



Early Learning Services Limited
ACN 123 828 553
Committed to Child Care

EARLY LEARNING SERVICES LIMITED

ABN 95 123 828 553

Interim Report

For the Half-Year Ended 30 June 2008

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Corporate Directory

The following persons were directors of Early Learning Services Limited during the whole of the half-year and up to the date of this report:

| | |
|---|---|
| Directors | R E Borbidge (AO) <i>Chairman – Non Executive</i> |
| | J H Hutchison <i>CEO – Executive Director</i> |
| | A G Hartnell (AM) <i>Deputy Chairman - Non Executive</i> |
| | R W Parris <i>Non Executive</i> |
| | G J Kern (CA) <i>Non Executive</i> |
| Principal registered office in Australia | Pegasus Centre, Suite 27 42-46 Bundall Road Bundall QLD 4217 |
| Share register | Link Market Services Limited Level 12, 300 Queen Street Brisbane QLD 4000 |
| Auditor | PricewaterhouseCoopers Level 15, Riverside Centre 123 Eagle Street Brisbane QLD 4000 |
| Stock exchange listing | Early Learning Services Limited shares are listed on the Australian Stock Exchange |
| Website address | www.earlylearningservices.com.au |

Directors' Report

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Early Learning Services Limited and the entities it controlled at the end of, or during, the period ended 30 June 2008.

Directors

The following persons were directors of Early Learning Services Limited during the whole of the period and up to the date of this report:

J H Hutchison since 7 February 2007;

G J Kern since 7 February 2007;

R E Borbidge, A G Hartnell and R W Parris were appointed as directors on 26 October 2007 and continue in office at the date of this report.

Review of Operations

A summary of consolidated results against forecast for the half-year is set out below:

| | Actual Jun-08 6 months \$'000 | Revised Forecast* Jun-08 6 months \$'000 | Movement Increase/ (Decrease) \$'000 | Movement Increase/ (Decrease) % |
|---|--|---|---|--|
| Average number of centres | 34 | 34 | 0 | 0.0% |
| Number of centres at period | 34 | 34 | 0 | 0.0% |
| Centre revenues | 13,940 | 13,862 | 78 | 0.6% |
| Centre EBITDA before management fees | 1,905 | 2,117 | (212) | -10.0% |
| External management fee revenue | 299 | 258 | 41 | 15.9% |
| Corporate costs | (2,888) | (2,895) | 7 | -0.2% |
| EBITDA | (684) | (520) | (164) | -31.5% |
| Depreciation and amortisation | (355) | (308) | (47) | -15.3% |
| EBIT | (1,039) | (828) | (211) | -25.5% |
| Net interest (income)/expense | 657 | 639 | 18 | 2.8% |
| Profit/(loss) Before Tax | (1,696) | (1,467) | (229) | -15.6% |
| Income tax benefit/(expense) | 471 | 440 | 31 | 7.0% |
| Net Profit/(Loss) After Tax | (1,225) | (1,027) | (198) | -19.3% |
| Earning per share (Basic) (c/share) | (2.78) | (2.33) | | |

* The revised forecast above is based on the ASX announcement dated 6 June 2008 adjusted for the accounting error disclosed on the ASX on 29 July 2008.

Centre revenue for the half-year ended 30 June 2008 was \$13.94 million against a forecast of \$13.86 million. This is a reflection of the group's strong average occupancy for the period ended 30 June 2008 at 83%, which is based on total childcare bookings.

Centre EBITDA before management fees is \$0.2 million under forecast due to higher than anticipated centre expenditure related to licensing and accreditation requirements. These additional centre costs are partially offset by a positive variance in corporate costs.

The consolidated Group reflected a net loss after tax for the period of \$1.2 million. This is a reflection of the Group's first 6 months of operation as a listed entity and includes several material one-off expenses relating to;

- **Advertising and travel costs (\$0.3 million in excess over the IPO forecast)** - a number of centres were achieving below forecast occupancy at settlement date because the vendors had ceased to take an active interest in the business from contract date to settlement date. As a result, additional (one-off) advertising expenditure and associated travel expenditure was required in order to keep occupancy levels in line with forecast.
- **One-off integration costs (\$0.7 million in excess over the IPO forecast)** – the company incurred an additional \$0.7 million in consulting fees and legal fees, which was caused primarily by the delays in settlements and diversion of management to focus on completing these acquisitions which necessitated the temporary use of external consultants. This also includes legal costs that were capitalized in the forecast in respect of centre acquisitions that did not ultimately proceed and have therefore been expensed.
- **Corporate wages (\$0.2 million in excess over the IPO forecast)** - the company forecasts head office wages will exceed IPO forecast by \$0.2 million, which represents \$0.1 million of one-off costs associated with executive termination payments and \$0.1 million due to increasing staffing levels in preparation for the centre management.

During the half-year ended 30 June 2008 the Group focused on integrating its previous acquisitions into the Early Learning Services' portfolio as well as completing a further five quality acquisitions that complement the existing portfolio.

These five centres were purchased for a total consideration of \$9.3 million and settled during the first quarter of FY08. The purchase consideration is discussed in detail in the business combinations note which is detailed on page 12 of the half-year interim report.

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 4.

Auditor

PricewaterhouseCoopers continues in office in accordance with section 237 of the *Corporations Act 2001*.

This report is made in accordance with a resolution of directors.



John H Hutchison
Director and Chief Executive Officer

Bundall, 29 August 2008

Auditor's Independence Declaration

As lead auditor for the review of Early Learning Services Limited for the half-year ended 30 June 2008, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Early Learning Services Limited and the entities it controlled during the period.



Robert Roach
Partner
PricewaterhouseCoopers

29 August 2008

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Financial Report

Consolidated Income Statement

For the half-year ended 30 June 2008

| | Notes | Half-Year | Half-Year |
|--|-------|--------------------|------------------|
| | | 2008 | 2007 |
| | | \$ | \$ |
| Revenue from continuing operations | 2 | 14,271,319 | 416,216 |
| Expenses | | | |
| Expenses from ordinary activities | | | |
| Employee benefit expense | | (10,379,531) | - |
| Occupancy | | (1,714,263) | - |
| Direct costs of providing services | | (1,198,791) | (554,885) |
| Amortisation | 2 | (90,080) | - |
| Depreciation expense | 2 | (264,513) | (25,654) |
| Insurance | | (158,216) | - |
| Other Expenses | | (1,473,089) | (83,677) |
| Finance costs | 2 | (689,060) | (56,894) |
| (Loss) before income tax | | (1,696,224) | (304,894) |
| Income tax benefit/(expense) | | 470,955 | - |
| (Loss) from continuing operations | | (1,225,269) | (304,894) |
| (Loss) for the period | | (1,225,269) | (304,894) |
| | | Cents | |
| Earnings per share for profit attributable to the ordinary equity holders of the company: | | | |
| Basic earnings/(loss) per share | | (2.78) | |
| Diluted earnings/(loss) per share | | (2.78) | |

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

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Consolidated Balance Sheet

As at half-year ended 30 June 2008

| | Notes | Half-Year 2008 \$ | December 2007 \$ |
|--------------------------------|-------|-------------------------|------------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | | 1,285,378 | 5,772,220 |
| Trade and other receivables | | 1,967,749 | 1,100,209 |
| Other current assets | | 374,648 | 1,395,707 |
| Total current assets | | <u>3,627,775</u> | <u>8,268,136</u> |
| Non-current assets | | | |
| Other financial assets | | | |
| Property plant and equipment | | 4,808,138 | 4,700,689 |
| Deferred tax assets | | 1,847,081 | 1,376,127 |
| Intangible assets | | 40,766,082 | 31,556,765 |
| Total non-current assets | | <u>47,421,301</u> | <u>37,633,581</u> |
| Total assets | | <u>51,049,076</u> | <u>45,901,717</u> |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | | 3,562,497 | 4,512,983 |
| Borrowings | 5 | 17,992,294 | 52,754 |
| Current tax liabilities | | 28,618 | 28,618 |
| Total current liabilities | | <u>21,583,409</u> | <u>4,594,355</u> |
| Non-current liabilities | | | |
| Borrowings | 5 | - | 10,533,618 |
| Provisions | | 35,882 | 76,822 |
| Total non-current liabilities | | <u>35,882</u> | <u>10,610,440</u> |
| Total liabilities | | <u>21,619,291</u> | <u>15,204,795</u> |
| Net Assets | | <u>29,429,785</u> | <u>30,696,922</u> |
| EQUITY | | | |
| Contributed equity | | 30,929,685 | 30,971,553 |
| Reserves | | 26,082 | 26,082 |
| Accumulated losses | | (1,525,982) | (300,713) |
| Total equity | | <u>29,429,785</u> | <u>30,696,922</u> |

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

Statement of Recognised Income and Expense

For the half-year ended 30 June 2008

| | Notes | Half-Year 2008 \$ | Half-Year 2007 \$ |
|--|-------|-------------------------|-------------------------|
| Net income recognised directly in equity | | - | - |
| Loss for the period | | (1,225,269) | (304,894) |
| Total recognised income and expenses for the year attributable to members | | (1,225,269) | (304,894) |

The above statements of recognised income and expense should be read in conjunction with the accompanying notes.

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Consolidated Cash Flow Statement

For the half-year ended 30 June 2008

| | Notes | Half-Year 2008 \$ | Half-Year 2007 \$ |
|---|-------|-------------------------|-------------------------|
| Cash flows from operating activities | | | |
| Receipts from customers (inclusive of goods and service tax) | | 14,692,503 | 447,567 |
| Payments to suppliers and employees (inclusive of goods and service tax) | | (14,199,336) | (511,270) |
| Interest received | | 32,275 | - |
| Borrowing costs | | (96,107) | - |
| Interest paid | | (689,060) | (56,894) |
| Net cash flows from operating activities | | (259,725) | (120,597) |
| Cash flows from investing activities | | | |
| Payments for purchase of centres – current year | 3 | (9,314,425) | (3,391,336) |
| Payments for purchase of centres – prior year | | (1,906,858) | |
| Payments for property plant & equipment | | (369,888) | (129,488) |
| Net cash out flows from investing activities | | (11,591,171) | (3,520,824) |
| Cash flows from financing activities | | | |
| Proceeds from issue of shares | | - | 100 |
| IPO & Share issue costs | | (41,868) | 574,559 |
| Proceeds from external borrowings | | 7,405,922 | 3,193,465 |
| Net cash inflows from financing activities | | 7,364,054 | 3,768,124 |
| Net Increase in cash and cash equivalents | | (4,486,842) | 126,703 |
| Cash and cash equivalents at the beginning of the financial period | | 5,772,220 | - |
| Cash and cash equivalents at end of period | | 1,285,378 | 126,703 |

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

Contents of Notes

1. Basis of preparation of half-year report

(a) Basis of Accounting

This general purpose financial report for the interim half-year reporting period ended 30 June 2008 has been prepared in accordance with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Act 2001.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, it is to be read in conjunction with the annual report for the period ended 31 December 2007 and any public announcements made for Early Learning Services Limited (the Company) during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The accounting policies adopted are consistent with those of the previous financial year as disclosed in the annual report.

(b) Going Concern

The financial report has been prepared on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

At 30 June 2008, the consolidated entity had accumulated losses of \$1,525,982, cash reserves of \$1,285,378, net working capital deficiency of \$17,955,634 and net assets of \$29,429,785. For the half-year ended 30 June 2008 it incurred an operating loss before income tax of \$1,696,224 and had negative cash flows from operations of \$259,725.

The interest cover ratio required by the company's financier for the quarters ending 30 September 2008 and 31 December 2008, and for the year ending 31 December 2008 will not be met based on current cash flow projections. The company is seeking to have the covenants modified to enable no breach to occur at either of these dates. Should a breach of the covenants occur, this would provide a right for the financier to require repayment of our loans forthwith. While the directors are confident that satisfactory arrangements will be able to be put in place to avoid this occurring, until satisfactory arrangements have been made, there remains a significant uncertainty as to whether the company will be able to continue as a going concern and whether it will realise its assets and settle its liabilities in the normal course of business at the amounts stated in the financial statements. Because of the potential breach of these covenants, the amount owing to our financier has been reclassified at 30 June 2008 from non-current liabilities to current liabilities. Other than this reclassification, no other adjustments have been made in the financial statements relating to the recoverability and classification of the asset carrying amounts or classification of liabilities that might be necessary should the company not continue as a going concern.

The loss for the six month period ended 30 June 2008 has arisen principally as a result of revenue foregone from the cancellation of six centre acquisitions since December 2007, and several material non-recurring expenses relating to legal fees, accountancy fees, consulting costs and additional overheads incurred in the first quarter ended 31 March 2008.

As a result of these circumstances, the group undertook a review of its existing funding facilities and business operations.

On 7 August 2008, the company signed a deed of variation to:

- Change facility limits effective immediately (Bill facility (\$A30m to \$A18.9m), Overdraft facility (\$3m to \$1.5m) and Bank guarantee facility (\$0.3m to \$1.3m));
- Confirm the expiry and repayment date of the Bill facility to 31 December 2010; and
- Change the interest ratio covenant for the quarters ending 30 September 2008 and 31 December 2008 and for the year ending 31 December 2008

From a revenue perspective, the company increased the child care fees in early July 2008. From an expenditure perspective management have reviewed all aspects of the business and are continuing to monitor and control such expenditure. These strategies have had a positive impact and the improvements are reflected in our performance for the month of July 2008.

The company has prepared cash flow projections indicating that (aside from the potential covenant breaches) over the next 12 months the consolidated entity can pay its debts as and when they fall due, after consideration of the following initiatives:

- i) continuing to seek out profitable centres for acquisition that meet the Company's investment criteria to assist in generating additional centre earnings to offset the Company's head office cost;
- ii) reducing overhead and administrative expenditures at a head office level through a head office restructuring program; and
- iii) restructured debt facilities as detailed in note 5 to the financial report.

The directors consider that the consolidated entity will be successful in achieving the cash flow projections and that alternative arrangements will be made with our financier so that there will be no breach of covenants. As such, the directors are of the opinion that the going concern basis is appropriate for the preparation of the financial report

Description of Segments

Business segments

The consolidated entity operates in one business segment – Management of child care centres owned by the Company and owned by third parties.

Geographical segments

The consolidated entity operates only in Australia.

2. Profit for the half-year

| | Half-Year 2008 \$ | Half-Year 2007 \$ |
|---|-------------------------|-------------------------|
| From continuing operations | | |
| <i>Sales revenue</i> | | |
| Revenue from childcare centres | 13,940,206 | 416,216 |
| <i>Other revenue</i> | | |
| Management fees | 298,838 | - |
| Interest | 32,275 | - |
| Total revenue continuing operations | 14,271,319 | 416,216 |
| Profit before income tax includes the following specific expenses: | | |
| <i>Depreciation</i> | | |
| Buildings | 26,292 | - |
| Furniture, fittings and equipment | 215,034 | 23,634 |
| Motor vehicles | 23,187 | 2,020 |
| Total Depreciation | 264,513 | 25,654 |
| <i>Finance Costs</i> | | |
| Interest and finance charges paid/payable | 689,060 | 56,894 |
| <i>Rental expenses relating to operating leases</i> | | |
| Minimum lease payments | 1,573,584 | 170,655 |
| <i>Amortisation</i> | | |
| Borrowing costs | 68,469 | - |
| Customer contracts and other | 21,611 | - |
| Total amortisation | 90,080 | - |

3. Business combination

The Company acquired five additional centres during the period since 31 December 2007 that are still retained as at 30 June 2008. Details of the five centres acquired during the period are as follows:

| Location | Acquisition Date |
|------------|------------------|
| Canberra 3 | 04/02/08 |
| Broome | 12/02/08 |
| Griffith | 14/03/08 |
| Canberra 5 | 14/03/08 |
| Canberra 7 | 14/03/08 |

All information in respect of the acquisition of centres has been disclosed in aggregate as management believe that all centres were individually immaterial and therefore not requiring separate disclosure.

The acquired businesses contributed revenues of \$2,210,712 and earnings before interest and tax of \$221,554 to the Group for the period from 1 January 2008 to 30 June 2008.

Details of the fair value of the assets and liabilities and goodwill are as follows:

| | Half-Year 2008 | December 2007 |
|--|-------------------|------------------|
| Purchase consideration (refer below) | | |
| Cash paid | 9,016,220 | 32,014,554 |
| Direct costs relating to the acquisition | 298,205 | 2,146,672 |
| Total purchase consideration | 9,314,425 | 34,161,226 |
| | | |
| Fair value of net identifiable assets acquired (refer below) | 205,236 | 3,449,014 |
| Goodwill | 9,109,189 | 30,712,212 |

Purchase consideration

| | Half-Year 2008 | December 2007 |
|--|-------------------|------------------|
| Outflow of cash to acquire subsidiary, net of cash acquired | | |
| Cash consideration | 9,314,425 | 34,161,226 |
| Less: Balances acquired | | |
| Cash | - | |
| | 9,314,425 | 34,161,226 |
| Amount payable | | (2,474,798) |
| Outflow of cash* | 9,314,425 | 31,686,428 |

*Inclusive of payments for property, plant, equipment & customer contracts

Assets and liabilities acquired

| | Fair Value Half-Year 2008 | Fair Value December 2007 |
|-----------------------------------|---------------------------------|--------------------------------|
| Cash | - | |
| Trade receivables | - | |
| Plant and equipment | 200,000 | 3,366,993 |
| Trade Payables | | (4,779) |
| Intangibles | - | 86,800 |
| Payroll Liabilities | 5,236 | |
| Net identifiable assets acquired* | 205,236 | 3,449,014 |

The goodwill is attributable to the workforce and the profitability of the acquired businesses. The fair value of assets and liabilities acquired are based on discounted cash flow models. No acquisition provisions were created.

4. Contingencies

Contingent liabilities

The parent entity and Group had contingent liabilities at 30 June 2008 in respect of:

Early Learning Services Limited is a defendant before the ACT Supreme Court. The proceedings relate to the termination of contracts for child care centres referred to as Canberra 6 and Canberra 8 in the prospectus. Early Learning Services Limited terminated the contracts as the Company found the conditions of assignment proposed by the landlord to be unsatisfactory, hence exercised its right to terminate each contract.

The vendor is seeking performance compensation of \$3.9m, the cost of the leasehold of both centres in which Early Learning Services Limited was due to pay. The company disputes its liability in this regard.

5. Debt facilities

During the six months ended 30 June 2008 the Company experienced several large one-off costs, as detailed in the director's report. These costs reduced the Group's earnings before interest tax depreciation and amortisation (EBITDA) which is the basis for the interest cover ratio calculation. These items were discussed with the Group's financiers in detail and a waiver was provided in respect of the interest covenants for the quarters ended 31 March 2008 and 30 June 2008.

On 7 August 2008, the company re-negotiated its debt facilities and secured its non-current debt through to December 2010, subject to compliance with various undertakings.

As set out in Note 1, the current projections for the year ending 30 June 2009 show that the company will not meet its revised interest cover requirements for the quarters ending 30 September 2008 and 31 December 2008 and for the year ending 31 December 2008. The group is currently finalising the interest cover ratio with its financier, however at the date of this report, these

discussions have not yet reached completion and as such the debt facilities have been re-classified from non-current liabilities to current liabilities.

6. Events occurring after the balance sheet date

No other matter or circumstance has arisen since 30 June 2008 that has significantly affected or may significantly affect;

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

The Company plans future acquisitions which have not yet reached finalisation. Such acquisitions, if they occurred, would (as their rationale) have a significant effect in the future.

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Directors' Declaration

In the directors' opinion:

- (a) the financial statements and notes set out on pages 5 to 14 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the half-year ended on that date; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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



John H Hutchison
Director and Chief Executive Officer

Bundall, 29 August 2008

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Independent auditor's review report to the members of Early Learning Services Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Early Learning Services Limited, which comprises the balance sheet as at 30 June 2008, and the income statement, statement of recognised income and expense and cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration for the Early Learning Services Limited Group (the consolidated entity). The consolidated entity comprises both Early Learning Services Limited (the company) and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation and fair presentation of the half-year 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 half-year 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.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2008 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Early Learning Services Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. It also includes reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

For further explanation of a review, visit our website <http://www.pwc.com/au/financialstatementaudit>.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

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**Independent auditor's review report to the members of
Early Learning Services Limited (continued)**

Our review did not involve an analysis of the prudence of business decisions made by directors or management.

Matters relating to the electronic presentation of the reviewed financial report

This review report relates to the financial report of the Company for the half-year ended 30 June 2008 included on Early Learning Services Limited's web site. The company's directors are responsible for the integrity of the Early Learning Services Limited web site. We have not been engaged to report on the integrity of this web site. The review report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the reviewed financial report to confirm the information included in the reviewed financial report presented on this web site.

Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Early Learning Services Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2008 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Significant Uncertainty Regarding Continuation as a Going Concern

Without qualification to our conclusion expressed above, we draw attention to Notes 1 and 5 in the half year financial report which comment on the potential consequences of a breach of a debt covenant in respect of the six month period ending 31 December 2008. Accordingly, there is a significant uncertainty whether Early Learning Services Limited will continue as a going concern and therefore, whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.



PricewaterhouseCoopers



Robert Roach
Partner

Brisbane
29 August 2008

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