



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

# Market Update

30 October 2008

## Early Learning Services – Market Update

### Summary

- **First quarterly profit achieved - \$440,000 before tax, September 2008 quarter;**
- **Adjustment to increase previously reported loss to 30 June 2008 from \$1.2million to \$1.5million after tax;**
- **Forecast full year result to 31 December 2008 revised to \$0.8million loss after tax.**

### Adjustment to Half Year Result to 30 June 2008

As previously noted, the quarterly system of child care payments by the Federal Government has now been replaced by a weekly system. As part of the final reconciliation of receipts from the former system an error has been detected in the internal treatment of discounts allowed on child care fees up to 30 June 2008. As a consequence, the previously reported after tax loss for the half year to June 2008 increases by \$0.3million, including \$0.1million attributable to 2007.

The adjustment was not detected under the previous system because of the way the system managed advances and quarterly adjustments for actual fee entitlements. The Company transferred to the new Federal Government system of weekly remittances in July and reconciliation of the final quarterly government adjustments received during October revealed the incorrect treatment of the discounts.

Once the amount has been confirmed in detail, the revised result for the half year to 30 June 2008 will be approximately \$1.5million loss after tax.

### Forecast Full Year Result

At this time it is apparent that the previously forecast result for the full year to 31 December 2008 will not be achieved. This is due to the adjustment noted above, delayed and cancelled new centre acquisitions, fewer new contracts for management of externally-owned centres and lower than forecasted revenue growth in Company-owned centres.

The revised forecast result for the full year to 31 December 2008 is a loss of \$0.8million after tax.

This full year forecast loss reflects the losses generated in the first half, primarily as a result of corporate and establishment expenses. It should be noted that the underlying portfolio of child care centres has been performing very well, with occupancy levels above industry averages. This, coupled

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with reduction of corporate costs, has enabled the Company to become profitable in the September quarter.

#### September Quarter Profit

The Company generated a Net Profit Before Tax (NPBT) in the quarter to September 2008 of \$440,000 (estimated to equate to \$308,000 Net Profit After Tax (NPAT)).

Management expect a similar result for the fourth quarter ended 31 December 2008, as the portfolio's centres continue to perform well and produce strong occupancy figures in addition to corporate costs being kept to a minimum.

#### 2009 and Beyond

Despite a difficult start, including significant legal and other one-off costs, the Board is encouraged by the profitability achieved in the September quarter, with the business also now having overcome many of the start-up hurdles.

With cost reductions currently being implemented and plans to acquire additional centres, as originally envisaged, the Board believes that the Company is well placed to benefit from the future development of the child care industry in Australia and reward the patience of its shareholders.

As advised to the market on 14 October 2008, the company remains in a strong financial position with cash of \$1.7million. Bankers to the Company remain supportive in respect of existing debt of \$18.1million and efforts by the Company to identify and acquire child care centres which meet its investment criteria.

The Company will continue to maximise revenue opportunities not only through the identification and acquisition of suitable child care centres, but also through regular competitor analysis and reviews as well as twice yearly fee reviews. Costs will be tightly managed through weekly monitoring of centre and head office wage costs, monitoring of centre and head office consumables and by maintaining outstanding parent debt to an absolute minimum.

Chris Sacre  
**Chief Financial Officer and Joint Company Secretary**

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