

Name of Entity	G8 Education Limited
ABN	95 123 828 553
Reporting period – year ended	31 December 2010
Previous Corresponding period – period ended	31 December 2009

Results for Announcement to the Market

	Percentage change Up or Down	%	\$'000
Revenue from ordinary activities	up	99.0	to 66,437
Profit from ordinary activities after tax attributable to members	up	3028.6	to 4,510
Profit for the period attributable to members	up	3028.6	to 4,510

Dividends	Amount per Security	Franked amount per security
September 2010 Interim Dividend –paid	1 cent	Nil
December 2010 Interim Dividend –payable	1 cent	Nil
Final Dividend – Current reporting period	Nil	Nil
Record date for determining entitlements to dividends (if any)	31 December 2010	
Date Dividend is payable	11 January 2011	
Details of any dividend reinvestment plan in operation	Dividend reinvestment plan is in operation	
The last date for receipt of an election notice for participation in any dividend reinvestment plan	31 December 2010	

Net Tangible Assets (NTA)	December 2010	December 2009
Net Tangible Assets per security	4.8 cents	(27.0) cents

Brief explanation of any figures reported above necessary to enable the figures to be understood

The company acquired 50 of its 88 centres between March and September 2010; as such the comparatives shown in the financial report are not directly comparable. G8 Education Limited does not possess a large tangible asset base as it is a service organisation. NTA is low as G8 Education Limited's value is derived from its ability to generate future profits.

Commentary on Results

Refer to attached Chairperson's Report and Director's Report on Pages 5 to 18.

Financial Highlights

Consolidated

Average number of centres in year	70
Number of centres at year end	88
Licence capacity at year end	6,304 per day
Total Number of employees at year end	1,727

Year end 31 December (\$'000)	2010	2009
Revenue	66,437	33,393
Expenses	(58,530)	(32,354)
Earnings Before Interest and Tax	7,907	1,039
Interest	(1,318)	(1,185)
Net Profit /(Loss) Before Tax	6,589	(146)
Net Profit /(Loss) After Tax	4,510	(154)

Balance Sheets with notes

Refer 2010 Consolidated Financial Report attached:

- Balance Sheet
- Notes to the financial statements as shown.

Statements of Comprehensive Income with notes

Refer 2010 Consolidated Financial Report attached:

- Statements of Comprehensive Income
- Notes to the financial statements as shown.

Statements of Cash Flow with notes

Refer 2010 Consolidated Financial Report attached:

- Statements of Cash Flow
- Notes to the financial statements as shown.

Dividends

Refer 2010 Consolidated Financial Report attached:

- Note 23 to the financial statements as shown.

Statements of changes in Equity

Refer 2010 Consolidated Financial Report attached:

- Statements of changes in Equity

Compliance Statement

This report is based on the financial report that has been audited by our external auditors.

A handwritten signature in black ink, appearing to read 'Craig Chapman', with a stylized flourish at the end.

Craig Chapman

Chief Executive Officer and Executive Director

24 February 2011



G8 EDUCATION LIMITED

Annual Report 2010



G8 Education^{ltd}

Mission Statement

Our mission is to be Australia's leading provider of high quality, developmental and educational child care services.

We seek to achieve this through our four pillars for growth and sustainability:

Quality Education & Care

To nurture and develop children's minds, social skills and confidence in a safe and stimulating environment.

Employees

To commit to employee development and a rewarding culture which will ensure an engaged and driven workforce.

Community

To be responsive to local families and deliver upon community expectations.

Profitability

To grow and derive value for shareholders through innovative services, systems and management.



Notice of Annual General Meeting

The annual general meeting of **G8 Education Limited** will be held at:

The Boardroom Cafe

Southport Yacht Club - 1 Macarthur Parade, Main Beach

Time - 10:00am

Date - Tuesday 5 April 2011

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2010 Highlights

- March 2010, Early Learning Services Limited merges with Payce Child Care Pty Ltd resulting in 69 owned and operated centres. The merged group is renamed G8 Education Limited.
- April 2010, the acquisition of 10 centres is announced bringing the total to 79 centres
- June 2010, the acquisition of a further 9 child care centres; resulting in 88 owned centres.
- July 2010, the acquisition of 2 child care centre's brings the total to 90 centres.
- Half yearly results are announced – 42.8% EBIT ahead of forecast
- September 2010, first quarterly dividend of 1 cent per share is announced; payment is made in October 2010.
- October 2010, proposed acquisition of Cherie Hearts Singapore is announced. Cherie Hearts is comprised of 18 owned and 51 franchised Child Care Centres
- December 2010, the group proceeds to take operational control of the Kindy Patch child care business; increasing the portfolio by a further 30 centres.
- December 2010, second quarterly dividend of 1 cent per share is announced; payment is made in January 2011.



Chairperson's Report

Dear Shareholders,

The 2010 Annual Report for G8 Education Limited records the details of what has been an exciting year in the child care industry.

The merger of Early Learning Services and Payce Child Care in early 2010 saw the coming together of two quality child care providers, and has provided the platform for expansion. Our operations will span more than 200 child care centres throughout Australia and Singapore on completion of the acquisitions announced during the 2010 calendar year.

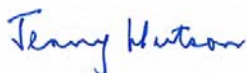
Our mission to be Australasia's leading provider of high quality, development and educational child care services. We aim to do this by being responsive to local families and delivering upon community expectations, whilst offering innovative services, systems and management. I am pleased to say that management has worked tirelessly this year to ensure that this is achieved.

This year has seen G8 Education Limited bring together a portfolio of outstanding child care brands, each with their own important place in their respective communities. Our management team is working to integrate these centres into the G8 Education family, and continues to focus on outstanding child care management.

This focus has seen G8 Education deliver an outstanding result consequently the Company has been able to commence paying quarterly dividends to its shareholders. It is an outstanding result, and the Executive team of Chris Scott, Craig Chapman, Chris Sacre and Jae Fraser, are to be congratulated.

The provision of child care services to our community is important. G8 Education is committed to ensuring that the children who are educated and cared for in our child care centres receive the very best of care in a supportive and professional environment.

Yours faithfully,



Jennifer J Hutson

Chairperson

Brisbane,

24 February 2011

Key Financial Information

Consolidated

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Number of owned centres at year end	88
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Section 1

Director's Report & Corporate Governance Statement

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Director's Report

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Corporate Governance Statement

Director's Report

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of G8 Education Limited and the entities it controlled at the end of, or during, the year ended 31 December 2010.

Directors

J J Hutson was appointed chairperson and director on 25 March 2010 and continues in office at the date of this report.

C J Scott was appointed as managing director on 25 March 2010 and continues in office at the date of this report.

B H Bailison was appointed a director on 25 March 2010 and continues in office at the date of this report.

C G Chapman was appointed an executive director on 25 March 2010 and continues in office at the date of this report.

A J P Staines was a director from the beginning of the financial year until her resignation on 27 May 2010.

A G Hartnell was a director from the beginning of the financial year until his resignation on 25 March 2010.

G J Kern was a director from the beginning of the financial year until his resignation on 25 March 2010.

Principal Activities

The principal continuing activity of the Group during the year was:

- Operation of child care centres owned by the Group
- Contract management of child care centres

Dividends

Dividends declared or paid during the financial year were as follows:

	2010 \$	2009 \$
Dividend for the quarter ended 30 September 2010 of 1 cent per share paid on 7 October 2010	1,281,741	-
Dividend for the quarter ended 31 December 2010 of 1 cent per share paid on 11 January 2011	1,623,046	-
	<u>2,904,787</u>	<u>-</u>

Review of operations

Information on the operations and financial position of the Group and its business strategies and prospects is set out in the Chairperson's Report on page 5 of this annual report.

Significant changes in the state of affairs

Significant changes in the state of affairs of the Group during the year were as follows:

- (a) the Company changed its name from Early Learning Services Limited to G8 Education Limited in May 2010
- (b) reported a profit of \$4,509,779 in 2010 compared to a loss of \$153,804 in 2009
- (c) acquired an additional 51 child care centres and sold one child care centre
- (d) contracted to acquire the Kindy Patch Unit Trust which operates 30 centres in Queensland and NSW
- (e) contracted to acquire the Singapore assets of Cherie Hearts International Group, this will result in the Group owning 18 child care centres and a franchise business servicing 48 centres in Singapore.

Matters subsequent to the end of the financial year

The following material matters have taken place subsequent to year end:

- (a) On 31 January 2011 G8 Education Limited announced to the Australian Stock Exchange the acquisition of a further 8 child care centres in New South Wales. The acquisition will increase the group's licensed places by 720. The purchase price for the acquisition of the 8 centres on a 4x centre EBIT multiple is \$8.5million together with a deferred cash payment in the event that the centre based EBIT for the 8 centres exceeds \$2.125 million. The deferred payment is capped at \$4.3 million;
- (b) G8 Education Limited has executed documentation with its financier, National Australia Bank, to extend its current debt facilities for 3 years and increase the facility from \$15.5m to \$36.8m. The new facility will be used to fund acquisitions; and
- (c) On 9 February 2011 G8 Education Limited announced the placement of 21 million G8 Education shares at \$0.90 per share to professional and sophisticated investors raising \$18.9 million. The capital raised will be used to fund acquisitions.

Likely developments and expected results of operations

Likely developments in the operations of the Group that were not finalised at the date of this report include:

Completion of acquisition contracts noted above in significant changes in the state of affairs

Environmental regulation

The Group is subject to and complies with environmental regulations under State legislation in the management of its operations. The Group does not engage in activities that have particular potential for environmental harm.

No incidents have been recorded and the directors are not aware of any environmental issues which have had, or are likely to have, a material impact on the Group's business.

Information on directors

Jennifer Joan Hutson B.Com, LLB, FAIMM, MAICD

Chairperson. Age 43.

Independent Non-Executive since 25 March 2010.

Experience and expertise

Jenny is an investment banker and fund manager. She is an experienced corporate adviser and company director.

Jenny has a keen interest in the welfare and education of children. In addition to chairing G8 Education, Jenny is a director of the Royal Childrens Hospital Foundation in Brisbane.

Jenny was previously a partner of a major law firm. She has over 20 years experience in board issues involving listed companies including as chair of S8 Limited. Jenny was previously named Queensland Businesswoman of the Year and Australian Institute of Management Owner/Manager of the Year.

Other current listed public company directorships

Nil

Former listed public company directorships in the last 3 years

Nil

Christopher John Scott B.Econ (Hons)
Managing director. Age 63.
Executive director since 25 March 2010

Experience and expertise

Chris graduated with first class honours in Economics from Latrobe University in Melbourne. He was awarded the DM Myers University Medal in 1977.

Chris has over 23 years experience in senior management positions. He has spent over 20 years in business in Singapore where he was involved in a number of successful businesses.

Chris Scott was also the founder of the S8 Group (now part of CVC's Mantra Group). Chris is a 'hands on' manager. His operational, analytical and strategic skills were critical in the selection of potential acquisitions which met the criteria to ensure the profitable expansion of the S8 Group and now G8 Education.

Other current listed public company directorships

Nil

Former listed public company directorships in the last 3 years

Octaviar Limited (under external administration and/or controller appointed) - Director since 2008.

Craig Graeme Chapman B. Com., C.P.A., C.S.A.

Chief Executive Officer, Age 46

Executive director since 25 March 2010

Experience and expertise

Craig has had 25 years experience in business holding senior management roles with particular emphasis on consolidations over the last 10 years. Craig has recently held senior operational roles with S8 Limited and Greencross Limited, and more recently has been Chief Executive Officer of child care providers Sunkids and Ramsay & Bourne.

Craig holds a Bachelor of Commerce from the University of Queensland and is a CPA. He also holds a Graduate Diploma in Company Secretarial Practice and is an Associate of the Institute of Chartered Secretaries and Administrators.

Other current listed public company directorships

Nil

Former listed public company directorships in the last 3 years

Octaviar Limited from March 2008 to May 2008.

Brian Hilton Bailison B.Com., B.Acc (Cum Laude), ACA

Non executive director since 25 March 2010. Age 40.

Experience and expertise

Brian has over 15 years experience in finance, corporate finance and operations from senior roles in listed and unlisted businesses in South Africa and Australia, including senior positions at Rand Merchant Bank Limited (South Africa's largest bank-assurance business), the Ivany Investment Group (diversified investment group) and Payce Consolidated Limited which ran 59 child care centres prior to them becoming part of the G8 Education group.

Brian holds Bachelor of Commerce and Bachelor of Accounting (Cum Laude) degrees from the University of Witwatersrand and is a member of the Institute of Chartered Accountants of Australia.

Other current listed public company directorships

Director of one other unlisted public company: Henlia Holdings Limited (Director since 2009).

Former listed public company directorships in the last 3 years

Nil

Chris Sacre BBus., CA, SA Fin, GDipAppFin (Finsia)
Chief Financial Officer and Company Secretary

Chris is the group Chief Financial Officer, where he is responsible for financial management including reporting, forecasting (short term and long term growth) and centre acquisitions and operational management.

Chris' formal qualifications include a Bachelor of Business, a Graduate Diploma in Applied Finance. Chris is Charter Accountant qualified and is a senior associate of FINISIA. Chris provides invaluable experience and skills from a business and financial perspective.

Chris has been involved in the child care industry since 2007.

Meeting of Directors

The number of meetings of the Company's Board of directors and of each Board committee held during the year ended 31 December 2010, and the number of meetings attended by each director were:

Director	Full meetings of Directors		Audit & Risk Committee^	
	A	B	A	B
J J Hutson	9	9	-	-
C J Scott	9	9	-	-
B H Bailison	9	9	-	-
C G Chapman	9	9	-	-
A G Hartnell	7	7	1	1
G J Kern	4	7	1	1
A P Staines	8	9	1	1

A = Number of meetings attended

B = Number of meetings held during the time the director held office or was a member of the committee during the year

^ The Group had an Audit & Risk Committee during the year until the Committee was abolished and its roles and responsibilities assumed by the Board

Remuneration Report

The remuneration report is set out under the following main headings:

- A. Principles used to determine the nature and amount of remuneration.
- B. Details of remuneration.
- C. Service Agreements.
- D. Share-based compensation.

The information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

A. Principles used to determine the nature and amount of remuneration

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms with market practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency; and
- capital management.

The Group has structured an executive remuneration framework that is market competitive and complimentary to the reward strategy of the organization.

Alignment to program participants' interests:

- rewards capability and experience
- reflects competitive reward for contribution to growth in shareholder wealth
- provides a clear structure for earning rewards; and
- provides recognition for contribution.

As at 31 December 2010, a policy on performance-related incentives had not been formalised and will be considered during the year ending 31 December 2011. This policy may consider linking performance to the achievement of pre-determined target and key performance indicators. Each quarter the Centre Directors are incentivised based on the performance of their individual Centre's. This performance is measured on the achievement of set Key Performance Indicators. J D Fraser also receives a quarterly incentive based on the performance of the group as a whole.

Non-executive directors

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the Board.

Directors' fees

The current base remuneration was last reviewed with effect from 25 March 2010 and was reduced for directors appointed on or after that date.

Non-executive directors' fees are determined within an aggregate director's fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at \$500,000 per annum.

The following fees, exclusive of superannuation, have applied: since 25 March 2010:

Base Fees	01 January 2010 to 25 March 2010	From 25 March 2010
Chairman	\$75,000 per annum	\$30,000 per annum
Non-executive director – G J Kern	\$82,569 per annum	-
Non-executive director – A J P Staines (appointed prior to 25 March 2010)	\$50,000 per annum	\$50,000 per annum until her resignation on 27 May 2010
Non-executive directors appointed on 25 March 2010		\$15,000 per annum

Executive Pay

The Executive pay currently has one component being base pay and benefits, including superannuation.

Base Pay

Base pay is structured as a total employment cost package which may be delivered as a combination of cash and prescribed non-financial benefits at the executives' discretion.

Executives' are offered a competitive base pay that comprises the fixed component of pay and rewards.

There are no guaranteed base pay increases included in any executives' contracts.

Benefits

Executives' receive benefits including car allowances.

B. Details of remuneration

Amounts of remuneration

Details of the remuneration of the directors and key management personnel (as defined in AASB 124 *Related Party Disclosures*) of G8 Education Limited are set out in the following tables on pages 13 and 15.

The key management personnel of G8 Education Limited and the Group are the same personnel and includes the directors as per pages 9 to 11 and the following executive officers who have authority and responsibility for planning, directing and controlling the activities of the entity.

- C P Sacre – Chief Financial Officer and joint Company Secretary
- G M Edwards – Financial Controller and joint Company Secretary - until his resignation on 16 December 2010
- J D Fraser – Operations Manager
- B Miess – Support and Administration Manager
- D R Tarry – Human Resources Manager – until his resignation on 29 May 2010

Key Management personnel and other executives of G8 Education Limited and the Group:

2010	Short term employee benefits		Post – employment benefits	Share based payments	Termination payments	Total
Name	Cash salary and fees	Other	Superannuation	Options		
Non-executive directors						
J J Hutson, Chairperson (appointed from 25 March 2010)	20,769	-	1,869	-	-	22,638
B H Bailison (appointed from 25 March 2010)	10,385	-	935	-	-	11,320
A G Hartnell AM (resigned 25 March 2010)	28,559	-	2,570	-	-	31,129
G J Kern (resigned 25 March 2010)	31,441	-	2,830	-	-	34,271
A J P Staines (resigned 27 May 2010)	20,321	-	1,829	-	-	22,150
Executive directors						
C J Scott, Managing director (appointed 25 March 2010) #	158,077	200,000	12,238	-	-	370,315
C G Chapman, Chief Executive Officer (appointed 25 March 2010) #	130,769	200,000	10,369	-	-	341,138
Other key management personnel						
C P Sacre ^{^**}	200,391	58,500	15,940	3,955	-	278,786
G M Edwards [^] until 16 December 2010	110,529	-	9,948	-	9,277	129,754
J D Fraser [^]	125,228	10,000	11,072	-	-	146,300
B Miess [^]	83,399	-	7,506	-	-	90,905
D R Tarry [^] until 29 May 2010	47,317	-	4,738	-	33,098	85,153
Total	967,185	468,500	81,844	3,955	42,375	1,563,859

2009	Short term employee benefits		Post – employment benefits	Share based payments	Termination payments	Total
Name	Cash salary and fees	Other	Superannuation	Options		
Non-executive directors						
A G Hartnell AM						
Chairman	75,000	-	6,750	-	-	81,750
G J Kern	82,569	-	7,431	-	-	90,000
A J.P. Staines (Appointed 12 May 2009)	31,250	-	2,813	-	-	34,063
Executive director						
J H Hutchison (retired as a director 19 March 2009; resigned as an employee 24 April 2009)	47,451	-	7,788	-	39,087	94,326
Other key management personnel						
C P Sacre^	202,500	6,716	18,225	6,982	-	234,423
G.M. Edwards^	88,610	-	31,290	-	-	119,900
J D Fraser^	103,750	-	9,338	-	-	113,088
B Miess^	82,134	-	7,392	-	-	89,526
D R Tarry^	98,750	-	8,889	-	-	107,639
Total	812,014	6,716	99,916	6,982	39,087	964,715

^ denotes one of the 5 highest paid executives of the Group as required to be disclosed under *the Corporations Act 2001*.

The amount included for Mr C J Scott and Mr C G Chapman includes consultancy fees due from Payce Child Care Pty Ltd prior to the merger.

**The other amount included for Mr C P Sacre in 2010 relates to a tenure bonus equivalent to \$50,000 plus one month's salary which was paid to Mr Sacre to ensure the Payce Child Care Pty Ltd merger proposal was completed.

All proportions of remuneration for Directors, Key Management personnel and other executives were fixed, not linked to performance, in 2010.

C. Service agreements

On appointment to the Board, all non-executive directors enter into a service agreement with the Company in the form of a letter of appointment. The letter summarises the Board policies and terms, including compensation, relevant to the office of director.

Remuneration and other terms of employment for the Managing Director, Chief Executive Officer, Chief Financial Officer and the other key management personnel are formalised in service agreements.

All contracts with executives may be terminated early by either party with up to 6 weeks notice other than the MD, CEO and CFO which require 3 months notice by either party.

C J Scott, Managing Director

- Term of agreement – on going, commenced March 2010, with a three month termination notice period.
- Base salary, exclusive of superannuation, of \$200,000 per annum effective 25 March 2010, to be reviewed annually by the Board.

C G Chapman, Chief Executive Officer

- Term of agreement – on going, commenced March 2010, with a three month termination notice period.

- Base salary, exclusive of superannuation, of \$200,000 per annum effective 25 March 2010, to be reviewed annually by the Board.

C P Sacre, Chief Financial Officer and Company Secretary

- Term of agreement – on going, commenced April 2008, with a three month termination notice period.
- Base salary, exclusive of superannuation, of \$200,000 per annum effective 19 April 2010, to be reviewed annually by the Board. Relocation allowance of \$3,000. A bonus equivalent to \$50,000 plus one month's salary was payable to assist with the merger proposal with Payce Child Care Pty Ltd which was completed in March 2010. The bonus is disclosed in other short term employee benefits.

G M Edwards, Financial Controller and joint Company Secretary

- Term of agreement – resigned effective 16 December 2010.
- Base salary, exclusive of superannuation, of \$112,750 per annum effective 4 January 2010.

J D Fraser, Operations Manager

- Term of agreement – on going, commenced October 2006, with a one month termination notice period.
- Base salary, exclusive of superannuation, of \$165,000 per annum effective 6 September 2010, to be reviewed annually by the Board.

D. Share based compensation

Options

No options over ordinary shares in G8 Education Limited were provided as remuneration in 2010 (2009 – Nil).

Options were issued to C P Sacre were issued on 24 November 2008 and split into three tranches of 250,000 options each with an exercise price of \$0.20 per option. The vesting dates and expiry for each tranche are as follows:

- Tranche A has a vesting date of 1 July 2009 and an expiry date of 1 July 2010
- Tranche B has a vesting date of 1 July 2010 and an expiry date of 1 July 2011
- Tranche C has a vesting date of 1 July 2011 and an expiry date of 1 July 2012

Other than timeframe, no other vesting conditions exist in respect of options issued to C P Sacre. The timeframe condition was selected as this assists the Group in retaining key executives.

The assessed fair value at grant date of options granted to the individuals is allocated equally over the year from grant date to vesting date, and the amount is included in the remuneration table above. Fair values at grant date are independently determined using a binomial option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The terms and conditions of each grant of options affecting remuneration in the previous, this or future reporting years are as follows:

Grant Date	Date vested and exercisable	Expiry date	Exercise price	Value per option at grant date
24 November 2008	1 July 2009	1 July 2010	\$0.20	\$0.008
24 November 2008	1 July 2010	1 July 2011	\$0.20	\$0.018
24 November 2008	1 July 2011	1 July 2012	\$0.20	\$0.027

The model inputs for options granted during the year ended 31 December 2008 included:

- (a) options were granted for: No consideration
- (b) exercise price: \$0.20 per share
- (c) grant date: 24 November 2008
- (d) vesting date: Tranche A - vesting date of 1 July 2009
Tranche B - vesting date of 1 July 2010
Tranche C - vesting date of 1 July 2011
- (e) expiry date: Tranche A - expiry date of 1 July 2010
Tranche B - expiry date of 1 July 2011
Tranche C - expiry date of 1 July 2012
- (f) expected price volatility of the Group's shares: 60%
- (g) expected dividend yield: 0.00%
- (h) risk-free interest rate: Tranche A – 3.20%
Tranche B – 3.50%
Tranche C – 3.70%
- (i) escrow year: Nil

Shares under option

Unissued ordinary shares of G8 Education Limited under option at the date of this report are as follows:

Date options granted	Expiry date	Issue price of shares	Number under option	% Options Vested	% Options Exercised	% Options Forfeited
24 November 2008	1 July 2010	\$0.20	250,000	100%	250,000	-
24 November 2008	1 July 2011	\$0.20	250,000	100%	250,000	-
24 November 2008	1 July 2012	\$0.20	250,000	-	-	-

Options issued on 24 November 2008 do not have an escrow agreement which restricts the trading of shares under the option agreement. The option holder may only participate in respect of an option in a new issue of shares or other securities to holders of Shares if the option has been exercised in accordance with the terms of the option deed.

Option holders are not subject to equity risk under the existing option deeds.

Insurance of officers

During the year, G8 Education Limited paid a premium to insure the directors and officers of the Company and its controlled entities. Under the terms of the policy the amount of the premium and the nature of the liability cannot be disclosed.

Proceedings on behalf of the Group

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Group, or to intervene in any proceedings to which the Group is a party, for the purpose of taking responsibility on behalf of the Group for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Group with leave of the Court under section 237 of the *Corporations Act 2001*.

Non-audit services

The Group may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Group are important.

Details of the amounts paid or payable to the auditors (PricewaterhouseCoopers until 27 May 2010 and HLB Mann Judd (SE Qld Partnership) since that date) for audit and non-audit services provided during the year are set out below.

The Board of directors has considered the position and is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the Board to ensure they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics of Professional Accountants*.

During the year the following fees were paid or payable for services provided by the auditor of the group:

	Consolidated 2010 \$	Consolidated 2010 \$
1. Audit Services		
PricewaterhouseCoopers Australian firm:		
• Audit and review of financial reports – half year	-	45,000
• Audit and review of financial reports – Year end	-	90,000
HLB Mann Judd (SE Qld Partnership):		
• Audit and review of financial reports – half year	25,000	-
• Audit and review of financial reports – Year end	49,000	-
Total remuneration for audit services	74,000	135,000
2. Non-audit Services		
Taxation and Advisory services		
PricewaterhouseCoopers Australian firm:		
• Advisory services	-	18,582
• Taxation services	-	32,120
HLB Mann Judd (SE Qld Partnership):		
• Advisory services	12,500	-
Total remuneration for non-audit services	12,500	50,702

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 19.

Auditor

PricewaterhouseCoopers resigned on 27 May 2010 and HLB Mann Judd (SE Qld Partnership) were appointed and continue in office in accordance with section 237 of the *Corporations Act 2001*.

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



Jennifer J Hutson

Chairperson

Brisbane,

24 February 2011

Auditor's Independence Declaration



Accountants | Business and Financial Advisers

G8 Education Ltd
ABN 95 123 828 553

Auditors Independence Declaration under s.307C of the Corporations Act 2001 to the Directors of G8 Education Ltd

I declare that, to the best of my knowledge and belief, during the year ended 31 December 2010 there has been:

- (i) No contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) No contraventions of any applicable code of professional conduct in relation to the audit.

HLB Mann Judd.

HLB MANN JUDD

A handwritten signature in blue ink, appearing to read 'Chris King'.

CHRISTOPHER KING
Partner

Date: 24 February 2011
Brisbane, Queensland

HLB Mann Judd (SE Old Partnership) ABN 68 920 406 716

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Liability limited by a scheme approved under Professional Standards Legislation.

HLB Mann Judd (SE Old Partnership) is a member of HLB International, A world-wide network of independent accounting firms and business advisors.

Corporate Governance Statement

G8 Education Limited (the Company) and the Board are committed to achieving and demonstrating the highest standards of corporate governance. The Board continues to review the framework and practices to ensure they meet the interests of shareholders. The Company and its controlled entities together are referred to as the Group in this statement.

A description of the Group's main corporate governance practices is set out below. All these practices, unless otherwise stated, were in place for the entire year.

Management and oversight

The relationship between the Board and senior management is critical to the Group's long-term success. The directors are responsible to the shareholders for the performance of the Group in both the short and the longer term and seek to balance sometimes competing objectives in the best interests of the Group as a whole. Their focus is to enhance the interests of shareholders and other key stakeholders and to ensure the Group is properly managed.

The responsibilities of the Board include:

- providing strategic guidance to the Group including contributing to the development of and approving the corporate strategy;
- reviewing and approving business plans, the annual budget and financial plans including available resources and major capital expenditure initiatives;
- overseeing and monitoring:
 - organisational performance and the achievement of the Group's strategic goals and objectives; and
 - progress of major capital expenditures and other significant corporate projects including any acquisitions or divestments;
- monitoring financial performance including approval of the annual and half year financial reports and liaison with the Group's auditors;
- appointment, performance assessment and, if necessary, removal of key executives;
- ratifying the appointment and/or removal and contributing to the performance assessment for the members of the senior management team including the CFO and the Company Secretary;
- ensuring there are effective management processes in place and approving major corporate initiatives;
- enhancing and protecting the reputation of the organisation; and
- overseeing the operation of the Group's system for compliance and risk management reporting to shareholders.

The terms and conditions of the appointment and retirement of directors are set out in a letter of appointment.

Day to day management of the Group's affairs and the implementation of the corporate strategy and policy initiatives are formally delegated by the Board to the CEO and senior executives. These delegations are reviewed on an annual basis.

The Group has developed a process for annual appraisal of senior executives measuring performance in ten areas, including contribution to the overall success of the business. The appraisal is designed to measure success in achieving objectives set for the past twelve months and to set objectives for the ensuing twelve months. Succession planning is also built into the appraisal process to encourage development of future leaders within the Group.

The Group undertook performance evaluations for the management team and expect to complete senior executive reviews during 2011.

The Board of Directors

The Board operates in accordance with the broad principles set out below.

Board composition

- the Board is to be comprised of both executive and non-executive directors. Non-executive directors bring perspective to the Board's consideration of strategic, risk and performance matters and are best placed to exercise independent judgement and review and constructively challenge the performance of management;
- in recognition of the importance of independent views and the Board's role in supervising the activities of management, the Chairperson must be an independent non-executive director, half of the Board must be independent of management and all directors are required to bring independent judgement to bear in their Board decision making;
- the Chairperson is elected by the full Board and is required to meet regularly with key executives;
- the Group is to maintain a mix of directors on the Board from different backgrounds with complementary skills and experience; and
- the Board is required to undertake an annual Board performance review and consider the appropriate mix of skills required by the Board to maximise its effectiveness and its contribution to the Group.

Chairperson, Managing Director and Chief Executive Officer (CEO)

The Chairperson is responsible for leading the Board, ensuring directors are properly briefed in all matters relevant to their role and responsibilities, facilitating Board discussions and managing the Board's relationship with the Group's key executives.

The Managing Director and CEO are responsible for implementing Group strategies and policies.

Independent professional advice

Directors and Board committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at the Group's expense. Prior written approval of the Chairperson is required, but this will not be unreasonably withheld.

Board members

Details of the members of the Board, their experience, expertise, qualifications, term of office and independent status are set out in the directors' report under the heading "Information on directors". The Board consists of four directors, two of whom are non-executive and those two (J J Hutson and B H Bailison) who are independent under the principles set out below.

Directors' Independence

The Board has adopted specific principles in relation to directors' independence. These state that to be independent, a director must be a non-executive and:

- not be a substantial shareholder of the Group or an officer of, or otherwise associated directly with, a substantial shareholder of the Group;
- within the last three years, not have been employed in an executive capacity by the Company or any other Group member, or been a director after ceasing to hold any such employment;
- within the last three years not have been a principal of a material professional adviser or a material consultant to the Company or any other Group member, or an employee materially associated with the service provided;
- not be a material supplier or customer of the Company or any other Group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- must have no material contractual relationship with the Company or a controlled entity other than as a director of the Group;
- not have been on the Board for a year 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
- be 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.

Materiality for these purposes is determined on both a quantitative and qualitative bases. An amount of over 5% of annual turnover of the Company or Group or 5% of the individual directors' net worth is considered material for these purposes. In addition, a transaction of any amount or a relationship is deemed material if knowledge of it may impact the shareholders' understanding of the directors performance.

Recent thinking on corporate governance has introduced the view that a director's independence may be perceived to be impacted by lengthy service on the Board. To avoid any potential concerns, the Board has determined that a director will not be deemed independent if he or she has served on the Board of the Company for more than ten years.

Term of Office

The Company's Constitution specifies that all directors, other than a managing director, must retire from office no later than the third annual general meeting following their last election. Where eligible, a director may stand for re-election.

Commitment

The Board held 16 Board meetings during the year.

The number of meetings of the Company's Board of directors and of each Board committee held during the year ended 31 December 2010, and the number of meetings attended by each director is disclosed on page 11.

It has been the Company's practice to allow executive directors to accept appointments outside the Company with approval of the Board. There are currently no executive directors with outside appointments. The commitments of non-executive directors are considered by the nomination committee prior to the directors' appointment to the Board of the Company and are to be reviewed each year as part of the annual performance assessment.

Prior to appointment or being submitted for re-election, each non-executive director is required to specifically acknowledge that they have and will continue to have the time available to discharge their responsibilities to the Company.

Conflict of interests

Entities connected with Mr G J Kern, who resigned as a director on 25 March 2010, had business dealings with the Group during the year, as described in note 24 to the financial statements. In accordance with the Board charter, the directors concerned declared their interests in those dealings to the Company and took no part in decisions relating to them or the preceding discussions.

Nominations

Due to the small size of the Board, nomination and remuneration matters are addressed by the Board. A set of guidelines has been established in this regard. The guidelines are available at www.g8education.com or by contacting the registered office.

Board Performance Assessment

The Board has developed an annual self assessment process for its collective performance, the performance of the Chairperson and its committee. A questionnaire is to be completed by each Director, evaluating his or her individual performance, that of other Board members and of the Board as a whole. The results and any action plans are to be documented together with specific performance goals which are to be agreed for the coming year.

The Group did not complete a Board performance assessment during 2010 due to the new board forming in 2010.

Code of Conduct

The Company has developed a Code of Conduct (the Code) which has been fully endorsed by the Board and applies to all directors and employees. The Code is available at www.g8education.com or by contacting the registered office. The Code is regularly reviewed and updated as necessary to ensure it reflects the highest standards of behaviour and professionalism and the practices necessary to maintain confidence in the Group's integrity.

In summary, the Code requires that at all times all Company personnel act with the utmost integrity, objectivity and in compliance with the letter and the spirit of the law and Company policies.

Trading in Company Securities

The purchase and sale of Company securities by directors and employees is only permitted during the four week period following the annual general meeting, release of the half yearly and annual financial results to the market, except with written authority in accordance with clause 2.4 of the Company's Securities Trading Policy. Any transactions undertaken must be notified to the Chairperson in advance. The Company's share trading policy is available at www.g8education.com or by contacting the registered office.

The directors are satisfied that the Group has complied with its policies on ethical standards, including trading in securities.

Integrity of Financial Reporting

The Board as a whole are responsible for ensuring the integrity of financial reporting and a set of guidelines has been established in this regard. The guidelines are available at www.g8education.com or by contacting the registered office. Due to the small size of the board it does not have an audit committee.

External Auditors

The Company policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually and applications for tender of external audit services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs. HLB Mann Judd (SE Qld Partnership) was appointed as the external auditor in 2010.

An analysis of fees paid to the external auditors, including a break-down of fees for non-audit services, is provided in the directors' report and in note 25 to the financial statements. It is the policy of the external auditors to provide an annual declaration of their independence to the Board.

The external auditor will 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 audit report.

Continuous disclosure and shareholder communication

The Company has policies and procedures on information disclosure that focus on continuous disclosure of any information concerning the Group that a reasonable person would expect to have a material effect on the price of the Company's securities. These policies and procedures also include the arrangements the Company has in place to promote communication with shareholders and encourage effective participation at general meetings.

The Company Secretary has been nominated as the person responsible for communications with the Australian Stock Exchange (ASX). This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.

All information disclosed to the ASX is posted on the Company's website as soon as it is disclosed to the ASX. When analysts are briefed on aspects of the Group's operations, the material used in the presentation is released to the ASX and posted on the Company's web site. Procedures have also been established for reviewing whether any price sensitive information has been inadvertently disclosed and, if so, this information is also immediately released to the market.

In addition, the Company seeks to provide opportunities for shareholders to participate through electronic means via the Company's website. A copy of the Company's Constitution and main Corporate Governance documents, have been posted to a dedicated section of the Company's website at www.g8education.com.

Risk assessment and management

The Board is responsible for ensuring there are adequate policies in relation to risk management, compliance and internal control systems. In summary, the Company policies are designed to ensure strategic, operational, legal, reputation and financial risks are identified, assessed, effectively and efficiently managed and monitored to enable achievement of the Group's business objectives. Responsibility for Risk Management and Internal control is delegated to the appropriate level of management within the Group, with the CEO and CFO having ultimate responsibility to the Board for the risk management and internal control framework.

The Group has a Risk Management Policy which was adopted in December 2008 to formally document the policies and procedures already in place to manage risk. The Company's Risk Management policy is available at www.g8education.com or by contacting the registered office.

Considerable importance is placed on maintaining a strong control environment. There is an organisation structure with clearly drawn lines of accountability and delegation of authority. Adherence to the Code of Conduct is required at all times and the Board actively promotes a culture of quality and integrity.

Management assurance regarding financial reporting

The CEO and CFO have made the following certifications to the Board:

- the Company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Company and Group and are in accordance with relevant accounting standards;
- the above statement is founded on a system of risk management and internal compliance and control which implements the policies adopted by the Board; and
- the Group's risk management and internal compliance and control framework is operating efficiently and effectively in all material respects.

Remuneration

Due to the small size of the Board, nomination and remuneration matters are addressed by the Board. a set of guidelines has been established in this regard. The guidelines are available at www.g8education.com or by contacting the registered office.

Each member of the senior executive team signs a formal employment contract at the time of their appointment covering a range of matters including their duties, rights, responsibilities and any entitlements on termination. The standard contract refers to a specific formal job description. This job description is reviewed by the Board on an annual basis and, where necessary, is revised in consultation with the relevant employee.

Further information on directors' and executives' remuneration, including principles used to determine remuneration, is set out in the directors' report under the heading "Remuneration report".

Non-executive directors do not receive options or bonus payments and are not provided with retirement benefits other than superannuation.

The Board also assumes responsibility for overseeing management succession planning, including the implementation of appropriate executive development programmes and ensuring adequate arrangements are in place, so that appropriate candidates are recruited for later promotion to senior positions.

Adoption of ASX Corporate Governance Recommendations

The Group has adopted the ASX Corporate Governance Recommendations Version 2 for all or part of the year, as outlined in the Corporate Governance Statement, with the following exceptions:

Council Recommendation 2.1: A majority of the Board should be independent directors.

Two of the four directors are independent and the Board believes that the mix of directors is appropriate to achieve the Company's objectives at this stage of its growth.

Council Recommendation 2.4: The Board should establish a Nomination Committee.

The Board does not have a Nomination Committee due to the small size of the Board.

Council Recommendation 4.1 – 4.4: The Board should establish an Audit Committee.

The Board does not have an Audit Committee due to the small size of the Board. The responsibility for ensuring the integrity of financial reporting is addressed by the board as a whole.



Section 2

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Director's Declaration

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Statements of Comprehensive Income

For the year ended 31 December 2010

		Consolidated	
		2010	2009
	Notes	\$	\$
Revenue from continuing operations	5	66,392,288	33,393,370
Other Income	6	44,794	-
Expenses			
Employee benefits expense		(41,266,812)	(22,149,695)
Occupancy		(8,252,033)	(4,022,973)
Direct costs of providing services		(4,979,675)	(2,316,395)
Legal fees		(397,118)	(888,929)
Amortisation	7	(143,775)	(183,894)
Depreciation expense	7	(992,538)	(593,327)
Impairment	7	(312,874)	(155,009)
Insurance		(501,933)	(322,952)
Other Expenses		(1,683,202)	(1,721,834)
Finance costs	7	(1,318,205)	(1,184,838)
Total expenses		(59,848,165)	(33,539,846)
Profit /(Loss) before income tax		6,588,917	(146,476)
Income tax (expense)/benefit	8	(2,079,138)	(7,328)
Profit / (Loss) for the year		4,509,779	(153,804)
Other Comprehensive income for the year, net of Tax		-	-
Total Comprehensive income for the year		4,509,779	(153,804)
		Cents	Cents
Basic earnings / (loss) per share	35	4.15	(0.35)
Diluted earnings / (loss) per share	35	4.15	(0.35)

The above Statements of Comprehensive Income should be read in conjunction with the accompanying notes.

Balance Sheets

As at 31 December 2010

		Consolidated	
		2010	2009
	Notes	\$	\$
ASSETS			
Current assets			
Cash and cash equivalents	9	8,015,645	172,976
Trade and other receivables	10	1,785,269	1,041,669
Other current assets	11	20,447,158	647,639
Assets classified as held for sale	12	50,000	1,173,250
Total current assets		30,298,072	3,035,534
Non-current assets			
Receivables	13	1,000,385	-
Property plant and equipment	14	6,049,678	3,771,949
Deferred tax assets	15	1,352,439	2,153,436
Intangible assets	16	59,667,450	30,637,481
Total non-current assets		68,069,952	36,562,866
Total assets		98,368,024	39,598,400
LIABILITIES			
Current liabilities			
Trade and other payables	17	12,290,461	2,641,337
Borrowings	18	1,637,581	2,749,331
Provisions	19	2,175,473	679,476
Current tax liabilities		511,638	-
Total current liabilities		16,615,153	6,070,144
Non-current liabilities			
Borrowings	20	13,913,614	14,704,210
Provisions	21	443,572	57,947
Total non-current liabilities		14,357,186	14,762,157
Total liabilities		30,972,339	20,832,301
Net assets		67,395,685	18,766,099
EQUITY			
Contributed equity	22	77,984,690	30,957,697
Reserves	23	31,444	33,843
Accumulated losses	23	(10,620,449)	(12,225,441)
Total equity		67,395,685	18,766,099

The above Balance Sheets should be read in conjunction with the accompanying notes.

Statements of changes in equity

For the year ended 31 December 2010

	Notes	Contributed equity \$	Reserves \$	Accumulated losses \$	Total \$
Consolidated					
Balance 1 January 2009		30,957,697	26,861	(12,071,637)	18,912,921
Profit / (Loss) for the year		-	-	(153,804)	(153,804)
Transactions with owners in their capacity as owners					
Employee share options expense		-	6,982	-	6,982
Balance 31 December 2009		30,957,697	33,843	(12,225,441)	18,766,099
Balance 1 January 2010		30,957,697	33,843	(12,225,441)	18,766,099
Profit for the year		-	-	4,509,779	4,509,779
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction cost		47,020,639	-	-	47,020,639
Dividends		-	-	(2,904,787)	(2,904,787)
Employee share options expense		-	3,955	-	3,955
Employee share options exercised		6,354	(6,354)	-	-
Balance 31 December 2010	22,23	77,984,690	31,444	(10,620,449)	67,395,685

The above consolidated Statements of Changes in Equity should be read in conjunction with the accompanying note.

Statements of Cash Flow

For the year ended 31 December 2010

		Consolidated	
		2010	2009
	Notes	\$	\$
Cash flows from Operating Activities			
Receipts from customers (inclusive of goods and service tax)		64,803,437	33,091,624
Payments to suppliers and employees (inclusive of goods and service tax)		(56,519,106)	(31,034,391)
Interest received		357,620	13,366
Borrowing costs		(60,670)	(55,980)
Interest paid		(1,226,662)	(1,152,309)
Income taxes paid		-	(30,635)
Net cash flows in from operating activities		7,354,619	831,675
Cash flows out from Investing Activities			
Payments for purchase of businesses	11,29	(13,963,076)	-
Movements relating to loans/investments		195,395	-
Cash obtained in PCC acquisitions	29	1,077,066	-
Payments for pre-acquisition costs		-	(422,072)
Proceeds from sale of property, plant and equipment		1,173,250	37,819
Payments for property plant & equipment		(912,799)	(728,035)
Net cash out flows from investing activities		(12,430,164)	(1,112,288)
Cash flows from Financing Activities			
Share issue costs		(1,003,913)	-
Dividends paid		(1,281,741)	-
Proceeds from issue of shares		17,934,968	-
Proceeds from external borrowings		28,700	489,765
Repayment of borrowings		(2,759,800)	(1,393,566)
Net cash (out)/inflows from financing activities		12,918,214	(903,801)
Net increase/(decrease) in cash and cash equivalents		7,842,669	(1,184,414)
Cash and cash equivalents at the beginning of the financial year		172,976	1,357,390
Cash and cash equivalents at the end of the financial year	9	8,015,645	172,976

The above Statements of Cash Flow should be read in conjunction with the accompanying notes.

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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 years presented, unless otherwise stated. The financial report is for the consolidated entity consisting of G8 Education Limited and its subsidiaries.

The separate financial statements of the group, G8 Education Limited, have not been presented within this financial report as permitted by amendments made to the *Corporations Act 2001* effective as at 28 June 2010.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group and the *Corporations Act 2001*.

The Group acquired the majority of its centres during 2010; as such the comparatives shown in the financial report are not directly comparable.

Compliance with IFRS

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report of G8 Education Limited and the Group complies with International Financial Reporting Standards (IFRS). Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless otherwise stated.

Historical cost convention

These financial statements have been prepared under the historical cost convention.

Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

(b) Principles of consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of G8 Education Limited ("Company" or "parent entity") as at 31 December 2010 and the results of all subsidiaries for the year then ended. G8 Education Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries (as stated in note 31) are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 1(g)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) Segment reporting

The Group has applied AASB 8 *Operating Segments* from 1 January 2009. AASB 8 requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes.

Operating segments are now reported in a manner that is consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the board of directors that makes strategic decisions. AASB 8 has not resulted in different segments, segment results or different types of information being reported.

(d) Seasonality

The childcare industry has a distinct seasonal pattern. A large group of children leave childcare to commence school at the beginning of the year and then revenue increases with new enrolments as the calendar year progresses. Therefore the second half of the year delivers significantly more than half of the annual profit.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of discounts, refunds, 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 the 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 revenue is not considered to be reliably measurable until all contingencies relating to the service provided 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.

Revenue is recognised for the major business activities as follows:

(i) Child care fees

Fees paid by the government (Child Care Benefit) or parent fees are recognised as and when a child attends a child care service.

(ii) Management fees

Fees paid by external clients for management of child care centres or development of new centres is recognised when the service has been performed.

(iii) Government Funding/Grants

Training incentives and funding for "Special Needs" are recognised when there is reasonable assurance that the incentive will be received and when the relevant conditions have been met.

(iv) Deferred income

Revenue received in advance from parents and the government, is recognised as deferred income and classified as a current liability.

(e) Income Tax

The income tax expense or revenue for the year is the tax payable on the current year's taxable income based on the notional income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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 base of investments in controlled entities where the group is able to control the timing of the reversal of the temporary difference and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax liabilities and assets are offset when there is legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

Tax consolidation legislation

G8 Education Limited and its wholly-owned controlled entities have implemented the tax consolidation legislation.

The parent entity, G8 Education Limited, and the controlled entities in the tax consolidated Group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated Group continues to be a standalone taxpayer in its own right.

In addition to its own current and deferred tax amounts, G8 Education Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidation Group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

(f) Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the statements of comprehensive income over the lease year so as to produce a constant periodic rate of interest on the remaining balance of the liability for each year. The property, plant and equipment acquired under finance leases is depreciated 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 not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statements of comprehensive income on a straight-line basis over the year of the lease.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Business combinations

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, 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 published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price 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.

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 acquired is recorded as goodwill (refer note 1 (o)). If the cost of acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the Statements of Comprehensive Income, but only after a reassessment of the identification and measurement of the net assets acquired.

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 exchange. 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.

(h) Impairment of assets

Goodwill and 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. An impairment loss is 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.

Goodwill must be assessed for impairment at the lowest level at which management monitors goodwill, however the level cannot be higher than the operating segment level. The group operates only one operating segment and management monitors goodwill at that level. Therefore goodwill is tested for impairment at the operating segment level.

(i) Cash and cash equivalents

For statements of cash flow presentation purposes, 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.

(j) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables represent child care fees receivable from the Government Child Care Benefit (CCB) and parents.

Under the weekly Child Care Management System (CCMS), implemented in July 2008, CCB is generally paid weekly in arrears based on the actual attendance and entitlement of each child attending the childcare centre.

Parent fees are required to be paid two weeks in advance. Therefore, the parent fees receivable relate to amounts past due.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the provision is recognised in the statements of comprehensive income in other expenses.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statements of comprehensive income within other expenses. When a trade receivable is uncollectable, it is written off against the allowance for trade receivables. Subsequent recoveries of amounts previously written off are credited against other expenses in the statements of comprehensive income.

(k) Non-current assets (or disposal Groups) held for sale and discontinued operations

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.

An impairment loss is 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 of less costs to sell 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 de-recognition.

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 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 statements of comprehensive income.

(l) 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the reporting date, which are classified as current assets.

(ii) Available-for-sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, 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 reporting date. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

Recognition and de-recognition

Regular purchases and sales of financial assets are recognised on trade date - the date on which 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 profit or loss, are initially recognised at fair value and transaction costs are expensed in the statements of comprehensive income. 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 statements of comprehensive income as gains and losses from investment securities.

Subsequent measurement

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the Statements of Comprehensive Income within other comprehensive income in the year in which they arise. Dividend income from financial assets at fair value through profit and loss is recognised in the statements of comprehensive income as part of revenue from continuing operations when the Group's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in equity. Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in equity.

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,

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in the statements of comprehensive income. Impairment losses recognised in the statements of comprehensive income on equity instruments classified as available-for-sale are not reversed through the statements of comprehensive income.

(m) Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).

The Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

At year end there were nil hedging reserves. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

(i) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the statements of comprehensive income within other income or other expense.

Amounts accumulated in equity are recycled in the statements of comprehensive income in the years when the hedged item affects profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the statements of comprehensive income within 'finance costs'.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the statements of comprehensive income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the statements of comprehensive income.

(ii) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the Statements of Comprehensive Income.

(n) Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable the future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statements of comprehensive income during the reporting year in which they are incurred.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Depreciation for vehicles is calculated using the diminishing value method and on other assets calculated using the straight-line method to allocate their cost net of their residual values, over their estimated lives, as follows:

Buildings	40 years
Vehicles	3- 5 years
Furniture, fittings and equipment	2 - 15 years
Leasehold improvements	3 - 20 years

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.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the statements of comprehensive income.

(o) Intangible assets

(i) 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 in intangible assets. Goodwill is not amortised. Instead, goodwill 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. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(ii) Customer contracts

Customer contracts acquired as part of a business combination are recognised separately from goodwill. The customer contracts are carried at their fair value at the date of acquisition less accumulated amortisation and impairment losses. Amortisation is calculated based on the timing of projected cash flows of the contracts over their estimated useful lives, which currently vary from 1 to 2 years.

(p) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the year which are unpaid. The amounts are unsecured and are usually paid within 30 – 60 days of recognition.

(q) Borrowings and borrowing costs

Borrowings are initially recognised at fair value, net of transaction cost 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 statements of comprehensive income over the year 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 intangibles and amortised on a straight-line basis over the term of the facility.

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 impairment of intangible assets.

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 date.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Provisions

Provisions for legal claims, and make-good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is possible that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measures at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(s) Employee benefits

(i) *Wages and salaries, annual leave*

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

(ii) *Long service leave*

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 using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and years 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*

Share-based compensation benefits are provided to key management personnel. Information relating to this is set out in note 33.

The fair value of options granted is recognised as a share based payment expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the year during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using a binomial option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The fair value of the options granted is adjusted to reflect market vesting conditions, but excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each reporting date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each year takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in the statements of comprehensive income with a corresponding adjustment to equity.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) 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.

(u) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at balance date.

(v) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders 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.

(ii) 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 financing 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.

(w) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. 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.

(x) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2010 reporting years. The group's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 2009-8 Amendments to Australian Accounting Standards – Group Cash-Settled Share-based Payment Transactions [AASB2] (effective 1 January 2010)

The amendments made by the AASB to AASB 2 confirm that an entity receiving goods or services in a group share-based payment arrangement must recognise an expense for those goods or services regardless of which entity in the group settles the transaction or whether the transaction is settled in shares or cash. They also clarify how the group share-based payment arrangement should be measured, that is, whether it is measured as an equity- or a cash-settled transaction. The group will apply these amendments retrospectively for the financial reporting year commencing on 1 July 2010. There will be no impact on the group's financial statements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- (ii) *AASB 2009-10 Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132] (effective from 1 February 2010)*

In October 2009 the AASB issued an amendment to AASB 132 Financial Instruments: Presentation which addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment must be applied retrospectively in accordance with AASB 108 Accounting Policies, Changes in Accounting *Estimates and Errors*. The group will apply the amended standard from 1 July 2010. As the group has not made any such rights issues, the amendment will not have any effect on the group's financial statements.

- (iii) *AASB 9 Financial Instruments and AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 (effective 1 January 2013).*

AASB 9 *Financial Instruments* addresses the classification and measurement of financial assets and is likely to affect the group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The group is yet to assess the full impact. However, initial indications are that it may affect the group's accounting for its available-for-sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for fair trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss. In the current reporting year, the group did not recognise any such gains in other comprehensive income. The group has not yet decided when to adopt AASB 9.

- (iv) *Revised AASB 124 Related Party Disclosures and AASB 2009-12 Amendments to Australian Accounting Standards (Effective from 1 January 2011)*

In December 2009 the AASB issued a revised AASB 124 *Revised Party Disclosures*. It is effective for accounting years beginning on or after 1 January 2011 and must be applied retrospectively. The amendment removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities and clarifies and simplifies the definition of a related party. The group will apply the amended standard from 1 July 2011. When the amendments are applied, the group will need to disclose any transactions between its subsidiaries and its associates. However, it has yet to put systems into place to capture the necessary information. It is therefore not possible to disclose the financial impact, if any, of the amendment on the related party disclosures.

- (v) *AASB Interpretation 19 Extinguishing financial liabilities with equity instruments and AASB 2009-13 Amendments to Australian Accounting Standards arising from Interpretation 19. (effective from 1 July 2010).*

AASB Interpretation 19 clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments to the creditor (debt for equity swap). It requires a gain or loss to be recognised in profit or loss which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. The group will apply the interpretation from 1 July 2010. It is not expected to have any impact on the group's financial statements since it is only retrospectively applied from the beginning of the earliest presented (1 July 2009) and the group has not entered into any debt for equity swaps since that date.

- (vi) *AASB 2009-14 Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement (effective from 1 January 2011)*

In December 2009, the AASB made an amendment to Interpretation 14 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*. The amendment removes an unintended consequence of the interpretation related to voluntary prepayments when there is a minimum funding requirement in regard to the entity's defined benefit scheme. It permits entities to recognise an asset for a prepayment of contributions made to cover minimum funding requirements. The group does not make any such prepayments. The amendment is therefore not expected to have any impact on the group's financial statements. The group intends to apply the amendment from 1 July 2011.

NOTE 2: FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: interest rate risk, credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses interest rate caps to limit certain risk exposures. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, and other risks, ageing analysis for credit risk.

Risk management is carried out under policies approved by the Board of Directors. The Board provides principles for overall risk management, as well as policies covering specific areas, such as, interest rate risk, credit risk and investment of excess liquidity.

(a) Interest Rate Risk

Cash flow and fair value interest rate risk

The Group's main interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates do not expose the Group to fair value interest rate risk as they are carried at amortised cost. During 2010 the Group's borrowings at variable rates were denominated in Australian dollars.

As at the reporting date, the Group had the following variable rate borrowings:

	31 December 2010		31 December 2009	
	Weighted average interest rate %	Balance \$	Weighted average interest rate %	Balance \$
Bank Loan	5.16	5,868,821	3.48	6,041,980
Net exposure to cash flow interest rate risk		5,868,821		6,041,980

An analysis by maturities is provided in note 2 (c) below.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. The scenarios are run only for liabilities that represent the major interest-bearing positions.

Based on the various scenarios, the Group manages its cash flow interest rate risk by using an interest rate cap. The Company obtained an interest rate cap to limit the impact of an unfavourable move in interest rates. An interest rate cap protects the Group against a rise in interest rates but allows the Group to participate in favourable downward movements in interest rates. The details of the interest rate cap are as follows;

- Amount covered by Interest rate cap; \$9.5m. (Initially \$12M, reducing with amortisation repayments.)
- Cap rate: 4.00%
- Rolls: Monthly
- Term: 33 months, expiring 31 December 2011
- Hedged Risk: Interest Rate Risk

Group sensitivity

At 31 December 2010, if interest rates had changed by +/- 1 % absolute from the year end rates with all other variables held constant, post-tax profit for the year would have been \$41,764 higher or \$37,178 lower respectively (net loss for 2009:\$115,457 or \$79,498 respectively).

NOTE 2: FINANCIAL RISK MANAGEMENT (CONTINUED)**(b) Credit risk**

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to trade and other debtors.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as summarised below.

Trade debtor credit risk is managed by requiring child care fees to be paid in advance. Outstanding debtor balances are reviewed weekly and followed up in accordance with the Company's debt collection policy. Credit risk is also minimised by federal government funding in the form of child care benefits.

	Consolidated	
	2010	2009
	\$	\$
Trade receivables		
<i>Counterparties with external credit rating</i>		
AAA	850,623	240,265
<i>Counterparties without external credit rating</i>		
Receivables (current and non-current)	1,935,032	801,404
Total receivables	2,785,655	1,041,669
Cash at bank and short term deposits		
<i>Counterparties with external credit rating</i>		
AA	8,015,645	172,976

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Financing arrangements

Details of financing arrangements are disclosed in note 20 (d).

Maturities of financial liabilities

The table below analyses the Group's financial liabilities into relevant maturity Groupings based on the remaining year at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Consolidated			
	2010			
	\$			
	0 to 6 months	6 to 12 months	Greater than 12 months	Carrying Amount
Rate – Bank Loan	507,691	1,007,692	13,884,163	15,399,546
Interest rate cap	49,626	49,626	-	99,252
Hire Purchase	46,645	-	-	46,645
Other loans	28,182	28,183	-	56,365
Equipment loans	9,594	9,594	29,451	48,639
Deferred Centre acquisition	4,362,938	98,050	-	4,460,988
Trade and Other Payables	7,215,748	613,725	-	7,829,473

NOTE 2: FINANCIAL RISK MANAGEMENT (CONTINUED)

The bank loan is a revolving bill which rolls on a monthly basis and is next due on 29 January 2011. The bill facility has an expiry of 31 March 2012. Debt covenants are in place over this facility which were met as at 31 December 2010, and are forecast to be met throughout 2011.

	Consolidated 2009 \$			
	0 to 6 months	6 to 12 months	Greater than 12 months	Carrying Amount
Rate – Bank Loan	500,000	1,000,000	15,541,980	17,041,980
Interest rate cap	30,744	30,744	56,364	117,852
Hire Purchase	14,624	14,624	41,577	70,825
Other loan	119,890	21,744	-	141,634
Equipment loans	14,720	14,720	51,809	81,249
Trade and Other Payables	3,252,865	-	67,948	3,320,813

Maturities of financial assets

The table below analyses the Group's financial liabilities into relevant maturity Groupings based on the remaining year at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Consolidated 2010 \$			
	0 to 6 months	6 to 12 months	Greater than 12 months	Carrying Amount
Cash at bank and short term deposits	8,015,645	-	-	8,015,645
Trade & other receivables	1,785,269	-	-	1,785,269
Other current assets	20,447,158	-	-	20,447,158
Receivables	-	-	1,000,385	1,000,385

	Consolidated 2009 \$			
	0 to 6 months	6 to 12 months	Greater than 12 months	Carrying Amount
Cash at bank and short term deposits	172,976	-	-	172,976
Trade & other receivables	1,026,529	15,140	-	1,041,669
Other current assets	647,639	-	-	647,639

(d) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

NOTE 2: FINANCIAL RISK MANAGEMENT (CONTINUED)

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to the short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

Summarised sensitivity analysis

The following table summarises the sensitivity of the Group's financial assets and financial liabilities to interest rate risk.

		Interest rate risk			
		-1%		+1%	
	Carrying amount	Profit	Equity	Profit	Equity
31 December 2010	\$	\$	\$	\$	\$
Financial Liabilities					
Bank Loan	15,368,821	41,764	41,764	(37,178)	(37,178)
Total increase /(decrease)		41,764	41,764	(37,178)	(37,178)
31 December 2009					
Financial Liabilities					
Bank Loan	17,041,980	115,476	115,476	(79,498)	(79,498)
Total increase /(decrease)		115,476	115,476	(79,498)	(79,498)

NOTE 3: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 1(i). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions. Refer to note 16 for details of these assumptions and the potential impact of changes to these assumptions.

(ii) Contingent liability

The company is currently defending a legal claim. Refer to note 26 for details of this matter. The company believes that there is a reasonable prospect of this matter being awarded in favour of the company and therefore, no provision is required for the claim of \$3.9M. The matter has been treated as a contingent liability.

NOTE 4: SEGMENT INFORMATION

(a) Description of segments

Management has determined the operating segments based on the reports reviewed by the Board of Directors that are used to make Strategic Decisions.

The Board considers the business as one group of centres and has therefore identified one operating segment, being management of childcare centres in Australia. The following information is in respect of that segment.

All revenue in this report was derived from external customers and relates to the single operating segment.

The total profit represents the segment profit and all balance sheet items relate to the single operating segment.

There have been no changes since the last Annual Report in the basis of segmentation or in the basis of segment profit or loss.

NOTE 5: REVENUE

	Consolidated	
	2010	2009
	\$	\$
From continuing operations		
<i>Sales revenue</i>		
Revenue from childcare centres	65,249,234	33,214,925
<i>Other revenue</i>		
Management fees	751,328	165,080
Interest *	391,726	13,366
Total revenue from operations	66,392,288	33,393,370

*Includes interest earned from loans as disclosed in note 24.

NOTE 6: OTHER INCOME

	Consolidated	
	2010	2009
	\$	\$
Net gain on disposal of assets	44,794	-

(a) Net gain on disposal of assets

The consolidated net gain on disposal of property, plant and equipment in 2010 includes a gain of \$157,126 on sale of Alexander Heights and a loss of \$112,332 relating to the write off of the Payce Child Care Pty Ltd head office assets upon expiry of lease.

NOTE 7: EXPENSES

	Consolidated	
	2010	2009
	\$	\$
Profit/(loss) before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Buildings	37,500	47,500
Vehicles	109,316	52,029
Furniture, fittings and equipment	845,722	493,799
Total Depreciation	992,538	593,327
<i>Finance Costs</i>		
Interest and finance charges paid/payable	1,318,205	1,240,818
Less: Amount capitalised	-	(55,980)
Finance costs expensed	1,318,205	1,184,838
<i>Rental expenses relating to operating leases</i>		
Minimum lease payments	7,314,917	3,652,189
<i>Amortisation</i>		
Borrowing costs	143,775	144,056
Customer contracts and other	-	39,838
	143,775	183,894
Net loss on disposal of property, plant and equipment	-	2,870
Impairment		
Assets classified as held for sale	312,874	155,009
Bad & doubtful debts	216,728	81,575

NOTE 8: INCOME TAX EXPENSE

	Consolidated	
	2010	2009
	\$	\$
(a) Income tax expense		
Current tax	565,364	-
Deferred tax	1,513,774	5,309
Prior year tax paid for subsidiary	-	2,019
Income tax expense	2,079,138	7,328
Income tax expense is attributable to:		
Profit/(Loss) from continuing operations	2,079,138	7,328
	2,079,138	7,328
Deferred income tax expense included in income tax expense comprises:		
Decrease in deferred tax assets (refer note 15)	1,513,774	5,309
	1,513,774	5,309
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit/(loss) from continuing operations before income tax expense	6,588,917	(146,476)
Tax at the Australian tax rate of 30% (2009:30%)	1,976,675	(43,944)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Entertainment	9,299	2,750
Other	2,193	-
Impairment	90,971	46,503
Prior year tax paid for subsidiary	-	2,019
Income tax expense	2,079,138	7,328
(c) Amounts recognised directly in equity		
Aggregate current and deferred tax arising in the reporting year and not recognised in net profit or loss but directly debited or credited to equity		
Net deferred tax – debited (credited) directly to equity	301,174	-
	301,174	-

Weighted average effective tax rate 31.52% (2009 – 5.00%)

NOTE 9: CURRENT ASSETS – CASH AND CASH EQUIVALENTS

	Consolidated	
	2010	2009
	\$	\$
Cash at bank and in hand	3,038,165	172,976
Deposits at call*	4,977,480	-
	8,015,645	172,976

*The effective average interest rate for the deposits at call was 4.93%. Included in above is \$1,090,540 used as security against the company's bank guarantee facility (2009 – nil) as such this cash balance cannot currently be used for operating expenses.

Interest rate risk exposure

The Groups exposure to interest rate risk is discussed in note 2.

NOTE 10: CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

	Consolidated	
	2010	2009
	\$	\$
Trade and other receivables		
Trade receivables	1,521,179	808,076
Allowance for impairment of receivables (note (a) below)	(71,418)	(15,139)
	1,449,761	825,165
GST Receivable	190,464	50,305
Other debtors	145,044	166,199
Related party debtors*	-	32,228
Total trade and other receivables	1,785,269	1,041,669

* See note 28 (d).

(a) Impaired trade receivables

The Group has recognised a loss of \$250,111 in respect of impaired trade receivables during the year ended 31 December 2010 (2009 - \$70,376). The loss has been included in 'other expenses' in the statements of comprehensive income.

Movements in the provision for impairment of receivables are as follows:

	Consolidated	
	2010	2009
	\$	\$
Opening balance	15,139	65,486
Allowance for impairment recognised during the year	250,111	70,376
Receivables written off during the year as uncollectible	(193,832)	(120,723)
Closing balance	71,418	15,139

The creation and release of the provision for impaired receivables has been included in 'other expenses' in the statements of comprehensive income. Amounts charged to the allowance account are generally written off when there is no expectation of recovering the cash.

NOTE 10: CURRENT ASSETS – TRADE AND OTHER RECEIVABLES (CONTINUED)**(b) Past due but not impaired**

As of 31 December 2010, trade receivables of \$861,019 (2009 - \$650,344) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	Consolidated	
	2010	2009
	\$	\$
Up to 3 months	860,813	635,204
3 to 6 months	-	-
Over 6 months	206	15,140
	<u>861,019</u>	<u>650,344</u>

(c) Fair value, effective interest rates and credit risk

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value, refer note 2.

Information concerning the effective interest rate and credit risk of both current and non-current receivables is set out in note 2.

NOTE 11: CURRENT ASSETS – OTHER

	Consolidated	
	2010	2009
	\$	\$
Other current assets		
Prepayments	962,574	641,729
Deposits	190,104	5,910
Deposits on acquisitions	19,294,480	-
Total other current assets	<u>20,447,158</u>	<u>647,639</u>

(a) Deposits on acquisitions – Kindy Patch

On 1 December 2010 the Company issued 12,000,000 shares in G8 Education Limited to the vendor's nominee as the first stage of the acquisition of 100% of the units in the Kindy Patch Unit Trust which operates 30 child care centres: 22 in NSW and 8 in Queensland. Settlement of the acquisition is expected to be finalised in February 2011. As per the ASX announcement dated 18 August 2010, the acquisition will occur through the further issue of 12 million shares at \$0.60 in the company subject to the centre based EBIT target being achieved in the 2011 calendar year. The transaction also involves the assumption of debt of \$7.9 million.

(b) Deposits on acquisitions – Headstart

On 15 November 2010 the Company paid a deposit of \$1,280,000 as the first stage of the acquisition of 8 child care centres operating in NSW. Settlement of the acquisition was finalised in February 2011. As set out in the ASX announcement of 31 January 2011, the purchase price for the 8 centres is \$8.5 million together with a deferred cash payment in the event that the centre based EBIT for the 8 centres exceeds \$2.125 million.

NOTE 11: CURRENT ASSETS – OTHER (CONTINUED)

The deferred payment will represent 4x centre EBIT in excess of \$2.125 million, capped at \$4.3 million.

(c) Deposits on acquisitions – Cherie Hearts, Singapore

As announced on 28 October 2010 the Company has entered into a contract to purchase Cherie Hearts International Group. This will result in the Group owning 18 child care centres, 48 franchised child care centres. The total purchase price is \$19.23 million. The transaction will be fully funded from cash reserves and the assumption of \$5.65 million in existing debt. As at 31 December 2010, \$9,788,606 has been paid as a deposit. The remaining balance of \$9.44m is to be paid prior to settlement.

NOTE 12: CURRENT ASSETS – ASSETS CLASSIFIED AS HELD FOR SALE

	Consolidated	
	2010	2009
	\$	\$
Current assets classified as held for sale		
Land	-	948,726
Building	-	400,000
Goodwill	326,347	-
Property, plant & equipment	66,842	-
Less accumulated depreciation	(30,315)	(20,467)
Less provision for impairment	(312,874)	(155,009)
Total Assets classified as held for sale	50,000	1,173,250

2010: The Company has contracted to sell a child care centre which it operates in Western Australia. The carrying value above represents the net proceeds expected from sale.

NOTE 13: NON-CURRENT ASSETS – RECEIVABLES

	Consolidated	
	2010	2009
	\$	\$
Loans to key management personnel	900,385	-
Other receivables	100,000	-
	1,000,385	-

Further information relating to loans to key management personnel is set out in note 24.

(a) Impaired receivables and receivables past due

None of the non-current receivables are impaired or past due but not impaired.

NOTE 13: NON-CURRENT ASSETS – RECEIVABLES (CONTINUED)**(b) Fair values**

The fair values and carrying values of non-current receivables are as follows:

	2010		2009	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
Loans to nominees of management personnel	900,385	900,385	-	-
Other receivables	100,000	90,158	-	-
	1,000,385	990,543	-	-

The fair values are based on cash flows discounted using a current lending rate of 6% p.a. for other receivables and for loans to key management personnel.

(c) Risk exposure

Information about the group's exposure to credit risk, foreign exchange and interest rate risk is provided in note 2. The maximum exposure to credit risk at the end of the reporting year is the carrying amount of each class of receivables mentioned above.

NOTE 14: NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

Consolidated	Freehold land	Buildings	Vehicles	Furniture, fittings and equipment	Total
	\$	\$	\$	\$	\$
Year ended 31 December 2010					
Opening net book amount	-	1,423,239	331,286	2,017,424	3,771,949
Additions through business combinations	-	-	29,960	2,295,851	2,325,811
Additions - other	-	-	97,178	1,000,243	1,097,421
Disposals	-	-	(9,324)	(107,114)	(116,438)
Transferred to current assets classified as held for sale (note 12)	-	-	-	(36,527)	(36,527)
Depreciation charge	-	(37,500)	(109,316)	(845,722)	(992,538)
Closing net book amount	-	1,385,739	339,784	4,324,155	6,049,678
At 31 December 2010					
Cost or fair value	-	1,500,001	544,122	6,202,981	8,247,104
Accumulated depreciation	-	(114,262)	(204,338)	(1,878,826)	(2,197,426)
Net Book amount	-	1,385,739	339,784	4,324,155	6,049,678

NOTE 14: NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Consolidated	Freehold land	Buildings	Vehicles	Furniture, fittings and equipment	Total
	\$	\$	\$	\$	\$
Year ended 31 December 2009					
Opening net book amount	948,726	1,850,272	403,830	1,855,413	5,058,241
Additions	-	-	69,152	663,534	732,686
Disposals	-	-	(89,668)	(7,724)	(97,392)
Transferred to current assets classified as held for sale (note 12)	(948,726)	(379,533)	-	-	(1,328,259)
Depreciation charge	-	(47,500)	(52,028)	(493,799)	(593,327)
Closing net book amount	-	1,423,239	331,286	2,017,424	3,771,949
At 31 December 2009					
Cost or fair value	-	1,500,001	426,308	3,050,528	4,976,837
Accumulated depreciation	-	(76,762)	(95,022)	(1,033,104)	(1,204,888)
Net Book amount	-	1,423,239	331,286	2,017,424	3,771,949

(a) Leasehold Improvements

Furniture, fittings and equipment includes the following amounts that are leasehold improvements:

	Consolidated	
	2010	2009
	\$	\$
Cost	3,109,607	502,085
Accumulated depreciation	(626,548)	(65,145)
Net book amount	2,483,059	436,940

(b) Leased assets

Vehicles and Furniture, fittings and equipment includes the following amounts where the Group is a lessee under a finance lease:

	Consolidated	
	2010	2009
	\$	\$
Cost	217,959	191,878
Accumulated depreciation	(69,081)	(21,577)
Net book amount	148,878	170,301

NOTE 14: NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**(c) Fair value of buildings**

Buildings are carried at cost except in the case of the buildings classified as held for sale as per note 11. The directors assessed fair value of buildings included as non-current assets as at 31 December 2010 and concluded that there were no material differences between the fair value of buildings and their carrying amount.

(d) Non-current assets pledged as security

Refer to note 20(c) for information on the non-current assets pledged as security by the Company and its controlled entities.

NOTE 15: NON-CURRENT ASSETS - DEFERRED TAX ASSETS

Deferred Tax Asset	Consolidated	
	2010	2009
	\$	\$
The balance comprises temporary differences attributable to:		
Tax losses *	-	1,274,076
Employee benefits	785,713	221,227
IPO/share issue transaction costs	663,964	653,685
	<u>1,449,677</u>	<u>2,148,988</u>
<i>Other</i>		
Doubtful debts	21,425	4,266
Accrued expenses	93,239	58,019
Sub total other	<u>114,664</u>	<u>62,285</u>
Total deferred tax assets	<u>1,564,342</u>	<u>2,211,273</u>
Deferred tax assets to be recovered within 12 months	962,390	403,277
Deferred tax assets to be recovered after more than 12 months	601,952	1,807,996
	<u>1,564,342</u>	<u>2,211,273</u>
Deferred Tax Liability		
Prepayments	(211,902)	(57,837)
Total deferred tax liability	<u>(211,902)</u>	<u>(57,837)</u>
Net Deferred Tax Asset	<u>1,352,439</u>	<u>2,153,436</u>

* The deferred tax asset attributable to tax losses has been recognised on the basis that these will be utilised against future taxable income.

NOTE 15: NON-CURRENT ASSETS – DEFERRED TAX ASSETS (CONTINUED)
Movements – Consolidated

	Tax Losses	Employee	IPO Transaction	Other	Total
	\$	benefits \$	Costs \$	\$	\$
At 1 January 2009	961,545	206,085	914,462	76,653	2,158,745
Charged to the statements of comprehensive income	312,531	15,142	(260,777)	(72,705)	(5,309)
At 31 December 2009	1,274,076	221,227	653,685	4,448	2,153,436
Tax losses acquired in business combination	411,603	-	-	-	411,603
Charged to the statements of comprehensive income	(1,685,679)	564,486	(290,895)	(101,686)	(1,513,774)
Charged directly to equity	-	-	301,174	-	301,174
At 31 December 2010	-	785,713	663,964	(113,357)	1,352,439

NOTE 16: NON-CURRENT ASSETS – INTANGIBLE ASSETS

Consolidated	Goodwill	Borrowing costs	Customer contracts & other	Total
	\$	\$	\$	\$
Year ended 31 December 2009				
Opening net book amount	30,289,611	377,946	39,838	30,707,395
Adjustment in respect of prior year acquisitions	58,000	1,206	-	59,206
Additions	-	54,774	-	54,774
Amortisation charge	-	(144,056)	(39,838)	(183,894)
Closing net book amount	30,347,611	289,870	-	30,637,481
At 31 December 2009				
Cost	40,387,611	593,718	86,800	41,068,129
Accumulated amortisation and impairment	(10,040,000)	(303,848)	(86,800)	(10,430,648)
Net Book amount	30,347,611	289,870	-	30,637,481
Year ended 31 December 2010				
Opening net book amount	30,347,611	289,870	-	30,637,481
Additions	29,589,421	60,670	-	29,650,091
Disposals	(150,000)	-	-	(150,000)
Amortisation & impairment charge	(326,347)	(143,775)	-	(470,122)
Closing net book amount	59,460,685	206,765	-	59,667,450

NOTE 16: NON-CURRENT ASSETS – INTANGIBLE ASSETS (CONTINUED)

Consolidated	Goodwill	Borrowing costs	Customer contracts & other	Total
	\$	\$	\$	\$
At 31 December 2010				
Cost	69,500,685	654,388	86,800	70,646,315
Accumulated amortisation and impairment	(10,040,000)	(447,623)	(86,800)	(10,574,423)
Net Book amount	59,460,685	206,765	-	59,667,450

(a) Impairment tests for goodwill

Goodwill is tested for impairment on an operating segment level as outlined in note 1(i). The recoverable amount of the childcare centre assets in the segment is determined based on value-in-use calculations. These calculations use cash flow projections based on financial forecasts for 2011 and then extrapolated using estimated growth rates. The growth rate does not exceed the long-term average growth rate for the business in which the segment operates.

(b) Key assumptions used for value-in-use calculation

The value in use calculation is based on forecast EBITDA which is a function of occupancy, child care fees and centre expenses. The average long day care occupancy for the portfolio of centres is forecast at 78% for 2011 (79% in 2010). Child care fees are based on current market price plus forecast annual increases. Centre expenses include the following key items:

- Centre wages – based on industry award standards and forecast to increase by a CPI index annually
- Centre occupancy expenses – based on current operating leases and increased by a CPI index annually
- Other child care expenses – driven by historical expenditure and future occupancy growth.

The forecast occupancy reflects seasonal factors and underlying growth in occupancy achieved from the implementation of the Company's strategies. Economic occupancy levels represent the key to financial success for G8 Education Limited given the largely fixed cost-base of child care centres.

The impairment model has the following key attributes;

- Centre EBITDA growth of 6% for 2012 and 2013, 5% for 2014 and 4% onwards until the end of lease and option years;
- Pre tax discount rate of 12%
- Full head office costs allocated to each centre based on centre licence capacity to the consolidated Group;
- Assumed additional expenditure of \$15,000 per centre to maintain assets in their current state; and
- Terminal growth calculation with a growth rate of 2% and a reduction in Terminal Value of 40%

(c) Impairment charge

As a result of the value in use calculations described above it was determined that no impairment was required to be recognised.

AASB 136 Impairment of assets requires the Group to recognise an impairment loss if the recoverable amount of an asset is less than its carrying amount. The standard does not allow an impairment gain to be booked for an asset whose recoverable amount materially exceeds its carrying amount.

NOTE 16: NON-CURRENT ASSETS – INTANGIBLE ASSETS (CONTINUED)

Sensitivity Analysis on Impairment calculations as at 31 December	Profit Impact	Profit Impact
	2010 \$'000	2009 \$'000
Movement in WACC (+ 1%)	-	-
Movement in WACC (-1%)	-	-
Movement in EBITDA (+ 5%)	-	-
Movement in EBITDA (- 5%)	-	-

NOTE 17: CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	Consolidated	
	2010 \$	2009 \$
Trade payables	1,669,691	704,207
Deferred Centre Acquisitions	4,467,645	-
Other payables and accruals	4,642,691	1,145,246
Deferred income	1,510,434	791,884
	<u>12,290,461</u>	<u>2,641,337</u>

NOTE 18: CURRENT LIABILITIES - BORROWINGS

	Consolidated	
	2010 \$	2009 \$
Secured		
Bank Loan	1,515,383	2,500,000
Equipment Loans	19,188	22,028
Hire Purchase	46,645	24,180
Other loans	56,365	61,488
Unsecured		
Other loans	-	141,635
Total current borrowings	<u>1,637,581</u>	<u>2,749,331</u>

(a) Interest rate risk exposures

Details of the Group's exposure to interest rate changes on borrowings are set out in note 2(a).

(b) Fair value disclosures

Details of the fair value of borrowings for the Group are set out in note 2(d).

NOTE 19: CURRENT LIABILITIES – PROVISIONS

	Consolidated	
	2010	2009
	\$	\$
Employee benefits	2,175,473	679,476
	<u>2,175,473</u>	<u>679,476</u>

(a) Amounts not expected to be settled within the next 12 months

The current provision for employee benefits includes accrued annual leave and long service leave. For long service leave it covers all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount of the provision is presented as current since the Group does not have an unconditional right to defer settlement for any of these obligations. However, based on past experience, the Group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months. The following amounts reflect leave that is not to be expected to be taken or paid within the next 12 months.

	Consolidated	
	2010	2009
	\$	\$
Leave obligations expected to be settled after 12 months	217,547	70,583
	<u>217,547</u>	<u>70,583</u>

NOTE 20: NON-CURRENT LIABILITIES – BORROWINGS

	Consolidated	
	2010	2009
	\$	\$
Secured		
Bank Loan	13,884,163	14,541,980
Equipment Loans	29,451	59,221
Hire Purchase	-	46,645
Other loans	-	56,364
Total secured non-current borrowings	<u>13,913,614</u>	<u>14,704,210</u>
Total non-current borrowings	<u>13,913,614</u>	<u>14,704,210</u>

(a) Bills payable

Bills have been drawn as a source of financing on a needs basis. They are due to roll on the 31 January 2011 and bear variable interest, subject to an interest rate cap of 4% over \$9.5 million of the facility as per note 2(a), payable at drawdown. The Bill facility is revolving bill facility expiring on 31 March 2012.

NOTE 20: NON-CURRENT LIABILITIES - BORROWINGS (CONTINUED)**(b) Total secured liabilities**

The total secured liabilities (current and non-current) are as follows:

	Consolidated	
	2010	2009
	\$	\$
Bank Loan	15,399,546	17,041,980
Equipment	48,639	81,249
Hire Purchase	46,645	70,825
Other Loans	56,365	117,852
Total secured liabilities	<u>15,551,195</u>	<u>17,311,906</u>

(c) Assets pledged as security

The bank bills and overdraft of the group are secured by:

- a fixed and floating charge by the Group over the Company and its subsidiaries
- first ranking registered mortgages over all freehold and leasehold property owned by the Group
- an unlimited guarantee in favour of the Company from its subsidiaries
- a right of entry in relation to certain premises.

The carrying amounts of assets pledged as security for current and non-current borrowings are:

	Notes	Consolidated	
		2010	2009
		\$	\$
Current			
<i>First Mortgage</i>			
Current assets classified as held for sale	12	50,000	1,173,250
<i>Floating Charge</i>			
Cash and cash equivalents	9	8,015,645	172,976
Trade and other receivables	10	1,785,269	1,041,669
Other current assets	11	<u>19,592,158</u>	<u>647,639</u>
Total current assets pledged as security		<u>29,443,072</u>	<u>3,033,431</u>
Non-current			
<i>First Mortgage</i>			
Buildings	14	1,385,739	1,423,239
<i>Floating charge</i>			
Vehicles, plant and equipment	14	4,663,939	2,348,710
Intangibles	16	<u>59,667,450</u>	<u>30,637,481</u>
Total non-current assets pledged as security		<u>65,717,128</u>	<u>34,409,430</u>
Total assets pledged as security		<u>95,160,200</u>	<u>37,442,861</u>

NOTE 20: NON-CURRENT LIABILITIES - BORROWINGS (CONTINUED)**(d) Financing arrangements**

Unrestricted access was available at balance date to the following lines of credit:

	Consolidated	
	2010	2009
	\$	\$
Credit standby arrangements		
Total facilities		
Bank overdrafts	1,000,000	1,500,000
Credit cards	170,000	170,000
Asset Finance-Leasing	200,000	245,929
	<u>1,370,000</u>	<u>1,915,929</u>
Used at balance date		
Bank overdrafts	-	-
Credit cards	65,488	76,718
Asset Finance-Leasing	181,784	245,934
	<u>247,272</u>	<u>322,652</u>
Unused at balance date		
Bank overdrafts	1,000,000	1,500,000
Credit cards	104,512	93,282
Asset Finance-Leasing	18,216	(5)
	<u>1,122,728</u>	<u>1,593,277</u>
Bank loan facilities		
Total facilities	15,430,000	18,100,000
Used at balance date	<u>(15,430,000)</u>	<u>(17,100,000)</u>
Unused at balance date	<u>-</u>	<u>1,000,000</u>
Bank Guarantee facilities		
Total Facilities	2,300,000	1,300,000
Used at Balance date	<u>(1,829,444)</u>	<u>(929,264)</u>
Unused at balance date	<u>470,556</u>	<u>370,736</u>

The bank overdraft facilities may be drawn at any time and are subject to annual review.

(e) Interest rate risk exposure

Information about the Group's exposure to interest rate changes is provided in note 2.

NOTE 20: NON-CURRENT LIABILITIES - BORROWINGS (CONTINUED)**(f) Fair value**

The carrying amounts and fair values of borrowings at balance dates are:

	2010		2009	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
On balance sheet				
<i>Non-traded financial liabilities</i>				
Bank Loan	15,388,964	15,388,964	17,041,980	17,041,980
Equipment Loans	59,221	59,221	81,249	81,249
Hire Purchase	46,645	46,645	70,825	70,825
Other loans	-	-	141,634	141,634
	<u>15,494,830</u>	<u>15,494,830</u>	<u>17,335,688</u>	<u>17,335,688</u>

None of the classes are readily traded on organised markets in standardised form.

(i) On balance sheet

The fair values of non-current borrowings are based on cash flows discounted using a borrowing rate of 5.16% (as per note 2).

(ii) Off-balance sheet

The group has potential financial liabilities which may arise for certain contingencies disclosed in note 26. As explained in those notes, no material losses are anticipated in respect of any of those contingencies.

NOTE 21: NON-CURRENT LIABILITIES – PROVISIONS

	Consolidated	
	2010	2009
	\$	\$
Employee benefits	443,572	57,947
	<u>443,572</u>	<u>57,947</u>

NOTE 22: CONTRIBUTED EQUITY

	Consolidated		Consolidated	
	2010	2009	2010	2009
	Shares	Shares	\$	\$
(a) Share capital				
Ordinary shares Fully paid	162,304,537	44,000,000	77,129,691	30,957,697

NOTE 22: CONTRIBUTED EQUITY (CONTINUED)

(b) Movements in ordinary share capital

Date	Details		Number of shares	Issue price	Parent Entity \$
1 January 2009	Balance		44,000,000		30,957,697
31 December 2009	Balance		44,000,000		30,957,697
25 March 2010	Issue to Wallace Infrastructure Pty Ltd	(c)	48,000,000	0.25	12,000,000
25 March 2010	Issue to Payce Industries Limited	(c)	16,000,000	0.25	4,000,000
25 March 2010	Exercise of options by C Sacre	(d)	250,000	0.20	50,000
27 May 2010	Issue to nominees of C Scott & C Chapman	(c)	4,000,000	0.35	1,400,000
28 June 2010	Issue to DLGL Pty Ltd for 10 centres (T1)	(c)	9,313,230	0.35	3,259,631
8 September 2010	Issue to DLGL Pty Ltd for 2 centres (T3)	(c)	2,805,493	0.60	1,683,296
10 September 2010	Issue to DLGL Pty Ltd for 9 centres (T2)	(c)	2,000,000	0.55	1,100,000
22 September 2010	Exercise of options by C Sacre	(d)	250,000	0.20	50,000
30 September 2010	Issue to DLGL Pty Ltd for 9 centres (T2)	(c)	1,555,426	0.55	855,484
6 October 2010	Share Placement to institutions and professional investors	(c)	18,938,622	0.69	13,067,649
30 October 2010	Share Purchase Plan	(c)	3,191,766	0.69	2,202,319
1 December 2010	Issue to unit holders in the Kindy Patch Unit Trust	(c)	9,150,000	0.60	5,490,000
1 December 2010	Issue to unit holders in the Kindy Patch Unit Trust	(c)	2,850,000	0.90	2,565,000
	Less: Transaction costs of shares issued		-	N/A	(702,739)
	Plus: Transfer of option reserve for options exercised in 2010		-	N/A	6,354
31 December 2010	Balance		162,304,537		77,984,690

(c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

NOTE 22: CONTRIBUTED EQUITY (CONTINUED)**(d) Options**

Information relating to the G8 Education Limited options issued, exercised and lapsed during the year and options outstanding at the end of the financial year:

Grant Date	Expiry date	Exercise price	Balance at start of year Number	Granted during the year Number	Expired during the year Number	Balance at end of the year Number	Vested and exercisable at end of the year Number
24 Nov 2008	1 July 2010	\$0.20	250,000	-	-	250,000	250,000
24 Nov 2008	1 July 2011	\$0.20	250,000	-	-	250,000	250,000
24 Nov 2008	1 July 2012	\$0.20	250,000	-	-	250,000	-
Weighted average exercise price		\$0.20					

(e) Capital risk management

The Group's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitor capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'borrowings' and 'trade and other payables' as shown in the balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the balance sheet plus net debt.

The gearing ratios at 31 December 2010 were as follows:

	Notes	Consolidated	
		2010 \$	2009 \$
Total borrowings	17,18,19, 20	30,017,129	20,774,353
Less: cash and cash equivalents	9	(8,015,645)	(172,976)
Net debt		22,001,484	20,601,377
Total equity		67,395,685	18,766,099
Total capital		88,542,170	39,367,476
Gearing ratio		25%	52%

NOTE 23: RESERVES AND ACCUMULATED LOSSES

	Consolidated	
	2010	2009
	\$	\$
(a) Reserves		
Share-based payments reserve	31,444	33,843
Movements		
<i>Share-based payments reserve</i>		
Opening balance	33,843	26,861
Employee share options exercised	(6,354)	-
Employee share option expense	3,955	6,982
Closing balance	31,444	33,843

(b) Accumulated losses

Movements in accumulated losses were as follows:

	Consolidated	
	2010	2009
	\$	\$
Opening balance	(12,225,441)	(12,071,637)
Profit/(loss) for the year	4,509,779	(153,804)
Dividends	(2,904,787)	-
Closing balance	(10,620,449)	(12,225,441)

NOTE 24: KEY MANAGEMENT PERSONNEL DISCLOSURES**(a) Directors**

The following persons were directors of G8 Education Limited during the financial year:

(i) Chairperson –Independent non-executive

J J Hutson (Non-executive director from 25 March 2010)

(ii) Chairman – non-executive

A G Hartnell AM (non-executive director from 26 October 2007 and appointed Chairman 31 December 2008 to 25 March 2010)

(iii) Executive Directors

C J Scott (from 25 March 2010)

C G Chapman (from 25 March 2010)

(iv) Non-executive directors

B H Bailison (from 25 March 2010)

G J Kern (from 7 February 2007 to 25 March 2010)

A J P Staines (from 12 May 2009 to 27 May 2010)

NOTE 24: KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)**(b) Other key management personnel**

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

Name	Position	Employer
C P Sacre	Chief Executive Officer (from 27 April 2009 to 25 March 2010) and Chief Financial Officer (from 28 April 2008) and Company Secretary	G8 Education Ltd
G M Edwards	Financial Controller and joint Company Secretary (from 1 July 2008 to 13 December 2010)	G8 Education Ltd
J D Fraser	Operations Manager	G8 Education Ltd
B Miess	Support and Administration Manager	G8 Education Ltd
D R Tarry	Human Resources Manager (from 28 May 2007 to 29 May 2010)	G8 Education Ltd

(c) Key management personnel compensation

	Consolidated	
	2010	2009
	\$	\$
Short term employee benefits	1,435,685	818,730
Post employment benefits	81,844	99,916
Share based payments	3,955	6,982
Termination Payments	42,375	39,087
	1,563,859	964,715

The relevant information on detailed remuneration disclosures can be found in sections A-C of the remuneration report on pages 11-15.

(d) Equity instrument disclosures relating to key management personnel*(i) Options provided as remuneration and shares issued on exercise of such options*

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in Section D of the remuneration report on pages 15-16.

(ii) Option holdings

The number of options over ordinary shares in the Company held during the financial year by each director of G8 Education Limited and other key personnel of the Group, including the personally related parties, are set out below.

2010							
Name	Balance at start of year	Granted as compensation	Exercised	Expired	Balance at end of the year	Vested and exercisable	Unvested
<i>Other key management personnel of the Group</i>							
C P Sacre**	750,000	-	500,000	-	250,000	-	250,000

** The options issued to C P Sacre on 24 November 2008 are disclosed in detail in section D of the remuneration report on pages 15-16.

NOTE 24: KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

2009							
Name	Balance at start of year	Granted as compensation	Exercised	Expired	Balance at end of the year	Vested and exercisable	Unvested
<i>Directors of G8 Education Limited</i>							
A G Hartnell AM	150,000	-	-	150,000	-	-	-
<i>Other key management personnel of the Group</i>							
C P Sacre**	750,000	-	-	-	750,000	250,000	500,000

(iii) Share holdings

The numbers of shares in the Company held during the financial year by each director of G8 Education Limited and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting year as compensation.

2010				
Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
<i>Directors of G8 Education Limited</i>				
<i>Ordinary Shares</i>				
J J Hutson	-	-	800,000	800,000
C J Scott^	-	-	2,000,000	2,000,000
C G Chapman	-	-	1,208,333	1,208,333
B H Bailison	-	-	-	-
A G Hartnell AM	10,000	-	(10,000)	-
G J Kern	-**	-	-	-

^ Shares held by nominee of Mr C J Scott

2010				
Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
<i>Other key management personnel of the Group</i>				
<i>Ordinary Shares</i>				
C P Sacre	-	500,000	-	500,000
G M Edwards	-	-	121,739	121,739
J D Fraser	13,000	-	(10,000)	3,000
D Tarry	-	-	-	-

NOTE 24: KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

2009				
Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Directors of G8 Education Limited				
<i>Ordinary Shares</i>				
A G Hartnell AM	10,000	-	-	10,000
G J Kern	8,501,134	-	(8,501,134)	-**
J H Hutchison	8,521,133	-	(4,270,000)	4,251,133
Other key management personnel of the Group				
<i>Ordinary Shares</i>				
J D Fraser	3,000	-	10,000	13,000

** G J Kern held no shares at 31 December 2009, although he had a relevant interest in 6,567,000 shares under a share mortgage.

(e) Loans to key management personnel

Details of loans made to directors of G8 Education Ltd and other key management personnel of the group, including their personally related parties, are set out below.

(i) Aggregates for key management personnel

Group	Balance at the start of the year	Interest paid and payable for the year	Interest not charged	Balance at the end of the year	Number in group at the end of the year
	\$	\$	\$	\$	
2010	-	32,802	-	900,385	2
2009	-	-	-	-	-

(iv) Individuals with loans above \$100,000 during the financial year

2010	Balance at the start of the year	Interest paid and payable for the year	Interest not charged	Balance at the end of the year	Highest indebtedness during the year
Name	\$	\$	\$	\$	\$
C G Chapman	-	14,976	-	422,893	428,676
C J Scott	-	17,826	-	477,492	700,000

In 2009, there were no loans to individuals that exceeded \$100,000 at any time.

Loans outstanding at the end of the current year, made to directors of G8 Education Limited include an unsecured loan to Mr C G Chapman of \$420,000 and an unsecured loan to nominees of Mr C J Scott of \$700,000 both of which were made for a period of two years and are repayable in full on 27 May 2012. Interest is payable on these loans at the rate of 6% per annum.

The amounts shown for interest not charged in the table above represents the difference between the amount paid and payable for the year and the amount of interest that would have been charged on an arm's-length basis.

No write-downs or allowances for doubtful receivables have been recognised in relation to any loans made to key management personnel.

NOTE 24: KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)**(f) Other transactions with key management personnel**

Details of material transactions and their impact on the financial statements exclusive of GST at year end that key management personnel and their related entities had with the Group during the year are as follows:

The following transactions occurred with Mr G J Kern up until 25 September 2010, six months after he ceased to be a director of the Company and the subsidiary companies:

		2010 \$	2009 \$
Mr G J Kern was a director up until 25 March 2010 and an entity related to him a shareholder of Hutchison Kern Pty Ltd (HK P/L) which had the following transactions:			
a) paid child care centre management fees to the Group	Revenue Management fees	77,220	102,960
b) reimbursed the group for expenses paid on their behalf	Trade and other receivables	8,344	30,703
Mr G J Kern is a director and an entity related to him Kern Consulting Group which had the following transactions:			
a) provided consultancy services to the Group	Expense Other Expense	20,000	-

The following transactions occurred with Ms A J P Staines up until 27 November 2010, six months after she ceased to be a director of the Company and the subsidiary companies:

		2010 \$	2009 \$
Ms A J P Staines was a director up until 27 May 2010 who had the following transactions:			
a) provided consultancy services to the Group	Expense Other Expense	-	2,000

The following transactions occurred with Mr C G Chapman up until 31 December 2010:

		2010 \$	2009 \$
Mr C G Chapman is a director who had the following transactions:			
a) interest charged on share loan agreement	Revenue Interest income	14,976	-
b) loan made to facilitate the purchase of 1,200,000 G8 Education Limited shares for a total amount of \$420,000 plus accrued interest less repayments	Non-current receivables	422,893	-
c) issue of 1,200,000 described in (b) above	Equity Contributed Equity	420,000	-

NOTE 24: KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

1,200,000 shares were issued to C G Chapman at \$0.35 on 27 May 2010 at \$0.35. The loan is for a period of 2 years at 6% per annum. The interest on the loan is to be capitalised and repaid at the end of the 2 year term. All dividend payments from the Group will be utilised to repay interest repayments and/or debt reduction.

The following transactions occurred with Mr C J Scott up until 31 December 2010:

		2010	2009
		\$	\$
Mr C J Scott is a director who had the following transactions:			
d) interest charged on share loan agreement	Revenue		
	Interest income	17,826	-
e) loan granted to nominee of Mr C J Scott to purchase 2,000,000 shares G8 Education Limited for a total amount of \$700,000 plus accrued interest less repayments	Non-current receivables	477,492	-
f) issue of 2,000,000 shares to nominee of Mr C J Scott as described in (e) above	Equity		
	Contributed Equity	700,000	-

A loan was granted to issue 2,000,000 shares to Mr C J Scott's nominee on 18 May 2010 at \$0.35. The loan issued is for a period of 2 years at 6% per annum. The interest on the loan is to be capitalised and repaid at the end of the 2 year term. All dividend payments from the Group will be utilised to repay interest repayments and/or debt reduction.

(g) The aggregate value of transactions with key management personnel is:

	Consolidated	
	2010	2009
	\$	\$
Revenue		
Interest income	32,802	-
Management fees	77,220	132,960
Expenses		
Other expenses	20,000	265,829
Current assets		
Trade and other receivables	8,344	26,406
Non Current assets		
Receivables	900,385	-
Equity		
Contributed equity	1,120,000	-

NOTE 25: REMUNERATION OF AUDITORS

During the year the following fees were paid or payable for services provided by the auditor of the Group, its related practices and non-related audit firms:

	Consolidated	
	2010	2009
	\$	\$
1. Audit services		
PricewaterhouseCoopers Australian firm		
Audit and review of financial reports – half year	-	45,000
Audit and review of financial reports – year end	-	90,000
HLB Mann Judd (SE QLD Partnership)		
Audit and review of financial reports – half year	25,000	-
Audit and review of financial reports – year end	54,000	-
Total Remuneration for audit services	79,000	135,000

	Consolidated	
	2010	2009
	\$	\$
2. Non-audit services		
PricewaterhouseCoopers Australian firm		
Advisory services	-	18,582
Taxation services	-	32,120
HLB Mann Judd (SE QLD Partnership)		
Advisory services	12,500	-
Total remuneration for non-audit services	12,500	50,702

It is the Group's practice to employ HLB Mann Judd on assignments additional to their statutory audit duties where HLB Mann Judds' expertise and experience with the Group are important. These assignments are principally tax advice and due diligence reporting on acquisitions, or where HLB Mann Judd is awarded assignments on a competitive basis. It is the Group's policy to seek competitive tenders for all major consulting projects.

NOTE 26: CONTINGENCIES

(a) Contingent liabilities

The Group had contingent liabilities at 31 December 2010 in respect of:

G8 Education Limited is a defendant in proceedings before the ACT Supreme Court. The proceedings relate to the decision by the Group not to proceed with the purchase of two child care centres in the A.C.T. in 2008.

The plaintiff is seeking an order that the Group perform the contracts of \$3.9M, being the price of the two leasehold childcare centres which G8 Education Limited had contracted to purchase. The case has been heard and judgement has been reserved. It is not known when the decision will be handed down.

NOTE 27: COMMITMENTS**(a) Capital commitments**

There is no capital expenditure contracted for at the reporting date but not recognised as a liability.

(b) Lease commitments : Group as lessee*(i) Non-cancellable operating leases for premises and vehicles*

	Consolidated	
	2010	2009
	\$	\$
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:		
Payable:		
Within one year	10,080,024	3,920,532
Later than one year but no later than five years	37,480,283	15,063,670
Later than five years	19,464,668	11,706,586
	<u>67,024,975</u>	<u>30,690,788</u>
Representing:		
Non-cancellable operating leases	<u>67,024,975</u>	<u>30,690,788</u>

(ii) Finance Leases

	Consolidated	
	2010	2009
	\$	\$
Commitments in relation to vehicle finance leases are payable as follows:		
Within one year	88,151	58,688
Later than one year but no later than five years	46,812	112,714
Minimum lease payments	<u>134,963</u>	<u>171,402</u>
Future finance charges	<u>(8,953)</u>	<u>(19,328)</u>
Total lease liabilities	<u>126,010</u>	<u>152,074</u>
Representing lease liabilities:		
Current	81,216	46,208
Non-current	44,794	105,866
	<u>126,010</u>	<u>152,074</u>

(c) Interest rate cap fees

Commitments in relation to interest rate cap fees are payable as follows:

Within one year	99,252	99,252
Later than one year but no later than five years	-	99,252
Minimum payments	<u>99,252</u>	<u>198,504</u>

NOTE 28: RELATED PARTY TRANSACTIONS

(a) Parent entity

The parent entity within the Group is G8 Education Limited.

(b) Subsidiaries

Interests in subsidiaries are set out in note 31.

(c) Key management personnel

For details of transactions that key management personnel and their related entities had with the Group during the year refer note 24 (e) and (f).

(d) Outstanding balance arising from transactions with related parties

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	Consolidated	
	2010	2009
	\$	\$
Current receivables		
provision of services)		
Key management personnel	-	32,228
Current payables		
(purchase of goods and services)		
Key management personnel	4,620	-

No provisions for doubtful debts have been raised in relation to any outstanding balances, and no expense has been recognised in respect of bad or doubtful debts due from related parties. All transactions with related parties during the year were made on normal commercial terms and conditions. Outstanding balances are unsecured and are repayable in cash.

NOTE 29: BUSINESS COMBINATIONS

1. 2010 Business Combinations

Three business combination events occurred in the year;

The acquisitions have increased the Group's market share and are expected to reduce costs per centre through economies of scale. The goodwill is attributable to the workforce and the profitability of the acquired businesses.

(a) On 25 March 2010 the Company acquired 100% of the issued capital of Payce Child Care Pty Ltd.

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

Purchase consideration

	\$
Shares issued – total purchase consideration	16,000,000

NOTE 29: BUSINESS COMBINATIONS (CONTINUED)**Assets and liabilities acquired**

The assets and liabilities recognised as a result of the acquisition are as follows:	Fair Value \$
Cash and cash equivalents	1,077,067
Property plant and equipment	2,325,811
Receivables	195,160
Prepayments	162,929
Net deferred tax assets	411,603
Payables	(3,423,348)
Employee benefit liabilities	(1,596,523)
Net identifiable (liabilities) acquired	(847,301)
Add goodwill	16,847,301
	<u>16,000,000</u>

Acquisition-related costs

Acquisition-related costs of \$176,396 are included in share issue costs, reducing contributed equity, and \$27,518 is included in legal expenses in the statement of comprehensive income.

(b) On 28 June 2010, the Company issued 9,313,230 shares in G8 Education Limited to DLGL Pty Ltd and assumed management of 10 child care centres; 6 in South Australia, 2 in Victoria and 1 each in New South Wales and Queensland.

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

Purchase consideration

	\$
Shares issued	3,259,630
Contingent consideration	4,889,445
Transaction costs	308,556
Purchase price adjustments	(469,151)
Total purchase consideration	<u>7,988,480</u>

Assets and liabilities acquired

The assets and liabilities recognised as a result of the acquisition are as follows:	Fair Value \$
Payables	(67,889)
Employee benefit liabilities	(201,262)
Net identifiable (liabilities) acquired	(269,151)
Add goodwill	8,257,631
	<u>7,988,480</u>

Contingent consideration (earn-out requirement)

The contingent consideration arrangement requires the Group to pay the former owners of the 10 centres a cash payment equal to 4 times actual centre level Earnings Before Interest and Tax ("EBIT") for the 12 months ending 31 December 2010, less \$3,259,630 (being the value of shares issued), up to a maximum of \$4,889,445. The payment of the contingent consideration is to be paid by the Group on or before 28 February 2011. EBIT for the 12 months ending 31 December 2010 is to be determined by the Group not later than 14 February 2011.

NOTE 29: BUSINESS COMBINATIONS (CONTINUED)

If the aggregate actual EBIT of the 10 centres for the 12 months ending 31 December 2010 is less than \$2,037,269, one of the former owners must pay the Group \$4.00 for each \$1.00 that aggregate EBIT is less than \$2,037,269, thereby reducing the net contingent consideration payable by the group.

A subsequent amendment (e) provided for;

- an offset of \$625,781 against the contingent consideration in respect of receivables collected by the vendor and due to the Company.
- an offset of \$972,780 against the contingent consideration in respect of employee entitlements, agreed liabilities and other expenses assumed by the Company under business combinations (c) and (d) below.
- the linking of earn-out requirements under this business combination note and those under (c) and (d) below.

Acquisition-related costs

Costs relating to the share issue of \$37,700 are included in share issue costs, reducing contributed equity.

(c) On 10 September 2010, the Company issued 2,000,000 shares in G8 Education Limited to DLGL Pty Ltd in respect of the acquisition of 8 child care centres; 4 in South Australia, 3 in Queensland and 1 in Victoria. A further 1,555,426 were issued on 30 September 2010.

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

Purchase consideration

	\$
Shares issued	1,955,484
Contingent consideration	(164,551)
Transaction costs	84,680
Purchase price adjustments	(466,051)
Total purchase consideration	<u>1,409,562</u>

Assets and liabilities acquired

The assets and liabilities recognised as a result of the acquisition are as follows:	Fair Value
	\$
Payables	(44,658)
Employee benefit liabilities	(261,393)
Net identifiable (liabilities) acquired	(306,051)
Add goodwill	1,715,613
	<u>1,409,562</u>

Contingent consideration (earn-out requirements)

The contingent consideration arrangement requires the Group to pay the former owners of the 8 centres a cash payment equal to 2.44 times actual centre level Earnings Before Interest and Tax ("EBIT") for 7 of the 8 centres for the 12 months ending 30 June 2011, less \$1,955,484 (being the value of shares issued), up to a maximum of \$287,217. The payment of the contingent consideration is to be paid by the Group on or before 31 August 2011. EBIT for the 12 months ending 30 June 2011 is to be determined by the Group not later than 14 August 2011. 2 centres are to be included in the total EBIT used to determine whether earn-out requirement has been achieved but were not included in the calculation to determine the purchase price of the business combination.

NOTE 29: BUSINESS COMBINATIONS (CONTINUED)

A subsequent amendment (e) provided for an offset of \$466,051 against the contingent consideration in business combination (b) in respect of liabilities assumed by the Company under this business acquisition. The subsequent agreement also provides for the linking of earn-out requirements under this business combination note and those under (b) and (d).

Acquisition-related costs

Costs relating to the share issue of \$28,789 are included in share issue costs, reducing contributed equity.

(d) On 8 September 2010, the Company issued 2,805,492 shares in G8 Education Limited to DLGL Pty Ltd and assumed management of 2 child care centres in New South Wales.

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

Purchase consideration

	\$
Shares issued	1,683,296
Contingent consideration	1,122,197
Transaction costs	3,383
Purchase price adjustments	(194,115)
Total purchase consideration	<u>2,614,761</u>

Assets and liabilities acquired

The assets and liabilities recognised as a result of the acquisition are as follows:	Fair Value
	\$
Payables	(78,919)
Employee benefit liabilities	(75,196)
Net identifiable (liabilities) acquired	<u>(154,115)</u>
Add goodwill	<u>2,768,876</u>
	<u>2,614,761</u>

Contingent consideration (earn-out requirements)

The contingent consideration arrangement requires the Group to pay the former owners of the 2 centres a cash payment equal to four times actual centre level Earnings Before Interest and Tax ("EBIT") for the 12 months ending 30 June 2011, less \$1,683,296 (being the value of shares issued), up to a maximum of \$1,122,196. The payment of the contingent consideration is to be paid by the Group on or before 28 August 2011. EBIT for the 12 months ending 30 June 2011 is to be determined by the Group not later than 14 August 2011.

A subsequent amendment (e) provided for an offset of \$194,115 against the contingent consideration in business combination (b) in respect of liabilities assumed by the Company under this business acquisition. The subsequent agreement also provides for the linking of earn-out requirements under this business combination note and those under (b) and (c).

Acquisition-related costs

Costs relating to the share issue of \$8,658 are included in share issue costs, reducing contributed equity.

(e) Amendment to contracts for business combinations

An amendment to the contracts in (b), (c) and (d) provided, inter alia, that;

NOTE 29: BUSINESS COMBINATIONS (CONTINUED)

The EBIT achieved for calculation of the earn-out in business combination (b) is to include the EBIT from two of the 9 centres acquired in business combination note (c).

Any EBIT under business combination contracts (b), (c) and (d) which exceed the necessary EBIT to achieve the maximum amount of contingent consideration can be carried forward so that they are applied against earnings targets under the contracts.

In the event that the businesses acquired under (c) and (d) above are not performing to budgeted EBIT as at 31 January 2011 then a pro-rata amount can be held back on the contingent consideration scheduled to be paid on 28 February 2011 in respect of business combination (b) above.

Amounts totalling \$1,598,561 in respect of employee entitlements, agreed liabilities and receivables collected by the vendor and due to the Company are to be offset against the contingent consideration scheduled to be paid on 28 February 2011 in respect of business combination (b) above.

NOTE 30: PARENT ENTITY DISCLOSURES

As at, and throughout, the financial year ending 31 December 2010 the parent entity of the Group was G8 Education Limited.

Result of parent entity	2010 \$	2009 \$
Profit for the year after tax	1,084,833	(353,725)
Other comprehensive income	-	-
Total comprehensive income for the year	1,084,833	(353,725)
Financial position of parent entity at year end		
Current assets	29,045,918	3,077,232
Non-current assets	64,839,958	36,658,273
Total assets	93,885,876	39,735,505
Current liabilities	13,827,192	5,911,578
Non-current liabilities	16,427,830	21,309,288
Total liabilities	30,255,021	21,309,288
Total equity of parent entity comprising of:		
Contributed equity	77,984,690	30,957,697
Reserves	31,444	33,843
Accumulated losses	(14,385,280)	(12,565,323)
Total equity	63,630,855	18,426,217

Parent entity contingencies

The directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

NOTE 30: PARENT ENTITY DISCLOSURES (CONTINUED)

The parent entity had contingent liabilities at 31 December 2010 in respect of:

G8 Education Limited is a defendant in proceedings before the ACT Supreme Court. The proceedings relate to the decision by the company not to proceed with the purchase of two child care centres in the A.C.T. in 2008.

The plaintiff is seeking an order that the Company perform the contracts of \$3.9M, being the price of the two leasehold childcare centres which G8 Education Limited had contracted to purchase. The case has been heard and judgement has been reserved. It is not known when the decision will be handed down.

Parent entity guarantees in respect of the debts of its subsidiaries

The parent entity has entered into a Deed of Cross Guarantee with the effect that the Company guarantees debts in respect of its subsidiaries.

Further details of the Deed of Cross Guarantee and the subsidiaries subject to the deed are disclosed in note 32.

Loans from subsidiaries

During the year ended 31 December 2010, the parent entity incurred loans from its wholly owned subsidiaries which are interest free and with no fixed terms of repayments.

NOTE 31: SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b).

Name of entity	Country of incorporation	Class of shares	Equity holding *	
			2010 %	2009 %
Subsidiaries of Company				
Grasshoppers Early Learning Centre Pty Ltd	Australia	Ordinary	52	52
Togalog Pty Ltd	Australia	Ordinary	100	100
RBWOL Holding Pty Ltd (Formerly Payce Child Care Pty Limited)	Australia	Ordinary	100	-
Ramsay Bourne Holdings Pty Limited	Australia	Ordinary	100	-
Bourne Learning Pty Ltd (Formerly Ramsay & Bourne Pty Ltd)	Australia	Ordinary	100	-
Ramsay Bourne Acquisitions (No.1) Pty Limited	Australia	Ordinary	100	-
Ramsay Bourne Acquisitions (No.2) Pty Limited	Australia	Ordinary	100	-
RBL No. 1 Pty Ltd	Australia	Ordinary	100	-
Ramsay Bourne Licences Pty Limited	Australia	Ordinary	100	-
World Of Learning Pty Limited	Australia	Ordinary	100	-
World Of Learning Acquisitions (No.1) Pty Limited	Australia	Ordinary	100	-
World Of Learning Acquisitions Pty Limited	Australia	Ordinary	100	-
World Of Learning Licences Pty Limited	Australia	Ordinary	100	-
G8 KP Pty Ltd	Australia	Ordinary	100	-
G8 Singapore Pte Ltd 201022281N	Singapore	Ordinary	100	-
Cherie Hearts Corporate Pte Ltd	Singapore	Ordinary	100	-
Cherie Hearts Holdings Pte Ltd	Singapore	Ordinary	100	-
Subsidiaries of Togalog Pty Ltd				
Grasshoppers Early Learning Centre Pty Ltd	Australia	Ordinary	48	48

* The proportion of ownership interest is equal to the proportion of voting power held.

NOTE 32: DEED OF CROSS GUARANTEE

G8 Education Ltd, Grasshoppers Early Learning Centre Pty Ltd, Togalog Pty Ltd, RBWOL Holding Pty Ltd (Formerly Payce Child Care Pty Limited), Ramsay Bourne Holdings Pty Limited, Bourne Learning Pty Ltd (Formerly Ramsay & Bourne Pty Ltd), Ramsay Bourne Acquisitions (No.1) Pty Limited, Ramsay Bourne Acquisitions (No.2) Pty Limited, RBL No. 1 Pty Ltd, Ramsay Bourne Licences Pty Limited, World Of Learning Pty Limited, World Of Learning Acquisitions (No.1) Pty Limited, World Of Learning Acquisitions Pty Limited and World Of Learning Licences Pty Limited, G8 KP Pty Ltd are parties to a deed of cross guarantee under which each company guarantees the debts of the others. By entering into the deed RBWOL Holding Pty Ltd, World of Learning Pty Ltd, Ramsay Bourne Holding Pty Ltd and Ramsay Bourne Acquisitions (No 2) Pty Ltd have been relieved from the requirement to prepare a financial report and directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission.

(a) Consolidated statements of comprehensive income

G8 Education Limited, RBWOL Holding Pty Ltd, World of Learning Pty Ltd, Ramsay Bourne Holding Pty Ltd and Ramsay Bourne Acquisitions (No 2) Pty Ltd represent a 'closed group' for the purposes of the Class Order. The other parties to the deed of cross guarantee listed above do not require relief from Class Order 98/1418 as they do not meet the threshold to prepare a financial report and directors report. All parties to the deed of cross guarantee (as listed above) are wholly owned subsidiaries of G8 Education Limited and the entire group represent the 'extended closed group'.

Set out below is a consolidated statements of comprehensive income for the year ended 31 December 2010 of the closed group consisting of G8 Education Limited, RBWOL Holding Pty Ltd, World of Learning Pty Ltd, Ramsay Bourne Holding Pty Ltd and Ramsay Bourne Acquisitions (No 2) Pty Ltd.

	2010	2009
	\$	\$
Revenue from continuing operations	60,870,383	31,932,245
Other Income	44,794	-
Expenses		
Employee benefits expense	(38,268,512)	(21,317,946)
Occupancy	(7,577,881)	(3,835,359)
Direct costs of providing services	(4,584,751)	(2,225,182)
Legal fees	(396,618)	(888,746)
Amortisation	(143,775)	(183,894)
Depreciation expense	(963,542)	(584,190)
Evaluation costs incurred in respect of potential acquisitions	-	(314,614)
Impairment	(312,874)	(155,009)
Insurance	(475,487)	(304,809)
Other Expenses	(1,602,151)	(1,857,698)
Finance costs	(1,318,205)	(699,760)
Total expenses	(55,643,797)	(32,367,207)
Profit /(Loss) before income tax	5,271,380	(434,962)
Income tax (expense)/benefit	(1,581,414)	81,237
Profit / (Loss) for the year	3,689,966	(353,725)
Other Comprehensive income for the year, net of Tax	-	-
Total Comprehensive income for the year	3,689,966	(353,725)

The 2009 comparative shown in the Statements of Comprehensive Income and Balance Sheets represent the Company only as the Deed of Cross Guarantee was only in effect during 2010.

NOTE 32: DEED OF CROSS GUARANTEE (CONTINUED)**(b) Balance Sheets**

Set out below is a consolidated balance sheets for the year ended 31 December 2010 of the closed group consisting of G8 Education Limited, RBWOL Holding Pty Ltd, World of Learning Pty Ltd, Ramsay Bourne Holding Pty Ltd and Ramsay Bourne Acquisitions (No 2) Pty Ltd.

	2010 \$	2009 \$
Current assets		
Cash and cash equivalents	6,635,751	157,687
Trade and other receivables	1,737,950	1,133,248
Other current assets	20,351,610	613,047
Assets classified as held for sale	50,000	1,173,250
Total current assets	28,775,311	3,077,232
Non-current assets		
Receivables	1,000,385	-
Investments in extended group	3,675,268	138,969
Property, plant and equipment	5,691,048	3,728,387
Deferred tax assets	1,352,438	2,153,436
Intangible assets	56,270,572	30,637,481
Total non-current assets	67,989,711	36,658,273
Total assets	96,765,022	39,735,505
Current liabilities		
Trade and other payables	11,896,354	2,482,771
Borrowings	1,637,581	2,749,331
Provisions	2,055,648	705,825
Current tax liabilities	515,367	-
Total current liabilities	16,104,950	5,937,927
Non-current liabilities		
Borrowings	13,913,614	15,339,763
Borrowings from extended group	89,127	-
Provisions	421,341	31,598
Total non-current liabilities	14,424,082	15,371,361
Total liabilities	30,529,032	21,309,288
Net assets	66,235,990	18,426,217
Equity		
Contributed equity	77,984,690	30,957,697
Reserves	31,444	33,843
Accumulated losses	(11,780,144)	(12,565,323)
Total equity	66,235,990	18,426,217

NOTE 33: EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

The following material matters have taken place subsequent to year end:

- (a) On 31 January 2011 G8 Education Limited announced to the Australian Stock Exchange the acquisition of a further 8 child care centres in New South Wales. The acquisition will increase the group's licensed places by 720. The purchase price for the acquisition of the 8 centres on a 4x centre EBIT multiple is \$8.5million together with a deferred cash payment in the event that the centre based EBIT for the 8 centres exceeds \$2.125 million. The deferred payment is capped at \$4.3 million. The 7.220m net of settlement adjustments was paid on 7 February 2011.
- (b) G8 Education Limited has executed documentation with its financier, National Australia Bank, to extend its current debt facilities for 3 years and increase the facility from \$15.5m to \$36.8m. The new facility will be used to fund acquisitions; and
- (c) On 9 February 2011 G8 Education Limited announced the placement of 21 million G8 Education shares at \$0.90 per share to professional and sophisticated investors raising \$18.9 million. The capital raised will be used to fund acquisitions.

NOTE 34: RECONCILIATION OF PROFIT / (LOSS) AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	Consolidated	
	2010	2009
	\$	\$
Profit/(loss) for the year	4,509,779	(153,804)
Depreciation and amortisation	992,538	633,165
Impairment expense	312,874	155,009
Pre-acquisition costs written off classified as investing activities	-	314,614
Net gain on sale of operations	(157,126)	-
Net loss on sale of non-current assets	112,332	1,574
Interest income capitalised	(34,106)	-
Borrowing costs capitalised	(60,670)	(55,980)
Amortisation of borrowing costs	143,775	144,056
Tax benefit on equity – non cash	301,174	-
Option expense – non cash	3,955	6,982
Decrease (Increase) in trade and other debtors	(1,405,109)	17,225
Decrease(Increase) in deferred tax asset	800,997	5,310
(Decrease) Increase in trade and other payables	1,777,927	(236,476)
(Decrease) in other provisions	56,279	-
Net cash inflows from operating activities	7,354,619	831,675

NOTE 35: EARNINGS PER SHARE

	Consolidated	
	2010 Cents	2009 Cents
(a) Basic earnings per share		
Profit/(loss) attributable to the ordinary equity holders of the Company	4.15	(0.35)
(b) Diluted earnings per share		
Profit/(Loss) from continuing operation attributable to the ordinary equity holders of the Company	4.15	(0.35)
Profit/(Loss) attributable to the ordinary equity holders of the Company	4.15	(0.35)
(c) Reconciliation of earnings used in calculating earnings per share		
<i>Basic earnings / (loss) per share</i>		
Profit / (Loss) attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	4,509,779	(153,804)
<i>Diluted earnings/ (loss) per share</i>		
Profit / (Loss) attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share	4,509,779	(153,804)
(d) Weighted average number of shares used as the denominator		

	Consolidated	
	2010 Number	2009 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	108,539,855	44,000,000
Adjustments for calculation of diluted earnings per share:		
Options	250,000	-
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	108,789,855	44,000,000

NOTE 36: SHARE-BASED PAYMENTS

Details of options over ordinary shares in G8 Education Limited provided as remuneration to key management personnel of the Group are set out below. Value of options at grant date is set out below. When exercisable, each option is convertible into one ordinary share of G8 Education Limited. Further information on the options are set out in note 22 and 24 to the financial statements.

NOTE 36: SHARE BASED PAYMENTS (CONTINUED)

The terms and conditions of each grant of options affecting remuneration in the previous, this or future reporting years are as follows:

Grant Date	Date vested and exercisable	Expiry date	Exercise price	Value per option at grant date
24 November 2008	1 July 2009	1 July 2010	\$0.20	\$0.008
24 November 2008	1 July 2010	1 July 2011	\$0.20	\$0.018
24 November 2008	1 July 2011	1 July 2012	\$0.20	\$0.027

There were no options granted during the year ended 31 December 2010.

The model inputs for options granted during the year ended 31 December 2008 included:

- | | |
|--|---|
| (a) options were granted for: | No consideration, |
| (b) exercise price: | \$0.20 per share, |
| (c) grant date: | 24 November 2008 |
| (d) vesting date: | Tranche A - vesting date of 1 July 2009
Tranche B - vesting date of 1 July 2010
Tranche C - vesting date of 1 July 2011 |
| (e) expiry date: | Tranche A - expiry date of 1 July 2010
Tranche B - expiry date of 1 July 2011
Tranche C - expiry date of 1 July 2012 |
| (f) expected price volatility of the Company's shares: | 60%, |
| (g) expected dividend yield: | 0.00%, |
| (h) risk-free interest rate: | Tranche A – 3.20%
Tranche B – 3.50%
Tranche C – 3.70% |
| (i) escrow year: | Nil |

Refer to the Directors report Section D on pages 15 and 16 for further details.

The weighted average remaining contractual life of share options outstanding at the end of the year was 1.5 years.

(a) Fair value of options granted

There were no options granted during the year ended 31 December 2010. The assessed fair value at grant date of options during the year ended 31 December 2008 was \$12,995.

The assessed fair value at grant date of options granted to the individuals is allocated equally over the year from grant date to vesting date, and the amount is included in the remuneration tables above. Fair values at grant date are independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

(b) Expenses arising from share based transactions

Expenses arising from share-based payment transactions recognised during the year as part of employee benefit expenses were as follows:

	Consolidated 2010	Consolidated 2009
	\$	\$
Options issued under executive option plan	3,955	6,982

Directors Declaration

In the directors' opinion:

- (a) the financial statements and notes set out on pages 28 to 84 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 31 December 2010 and of their performance for the financial 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; and
- (c) At the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in note 32 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 32.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

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



Jennifer J Hutson
Chairperson

Brisbane

25 February 2011

Auditor's Independent Audit Report



Accountants | Business and Financial Advisers

G8 Education Ltd
ABN 95 123 828 553

Independent Audit Report to the members of G8 Education Limited:

We have audited the accompanying financial report of G8 Education Limited ("the company"), which comprises the balance sheet as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on page 28 to 85.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls 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(a), the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, that the consolidated financial statements comply with International Financial Reporting Standards.

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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial 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 company'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.

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HLB Mann Judd (SE Qld Partnership) is a member of  International. A world-wide network of independent accounting firms and business advisers.

Auditor's Independent Audit Report



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

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*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of G8 Education Limited on 24 February 2011, would be in the same terms if provided to the directors as at the time of this auditor's report.

Auditor's Opinion

In our opinion:

- (a) the financial report of G8 Education Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its 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 financial report also complies with International Financial Reporting Standards as disclosed in Note 1(a).

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 11 to 16 of the directors' report for the year ended 31 December 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of G8 Education Limited for the year ended 31 December 2010 complies with section 300A of the *Corporations Act 2001*.

HLB Mann Judd.

HLB MANN JUDD

A handwritten signature in blue ink, appearing to read 'Chris King'.

Christopher King

Partner

Dated: 24 February 2011

Brisbane, Queensland

Shareholder Information

The Shareholder information set out below was applicable as at 17 February 2011.

(a) Distribution of equity securities

Analysis of number of equity security holders by size of holding:

	Class of equity security		
	Ordinary Shares		
	Shares	Holders	Options
100,001 and Over	170,147,071	95	1
50,001 - 100,000	4,225,818	60	-
10,001 - 50,000	7,509,817	282	-
5,001 - 10,000	1,043,311	120	-
1,001 - 5,000	587,218	188	-
1 - 1,000	20,515	39	-
	183,533,750	784	1

There were 15 holders of less than a marketable parcel of ordinary shares.

(b) Quoted Equity security holders

Twenty largest quoted equity security holders.

Name	Quoted Ordinary Shares held	Percentage of issued shares
NATIONAL NOMINEES LIMITED	25,495,302	13.89%
WALLACE INFRASTRUCTURE PTY LTD	24,021,739	13.09%
RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	22,739,546	12.39%
J P MORGAN NOMINEES AUSTRALIA LIMITED	19,334,043	10.53%
COGENT NOMINEES PTY LIMITED	9,561,836	5.21%
CITICORP NOMINEES PTY LIMITED	7,648,753	4.17%
TRENT HALLIDAY ATF NAMPAC TRUST	7,500,000	4.09%
QUEEN STREET NOMINEES PTY LTD	5,500,000	3.00%
MRS JUWARSEH SCOTT	4,033,333	2.20%
CHILD CARE SA PTY LIMITED	3,501,133	1.91%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	3,243,174	1.77%
QUEEN STREET NOMINEES PTY LTD	3,150,000	1.72%
UBS NOMINEES PTY LTD	2,508,774	1.37%
MIRRABOOKA INVESTMENTS LIMITED	2,436,229	1.33%
RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	2,098,955	1.14%
THE TRAVEL MANAGERS PTY LTD	2,051,000	1.12%
MR WILLIAM EDWARD HOLMES	1,225,000	0.67%
MR CRAIG GRAEME CHAPMAN	1,208,333	0.66%
GWYNVILL TRADING PTY LTD	1,170,000	0.64%
CUSTODIAL SERVICES LIMITED	1,054,089	0.57%
	149,481,239	81.45%

(c) Substantial holders

Substantial holders in the company are set out below:

Ordinary shares	Number held	Percentage
NATIONAL NOMINEES LIMITED	25,495,302	13.89%
WALLACE INFRASTRUCTURE PTY LTD	24,021,739	13.09%
RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	22,739,546	12.39%
J P MORGAN NOMINEES AUSTRALIA LIMITED	19,334,043	10.53%
COGENT NOMINEES PTY LIMITED	9,561,836	5.21%
	101,152,466	55.11%

(d) Voting rights

The voting rights attaching 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 will have one vote.

(ii) Options

There are no voting rights attached to the options.

(e) Unquoted Securities

There are on issue the following unquoted securities.

	Options	Holders
Options exercisable at \$0.20 per share between 1 July 2011 and 1 July 2012	250,000	1
	250,000	1

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Corporate Directory

Directors

J Hutson, Non-Executive Director
C Scott, Managing Director
C Chapman, Executive Director
B Bailison, Non-Executive Director

Secretary

C Sacre, Chief Financial Officer and Company Secretary

Principal Registered Business Office in Australia

G8 Education Limited is a Company limited by shares, incorporated, and domiciled in Australia. It's registered office and principal place of business is:

Pegasus Centre, Suite 27
42-46 Bundall Road
Bundall QLD 4217
Telephone: 07 5581 5300
Facsimile: 07 5581 5311
www.g8education.com

Share Registry:

Advanced Share Registry Limited
150 Stirling Hwy
Nedlands, WA 6009

Auditor:

HLB Mann Judd
Level 15, 66 Eagle Street
Brisbane, QLD 4000

Lawyer:

McLean Legal
Level 22, 307 Queen Street
Brisbane, QLD 4000

Securities Exchange Listing

G8 Education Limited shares are listed on the Australian Securities Exchange



G8 Education^{ltd}