Appendix 4E

Preliminary final report

1. Company details

Name of entity

CFK Childcare Centres Limited

ABN or equivalent company reference	Financial year ended ('current period')	Financial year ended ('previous period')
75 102 498 797	30 June 2008	30 June 2007

2. Results for announcement to the market

					$A'000's
2.1	Revenues from ordinary activities	Down	5.9%	to	20,117
2.2	Profit (loss) from ordinary activities after tax attributable to members	Down	97.5%	to	(25,395)
2.3	Net profit (loss) for the period attributable to members	Down	97.5%	to	(25,395)

2.4	**Dividends**	Amount per security	Franked amount per security
	Final dividend proposed	Nil	N/A
	Interim dividend	Nil	N/A

2.5 the +Record date for determining entitlements to final dividend.

N/A

2.6 Brief explanation of any of the figures in 2.1 to 2.4 above necessary to enable the figures to be understood.

REFER TO CONDENSED FINANCIAL REPORT ATTACHED.

This report is based on +accounts to which one of the following applies.

(Tick one)

☐	The +accounts have been audited.	☐	The +accounts have been subject to review.
		☐	The +accounts are in the process of being reviewed.
☑	The +accounts are in the process of being audited.	☐	The +accounts have *not* yet been audited or reviewed.

If the accounts have not yet been audited or subject to review and are likely to be subject to dispute or qualification, details are described below

N/A

If the accounts have been audited or subject to review and are subject to dispute or qualification, details are described below

N/A

Sign here: (Managing Director) Date: 29 August 2008

Print name: Warwick Smith

CFK CHILDCARE CENTRES LIMITED
AND CONTROLLED ENTITIES
ABN 75 102 498 797

CONDENSED FINANCIAL REPORT

30 JUNE 2008

CONTENTS

CORPORATE INFORMATION

Directors

Mark Evans	Chairman
Doug Lomas	Non-Executive Director
Warwick Smith	Managing Director

Company Secretary
Oliver Carton

Registered Office
Level 1, 2 Boston Court
Varsity Lakes QLD 4227

Bankers
National Australia Bank Limited
Major Client Group
Level 23, 255 George Street
Sydney NSW 2000

Share Registry
Computershare Investor Services Pty Limited
Level 3, 60 Carrington Street
Sydney NSW 2000
Telephone: 1300 787 272

Auditors
DTT NSW
Grosvenor Place
225 George Street
Sydney NSW 2000
Telephone: (02) 9322 7000
Facsimile: (02) 9322 7001

Solicitors
Dibbs Abbott Stillman Lawyers
Level 8 Angel Place
123 Pitt Street
Sydney NSW 2000

REVIEW OF OPERATIONS

1. DIRECTORS

The following persons were Directors of CFK Childcare Centres Limited ("the Company" during or since the end of the financial year:

Mark Evans was appointed as Chairman and Director of the Company on 12 September 2007.

Doug Lomas was appointed as a non-executive Director of the Company on 31 January 2008.

Warwick Smith was appointed to the position of Managing Director on 19 December 2007.

Jenny Ann Scoble was a Director of the Company until her resignation on 19 December 2007.

Leslie Wait was a Director of the Company until her resignation on 9 October 2007.

Craig Napier was a Director of the Company for the period 12 September 2007 until his resignation on 28 December 2007.

Oliver Carton was a Director of the Company for the period 2 January 2008 until his resignation on 31 January 2008.

Warren Robert Wilson was a Director and Chairman of the company until his resignation on 12 September 2007.

2. REVIEW AND RESULTS OF OPERATIONS

Operating result

The reported after tax loss for CFK Childcare Centres and its controlled entities of $25.395m (2007: $12.861m) is largely attributable to the one-off adjustments relating to the impairment of childcare licence intangible assets and other costs associated with the financial and operational restructure of the Group. Below is a table normalising the EBITDA;

	2008 $000s	2007 $000s	Variance %
Revenue	20,117	21,369	(5.9%)
Operating Costs (Exc Depreciation)	(28,671)	(25,447)	
Less Restructure Expenses	4,395	-	
Operating Costs (Exc depreciation and restructure costs)	(24,276)	(25,447)	4.6%
Normalised EBITDA	(4,159)	(4,078)	(2.0%)

The existing board became involved with the company in September 2007 with the brief of turning around the company's operations and returning it to profitability. The normalised EBITDA is comparable to the previous period and is a disappointing result.

The re-organisation of the company's childcare operations has taken longer than expected due to a number of factors including

- The depth of issues within the company's operations impacting on profitability including staff rostering, occupancy levels and centre condition;
- Volatility and uncertainty in the child care sector and weaker economic conditions has impacted on the timing of sales of centres;
- The restructure of the company's operating portfolio including sales of existing centres and the Glowclose acquisition has been delayed while the company has endeavoured to restructure its financing arrangements;
- Moving the head office from NSW to Queensland in anticipation of completion of the Glowclose acquisition and related Queensland centres has saved costs on an on-going basis but has taken significant management time and the company currently operates no centres in Queensland because of delays in settling the Glowclose acquisition.

The depth of the problems which existed in September 2007 has impacted significantly on the amount of time it has taken to see the rewards for our efforts and the financial position of the business is still uncertain and relies of the ongoing support of our bankers and entities associated with the director Doug Lomas.

We believe operational changes over the last 6 months in particular are now starting to positively impact on the operational performance of the business and we are confident that this will continue into the future.

The focus of the board now is to complete the business restructure including the Glowclose acquisition and the sale of non-core centres which should return the company to profitability and allow for the company to be refinanced. The Board is hopeful it will be able to complete the approvals required for the Glowclose acquisition by the 2008 Annual General Meeting.

Significant transactions

During the year the company entered into sale contracts with Pittsworth Pty Ltd ("Pittsworth") and Worthgold Pty Ltd ("Worthgold") for the sale of certain childcare centres for total consideration of $4.15m. Both entities are related parties to Doug Lomas, a Director of the Company. The sale of these childcare centres are anticipated to be completed during the first half of the financial year ending 30th June 2009 with the proceeds from sale utilised to retire existing debt. The Pittsworth sale contract provides for the buyer to contribute to operating losses incurred by the contracted childcare centres. For the period ended 30th June 2008, Pittsworth contributed an amount of$1.137m which has been classified as other revenue.

In addition to the sale of centres to Pittsworth and Worthgold, the Group also entered into sale contracts with ABC Learning Pty Limited ("ABC") for the sale of certain childcare centres for a total consideration of $8.5m. A deposit of $8.05m was received from ABC during the year which was used to reduce the Group's bank borrowings. The completion of the sale of these childcare centres is expected to be completed during the first half of the financial year ending 30 June 2009. ABC have taken over management of these centres and all revenue and operating expenditure of these centres are no longer reflected in the Income Statement of the Group with effect from the date of exchange which is a contributing factor to the decline in total revenue during the year by 5.9%

During the year, the company entered into a contract with Glowclose Pty Ltd for the acquisition of 8 childcare centres payable by the issue of ordinary shares in the Company, subject to shareholder approval. Documentation, including an Independent Expert's Report, is being completed and will be issued in the near future. To save costs associated with holding two meetings the Company intends to seek shareholder approval for the acquisition at the Annual General Meeting of the company. This acquisition is expected to deliver approximately $1.875m in EBITDA to the Group each year.

The Company will seek approval from its shareholders at its next Annual General Meeting to convert the loan of $1.0m of the current debt to Macquarie Leisure Services Pty Limited into ordinary shares in the Company.

The company and the National Australia Bank continue to work together in a difficult environment to facilitate the restructure and repayment of the existing facilities. The company is working towards the refinance of the business post the Glowclose acquisition and completion of the sale of non-core centres.

Cash position

The Group incurred a net operating cash outflow for the year of $6,243m (2007: $4.122m) which remains a concern for the Group. It is expected that through addressing the key profitability drivers that the Group's operating cashflows will be improved.

Additional funding will be required during the financial year ending 30 June 2009 to ensure that the company can continue to meet its obligations in the normal course of business.

In the interim, the company has executed a loan agreement with Glowclose Pty Ltd ("Glowclose") for a total of up to $3,500,000 to be drawn down to meet working capital requirements. The loan agreement is subject to certain conditions concerning the Company's current banking facilities, which the Company is working to satisfy as soon as possible. Glowclose is a related party to Doug Lomas. The loan is provided at normal commercial terms and is convertible into ordinary shares in the Company at the sole discretion of the Company subject to necessary shareholder and regulatory approvals. The company continues to actively pursue all other available options to secure additional funding to support the ongoing financial restructure of the business.

CONSOLIDATED INCOME STATEMENT
For the year ended 30 June 2008

	Notes	June 2008 $	June 2007 $
Revenue from operations	3	20,117,030	21,369,151
Expenses from operations	3	(29,457,282)	(26,056,759)
Net Finance costs		(1,341,740)	(1,337,652)
Loss from ordinary activities before impairment and tax		(10,681,992)	(6,025,260)
Impairment of Childcare Licences	13	(14,713,457)	(5,538,000)
Loss before tax		(25,395,449)	(11,563,260)
Income tax benefit / (expense)		-	(1,298,026)
Loss attributable to members of CFK Childcare Centres Limited		(25,395,449)	(12,861,286)
Basic earnings/(loss) per share (cents)		(23.5)	(14.5)
Diluted earnings/(loss) per share (cents)		(23.5)	(14.5)

The above Consolidated Income Statement should be read in conjunction with the accompanying notes.

CONSOLIDATED BALANCE SHEET
As at 30 June 2008

	Note	30 June 2008 $	30 June 2007 $
ASSETS			
Current Assets			
Cash and cash equivalents	7 (i)	224,893	448,796
Receivables		377,201	1,608,436
Other		68,246	236,187
Total Current Assets		**670,340**	**2,293,419**
Non-Current Assets			
Property, plant and equipment		1,999,386	3,276,820
Intangible assets	13	18,373,853	33,105,978
Total Non-Current Assets		**20,373,239**	**36,382,798**
Total Assets		**21,043,579**	**38,676,217**
LIABILITIES			
Current Liabilities			
Payables		5,267,074	3,478,569
Deposits Received		8,050,000	-
Interest bearing liabilities		7,000,000	16,020,271
Provision for employee entitlements		973,766	946,828
Unearned income		948,049	1,387,712
Parents bonds held		-	157,083
Total Current Liabilities		**22,238,889**	**21,990,463**
Non-Current Liabilities			
Interest-bearing liabilities		4,100,000	254,166
Provisions for employee entitlements		70,637	23,261
Total Non-Current Liabilities		**4,170,637**	**277,427**
Total Liabilities		**26,409,526**	**22,267,890**
NET ASSETS		**(5,365,947)**	**16,408,327**
EQUITY			
Contributed equity		36,682,457	33,220,282
Share based payments reserve		607,720	448,720
Accumulated Losses	8	(42,656,124)	(17,260,675)
TOTAL EQUITY / (DEFICIENCY IN EQUITY)		**(5,365,947)**	**16,408,327**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2008

	30 June 2008 $	30 June 2007 $
Total equity at the beginning of the year	16,408,327	28,583,184
Shares issued during the year, net of share related expenses	3,462,175	958,109
Write-back of previously recognised tax benefit	-	(442,000)
Share Based Payments	159,000	170,320
Loss for the year	(25,395,449)	(12,861,286)
Total equity at the end of the year	**(5,365,947)**	**16,408,327**

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 30 June 2008

	Note	30 June 2008 $	30 June 2007 $
Cash Flows from Operating Activities			
Receipts from customers		20,897,491	20,611,779
Payments to suppliers & employees		(26,138,221)	(23,578,466)
Interest received		129,512	116,005
Interest & other cost of finance		(1,132,125)	(1,271,725)
Net cash inflow/(outflow) from operating activities	7 (ii)	(6,243,343)	(4,122,407)
Cash Flows From Investing Activities			
Acquisition of plant & equipment and software		(521,625)	(1,572,892)
Payment for acquisition of childcare licenses and related assets		-	(965,280)
Deposits Received for sale of childcare licenses and related assets		8,050,000	-
Proceeds from sale of childcare licenses and related assets		400,000	-
Net cash (outflow) from investing activities		7,928,375	(2,538,172)
Cash Flows from Financing Activities			
Net proceeds from issue of securities		974,160	372,509
Payment of share issue costs		(11,985)	-
Proceeds from borrowings		5,526,890	1,256,957
Repayments of borrowings		(8,398,000)	(105,793)
Net cash inflow from financing activities		(1,908,935)	1,523,673
Net Increase In Cash and Cash Equivalents		(223,903)	(5,136,906)
Cash and cash equivalents at beginning of the year		448,796	5,585,702
Cash and Cash Equivalents at the end of the year	7(i)	224,893	448,796

The above Consolidated Cash Flow Statement should be read in conjunction with the accompanying notes.

Note 1 – Statement of Significant Accounting Policies

(a) Basis of Preparation

This condensed financial report for the year ended 30 June 2008 has been prepared in accordance with ASX Listing Rule 4.3A and the disclosure requirements of ASX Appendix 4E.

This condensed financial report does not include all notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2008 and public announcements made by CFK Childcare Centres Limited during the reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted in the preparation of the condensed financial report are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

This condensed financial report has been prepared under the historical cost convention.

(b) Principles of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

(c) Deficiency in Net Assets

As at 30 June 2008, the consolidated balance sheet reflected a deficiency of net current assets of $21,568,549 (2007: deficiency in net current assets of $19,697,044) and deficiency in equity of $5,365,947 (2007 : net assets of $16,408,327). The current liabilities in the consolidated balance sheet includes an outstanding bill facility of $7,000,000 and deposits received of $8,050,000 in respect of certain childcare centres sold which were not settled as at reporting date.

Further, the consolidated Income Statement reflected operating losses before impairment and tax of $10,681,992 for year ended 30 June 2008 (2007 : operating loss before impairment and tax of $6,025,260). The operating losses for the year include the settlement of the Acre Woods contract and associated costs of $2,015,000 and other financial and operating restructure costs of $2,380,393.

The Directors are continuing to explore various opportunities and initiatives including those disclosed in the Directors Report to ensure that the consolidated entity will continue as a going concern. The financial report has been prepared on a going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the normal course of business.

(d) **Income Tax**

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the balance sheet liability method. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates and interests in joint ventures except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company/Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

(e) **Depreciation of Property, Plant and Equipment**

Land and buildings are stated at cost less accumulated depreciation and impairment.

Plant and equipment, leasehold improvements are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item.

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight-line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period, with the effect of any changes recognised on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.
The gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

The following depreciation rates are used in the calculation of depreciation:

Property, Plant and Equipment:

- childcare plant & equipment	20%	20%
- office equipment	25%	25%
- furniture & fittings	7.5%	7.5%
- motor vehicles	12.5%	12.5%
- freehold building	2.5%	2.5%

(f) **Leased Assets**

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group’s general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Finance leased assets are amortised on a straight-line basis over the estimated useful life of the asset.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Lease incentives

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(g) **Financial assets**

Investments are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs except for those financial assets classified as at fair value through profit or loss which are initially measured at fair value.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets ‘at fair value through profit or loss’.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as ‘loans and receivables’. Loans and receivables are measured at amortised cost using the effective interest method less impairment.

Interest income is recognised by applying the effective interest rate.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted.

For financial assets carried at amortised cost, the amount of the impairment 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.

The carrying amount of financial assets including uncollectible trade receivables is reduced by the impairment loss through the use of an allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale equity instruments, any subsequent increase in fair value after an impairment loss is recognised directly in equity.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

(h) **Revenue Recognition**

Revenue is measured at the fair value of the consideration received or receivable.

Rendering of services

Revenue from childcare services rendered is recognised as the services are performed.

Childcare fees received in advance are recognised as Unearned Income in the Balance Sheet.

Interest revenue

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Other

Other revenue is recognised when the right to receive the revenue has been established.

(i) **Impairment of long-lived assets excluding goodwill**

At each reporting date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

(j) **Intangible assets**

Childcare licenses

Childcare licenses acquired separately in respect of the individual centres have been brought to account at cost less impairment. The licenses comprise the amounts paid to the vendors to relinquish their exclusive accredited childcare business at the particular site together with the costs involved for the consolidated entity to acquire new licenses in its own name.

Licenses are renewable on an ongoing basis and the period of a license continues in perpetuity subject to meeting government review requirements. Current market values are expected to continue to exceed their cost of acquisition by the consolidated entity. The current market values will be used to assess the impairment of the licenses and to the extent a reduction in the income earning capacity of a centre is identified, an impairment write-down would be required.

(k) **Employee Benefits**

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

Defined contribution plans

Contributions to defined contribution superannuation plans are expensed when employees have rendered service entitling them to the contributions.

(l) **Borrowing Costs**

Borrowing costs are recognised in the Income Statement in the period in which they are incurred.

(m) **Cash and cash equivalents**

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, which are subject to an insignificant risk of changes in value and have a maturity of three months or less at the date of acquisition.

(n) **Share-based payments**

Equity-settled share-based payments with employees are measured at the fair value of the equity instrument at the grant date. Fair value was independently measured by use of a Black-Scholes option pricing model which takes into account the exercise price, the term of the option, the share price at grant date, the expected volatility of the underlying share, the expected dividend yield and the risk free rate for the term of the option.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest.

At each reporting date, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with corresponding adjustment to the equity-settled employee benefits reserve.

(o) **Goods and Services Tax**

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
ii. for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified within operating cash flows.

(p) **Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as a provision. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

(q) **Financial instruments issued by the company**

Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or other financial liabilities.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

(r) **Significant accounting estimates and assumptions**

The carrying amount of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of certain assets and liabilities are:

1. Impairment of childcare licenses – the group determines whether childcare licenses are impaired on an annual basis. This requires an estimation of the recoverable amount of the cash-generating unit to which each license relates.

2. Share based payments – the group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date on

which they are granted. The fair value has been determined using the Black Scholes model.

3. Recognition of deferred tax assets – the Group recognises deferred tax assets for deductible temporary differences and unused tax losses on the basis that it is probable that future taxable income will be available to utilise these deductible temporary differences and unused tax losses.

(s) **Comparative Amounts**

Where necessary, prior year comparatives have been reclassified in order to facilitate more meaningful comparisons.

Note 2 – Segment Information

The consolidated entity operates in a single industry, namely childcare centres, in Australia.

Note 3 – Revenue and Expenses from Ordinary Activities

	2008 $	2007 $
Revenue from operations		
Revenue from childcare centres	18,939,261	21,043,501
Other revenue	1,177,769	325,650
	20,117,030	21,369,151
Expenses from operations		
Depreciation and amortisation expenses	785,836	609,602
Net Finance costs expense	1,341,740	1,337,652
Employee benefits expense	15,173,410	15,622,576
Children's catering and other classroom expenses	910,721	915,591
Cleaning and hygiene services	425,802	475,026
Communication expenses	264,180	227,925
Agency Contract Labour	700,572	757,291
Insurance	204,055	182,861
Payroll tax	882,482	814,006
Workers' Compensation	292,572	312,385
Share based payments expense	159,000	170,320
Occupancy expenses	4,241,417	4,292,583
Business restructure expenses *	4,395,393	-
Other expenses from ordinary activities	1,021,842	1,676,593
Total Expenses	**30,799,022**	**27,394,411**

***** Business restructure expenses :		
– Impairment of plant and equipment	721,900	-
– Loss on Sale of Centre	18,271	
– Settlement of Acre Woods contract	1,565,000	-
– Fees in respect of Acre Woods settlement	450,000	-
– Legal and Professional expenses	1,405,222	-
– Redundancy expenses	100,000	-
– Lease and make good expenses	135,000	-
Total Business restructure expenses	**4,395,393**	**-**

Note 4 – Earnings per share

The following reflects the income and share data used in the calculation of basic and diluted earnings per share	June 2008 $	June 2007 $
Loss used in calculating basic and diluted loss per share.	(25,395,449)	(12,861,286)
Weighted average number of shares used in calculating basic and diluted loss per share	107,885,854	88,467,016

Note 5 – Discontinued operations

There were no discontinued operations during the year.

Note 6 – Dividends

No final or interim dividends were declared or paid during the current and previous financial years. The Company does not have a dividend re-investment plan.

Note 7 – Cash flows

(i) Reconciliation of cash

Reconciliation of cash at the end of the period (as shown in the condensed consolidated statement of cash flows) to the related items in the accounts is as follows.	2008 $	2007 $
Cash on hand and at bank	224,893	448,796
Total cash at end of period	**224,893**	**448,796**

(ii) Reconciliation of net profit/(loss) after income tax to net cash inflow/(outflow) from operating activities

	2008 $	2007 $
Net (loss)	(25,395,449)	(12,861,286)
Non-Cash Items		
Depreciation and amortisation of non-current assets	785,836	609,602
Share based payments	159,000	170,320
Intangible Impairment Write-down	14,713,457	5,538,000
Write-back Tax Benefit to Equity	-	(442,000)
Impairment of Plant and Equipment	721,900	-
Changes in assets and liabilities:		
Decrease / (Increase) in trade and other assets	1,399,040	(418,003)
Decrease in prepayments	-	550,799
Decrease in Future Tax Benefit	-	1,713,043
Increase in trade and other payables	1,298,559	820,208
Increase in employee entitlements	74,314	196,910
Net cash inflow/(outflow) from operating activities	(6,243,343)	(4,122,407)

(iii) Non-cash financing and investing activities

Chimaera provided a loan for $2,500,000 during the reporting period which was converted to ordinary shares in January 2008. The conversion price of 13.1 cents per share equated to 19,083,869 ordinary shares in the Company.

Note 8 - Accumulated losses

	2008 $	2007 $
(Accumulated losses) at the beginning of the financial period	(17,260,675)	(4,399,389)
(Loss) attributable to members	(25,395,449)	(12,861,286)
(Accumulated losses) at end of financial period	**(42,656,124)**	**(17,260,675)**

Note 9 – Net Tangible Assets (Liabilities)

	2008 $	2007 $
Net tangible asset (liabilities) backing per ordinary security (cents)	(19.6 cents)	(18.9 cents)

Note 10 - Control gained over entities N/A

Note 11 - Loss of control over entities N/A

Note 12 - Details of associates and joint venture entities N/A

Note 13 – Intangible Asset Impairment

For the purposes of impairment testing, childcare licences have been allocated to individual centres or groups of centres.

The recoverable amount of each cash generating unit has been determined based initially on the value-in-use calculation using cash flow projections covering the next financial year, based on financial budgets approved by the Board of Directors.

The discount rate applied to pre-tax cash flow projections is 19% and projected cash flows have been extrapolated using a 3% growth rate. This growth is consistent with the expected inflation range maintained by the Reserve Bank of Australia.

The key assumptions each budget in respect of each centre relate to the average occupancy, the average fee per place, the average wage expense per place and the type of places for which each centre is configured. The key assumptions are based on experience, taking account of expected changes as a result of current and future operational plans

As a result of this analysis it was determined that an impairment of $14,713,457 (2007: $5,538,000) was required to be recognised as an expense to ensure that the carrying value of specific centres did not exceed their market or in use valuations. A reconciliation of Intangible Assets is shown below;

	2008 $	2007 $
Childcare Centres		
Opening Balance	33,055,357	37,036,465
Acquisitions	-	1,556,892
Impairment	(14,713,457)	(5,538,000)
Closing Balance	**18,341,900**	**33,055,357**
Software		
Opening Balance	50,621	70,966
Acquisitions	64,374	42,725
Amortisation	(37,249)	(63,070)
Impairment	(45,793)	-
Closing Balance	**31,953**	**50,621**
Total Intangible Assets	**18,373,853**	**33,105,978**

Note 14 – Events occurring after reporting date

The company and NAB are continuing to work together to facilitate the full repayment of the existing facilities.

The company has entered into a loan with Glowclose Pty Ltd to provide working capital funding of $3,500,000. Glowclose Pty Ltd is a related party to Doug Lomas. This loan is provided at normal commercial terms and is convertible to shares at the sole discretion of the CFK Childcare Centres Limited. Further details are given in the Review of Operations section of this Condensed Financial Report.