



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

Market Update

29 July 2008

ELY Market Update

Accounting Error

In the five months up to May 08 a recurrent timing error in respect to the revenue reversal accruals has caused an overstatement of revenue in the internal management accounts of \$0.5m NPAT.

The Company's auditors together with the Chief Financial Officer identified the error during preparation of the June half yearly financial statements which are currently being finalised.

The error in revenue reversal accruals meant that revenue derived from some days at the end of the months were accounted for twice.

To ensure accurate reporting on a monthly basis:

- the in-house accounting function is now fully established;
- the timing of the reversal accrual has been rectified, and
- the new Federal Government system of weekly reconciliations will provide a timely check on revenue taken to the accounts.

The internal management accounts were incorporated into the amended annual net profit after tax forecast announced on 6 June 2008 and, consequently, the net profit after tax impact of this error is \$0.5m on the forecast for the year ending December 2008.

Centre Management

Management has extensively pursued the centre management business which was due to contribute \$0.9m to NPAT in the forecasted results. The key driver behind the forecast growth in new centre management contracts was the change in Government funding from quarterly in advance to weekly in arrears. This timing alteration in Government funding would require centre owners to have an operating system which is compliant with the Government system requirements and submit weekly remittances.

The compulsory requirement to transfer to the new weekly Government funding has been delayed from the original date of 1 July 2008 to 31 December 2008. This delay in timing of the new Child Care Management System (CCMS) has impacted Early Learning Services' (ASX: ELY) ability to attract new centre management contracts. The timing impact of obtaining new centre managements has required management to revise the forecast NPAT contribution from \$0.9m to \$0.4m.

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The board regrets the fact that a further forecast revision has been necessary but recognises that it is imperative for any significant change to be conveyed to the market without delay, particularly during this first year of trading of the Company.

As such the revised forecast NPAT for the year ending 31 December 2008 is \$1.0m.

Operations Update

The Board is pleased to announce that the centres' overall occupancy remains very strong. As at the quarter ended 30 June 2008 the centres' overall occupancy was 86.2% compared with the budgeted forecast of 84.6%.

Also as of 30 June 2008, debt remained at \$18.1 million, with the cash at bank being \$1.3 million.

It is also important to note that all ELS owned and managed centres have transitioned to the Federal Government's new Child Care Management System (CCMS). This is assisting with the Company's cash flow as Federal Government funding is now received on a weekly basis.

Chris Sacre
Chief Financial Officer and Joint Company Secretary
Early Learning Services Limited

ENDS.

No further comment will be made in regards to this announcement until the release of Early Learning Services' (ASX: ELY) half year results in August 2008.

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