



A.B.C. Learning Centres Limited

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Patrick O'Connor
Australian Securities Exchange
Riverside Centre
Level 5
123 Eagle Street
Brisbane Qld 4000

Dear Patrick

Re: Price Query

I refer to the ASX's letter dated 26th February 2008. A.B.C. Learning Centres Limited ("**Company**") sets out below its responses to the specific queries raised in your letter.

Appendix 4D

- 1 **When did the Company first become aware that its result for the half year ended 31 December 2007 would be likely to vary by 15% or more from the previous corresponding period (the "Information")?**

In the period between December 2006 and 31 December 2007 the Company's business has gone through many significant changes, including:
 - expansion into the US and UK markets through strategic acquisitions;
 - acquisition of a 20% interest in Funtastic Limited; and
 - refinancing its syndicated debt facility.
The Company has continuously updated the market in relation to these developments, and is of the view that the market was aware that the composition of the Company's half year results for the period ending 31 December 2007 (**2008 half year results**) would result in a difference from its half year results for the period ending 31 December 2006 (**2007 half year results**) by more than 15%.
- 2 **If the Company became aware of the Information prior to the release of the Appendix 4D, please identify any earlier announcement from the Company which disclosed that result for the half year ended 31 December 2007 would be significantly different from the previous corresponding period.**

See response to Question 3 below.
- 3 **Does the Company consider that the Information concerning the result for the half year ended 31 December 2007 was material to the Company?**

The ASX Listing Rules impose continuous disclosure obligations to ensure that at no one time is the market misinformed (subject to specific permitted exceptions under the Listing Rules).

The purpose of this “continuous” obligation is to ensure that the market is not “surprised”. A comparison of a Company’s half year results with its results for the previous corresponding period is one example of when a “surprise” may occur. However, it is the Company’s view that if the market has been kept continuously updated, and the market understands that significant changes have been made to the Company’s business, such changes will not be a “surprise” when the two half year corresponding periods are compared.

The Company is of the view that the comparison between its 2008 half year results and its 2007 half year results was information already generally available to the market. That is, the market was aware that the Company’s business had grown and changed significantly over the preceding 12 month period, and the market did not expect each of the various components of the Company’s 2008 half year results to be comparable with all of the components of the half year results for the previous corresponding period.

The Company has made numerous announcements to the market in relation to changes to its business. Announcements of particular note are set out below.

- Acquisition of US businesses: La Petite Academy (14 December 2006), Children’s Courtyard (8 August 2006) and Learning Care Group Inc (11 January 2006).
- “Seasonal” nature of US business and its impact on half year reporting including operating results (US Investor Presentation, 2 April 2007), and 2007 Annual Results Presentation, page 24, (27 August 2007).
- Acquisition of shares in Funtastic (18 November 2006) and impact of drop in Funtastic share price (21 November 2007).
- £20m discount on acquisition of Leap Frog (21 November 2007).
- General market update, outlining a number of factors that might influence its results and revising the Company’s forecast EBITDA and EPS (21 November 2007).
- Completion of the refinancing of the Company’s debt facilities (18 December 2007).

It is the Company’s view that, on 26 February 2008, the Company’s share price movement and the volume of trading in the Company’s shares on the ASX were caused by market speculation that the Company might have defaulted under its banking covenants, rather than the Information. This is addressed further below (See Questions 6 to 9).

The Company also notes that there has been speculation in the press both before and since 26 February 2008 that certain market participants may have had an interest in short selling their shares in the Company, in the knowledge that it would trigger margin calls on shares held by the Directors of the Company which were subject to margin lending arrangements.

- 4 **If the answer to question 3 is “no”, please advise the basis on which the Company does not consider the Information concerning the result for the half year ended 31 December 2007 to be material.**

See response to Question 3.

- 5 **If there was no earlier announcement, and the Company became aware of the result for the half year ended 31 December 2007 prior to 25**

February 2008, please advise why the information was not released to the market at an earlier time. Please comment specifically with respect to listing rule 3.1.

See responses to Questions 1 and 3 above.

Announcement

In recent discussions with the ASX, the ASX has indicated that it would like the Company to treat "Information" for the purposes of this query as both:

- the banking covenants themselves (**banking covenants**); and
- the rumour or market speculation that the banking covenants had been breached by the Company (**market speculation**).

Accordingly, the Company has provided two responses to each of the questions below.

6 When did the Company first become aware of the information in the Announcement concerning the terms of the Company's banking covenants under its Syndicated Multi Option Facility Agreement?

Banking covenants: The Company has been aware of its banking covenants under its Syndicated Multi Option Facility Agreement since the date the Company executed the document, being 10 December 2007.

Market speculation: The Company has been aware of the market speculation since approximately 8:30 am (Brisbane time) on the morning of Tuesday 26 February 2008. The Company gave a presentation at a breakfast briefing in relation to the Company's half year results (**Breakfast Briefing**).

At the Breakfast Briefing the Company was asked to confirm whether it was true that the Company had breached its banking covenants. The Company was unaware of the market speculation.

The Company sought to clarify what the market speculation entailed, and the source of the rumour. It then prepared an urgent ASX announcement.

At 11.30am (Brisbane time) on 26 February 2008 the Company released an urgent announcement to the ASX, clarifying that, under its Syndicated Multi Option Facility Agreement it had three financial covenants and that it was in compliance with all three covenants.

7 If the Company became aware of the information in the Announcement in relation to the terms of the banking covenants under its Syndicated Multi Option Facility Agreement prior to the release of the Announcement, please identify any earlier announcement from the Company which disclosed information in relation to the terms of the Company's banking covenants under its Syndicated Multi Option Facility Agreement.

Banking covenants: The terms of the Company's banking covenants were summarised in the ABC Notes Prospectus (see Replacement Disclosure Document released to the ASX on Friday 8 June 2007). Section 9 of that document summarises the Company's financing arrangements and Section 9.1 sets out the terms of the Company's (then) existing banking facilities, including the three financial covenants. Section 9.2 summarised the proposed changes to those banking facilities under the (then proposed) refinancing. The final changes to the refinanced banking facilities were minor and not disclosed to the market.

Market speculation: The Announcement was made as quickly as possible. It was not possible to make an earlier announcement.

- 8 **Does the Company consider that the information in the Announcement concerning the terms of the Company's banking covenants under its Syndicated Multi Option Facility Agreement and the market speculation and rumour was material to the Company?**

Banking covenant and market speculation: The Company considers that it became necessary to clarify its position in respect of the previously disclosed banking covenants under its Syndicated Multi Option Facility Agreement when it became aware on the morning of 26 February 2008 of incorrect market speculation and rumour about those banking covenants. Therefore, it made the Announcement confirming that no banking financial covenant has been breached.

- 9 **If the answer to question 8 is "no", please advise the basis on which the Company does not consider the information in the Announcement concerning terms of the Company's banking covenants under its Syndicated Multi Option Facility Agreement and the market speculation and rumour to be material.**

Not applicable.

General

- 10 **Please confirm that the Company is in compliance with the listing rules and, in particular, listing rule 3.1.**

The Company confirms that it is in compliance with the listing rules and, in particular, listing rule 3.1.

Yours sincerely



Matthew Horton
Company Secretary and General Counsel

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26 February 2008

Mr Matthew Horton
Company Secretary
A.B.C Learning Centres Limited
43 Metroplex Avenue
MURARRIE QLD 4172

By email: mhorton@childcare.com.au

Dear Mr Horton

A.B.C. Learning Centres Limited (the "Company")

We refer the Company to the following.

1. On 21 November 2007, the Company lodged with ASX Limited ("ASX") an announcement which stated that *"...management believes that EPS growth will be 15 per cent or greater for the 2007-2008 financial year."*
2. The Appendix 4D Half Year Report for the 6 months ended 31 December 2007, released to the market at 4.30pm E.D.S.T. on Monday, 25 February 2008, which reported a Net Profit after Tax of \$37.1 million, down 42% on the previous corresponding period (the "Appendix 4D").
3. The Company's announcement entitled "Urgent Market Announcement", released to the market at 11.30am E.D.S.T today concerning the Company's banking covenants under its Syndicated Multi Option Facility Agreement (the "Announcement").
4. A share price movement from a closing price of \$3.74 on Monday 25 February 2008 to, at the time of issuing this letter, a last trading price of \$1.88, with an increase in volume of shares traded to 105 million shares.

As you are aware, listing rule 3.1 requires an entity, once it becomes *aware* of any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities, to immediately tell ASX that information. The exceptions to this requirement are set out in listing rule 3.1A.

We wish to draw your attention to the definition of "aware" in chapter 19 of the listing rules, which states as follows.

"an entity becomes aware of information if a director or executive director (in the case of a trust, director or executive officer of the responsible entity or management company) has, or ought reasonably to have, come into possession of the information in the course of the performance of their duties as a director or executive officer of that entity."

Paragraph 17 of Guidance Note 8 states:

"Once a director or executive officer becomes aware of information, he or she must immediately consider whether that information should be given to ASX. An entity cannot delay giving information to ASX pending formal sign-off or adoption by the board, for example."

Listing rule 3.1A sets out an exception from the requirement to make immediate disclosure, provided that each of the following are satisfied.

- 3.1A.1 A reasonable person would not expect the information to be disclosed.*
- 3.1A.2 The information is confidential and ASX has not formed the view that the information has ceased to be confidential.*
- 3.1A.3 One or more of the following applies.*
- It would be a breach of a law to disclose the information.*
 - The information concerns an incomplete proposal or negotiation.*
 - The information comprises matters of supposition or is insufficiently definite to warrant disclosure.*
 - The information is generated for the internal management purposes of the entity.*
 - The information is a trade secret."*

Furthermore, paragraph 93 of ASX Guidance Note 8 – Continuous Disclosure, states the following in relation to the provision of guidance regarding an entity's results.

"As a general policy, a variation in excess of 10% to 15% may be considered material, and should be announced by the entity as soon as the entity becomes aware of the variation. If the entity has not made a forecast, a similar variation from the previous corresponding period will need to be disclosed."

Example B in Guidance Note 8 also notes that if, on reviewing management accounts, an entity becomes aware that the actual revenues and profits for a period will vary to a material extent from the financial results for the previous corresponding period, disclosure would be required. In making this disclosure, the entity must provide some details, however qualified, of the extent of the variation.

Having regard to this definition, listing rule 3.1 and Guidance Note 8, we ask that you answer the following questions.

Appendix 4D

1. When did the Company first become aware that its result for the half year ended 31 December 2007 would be likely to vary by 15% or more from the previous corresponding period (the "Information")?

Please note that ASX is of the opinion that when a company becomes aware that their profits or losses may be materially different from the previous corresponding period, the company should make an announcement to the market immediately indicating the scale and direction of any change. An entity in this situation should not wait until their Half Year Report is due to inform the market of the results.

2. If the Company became aware of the Information prior to the release of the Appendix 4D, please identify any earlier announcement from the Company which disclosed that result for the half year ended 31 December 2007 would be significantly different from the previous corresponding period.
3. Does the Company consider that the Information concerning the result for the half year ended 31 December 2007 was material to the Company?
4. If the answer to question 3 is "no", please advise the basis on which the Company does not consider the Information concerning the result for the half year ended 31 December 2007 to be material.
5. If there was no earlier announcement, and the Company became aware of the result for the half year ended 31 December 2007 prior to 25 February 2008, please advise why the information was not released to the market at an earlier time. Please comment specifically with respect to listing rule 3.1.

Announcement

6. When did the Company first become aware of the information in the Announcement concerning the terms of the Company's banking covenants under its Syndicated Multi Option Facility Agreement?
7. If the Company became aware of the information in the Announcement in relation to the terms of the banking covenants under its Syndicated Multi Option Facility Agreement prior to the release of the Announcement, please identify any earlier announcement from the Company which disclosed information in relation to the terms of the Company's banking covenants under its Syndicated Multi Option Facility Agreement.
8. Does the Company consider that the information in the Announcement concerning the terms of the Company's banking covenants under its Syndicated Multi Option Facility Agreement and the market speculation and rumour was material to the Company?
9. If the answer to question 8 is "no", please advise the basis on which the Company does not consider the information in the Announcement concerning terms of the Company's banking covenants under its Syndicated Multi Option Facility Agreement and the market speculation and rumour to be material.

General

10. Please confirm that the Company is in compliance with the listing rules and, in particular, listing rule 3.1.

Your responsibility under listing rule 3.1 is not confined to, or necessarily satisfied by, answering the questions set out in this letter. If the information requested by this letter is information required to be given to ASX under listing rule 3.1, your obligation is to disclose the information immediately.

Please send your response to me on **facsimile number (07) 3832 4114** or by **email to patrick.oconnor@asx.com.au**. Your response should not be sent to the Company Announcements Office. Unless the information is required immediately under listing rule 3.1, a response is requested as soon as possible, and in any event, not later than **4.00pm EST (5.00pm EDST) on Wednesday, 27 February 2008**.

Please note that ASX reserves the right, under listing rule 18.7A, to release this letter and the Company's response to the market if it considers it necessary for an informed market. Accordingly, it would be appreciated if you would prepare your response in a format suitable for release to the market and separately address each of the questions asked.

If you have any concerns about release of your response, or any queries in relation to this matter, please contact me immediately.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Finucan', is positioned above the printed name.

Frances Finucan
Senior Adviser, Issuers (Brisbane)