result of the decrease in the expected future cash flows to be received by the company. The impairment losses are recorded in the "Impairment" line item in the income statement.

As described in note 25, the accounting for a number of the Group's acquisitions during the year has only been determined provisionally and as such, the final allocation of values between goodwill and other assets has not been completed at 30 June 2007.

Allocation of goodwill to cash-generating units

For the purpose of impairment testing, goodwill has been allocated to the following cash generating units ("CGU"). The carrying amount of goodwill allocated to these units is significant individually and in aggregate, as described below:

	Consolidated	
	2007 \$m	2006 \$m
Australia	40.9	43.2
United States of America	63.4	59.6
United Kingdom	164.7	–
Total	269.0	102.8

The recoverable amount of the CGUs described above has been estimated based on a value-in-use calculation. The value-in-use calculations are based on budgets for the next five years for each geographical segment, being the level at which goodwill is monitored for internal purposes.

The key assumptions underlying each budget relate to the number of centres operated in each market and the average occupancy of each centre. These key assumptions are based on experience, taking account of expected changes as a result of current and future operational plans.

The application of the key assumptions to the five year budgets results in an average growth rate of 5%, which management considers is within the long-term average growth rates of the relevant markets. A discount rate of 9.5% (2006: 9.5%, except US where a rate of 12% was used) has been applied to the future cash flows to estimate the recoverable amounts of the CGUs. Management believes that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

Allocation of childcare licences to cash-generating units

For the purpose of impairment testing, childcare licences have been allocated to individual centres, or groups of centres. The carrying amount of childcare licences allocated to each individual centre, or group of centres, is not individually significant in comparison with the total carrying amount of the Group's childcare licences. In aggregate, the value of the childcare licences allocated to each group of centres, grouped by segment, is described below:

	Consolidated	
	2007 \$m	2006 \$m
Australia	1,738.1	1,229.7
New Zealand	185.5	56.7
United States of America	691.1	138.6
United Kingdom	–	–
Total	2,614.7	1,425.0

The recoverable amount of the CGUs described above has been estimated based initially on a value-in-use calculation.

The value-in-use calculations are based on budgets for the next five years for each individual centre, or group of centres, within each geographical segment, being the level at which the recoverable amount of childcare licences is monitored for internal purposes.

The key assumptions underlying each budget in respect of each centre relate to the average occupancy, the average fee per place, the average wage expense per place and the number and type of places for which each centre is configured. These key assumptions are based on experience, taking account of expected changes as a result of current and future operational plans.

Notes to the Financial Statements

for the financial year ended 30 June 2007

	Consolidated		Company	
Note 12. Trade and other payables	2007 \$m	2006 \$m	2007 \$m	2006 \$m
Current				
Trade payables	22.9	13.3	–	–
Sundry creditors and accrued expenses	249.6	108.1	42.3	11.5
Related parties	–	–	–	–
	272.5	121.4	42.3	11.5
Non-current				
Other payables	12.3	16.3	–	–
	12.3	16.3	–	–

Creditors are recognised at amounts to be paid in the future for goods and services already received. They are normally settled on 30 day terms.

	Consolidated		Company	
Note 13. Borrowings	2007 \$m	2006 \$m	2007 \$m	2006 \$m
Current				
Unsecured				
<i>At amortised cost</i>				
Bank overdrafts	8.2	0.8	–	–
Bank loans ^(v)	1,140.9	0.1	808.3	–
Other loans	–	–	–	–
	1,149.1	0.9	808.3	–
Secured				
<i>At amortised cost</i>				
Lease liabilities ⁽ⁱ⁾	0.6	7.2	–	–
	1,149.7	8.1	808.3	–
Non-current				
Unsecured				
<i>At amortised cost</i>				
Redeemable convertible preference shares ⁽ⁱⁱ⁾	–	59.1	–	59.1
Redeemable convertible reset notes ⁽ⁱⁱⁱ⁾	583.1	–	583.1	–
Bank loans	–	151.0	–	151.0
	583.1	210.1	583.1	210.1
Secured				
<i>At amortised cost</i>				
Bank loans ^(iv)	13.0	10.8	–	–
Lease liabilities ⁽ⁱ⁾	13.0	15.0	–	–
Other loans	1.3	–	–	–
	27.3	25.8	–	–
	610.4	235.9	583.1	210.1

(i) Finance leases and hire purchases are secured by the assets under lease or under hire purchase respectively.

(ii) On 13 June 2007 all redeemable preference shares were converted to ordinary shares.

(iii) During the year 6 million \$100 redeemable convertible reset notes were issued. These notes currently bear interest at 9.1367% and have a first reset date of 13 June 2010.

(iv) Secured by the asset financed by the loan.

(v) Bank loans are unsecured and drawn under the Syndicated Multi-option Facility Agreement. The agreement commenced on 13 June 2007 and is due for renewal on 13 June 2008.

Note 14. Provisions	Note	Consolidated		Company	
		2007 \$m	2006 \$m	2007 \$m	2006 \$m
Current					
Employee benefits		19.2	9.0	—	—
Restructuring and termination costs ⁽ⁱ⁾		—	0.3	—	—
Onerous lease contracts	22	0.2	0.2	—	—
		19.4	9.5	—	—
Non-current					
Employee benefits		0.7	0.9	—	—
Onerous lease contracts	22	0.8	1.1	—	—
		1.5	2.0	—	—
		Consolidated		Company	
		Restructuring and termination costs (i) \$m	Onerous lease contracts \$m	Restructuring and termination costs (i) \$m	Onerous lease contracts \$m
Balance at 1 July 2006		0.3	1.3	—	—
Additional provision through acquisition of business combinations		—	—	—	—
Reductions arising from payments/other sacrifices of future economic benefits		(0.3)	(0.3)	—	—
Balance at 30 June 2007		—	1.0	—	—
Current		—	0.2	—	—
Non-current		—	0.8	—	—
		—	1.0	—	—

(i) The provision for restructuring and termination costs represents the present value of the directors' best estimate of the costs directly and necessarily caused by the restructuring that are not associated with the ongoing activities of the entity, including termination benefits, and were an existing liability at date of acquisition.

Notes to the Financial Statements

for the financial year ended 30 June 2007

	Consolidated		Company	
Note 15. Issued Capital	2007 \$m	2006 \$m	2007 \$m	2006 \$m
412,676,809 fully paid ordinary shares (30 June 2006: 393,146,555)	1,744.5	1,635.0	1,744.5	1,635.0
	1,744.5	1,635.0	1,744.5	1,635.0

	2007		2006	
	No. '000,000	\$m	No. '000,000	\$m
Fully paid ordinary shares				
Balance at beginning of financial year	393.1	1,635.0	250.3	636.1
Issue of shares	19.5	109.3	142.8	1,012.7
Transaction costs on share issue	—	(0.3)	—	(19.6)
Tax effect on transaction costs	—	0.5	—	5.8
Balance at end of financial year	412.6	1,744.5	393.1	1,635.0

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the company does not have a limited amount of authorised capital and issued shares do not have a par value.

Redeemable convertible preference shares

The redeemable convertible preference shares on issue in the prior year and classified as liabilities were converted to ordinary shares during the year.

Share options

As at 30 June 2007 there are 1,529,753 (2006: 1,912,191) unvested options which were granted to the executives of Learning Care Group Inc. in accordance with their employment agreements (refer note 4).

	Consolidated		Company	
Note 16. Reserves	2007 \$m	2006 \$m	2007 \$m	2006 \$m
Foreign currency translation	(18.2)	0.5	—	—
Employee equity-settled benefits	3.4	1.1	3.4	1.1
Available-for-sale revaluation	(0.6)	(0.6)	(0.6)	(0.6)
	(15.4)	1.0	2.8	0.5

Foreign currency translation reserve

Balance at beginning of financial year	0.5	31.0	—	—
Translation of foreign operations	(18.7)	(30.5)	—	—
Balance at end of financial year	(18.2)	0.5	—	—

Exchange differences relating to the translation from functional currencies of the Group's foreign controlled entities into Australian dollars are brought to account by entries made directly to the foreign currency translation reserve.

	Consolidated		Company	
	2007 \$m	2006 \$m	2007 \$m	2006 \$m
Employee equity-settled benefits reserve				
Balance at beginning of financial year	1.1	—	1.1	—
Share-based payment	2.3	1.1	2.3	1.1
Balance at end of financial year	3.4	1.1	3.4	1.1

The employee equity settled benefits reserve arises from the expensing of share options granted to the executives under the executive share option plan. Amounts are transferred out of the reserve and into the issued capital when the options are exercised.

	Consolidated		Company	
	2007 \$m	2006 \$m	2007 \$m	2006 \$m
Available-for-sale revaluation reserve				
Balance at beginning of financial year	(0.6)	–	(0.6)	–
Valuation gain/(loss) recognised	2.4	(0.9)	2.4	(0.9)
Cumulative (gain)/loss transferred to the income statement on sale of financial assets	(2.4)	–	(2.4)	–
Deferred tax arising on revaluation	–	0.3	–	0.3
Balance at end of financial year	(0.6)	(0.6)	(0.6)	(0.6)

This reserve arises on the revaluation of available-for-sale financial assets. Where a revalued financial asset is sold, that portion of the reserve which relates to that financial asset is effectively realised and is recognised in profit or loss. Where a revalued financial asset is impaired that portion of the reserve which relates to that financial asset is recognised in profit or loss.

		Consolidated		Company	
	Note	2007 \$m	2006 \$m	2007 \$m	2006 \$m
Note 17. Retained earnings					
Balance at beginning of financial year		92.5	44.5	4.1	3.9
Net profit attributable to members of the parent entity		143.1	81.5	41.8	33.7
Dividends paid	18	(63.1)	(33.5)	(63.1)	(33.5)
Balance at end of financial year		172.5	92.5	(17.2)	4.1

		Consolidated		Company	
		2007 \$m	2006 \$m	2007 \$m	2006 \$m
Note 18. Dividends					
Recognised amounts					
Fully paid ordinary shares:					
(a) Final fully franked dividend for the financial year ended 30 June 2006: 8.0 cents (2005: 6.0 cents)		31.4	15.0	31.4	15.0
(b) Interim dividend for the financial year ended 30 June 2007: 8.0 cents (2006: 7.0 cents)		31.7	18.5	31.7	18.5
		63.1	33.5	63.1	33.5

Unrecognised amounts					
(a) Final fully franked dividend for the financial year ended 30 June 2007: 9 cents (2006: 8 cents)		42.1	31.5	42.1	31.5

	Company	
	2007 \$m	2006 \$m
Adjusted franking account balance	31.7	33.1
Impact on franking account balance of dividends not recognised	18.0	13.5

Redeemable Convertible Preference Shares:

Dividends on these shares of \$4,194,252 (2006: \$4,040,000) have been classified in the income statement as interest expense as these shares are classified as liabilities on the balance sheet. On 13 June 2007 the redeemable convertible preference shares were converted to ordinary shares.

Notes to the Financial Statements

for the financial year ended 30 June 2007

Note 19. Earnings per share	Consolidated	
	2007 Cents per share	2006 Cents per share
Basic earnings per share:		
From continuing operations	36.0	27.8
Total basic earnings per share	36.0	27.8
Diluted earnings per share:		
From continuing operations	36.0	27.8
Total diluted earnings per share	36.0	27.8

Basic earnings per share

Earnings used in the calculation of basic earnings per share and total basic earnings per share from continuing operations reconciles to net profit in the income statement as follows:

	Consolidated	
	2007 \$m	2006 \$m
Net profit	143.1	81.5
Earnings used in the calculation of basic EPS from continuing operations	143.1	81.5

The weighted average number of ordinary shares used in the calculation of basic earnings per share is as follows:

	2007 No.'m	2006 No.'m
Weighted average number of ordinary shares for the purposes of basic earnings per share	396.9	292.9

Diluted earnings per share

Earnings used in the calculation of diluted earnings per share and total diluted earnings per share from continuing operations reconciles to net profit in the income statement as follows:

	Consolidated	
	2007 \$m	2006 \$m
Net profit	143.1	81.5
Earnings used in the calculation of basic EPS from continuing operations	143.1	81.5

The weighted average number of ordinary shares for basic earnings per share reconciles to the weighted average number of ordinary shares for the purposes of diluted earnings per share as follows:

	2007 No.'m	2006 No.'m
Weighted average number of ordinary shares used in the calculation of basic EPS	396.9	292.9
Weighted average number of shares deemed to be issued for no consideration in respect of:		
Employee options	–	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share (c), (d)	396.9	292.9

(c) The following potential ordinary shares are not dilutive and are therefore excluded from the weighted average number of ordinary shares for the purposes of diluted earnings per share:

	2007 No.'m	2006 No.'m
Subordinated reset convertible notes	86.7	–
Redeemable convertible preference shares	–	12.0
Executive share option plan	1.9	1.9
	88.6	13.9

(d) Weighted average number of converted, lapsed, or cancelled potential ordinary shares included in the calculation of diluted earnings per share:

	2007 No.'m	2006 No.'m
Options to purchase ordinary shares pursuant to the executive share option plan	–	–

Impact of changes in accounting policies

As a result of the restatements identified in note 1 and the finalisation of business combinations described in note 25, the Group has restated the reported result for the year ended 30 June 2006. The following table summarises the impact of the restatement on the basic and diluted earnings per share:

		2006
	Basic EPS cents per share	Diluted EPS cents per share
Restatement of RCPS finance costs	(0.1)	(0.1)
Finalisation of business combinations	0.2	0.2
Total impact of restatements	0.1	0.1

	Consolidated		Company	
Note 20. Commitments for expenditure	2007 \$m	2006 \$m	2007 \$m	2006 \$m
(a) Capital expenditure commitments				
Plant and equipment				
Not longer than 1 year	2.1	3.8	—	—
Longer than 1 year and not longer than 5 years	—	—	—	—
Longer than 5 years	—	—	—	—
	2.1	3.8	—	—

In addition, an unincorporated executory joint arrangement exists between ABC Developmental Learning Centres Pty Ltd and Funtastic Limited (and its controlled entity Judius Pty Ltd) where for the next five years, ABC businesses or developers contracted by ABC to develop childcare businesses will purchase from Judius Pty Ltd, goods for an aggregate invoiced price of not less than \$26.8 million per annum over the course of the 5 years adjusted for CPI.

Intangible assets

Not longer than 1 year	25.5	39.5	—	—
Longer than 1 year and not longer than 5 years	6.1	—	—	—
Longer than 5 years	—	—	—	—
	31.6	39.5	—	—

(b) Lease commitments

Finance lease liabilities and non-cancellable operating lease commitments are disclosed in note 22 to the financial statements.

(c) Other expenditure commitments

	Consolidated		Company	
	2007 \$m	2006 \$m	2007 \$m	2006 \$m
Centre Development Costs				
Not longer than 1 year	57.7	206.5	—	—
Longer than 1 year and not longer than 5 years	4.5	—	—	—
Longer than 5 years	—	—	—	—
	62.2	206.5	—	—

Notes to the Financial Statements

for the financial year ended 30 June 2007

Note 21. Contingent liabilities

The parent entity and group had contingent liabilities at 30 June 2007 in respect of:

(i) Guarantees

Bank guarantees in Australia for specific commitments of the group total \$25.5 million (2006: \$5.9 million).

(ii) Guarantees in respect of franchisee lease commitments

A subsidiary of the Company is primarily or contingently liable for many of the leases of Tutor Time's franchisees. In an effort to build its franchisee network, Tutor Time either leased the prospective site for a franchisee, with a subsequent sublease of the site to the franchisee, or provided a lease guarantee to the landlord for the benefit of the franchisee in exchange for a monthly lease guarantee fee payable by the franchisee that is based upon the monthly rent expense of the guaranteed lease. The payments the Company could be required to pay related to leases and guarantees totals US\$45.1 million (2006: US\$58.3 million) and US\$7.8 million (2006: US\$10.0 million), respectively, in case of default by the franchisee. Should the Company be required to make payments under these leases, it may assume obligations for operating the centre. Should the centre not be economically viable, the Company will make provision for the lease termination at that time.

These guarantees may give rise to liabilities in the parent entity if the subsidiaries do not meet their obligations under the terms of the overdrafts, loans, leases or other liabilities subject to the guarantees. No material losses are anticipated in respect of any of the above contingent liabilities.

(iii) Letter of Credit issued to JP Morgan Chase

A letter of credit has been issued by the Company's bankers for US\$17 million (2006: US\$17 million) to secure the Learning Care Group, Inc. bank facility with JP Morgan Chase.

Note 22. Leases

Disclosures for lessees

Finance leases

Leasing arrangements

Finance leases relate to sale and leaseback transactions relating to some childcare centres in the United States of America.

Finance lease liabilities

	Note	Minimum future lease payments				Present value of minimum future lease payables			
		Consolidated		Company		Consolidated		Company	
		2007 \$m	2006 \$m	2007 \$m	2006 \$m	2007 \$m	2006 \$m	2007 \$m	2006 \$m
No later than 1 year		1.9	9.4	–	–	0.6	7.2	–	–
Later than 1 year and not later than 5 years		5.7	6.4	–	–	0.9	0.8	–	–
Later than five years		20.2	24.7	–	–	12.1	14.2	–	–
Minimum lease payments ⁽ⁱ⁾		27.8	40.5	–	–	13.6	22.2	–	–
Less future finance charges		(14.2)	(18.3)	–	–	–	–	–	–
Present value of minimum lease payments	13	13.6	22.2	–	–	13.6	22.2	–	–
Included in the Financial Statements as:									
Current Borrowings		0.6	7.2						
Non-current Borrowings		13.0	15.0						
		13.6	22.2						

(i) Minimum future lease payments includes the aggregate of all lease payments and any guaranteed residual.

Operating leases

Leasing arrangements

The Group has non-cancellable property leases with varying terms of up to twenty-three years. Most leases provide for additional option periods. The Group's lease contracts contain a number of types of review clauses that are based on either market review, CPI indexation' or landlord review. Equipment rental agreements provide for a maximum rental period of three years.

		Consolidated		Company	
	Note	2007 \$m	2006 \$m	2007 \$m	2006 \$m
Non-cancellable operating lease payments					
Not longer than 1 year		225.4	110.9	—	—
Longer than 1 year and not longer than 5 years		767.4	327.1	—	—
Longer than 5 years		694.9	770.9	—	—
		1,687.7	1,208.9	—	—
In respect of non-cancellable operating leases the following liabilities have been recognised:					
Current					
Onerous lease contracts	14	0.2	0.2	—	—
Non-current					
Onerous lease contracts	14	0.8	1.1	—	—
		1.0	1.3	—	—

Note 23. Economic dependency

The operation of childcare centres and training colleges benefit from the continued support by statutory authorities of the respective Federal Governments in the countries in which the Group operates as well as their policies on the provision of subsidies to the childcare industry and benefits provided to parents of children attending childcare centres.

Notes to the Financial Statements

for the financial year ended 30 June 2007

Note 24. Subsidiaries

The significant subsidiaries of the Group include:

Name of entity	Country of incorporation	Ownership interest	
		2007 %	2006 %
Parent entity			
A.B.C. Learning Centres Limited	Australia		
Subsidiaries			
A.B.C. Developmental Learning Centres Pty Ltd	Australia	100	100
A.B.C. Early Childhood Training College Pty Ltd	Australia	100	100
A.B.C. Corporate Care Pty Ltd	Australia	100	100
Premier Early Learning Centres Pty Ltd	Australia	100	100
ABC Developmental Learning Centres (NZ) Ltd	New Zealand	100	100
A.B.C. Land Holdings Pty Ltd	Australia	100	100
A.B.C. New Ideas Pty Ltd	Australia	100	100
ABC Land Holdings (NZ) Limited	New Zealand	100	100
FutureOne Pty Ltd	Australia	100	100
Child Care Centres Australia Ltd	Australia	100	100
Peppercorn Management Group Ltd	Australia	100	100
Peppercorn Holdings No.4 Pty Ltd	Australia	100	100
Childcare Development Solutions Pty Ltd	Australia	100	100
Childcare Development Solutions Unit Trust	Australia	100	100
Learning Care Group, Inc.	United States	100	100
Childtime Childcare, Inc.	United States	100	100
Tutor Time Learning Centers LLC	United States	100	100
The Children’s Courtyard LLP	United States	100	–
Kids Campus Limited	Australia	100	100
Kids Campus Australia Pty Ltd	Australia	100	100
Kids Campus Holdings Pty Ltd	Australia	100	100
Kids Campus (W.A.) Pty Ltd	Australia	100	100
Hutchison’s Child Care Services Ltd	Australia	100	–
HCCS Operations Pty Ltd	Australia	100	–
Learning Care (Europe) Limited	United Kingdom	100	–
Busy Bees Group Limited	United Kingdom	100	–
Busy Bees Childcare Vouchers Limited	United Kingdom	100	–
A.B.C. USA Holdings Pty Ltd	Australia	100	–
A.B.C. USA Holdings No 2 Pty Ltd	Australia	100	–
La Petite Academy Inc.	United States	100	–
Forward Steps Holdings Limited	New Zealand	100	–
Forward Steps Limited	New Zealand	100	–

Note 25. Acquisition of businesses

Names of businesses acquired	Principal activity	Date of acquisition	Proportion acquired (%)	Cost of acquisition \$m
Hutchison's Child Care Services Ltd	Provision of childcare services	25 September 2006 ⁽ⁱ⁾	100	99.4
The Children's Courtyard LLP	Provision of childcare services	7 September 2006 ⁽ⁱ⁾	100	85.6
Busy Bees Group Ltd	Provision of childcare services and voucher processing	18 December 2006 ⁽ⁱ⁾	100	120.4
La Petite Holdings Inc	Provision of childcare services	26 January 2007 ⁽ⁱ⁾	100	475.9
Forward Steps Holdings Ltd	Provision of childcare services	2 February 2007 ⁽ⁱ⁾	100	85.6
Children's Gardens LLP	Provision of childcare services	23 March 2007 ⁽ⁱ⁾	100	2.6
Balance at 30 June 2007				869.5
Childcare Development Solutions Unit Trust	Provision of childcare services	29 July 2005	100	12.5
Childcare Development Solutions Pty Ltd	Trustee for the Childcare Development Solutions Unit Trust	29 July 2005	100	–
Learning Care Group Inc	Provision of childcare and franchising services	11 January 2006 ⁽ⁱⁱ⁾	100	212.8
Kids Campus Limited	Provision of childcare services	29 May 2006 ⁽ⁱⁱⁱ⁾	100	127.9
Balance at 30 June 2006				353.2

(i) The initial accounting for the acquisitions during the 2007 year have only been provisionally determined as the Group is still in the process of determining the allocation of the fair value of the intangible assets.

(ii) The initial accounting for the acquisition of Learning Care Group Inc was only provisionally completed at 30 June 2006. During the current period, the initial accounting was finalised, resulting in an increase to the value of childcare licences by \$0.8 million and a decrease to the prior year amortisation of intangibles of \$0.8 million.

(iii) The initial accounting for the acquisition of Kids Campus Limited was only provisionally completed at 30 June 2006. During the current period, the initial accounting was finalised, resulting in an increase to the value of childcare licences by \$7.6 million and a decrease to the value of goodwill by \$7.6 million.

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for the financial year ended 30 June 2007

Note 25. Acquisition of businesses continued

	Hutchison's Child Care Services Ltd			The Children's Courtyard LLP			Busy Bees Group Limited		
	Book value \$m	Fair value adjustment \$m	Fair value on acquisition \$m	Book value \$m	Fair value adjustment \$m	Fair value on acquisition \$m	Book value \$m	Fair value adjustment \$m	Fair value on acquisition \$m
Net assets acquired									
Current assets:									
Cash and cash equivalents	1.6	–	1.6	2.3	–	2.3	34.9	–	34.9
Other debtors	0.3	–	0.3	0.2	–	0.2	–	–	–
Receivables	–	–	–	1.1	–	1.1	0.3	–	0.3
Inventories	–	–	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	1.5	–	1.5
Non-current assets:									
Receivables	–	–	–	–	–	–	–	–	–
Other financial assets	–	–	–	–	–	–	–	–	–
Childcare licences	37.5	63.3	100.8	–	80.3	80.3	–	–	–
Property, plant & equipment	12.7	–	12.7	7.9	–	7.9	34.5	–	34.5
Intangible assets	–	–	–	–	–	–	–	–	–
Goodwill	–	–	–	–	–	–	–	–	–
Deferred tax assets	2.6	–	2.6	–	–	–	–	–	–
Current liabilities:									
Payables	(6.9)	–	(6.9)	(8.3)	–	(8.3)	(42.0)	–	(42.0)
Short-term borrowings	(1.2)	–	(1.2)	(0.7)	–	(0.7)	–	–	–
Current tax liabilities	–	–	–	–	–	–	–	–	–
Provisions	(2.3)	–	(2.3)	–	–	–	(1.1)	–	(1.1)
Non-current liabilities:									
Long-term borrowings	(8.2)	–	(8.2)	(1.0)	–	(1.0)	(74.3)	–	(74.3)
Deferred tax liabilities	–	–	–	–	–	–	–	–	–
Provisions	–	–	–	–	–	–	–	–	–
	36.1	63.3	99.4	1.5	80.3	81.8	(46.2)	–	(46.2)
Goodwill on consolidation			–			3.8			166.6
			99.4			85.6			120.4
Net Cash acquired									
Payment for businesses									
Goodwill on consolidation									
Goodwill from acquisitions									
Goodwill from business combinations									

Current Period – 30 June 2007

From the date of acquisition Hutchison's Child Care Services Ltd has contributed \$9.2 million to the profit after tax position of the Group.

From the date of acquisition The Children's Courtyard LLP has contributed \$8.5 million to the profit after tax position of the Group.

From the date of acquisition Busy Bees Group Limited has contributed \$4.8 million to the profit after tax position of the Group.

From the date of acquisition La Petite Holdings LLC has contributed \$12.2 million to the profit after tax position of the Group.

From the date of acquisition Forward Steps Limited has contributed \$1.2 million to the profit after tax position of the Group.

From the date of acquisition Childrens Gardens LLP has contributed \$0.2 million to the profit after tax position of the Group.

If the acquisition of Hutchison's Child Care Services Ltd had taken place at the beginning of the year, the profit after tax for the Group would have been \$140.3 million and revenue from continuing operations would have been \$1,710.6 million.

Forward Steps Holdings Ltd			La Petite Holdings Inc			Childrens Gardens LLP			Total fair value on acquisition \$m
Book value \$m	Fair value adjustment \$m	Fair value on acquisition \$m	Book value \$m	Fair value adjustment \$m	Fair value on acquisition \$m	Book value \$m	Fair value adjustment \$m	Fair value on acquisition \$m	
0.8	–	0.8	22.7	–	22.7	–	–	–	62.3
–	–	–	–	–	–	–	–	–	0.5
0.6	–	0.6	11.1	–	11.1	–	–	–	13.1
–	–	–	–	–	–	–	–	–	–
0.2	–	0.2	16.9	–	16.9	–	–	–	18.6
0.2	–	0.2	–	–	–	–	–	–	0.2
–	–	–	–	–	–	–	–	–	–
21.0	79.0	100.0	–	411.8	411.8	–	2.0	2.0	694.9
1.2	–	1.2	72.3	–	72.3	2.3	–	2.3	130.9
–	–	–	3.7	–	3.7	–	–	–	3.7
–	–	–	–	–	–	–	–	–	–
0.2	–	0.2	82.8	–	82.8	–	–	–	85.6
(1.6)	–	(1.6)	(71.6)	–	(71.6)	(0.1)	–	(0.1)	(130.5)
–	–	–	(8.4)	–	(8.4)	–	–	–	(10.3)
–	–	–	–	–	–	–	–	–	–
–	–	–	(13.0)	–	(13.0)	–	–	–	(16.4)
(16.0)	–	(16.0)	–	–	–	(1.6)	–	(1.6)	(101.1)
–	–	–	(52.4)	–	(52.4)	–	–	–	(52.4)
–	–	–	–	–	–	–	–	–	–
6.6	79.0	85.6	64.1	411.8	475.9	0.6	2.0	2.6	699.1
		–			–			–	170.4
		85.6			475.9			2.6	869.5
									(54.4)
									815.1
									170.4
									–
									170.4

If the acquisition of The Children's Courtyard LLP had taken place at the beginning of the year, the profit after tax for the Group would have been \$144.1 million and revenue from continuing operations would have been \$1,711.9 million.

If the acquisition of Busy Bees Group Limited had taken place at the beginning of the year, the profit after tax for the Group would have been \$141.6 million and revenue from continuing operations would have been \$1,732.1 million.

If the acquisition of La Petite Holdings LLC had taken place at the beginning of the year, the profit after tax for the Group would have been \$129.7 million and revenue from continuing operations would have been \$2,004.9 million.

If the acquisition of Forward Steps Limited had taken place at the beginning of the year, the profit after tax for the Group would have been \$141.1 million and revenue from continuing operations would have been \$1,707.1 million.

If the acquisition of Childrens Gardens LLP had taken place at the beginning of the year, the profit after tax for the Group would have been \$143.4 million and revenue from continuing operations would have been \$1,698.1 million.

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for the financial year ended 30 June 2007

Note 26. Segment information^(a)

The Group is managed on a global basis and operates in two business segments and in four geographical areas.

Australia

The home country of the Group and the origin of the listed parent Company. The areas of operation include the provision of childcare services.

New Zealand

The geographical segment of New Zealand forms part of the Group through the provision of childcare services.

United States of America

The geographical segment of the United States of America forms part of the Group through the provision of childcare services.

United Kingdom

As a result of the acquisition of Busy Bees Group Ltd on 18th December 2006, a new geographic segment has arisen through further provision of childcare services in this region and an additional business segment being voucher processing.

Segment revenues

	External sales		Inter-segment		Total	
	2007 \$m	2006 \$m	2007 \$m	2006 \$m	2007 \$m	2006 \$m
Australia	908.1	586.7	17.6	–	925.7	586.7
United States of America	656.7	156.4	–	–	656.7	156.4
United Kingdom	39.3	–	–	–	39.3	–
New Zealand	35.8	16.0	–	–	35.8	16.0
Total of all segments					1,657.5	759.1
Eliminations					(17.6)	–
Unallocated					56.5	31.7
Consolidated					1,696.4	790.8

Segment result

	2007 \$m	2006 \$m
Continuing operations:		
Australia	193.2	102.9
United States of America	40.6	6.5
United Kingdom	6.4	–
New Zealand	10.9	2.4
Eliminations	(17.6)	–
Segment result	233.5	111.8
Unallocated	(35.7)	8.9
Profit before income tax expense	197.8	120.7
Income tax expense	(54.7)	(39.2)
Profit after income tax expense	143.1	81.5

Segment assets and liabilities

	Assets		Liabilities	
	2007 \$m	2006 \$m	2007 \$m	2006 \$m
Australia	3,408.5	2,033.1	1,518.8	387.4
United States of America	762.8	307.4	460.5	101.1
United Kingdom	236.2	–	54.3	–
New Zealand	42.7	37.4	22.9	3.7
Total of all segments	4,450.2	2,377.9	2,056.5	492.2
Eliminations	(493.1)	(256.0)	9.3	(99.0)
Unallocated	110.0	34.7	99.7	34.9
Consolidated	4,067.1	2,156.6	2,165.5	428.1

Other segment information

	Australia		United States		New Zealand		United Kingdom		Total	
	2007 \$m	2006 \$m	2007 \$m	2006 \$m	2007 \$m	2006 \$m	2007 \$m	2006 \$m	2007 \$m	2006 \$m
Acquisition of segment assets	99.4	140.4	564.1	212.8	85.6	–	120.4	–	869.5	353.2
Impairment losses	1.0	11.3	–	–	–	–	–	–	1.0	11.3
Depreciation and amortisation	28.5	10.3	8.2	3.7	0.8	0.3	1.4	–	38.9	14.3
Rent	120.1	75.5	129.2	31.6	3.8	1.7	3.2	–	256.3	108.8
Employee benefits	520.3	313.1	353.4	85.6	17.1	6.9	21.6	–	912.4	405.6

Information on business segments (secondary reporting format)

	External sales		Assets		Acquisition of segment assets	
	2007 \$m	2006 \$m	2007 \$m	2006 \$m	2007 \$m	2006 \$m
Childcare Services	1,627.7	759.1	4,397.1	2,377.9	861.8	353.2
Voucher Processing	12.2	–	53.1	–	7.7	–
Total of all segments	1,639.9	759.1	4,450.2	2,377.9	869.5	353.2

(i) Comparative information: As a result of the matters discussed in note 1 "Changes in accounting policies", "Restatements" and "Comparatives", the information disclosed in this segment information note has been restated, and where applicable, reclassified to ensure the consistency of comparative information. These changes have resulted in changes to comparative disclosures within the tables showing "Segment Revenues", "Segment Results", "Segment Assets and Liabilities" and "Other Segment Information".

Note 27. Related party disclosures

(a) Equity interests in related parties

Equity interests in subsidiaries

Details of the percentage of ordinary shares held in subsidiaries are disclosed in note 24 to the financial statements.

(b) Key management personnel remuneration

Details of key management personnel remuneration are disclosed in note 4 to the financial statements.

(c) Loans to key management personnel

Details of loans made to key management personnel are disclosed in note 4 to the financial statements.

(d) Key management personnel equity holdings

Details of the equity holdings of key management personnel are disclosed in note 4 to the financial statements.

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for the financial year ended 30 June 2007

Note 27. Related party disclosures continued

(e) Other transactions with key management personnel (and their related parties) of A.B.C. Learning Centres Limited

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

	Consolidated		Company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Transactions with other related parties:				
(i) Mr W E Bessemer is a shareholder and director of Austock Group Ltd ("Austock"). Transactions with Austock and its controlled entities during the year were:				
— Acquisition & merger work	2,328	—	2,328	—
— Payment and commission on capital raising	20	24,533	20	24,533
— Management fees	—	13	—	13
— Underwriting fee	239	1,905	239	1,905
— Property rental paid to the Australian Education Trust, of which Austock Property Management Limited (a wholly owned subsidiary of Austock) is the responsible entity.	27,886	5,364	—	—
(ii) Mr E S Groves operates the Brisbane Bullets basketball franchise. Transactions with the Brisbane Bullets involved the prepayment of advertising and other sponsorship costs.				
— Match ticket purchases	16	—	—	—
— Annual sponsorship	130	352	—	—
(iii) Mr M V Kemp is a director of Ezi Debit Holdings Australia Pty Ltd ("Ezi Debit"). Mr M & Mrs M Kemp and Mr E S & Dr L A Groves are shareholders of Ezi Debit. Ezi Debit has entered into an agreement with the Group to provide parent payment solutions. Transactions with Ezi Debit during the year were:				
	108	156	—	—
(iv) Hon. L. Anthony is a shareholder and director of Larry Anthony & Associates Pty Ltd ("LAA"). During the year LAA provided consulting services to the Group.				
	125	110	—	—

(f) Transactions with other related parties

No amounts were provided for doubtful debts relating to debts due from other related parties (2006: Nil).

Amounts receivable from and payable to these other related parties are disclosed in notes 6 and 12 to the financial statements. Any loans advanced to and payable to other related parties are unsecured and subordinate to other liabilities.

Transactions involving the parent entity

During the financial year, A.B.C. Learning Centres Limited recognised a net payable of \$9.6 million (2006: \$10.4 million) from its wholly-owned subsidiaries for their tax payable for the current period. Details of tax balances are disclosed in note 3 to the financial statements.

During the financial year, A.B.C. Learning Centres Limited received dividends of \$63.1 million (2006: \$35.5 million) from its subsidiaries. Details of dividends received from related parties are disclosed in note 2 to the financial statements.

(g) Parent entities

The parent entity in the Group, the ultimate Australia parent entity and the ultimate parent entity is A.B.C. Learning Centres Limited.

Note 28. Subsequent events

Development of Treasury Policy

Subsequent to year end, the Group has developed a comprehensive Treasury Policy that has established a framework that seeks to:

- Manage financial risk and volatility
- Identify, capture, manage and report all financial exposure and risks
- Protect the Group's financial assets from adverse market fluctuations
- Enhance the Group's profitability by managing financial risks
- Utilise treasury management products to reduce and control financial risks
- Plan for the appropriate levels of funds to be available at the appropriate time to support the Group's strategic objectives.

As part of the Policy on 27 July 2007 the company executed Interest Rate Swaps with counterparties in respect of AUD and USD denominated bank borrowings in order to mitigate interest rate risk.

In respect of the Unsecured Subordinated Reset Convertible Note borrowings, on 27 July 2007 the company has also entered into a Forward Start Swap from 13 December 2007 until the first reset date of 13 June 2010 at a base rate of 7.02%.

Issue of Shares via Placement

On 6 July 2007 following approval at an Extraordinary General Meeting, the company issued 55,000,000 ordinary shares at \$7.30 per share to Everitt Investments Pte Ltd (a wholly owned subsidiary of Temasek Holdings (Private) Limited).

ASX Listing of Unsecured Subordinated Reset Convertible Notes

On 13 July 2007, the company listed the 6,000,000 Unsecured Subordinated Reset Convertible Notes on the Australian Securities Exchange under the code "ABSG".

Proposed Acquisition of Leapfrog Nurseries Group

On 13 August 2007, the company announced that its subsidiary, Busy Bees Group Limited, had entered into an agreement to purchase the Leapfrog Nurseries group from Nord Anglia Education plc in the United Kingdom for £31.2 million. The acquisition includes 88 childcare centres and a freehold and long leasehold property portfolio of 41 centres valued at £40.9 million. The acquisition is subject to the approval of the shareholders of Nord Anglia Education plc at a meeting expected to be held in September 2007.

Sale of Childcare Centres

On 13 July 2007, the Group entered into an agreement to sell 45 childcare centres located in Australia (and included in the Australian segment information) for a total value of \$40.2 million. The sale of the centres is part of the ongoing plans by management to optimise the operations of the Group.

No other matter or circumstance has arisen since 30 June 2007 that has significantly affected, or may significantly affect:

- (a) the Group's operations in future financial years; or
- (b) the results of those operations in future financial years; or
- (c) the Group's state of affairs in future financial years.

Note 29. Notes to the cash flow statement

(a) Reconciliation of cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand, cash at bank and outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:

	Consolidated		Company	
	2007 \$m	2006 \$m	2007 \$m	2006 \$m
Cash and cash equivalents	227.8	132.5	68.8	57.6
Bank overdrafts	(8.2)	(0.8)	—	—
	219.6	131.7	68.8	57.6

(b) Non-cash financing and investing activities

During the year the Group did not acquire subsidiaries by way of equity issue (2006: \$nil). During the year the company offered a dividend reinvestment plan. The value of the shares issued as a result of participation in the plan for the year was \$42.9 million (2006: \$11.4 million).

	Consolidated		Company	
	2007 \$m	2006 \$m	2007 \$m	2006 \$m
(c) Financing facilities				
Unsecured syndicated multi-option facility:				
— amount used	1,148.9	181.7	816.3	181.1
— amount unused	251.1	144.6	251.1	138.9
	1,400.0	326.3	1,067.4	320.0
Bank guarantee facility				
— amount used	25.5	5.9	25.5	5.9
— amount unused	14.5	34.1	14.5	34.1
	40.0	40.0	40.0	40.0
Letter of credit facility				
— amount used	20.0	23.0	20.0	23.0
— amount unused	20.0	17.0	20.0	17.0
	40.0	40.0	40.0	40.0

Notes to the Financial Statements

for the financial year ended 30 June 2007

Note 29. Notes to the cash flow statement continued

(d) Cash balances not available for use

Nil (2006: Nil).

(e) Businesses acquired

During the financial year, the Group acquired businesses. The net cash outflow on acquisition was \$815.1 million. Refer to note 25 for further details of these acquisitions.

(f) Businesses disposed

During the financial year, the Group disposed of Judius Pty Ltd. Details of the disposal are as follows:

	Consolidated		Company	
	2007 \$m	2006 \$m	2007 \$m	2006 \$m
Consideration				
Cash and cash equivalents	5.0	–	–	–
Other financial assets	46.9	–	–	–
	51.9	–	–	–

(g) Reconciliation of net profit for the period to net cash flows from operating activities

	Consolidated		Company	
	2007 \$m	2006 \$m	2007 \$m	2006 \$m
Net profit for the period	143.1	81.5	41.8	33.7
(Gain)/loss on sale or disposal of non-current assets	(37.4)	(22.1)	(7.9)	–
Depreciation and amortisation of non-current assets	38.9	14.3	–	–
Amortisation – Interest RCPS	–	0.4	–	0.4
Trust distribution	(2.5)	–	(2.5)	–
Equity-settled share-based payment	9.1	7.6	9.1	7.6
Interest income – subsidiaries	–	–	(34.6)	(27.2)
Dividends received – subsidiaries	–	–	(63.1)	(35.5)
Impairment of non-current assets	1.0	11.3	1.0	1.0
Unrealised FX Gains / (Losses)	–	–	16.7	–
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:				
(Increase)/decrease in assets:				
Current receivables	11.1	(35.3)	(1.0)	(0.9)
Current inventories	(3.0)	(1.2)	–	–
Other current assets	(18.6)	1.9	(24.9)	0.3
Increase/(decrease) in liabilities:				
Current payables	48.3	17.7	38.9	0.9
Current provisions	(0.9)	(0.9)	–	–
Current tax liability	(2.1)	10.5	55.6	(21.9)
Deferred tax balances	19.9	3.5	(52.3)	1.3
Net cash from operating activities	206.9	89.2	(23.2)	(40.3)

Note 30. Financial instruments

(a) Financial risk management objectives

The Group's principal financial instruments comprise bank loans and overdrafts, subordinated reset convertible notes, finance leases and hire purchase contracts, and cash and short-term deposits.

The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk.

(b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

(c) Foreign currency risk management

The consolidated group is exposed to foreign currency translation risk through its controlled operations in the United States of America, United Kingdom and New Zealand. Foreign currency gains or losses arising from the translation of net assets of these operations are shown as a movement in the foreign currency translation reserve (note 16).

(d) Interest rate risk and maturity profile of financial instruments

The following table details the Group's exposure to interest rate risk as at 30 June 2007:

			Fixed maturity dates								
2007	Weighted average effective interest rate %	Variable interest rate \$m	Less than 1 year \$m	1-2 years \$m	2-3 years \$m	3-4 years \$m	4-5 years \$m	5+ years \$m	Non interest bearing \$m	Total \$m	
Financial assets:											
Cash	5.2%	227.8	–	–	–	–	–	–	–	227.8	
Trade receivables	–	–	–	–	–	–	–	–	70.4	70.4	
Investments	–	–	–	–	–	–	–	–	65.3	65.3	
Loans	9%	108.0	–	–	–	–	–	–	1.8	109.8	
		335.8	–	–	–	–	–	–	137.5	473.3	
Financial liabilities:											
Trade payables	–	–	–	–	–	–	–	–	284.8	284.8	
Bank overdraft	9.5%	8.2	–	–	–	–	–	–	–	8.2	
Loans	8.0%	1,155.2	–	–	–	–	–	–	–	1,155.2	
Leases	8.9%	–	0.6	0.2	0.2	0.2	0.3	12.1	–	13.6	
Reset notes	9.1%	583.1	–	–	–	–	–	–	–	583.1	
		1,746.5	0.6	0.2	0.2	0.2	0.3	12.1	284.8	2,044.9	

The following table details the Group's exposure to interest rate risk as at 30 June 2006:

Fixed maturity dates										
	Weighted average effective interest rate %	Variable interest rate \$m	Less than 1 year \$m	1-2 years \$m	2-3 years \$m	3-4 years \$m	4-5 years \$m	5+ years \$m	Non interest bearing \$m	Total \$m
2006										
Financial assets:										
Cash	5.4%	132.5	–	–	–	–	–	–	–	132.5
Trade receivables	–	–	–	–	–	–	–	–	115.7	115.7
Investments	–	–	–	–	–	–	–	–	28.3	28.3
Loans	8%	–	30.5	–	–	–	–	–	4.8	35.3
		132.5	30.5	–	–	–	–	–	148.8	311.8
Financial liabilities:										
Trade payables	–	–	–	–	–	–	–	–	137.7	137.7
Bank overdraft	9.3%	0.8	–	–	–	–	–	–	–	0.8
Loans	8.0%	161.9	–	–	–	–	–	–	–	161.9
Leases	9.3%	–	7.9	0.7	0.7	0.8	0.8	11.3	–	22.2
Preference shares	–	–	–	–	–	–	–	59.1	–	59.1
		162.7	7.9	0.7	0.7	0.8	0.8	70.4	137.7	381.7

(e) Credit risk management

The Group trades only with recognised, creditworthy third parties.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures.

In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

There are no significant concentrations of credit risk within the Group.

For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without specific approval.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, available for sale financial assets and certain derivative instruments, the Group's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

Since the Group trades only with recognised third parties, there is no requirement for collateral.

Notes to the Financial Statements

for the financial year ended 30 June 2007

Note 30. Financial instruments continued

(f) Fair value of financial instruments

Except as detailed in the following table, the directors consider that the carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair values (2006: net fair value).

The fair values and net fair values of financial assets and financial liabilities are determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

Transaction costs are included in the determination of net fair value.

The following tables detail the fair value (2006: net fair value) of financial assets and financial liabilities:

	Carrying amount \$m	Fair value \$m
2007		
Financial assets		
	—	—
Financial liabilities		
Redeemable converting preference shares	—	—
	—	—
2006		
Financial liabilities		
Redeemable converting preference shares	59.1	79.2
	59.1	79.2

The financial statements include share holdings in unlisted companies (note 7). Fair value is estimated using a discounted cash flow model, which includes some assumptions that are not supportable by observable market prices or rates. Changes in these assumptions do not significantly change the fair value recognised.

(g) Liquidity risk management

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Note 31. Share-based payments

(i) Employee Share Plan

A scheme is in place where shares may be issued by the company to employees for no cash consideration. All Australian resident permanent employees (excluding executive directors) who have been continuously employed by the Group for a period of at least one year are eligible to participate in the scheme. Employees may elect not to participate in the scheme.

Under the scheme, eligible employees may be offered fully-paid ordinary shares in A.B.C. Learning Centres Limited annually for no cash consideration. The market value of shares issued under the scheme, measured as the average market price on the day of issue of the shares, is recognised in the Balance Sheet as share capital and as part of employee benefit costs in the period the shares are granted.

	Consolidated		Company	
	2007 No. '000	2006 No. '000	2007 No. '000	2006 No. '000
Number of shares issued under the plan to participating employees during the financial year:	320	332	320	332
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Total expense arising from share-based payment transactions:	2,003	1,776	2,003	1,776

(ii) Carers Share Plan

From time-to-time shares may be issued by the company to carers for no cash consideration.

Eligible carers may be offered fully-paid ordinary shares in A.B.C. Learning Centres Limited annually for no cash consideration. The market value of shares issued under the scheme, measured as the average market price on the day of issue of the shares, is recognised in the Balance Sheet as share capital and as part of employee benefit costs in the period the shares are granted. Although the carers are not employees of the Group, as a result of the agency arrangements discussed in note 1, the fair value of the services received by the Group is measured by reference to the fair value of the equity instruments granted.

	Consolidated		Company	
	2007 No. '000	2006 No. '000	2007 No. '000	2006 No. '000
Number of shares issued under the plan to participating carers during the financial year:	620	625	620	625
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Total expense arising from share-based payment transactions:	4,889	4,716	4,889	4,716

(iii) Options

Options have been issued to the key management personnel in the Learning Care Group Inc. No other options have been granted. Details of these options are outlined in note 4.

	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Total expense arising from share-based payment transactions:	2,245	1,139	2,245	1,139

Note 32. Corporate Directory

A.B.C. Learning Centres Limited is a listed public company, incorporated in Australia. The company operates in Australia, New Zealand, United States of America and the United Kingdom.

Registered Office

43 Metroplex Avenue
Murarrie QLD 4172

Principal Place of Business

43 Metroplex Avenue
Murarrie QLD 4172

Corporate Advisers

Austock Corporate Finance Limited
Level 1, 350 Collins Street
Melbourne VIC 3000

Share Registry

Link Market Services Limited
Level 12, 300 Queen Street
Brisbane QLD 4000

Financial and Accounting Advisers

PricewaterhouseCoopers
2 Southbank Boulevard
Southbank VIC 3006

Harris Black Chartered Accountants
Level 2, 262 Adelaide Street
Brisbane QLD 4000

Legal Advisers

Freehills
Level 42, 101 Collins Street
Melbourne VIC 3000

Auditors

Pitcher Partners
Accountants, Auditors and Advisers
Level 21, 300 Queen Street
Brisbane QLD 4000

Additional Stock Exchange Information

as at 17 September 2007

(a) Distribution of Holders of Equity Securities

(i) Ordinary shares

Size of holding	Number of holders in each category	Total ordinary shares in each category
1–1,000	14,102	7,377,337
1,001–5,000	16,839	39,206,719
5,001–10,000	2,360	16,758,984
10,001–100,000	1,129	25,960,671
100,001 and over	152	378,577,484
Total	34,582	467,881,195

The number of security investors holding less than a marketable parcel of 77 securities (\$6.56 on 17/09/2007) is 695 and they hold 26,248 securities.

(ii) Unsecured Subordinated Reset Convertible Notes ("Notes")

Size of holding	Number of holders in each category	Total Notes in each category
1–1,000	61	7,380
1,001–5,000	1	1,500
5,001–10,000	1	8,000
10,001–100,000	2	90,395
100,001 and over	5	5,892,725
Total	70	6,000,000

The number of security investors holding less than a marketable parcel of 5 securities (\$100.00 on 17/09/2007) is nil.

(b) The names of Substantial Shareholders who have notified the Company in accordance with section 671B of the Corporations Act 2001 as at 17 September 2007 are:

Ordinary shareholders	Fully Paid Number
Temasek Holdings (Private) Limited	57,740,164
Commonwealth Bank of Australia	33,639,331
Challenger Financial Services Group Limited	29,765,101
Lazard Asset Management Pacific Co	28,660,550
UBS Nominees Pty Ltd	23,980,594
Total	173,785,740

(c) Voting Rights

The voting rights attached to each class of equity securities are set out below:

(i) Ordinary Shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

(ii) Unsecured Subordinated Reset Convertible Notes

There are no voting rights attached to this class of equity security.

(iii) Options

There are no voting rights attached to this class of equity.

(d) Twenty Largest Holders of Quoted Equity Securities
(i) Ordinary Shares

		Fully Paid	
		Number	Percentage
1	Citicorp Nominees Pty Limited	95,078,866	20.32
2	HSBC Custody Nominees (Australia) Limited	53,222,397	11.38
3	National Nominees Limited	40,172,207	8.59
4	JP Morgan Nominees Australia Limited	22,170,333	4.74
5	ANZ Nominees Limited <Cash Income A/C>	21,062,002	4.50
6	Mr Edmund Stuart Groves	20,000,000	4.27
7	Dr Le Neve Ann Groves	17,013,000	3.64
8	Cogent Nominees Pty Limited	12,993,986	2.78
9	Citicorp Nominees Pty Limited <CFS WSLE Imputation Fnd A/C>	8,580,596	1.83
10	JP Morgan Nominees Australia Limited	7,446,624	1.59
11	Suncorp Custodian Services Pty Limited <AET>	6,355,999	1.36
12	Citicorp Nominees Pty Limited <CFS Imputation Fund A/C>	5,712,486	1.22
13	Citicorp Nominees Pty Limited <CFS WSLE Geared Shr Fnd A/C>	5,277,843	1.13
14	ABNED Nominees Pty Limited	4,012,756	0.86
15	Citicorp Nominees Pty Limited <CFS WSLE Aust Share Fnd A/C>	3,936,283	0.84
16	Jimm Pty Ltd <Jimm Family A/C>	2,962,000	0.63
17	Citicorp Nominees Pty Limited <CFS WSLE Industrial Shr A/C>	2,613,247	0.56
18	HSBC Custody Nominees (Australia) Limited - A/C 2	2,536,959	0.54
19	UBS Nominees Pty Ltd	2,437,639	0.52
20	Irrewarra Investments Pty Ltd <Strategic 1 A/C>	2,302,770	0.49
Total		335,887,993	71.79

Unquoted equity securities

	Number on issue	Number of holders
	1,912,191*	4

Options issued as an initial incentive award to senior executives of the Learning Care Group, Inc. to take up ordinary shares.

* Number of unissued ordinary shares under the options.

Additional Stock Exchange Information

as at 17 September 2007

(ii) Unsecured Subordinated Reset Convertible Notes

		Fully Paid	
		Number	Percentage
1	Share Direct Nominees Pty Ltd <CMS Account>	1,847,710	30.80
2	National Nominees Limited	1,168,850	19.48
3	JP Morgan Nominees Australia Limited	993,630	16.56
4	ANZ Nominees Limited	993,050	16.55
5	Citicorp Nominees Pty Limited	889,485	14.82
6	HSBC Custody Nominees (Australia) Limited – A/C 3	60,395	1.01
7	Antares Alternative Yield Fund	30,000	0.50
8	Sandhurst Trustees Ltd <AAMHYF A/C>	8,000	0.13
9	Australian Executor Trustees Limited <No 1 A/C>	1,500	0.03
10	E J McElvaney Investments Pty Ltd <Macar Super Fund A/C>	1,000	0.02
11	Goltin Pty Ltd <Yeung Super Fund A/C>	1,000	0.02
12	Ladybird Holdings Pty Ltd	1,000	0.02
13	Citicorp Nominees Pty Limited <DPSL A/C>	750	0.01
14	Dr Valery Gurarie and Mrs Lubov Gurarie <VG Prudence Super Fund A/C>	500	0.01
15	Mrs Kathleen Swann	460	0.01
16	Capital Enterprises (WA) Pty Ltd <J R Wilson Super Fund A/C>	340	0.01
17	Mrs Beverly Sharples	300	0.01
18	Ms Simone Nicoll	250	<0.01
19	S And OM Investments Pty Ltd <Brighton Super Fund #2 A/C>	250	<0.01
20	Citicorp Nominees Pty Limited <DPSL Re Direct portfolio A/C>	229	<0.01
Total		5,998,699	99.98%

Company secretary

Ms J G Bannan

Registered Office

43 Metroplex Avenue
Murarie
Queensland, Australia 4172

Share Registry

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Level 12
300 Queen Street
Brisbane QLD 4000

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