G8 Education Limited

ABN: 95 123 828 553

Risk Management Policy and Risk Management Framework

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Introduction

This document applies to all employees and directors of G8 Education Limited and its subsidiaries (collectively referred to as "G8" or the "Company").

As G8 Education grows, the operating environment becomes more complex, the pace of change accelerates, and the exposure to risk increases.

This exposure can be reduced by Risk Management.

Risk Management is the systematic application of management policies, procedures and practices to the tasks of identifying, analysing, assessing, treating and monitoring risk. It is important that employees and directors of the Company manage risk for the benefits of its stakeholders.

Policy Statement

G8 Education is committed to having a culture of risk management, and to establish an integrated risk management system that supports a pro-active, multi-disciplinary approach to managing risk, and to exploiting opportunity at all levels.

Policy Conditions

- The risk management process is designated as a key internal business process;
- The management of risk/opportunity must be formally addressed in making major business decisions;
- A Whole of Business Risk Review has been prepared and will be reviewed regularly at Board level;
- Each operating site must maintain industry generic and site specific risk identification and treatment documentation;
- A risk management plan must be developed for major projects;
- Operational risks related to the employees, the environment, the community and the Company assets should be identified and addressed as part of the routine operating procedures; and,
- Key risk / opportunity areas and their drivers should be included in management / Board reporting systems.

Responsibilities

The Board of Directors, on behalf of shareholders, is to ensure that risks and opportunities are identified, monitored and managed in a pro-active way; and that individual extreme or high risks are reported at each Board meeting and a review of all risks is provided to the Board annually.

The Executive is responsible for providing leadership and direction, for establishing a context which fosters a risk management culture, and for ensuring business, financial and risk management approaches are integrated during the planning, implementation and reporting of major ventures at all levels.

Managers at every level are responsible for implementing the G8 Education Risk Management System. They should ensure that staff has the knowledge and skills to use the system and that appropriate risk management practices and procedures are integrated with standard management practices and business processes in their operations.

All employees have a responsibility to identify areas of risk and initiate responses that seek to minimise business exposure.

Implementation Strategy

Risk assessments and the development of plans to manage risk for major activities are to commence immediately.

A risk assessment to identify and evaluate risks has been completed and risk treatment options and processes will be progressively updated and reviewed regularly.

Each Centre is developing site safety and risk management procedures in consultation with relevant authorities, and assistance from managers.

A copy of this policy document is available to all managers is available on the corporate governance section of the company's website www.g8education.com.

1. Risk Management Framework

1.1 Definitions

For the purpose of this document, the definitions below (taken from AS 4360:20004) apply.

1.1.1 Consequence

Outcome or impact of an event (1.2.2).

NOTE 1: There can be more than one consequence from one event.

NOTE 2: Consequences can range from positive to negative.

NOTE 3: Consequences can be expressed qualitatively or quantitatively.

NOTE 4: Consequences are considered in relation to the achievement of objectives.

1.1.2 Control

An existing process, policy, device, practice or other action that acts to minimize negative risk or enhance positive opportunities.

NOTE: The word 'control' may also be applied to a process designed to provide reasonable assurance regarding the achievement of objectives.

1.1.3 Event

Occurrence of a particular set of circumstances.

NOTE 1: The event can be certain or uncertain.

NOTE 2: The event can be a single occurrence or a series of occurrences.

(ISO/IEC Guide 73, in part)

1.1.4 Likelihood

Used as a general description of probability or frequency.
NOTE: Can be expressed qualitatively or quantitatively.

1.1.5 Loss

Any negative consequence (1.1.1) or adverse effect, financial or otherwise.

1.1.6 Monitor

To check, supervise, observe critically or measure the progress of an activity, action or system on a regular basis in order to identify change from the performance level required or expected.

1.1.7 Organisation

Group of people and facilities with an arrangement of responsibilities, authorities and relationships.

EXAMPLE: includes Company, corporation, firm, enterprise, institution, charity, sole trader, association, or parts or combination thereof.

NOTE 1: The arrangement is generally orderly.

NOTE 2: An organisation can be public or private.

NOTE 3: This definition is valid for the purposes of quality management system standards. The term 'organisation' is defined differently in ISO/IEC Guide 2.
(AS/NZS ISO 9000)

1.1.8 Risk

The chance of something happening that will have an impact on objectives.

NOTE 1: A risk is often specified in terms of an event or circumstance and the consequences that may flow from it.

NOTE 2: Risk is measured in terms of a combination of the consequences of an event (1.2.2) and their likelihood (1.2.3)

NOTE 3: Risk may have a positive or negative impact.

NOTE 4: See ISO/IEC Guide 51, for issues related to safety.

1.1.9 Risk Analysis

Systematic process to understand the nature of and to deduce the level of risk.

NOTE 1: Provides the basis for risk evaluation and decisions about risk treatment.

NOTE 2: See ISO/IEC Guide 51 for risk analysis in the context of safety.

1.1.10 Risk Assessment

The overall process of risk identification (1.2.12) risk analysis (1.2.8) and risk evaluation (1.2.11) refer to Figure 1.

1.1.11 Risk Criteria

Terms of reference by which the significance of risk (1.2.7) is assessed.

NOTE: Risk criteria can include associated cost and benefits, legal and statutory requirements, socioeconomic and environmental aspects, the concerns of stakeholders (1.2.17) priorities and other inputs to the assessment.

1.1.12 Risk Evaluation

Process of comparing the level of risk (1.2.7) against risk criteria (1.2.10).

NOTE 1: Risk evaluation assists in decisions about risk treatment.

NOTE 2: See ISO/IEC Guide 51 for risk evaluation in the context of safety.

1.1.13 Risk Identification

The process of determining what, where, when, why and how something could happen.

1.1.14 Risk Management

The culture, processes and structures that are directed towards realizing potential opportunities whilst managing adverse effects.

1.1.15 Risk Management Process

The systematic application of management policies, procedures and practices to the tasks of communicating, establishing the context, identifying, analyzing, evaluating, treating, monitoring and reviewing risk (1.2.7).

1.1.16 Risk Management Framework

Set of elements of an organisation’s (1.2.6) management system concerned with managing risk (1.2.7).

NOTE 1: Management system elements can include strategic planning, decision making, and other strategies, processes and practices for dealing with risk.

NOTE 2: The culture of an organisation is reflected in its risk management system.

1.1.17 Risk Treatment

Process of selection and implementation of measures to modify risk (1.2.7).

NOTE 1: The term 'risk treatment' is sometimes used for the measures themselves.

NOTE 2: Risk treatment measures can include avoiding, modifying, sharing or retaining risk.

(ISO/IEC Guide 73, in part)

1.1.18 Stakeholders

Those people and organisations (1.2.6) who may affect, be affected by, or perceive themselves to be affected by a decision, activity or risk.

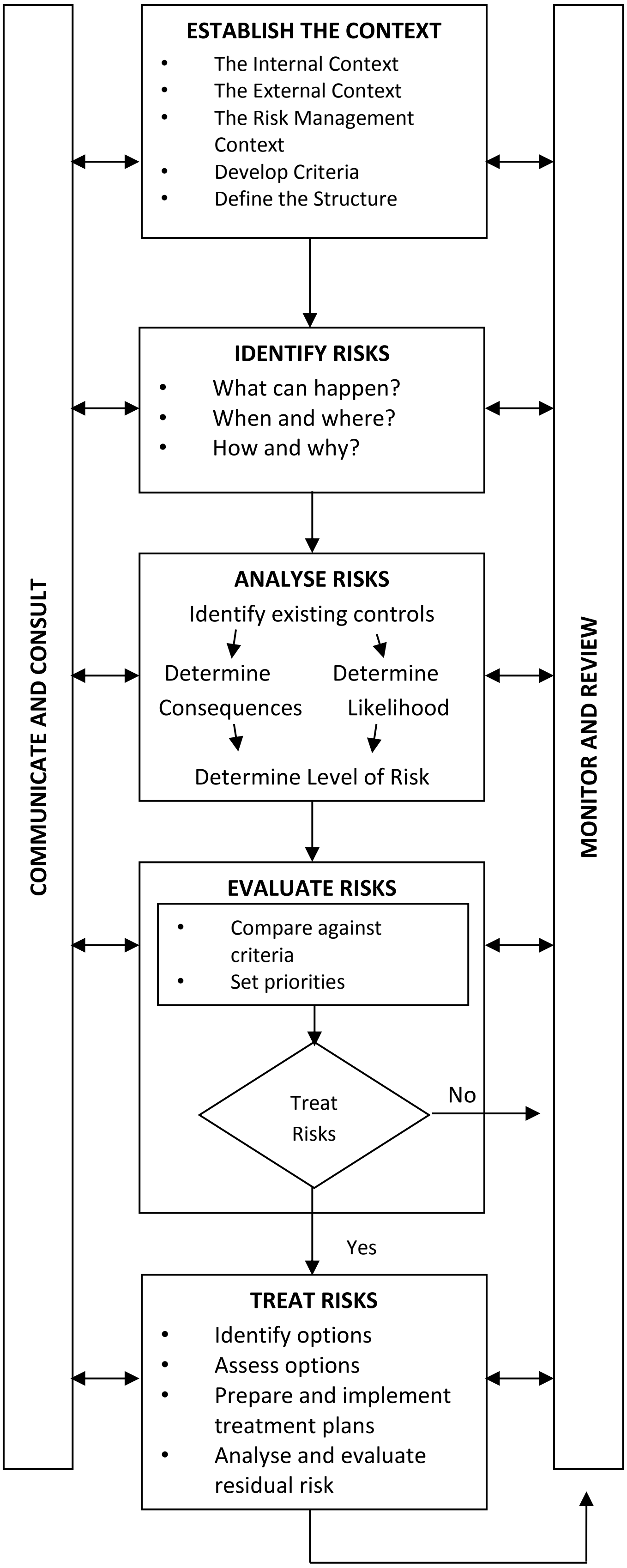
NOTE: The term 'stakeholder' may also include 'interested parties' as defined in AS/NZS ISO 14050 and AS/NZS ISO 14004.

(Based on ISO/IEC Guide 73)

2. Risk Management

Process Overview:

Figure 1



3. Risk Management Process

3.1 Communication and Consultation

The initial draft prepared by the Company Secretary has been reviewed by the Board to confirm the overall direction of the document, context and major assumptions as well as to identify additional areas of risk to be addressed.

The Board adopted the policy and process document after amendments.

Management will communicate the Risk Policy to all staff and oversee implementation. The Board will review the policy at least annually. The Company Secretary will incorporate the review into the Board's annual calendar.

3.2 Context

3.2.1 External context

G8 Education operates child care centres in Australia and Singapore, currently providing services to over 50,000 children between 6 weeks to 12 years of age. Centres are operated in QLD, NSW, ACT, SA, VIC, WA and Singapore.

Stakeholders are global, including a concentration of shareholders in Australia with minority holdings in a number of other countries. Community and public stakeholders are located in Australia. The governments of Australia and Singapore have an interest in the operations of the Group in terms of providing childcare subsidies and in taxation, licensing and regulatory compliance and related social issues.

Financially the Group is closely linked to demand and pricing for child care services which is influenced by government policy, employment levels and competition in the industry.

3.2.2 Internal context

The Group operates through a public company listed on the ASX and is made up of the Board and employees located at child care centres and a corporate office in Australia and Singapore.

Internal stakeholders are employees and directors. Many employees are relatively committed to their career and / or geographic location and the performance of G8 Education could significantly affect their personal and career aspirations.

Success of the Group relies heavily on the listed company child care business model used. The G8 Education model blends economies of scale and closely controlled central financial management with a degree of autonomy and involvement by individual Centre Managers. This model seeks to take the best of centralisation and still maintain the benefit of motivated, involved staff that interacts with customers at the centre level. This decentralises risk and places greater reliance on the integrity of individual staff members.

3.2.3 *Risk Management context*

The context for risk management is Group-wide initially, with specific risk management frameworks being developed for individual centres.

Because of the sensitive nature and high level of responsibility in the child care industry much of the Risk Management context, apart from financial risks, will relate to delivering those services in a way which causes no harm and gives no rise to reputational risks.

Decisions, in a broad sense will be project evaluation decisions, concerning initial or continued investment in acquisition, entering management agreements for or disposal of child care centres.

3.2.4 *Corporate level risk:*

- Potential for exposure to an event which could cause the demise of the Company through insolvency;
- Potential for generating (or reducing) shareholder wealth. This may involve assessing a mix of acquisition financial potential, investor sentiment and funding options; and,
- Potential for damage or improvement to the reputation of the Company and consequently its appeal to investors.

3.2.5 *Operational level risk:*

- Will include due care, safety, environmental, and procedural risks icluding those flowing from regulatory and best practice guidelines.

3.2.6 *Structure for the rest of the process*

An exercise of identifying, evaluating and recommending any treatment in relation to specific risks at a Company level has been undertaken. This review has been developed within a framework of headings to structure the process and documentation so that a similar format may be used for more detailed levels within the process.

Thereafter a similar exercise may be undertaken at 'acquisition group', department or centre level covering:

- proposed acquisitions;
- expansion or major changes to current operations; and
- reviews of existing processes and procedures.

3.3 Identify Risks

3.3.1 General

This step seeks to identify the risks to be managed. Identification should include risks whether or not they are under the control of the Company.

What can happen, where and when

Sources of risks and events that might have an impact on the achievement of objectives identified in the context.

Why and how it can happen

Possible causes and scenarios.

3.4 Analyse Risks

3.4.1 General

Risk analysis is about developing an understanding of the risk. Analysis involves consideration of sources of risk, their positive and negative consequences and the likelihood that those consequences may occur.

3.4.2 Evaluate existing controls

Identify the existing processes, devices or practices that act to minimize negative risks or enhance positive risks and identify their strengths and weaknesses.

3.4.3 Consequences and likelihood

Magnitude and consequences of a possible event are assessed in the context of the effectiveness of existing strategies and controls.

By applying the impact and likelihood using the matrix below, a risk rating is determined. The risk rating is used to compare and prioritise risks as extreme, high, medium, low or very low priority.

Likelihood of risk affecting business priority	Insignificant	Minor	Moderate	Major	Catastrophic
Almost Certain	Medium	High	High	Extreme	Extreme
Likely	Medium	Medium	High	High	Extreme
Possible	Low	Medium	Medium	High	High
Unlikely	Very low	Low	Medium	Medium	High
Rare	Very low	Very low	Low	Medium	Medium

Impact of risk on business priority

Likelihood defines the probability or frequency of the identified impact occurring.

A scale to assist with determining likelihood is provided below.

	Description	Indicative probability
Almost certain	This event is expected to occur in most circumstances.	Once per year
Likely	This event will probably occur in most circumstances.	Once every two years
Possible	This event might occur at some time.	Once every five years
Unlikely	This event could occur at some time.	Once every ten years
Rare	This event may occur in exceptional circumstances.	Less than once every ten years

3.5 Evaluate Risks

The purpose of risk evaluation is to make decisions, based on risk analysis, about which risks need treatment and treatment priorities. Evaluation involves comparing the level of risk found during the analysis process with risk criteria established when the context was considered.

Risk impact considers the consequence or outcome to G8 should the related risk event occur. When determining impact, the worst credible impact of the risk should be selected. A scale defining each level of impact is provided below. The scale considers risk impact from a variety of perspectives including impact on corporate objectives, financials or reputation at a Group level. Risk owners should select the perspective most relevant to the risk and assess the level of consequence accordingly.

	Insignificant	Minor	Moderate	Major	Catastrophic
Impact on achievement of G8's corporate objectives	No impact on achievement of key objectives	Little impact on achievement of key objectives	Some impact on achievement of one or more objectives, requiring reallocation of resources or changes to plans	Completely or substantially prevents achievement of one or more of G8's corporate objectives	Completely or substantially prevents G8's ability to achieve all of its corporate objectives
Financial impact/ market impact	Loss no more than $500,000	Loss between $500,000 and $1,000,000	Loss between $1,000,000 and $1,500,000	Loss between $1,500,000 and $10 million	Loss more than $10 million
Safety	Minor injury requiring only first aid or no treatment	Medical attention (doctor or out-patient treatment) required	Hospitalisation	Permanent injury / loss of limb	Fatality of staff or visitor
Reputation impact	Verbal complaints dealt with on the spot	Individual written complaints	Numerous complaints	Short-term adverse media	On-going adverse media

3.6 Treat Risks

3.6.1 General

Risk treatment involves identifying the range of options for treating risks, assessing these options and the preparation and implementation of treatment plans.

3.6.2 Identifying options for the treatment of risks with positive outcomes

Treatment options for risks having positive outcomes (opportunities), which are not necessarily mutually exclusive or appropriate in all circumstances, include:

- Actively seeking an opportunity by deciding to start or continue with an activity likely to create or maintain positive outcomes.;
- Inappropriate pursuit of opportunities without consideration of potential negative outcomes may compromise other opportunities as well as resulting in unnecessary loss;
- Changing the likelihood of the opportunity, to enhance the likelihood of beneficial outcomes;
- Changing the consequences, to increase the extent of the gains; and,
- Sharing the opportunity:
    - This involves another party or parties bearing or sharing some part of the positive outcomes of the risk usually by providing additional capabilities or resources that increase the likelihood of the opportunity arising or the extent of the gains if it does. Mechanisms include the use of contracts and organisational structures such as partnerships, joint ventures, and similar arrangements. Sharing the positive outcomes usually involves sharing some of the costs involved in acquiring them.
    - Sharing arrangements often introduce new risks, in that the other party or parties may not deliver the desired capabilities or resources effectively.
- Retaining the residual opportunity:
    - After opportunities have been changed or shared, there may be residual opportunities that are retained without any specific immediate action being required.

3.6.3 Identifying options for the treatment of risks with negative outcomes

Treatment options for risks having negative outcomes are similar in concept to those for treating risks with positive outcomes, although the interpretation and implications are clearly different. Options include:

- Avoiding the risk by deciding not to start or continue with the activity that gives rise to the risk (where this is practicable);
- Risk avoidance can occur inappropriately if individuals or organisations are unnecessarily risk-averse. Inappropriate risk avoidance may increase the significance of other risks or may lead to the loss of opportunities for gain;

- Changing the likelihood of the risk, to reduce the likelihood of the negative outcomes;
- Changing the consequences, to reduce the extent of the losses. This includes pre-event measures such as reduction in inventory or protective devices and post-event responses such as continuity plans;
- Sharing the risk:
  - This involves another party or parties bearing or sharing some part of the risk, preferably by mutual consent. Mechanisms include the use of contracts, insurance arrangements and organisational structures such as partnerships and joint ventures to spread responsibility and liability. Generally there is some financial cost or benefit associated with sharing part of the risk with another organisation, such as the premium paid for insurance.
  - Where risks are shared in whole or in part, the organisation transferring the risk has acquired a new risk, in that the organisation to which the risk has been transferred may not manage the risk effectively.
- Retaining the risk:
  - After risks have been changed or shared, there will be residual risks that are retained. Risks can also be retained by default, e.g. when there is a failure to identify or appropriately share or otherwise treat risks.

3.6.4 Assessing risk treatment options

Selecting the most appropriate option involves balancing the costs of implementation of each option against the benefits derived from it.

3.6.5 Preparation and implementation of treatment plans

The purpose of treatment plans is to document how the chosen treatment options will be implemented. Treatment plans should include:

- proposed actions;
- resource requirements;
- responsibilities;
- timing;
- performance measures; and,
- reporting and monitoring requirements.

3.7 Risk Reporting

Extreme	▶ The activity that gives rise to an extreme risk shall not be undertaken without the express approval of the Board. ▶ Newly identified extreme risks shall be reported immediately to the MD/CEO, who will then notify the Board within 24 hours. ▶ All extreme risks shall be reported to the Executive Management Committee on a monthly basis.
High	▶ The activity that gives rise to a high risk shall not be undertaken without the express approval of the MD/CEO. ▶ Newly identified high risks shall be reported to the MD/CEO within 48 hours. ▶ All high risks shall be reported to the Executive Management Committee on a monthly basis.
Medium	▶ The activity that gives rise to a medium risk shall not be undertaken without the approval of the responsible member of the Management Team. ▶ Newly identified medium risks shall be reported to the next meeting of the Management Team. ▶ All medium risks shall be reported to the Management Team on a quarterly basis.
Low	▶ Newly identified low risks shall be reported to the responsible Manager. ▶ All low risks shall be reported to the Management Team on a quarterly basis.
Very Low	▶ Business as usual. Risks managed by relevant staff.

3.8 Monitor and Review

Ongoing review is essential to ensure that the management plan remains relevant.

3.9 Record the Risk Management Process

Assumptions, methods, data sources and reasons for decisions should all be recorded. The records of such processes are an important part of good corporate governance.

4. Establishing Effective Risk Management

The organisation should continue to review and update the risk management policy, plan and support arrangements. This will enable risk management to be implemented effectively throughout the organisation

4.1 Evaluate Existing Practices and Needs

Risk management planning:

- Review risk management plans;
- Ensure the support of senior management;
- Develop and communicate the risk management policy;
- Establish accountability and authority;
- Customise the risk management process; and,
- Ensure adequate resources.

4.2 Broad Risk Factors

These risks were directed to the attention of potential investors and are expressed in that context; however they are a useful summary of general and industry specific risks which could impact G8 Education.

4.3 General Investment Risk

There are significant risks associated with any stock market investment. In the case of shares, these include:

- Shares may trade on the stock market at, above or below the Offer Price;
- The market price of shares may be affected by factors unrelated to the operating performance of G8, such as those listed under the heading "General Economic Risks" below, investor sentiment, Australian and international stock market conditions, and the performance of other property businesses and assets. The stock prices for many listed entities have in recent times been subject to wide fluctuations, which in many cases may be a reflection of a diverse range of influences not specific to that listed entity.

4.4 General Economic Risks

There are general economic risks associated with any investment including:

- Changes in economic conditions and outlook in Australia and internationally;
- Changes in Australian government, industrial, fiscal, monetary or regulatory policies;
- Changes in interest rates, exchange rates or rates of inflation; and,
- International conflicts or acts of terrorism.

4.5 General Refinancing Risk

Entities review their refinancing options on debt facilities on a periodic basis and may arrange the refinancing of all or part of those facilities prior to maturity. Shareholders are exposed to the risk that G8 may not be able to repay or refinance its debt facilities as they fall due or that refinancing is only available on terms materially worse to the current terms.

In such cases G8 may have to raise further debt or issue further equity or dispose of some or all of the assets of G8 to raise funds to repay or refinance its debt facilities. The ability to repay or refinance and the terms of any refinancing may affect the value of, and returns from, an investment in the Shares.

4.6 Interest Rate Risk

The level of interest rates on G8 Education's financing facilities (and any subsequent refinancing) and the terms of any interest rate hedging (if any) and subsequent movements in the market interest rates will affect the financial position of G8.

G8 may change the interest rate risk management strategy from time to time when it believes it is in the interests of G8 and /or shareholders to do so. The availability and terms of such arrangements, and the level of interest rates at the relevant time, will affect the interest expense incurred by G8 and, as a result, the value of, and returns from, an investment in the Shares.

4.7 Foreign Exchange Risk

G8 Education currently has SGD $415m in Singapore Notes issued under a programme established and monitored by DBS. The level of SGD to AUD conversion and any foreign exchange gain or loss and any hedging associated with that risk may impact the financial positon of G8. G8 Education does not currently have sufficient SGD earnings to provide a natural hedge against this risk. The latest SGD note has been fully hedged.

G8 may change the foreign exchange risk management strategy from time to time when it believes it is in the interests of G8 and/or its shareholders to do so. The availability and terms of such arrangements, and the level of SGD to AUD conversion at the relevant time, will affect the interest expense associated with the bond coupons and the fair value of any refinance.

4.8 General Change in Capital Structure

Changes in the capital structure of G8, for example from the raising of further debt or the issue of further equity to repay or refinance debt facilities or to fund the acquisition of additional child care centres, may affect the value of, and returns from, an investment in the Shares.

4.9 General Change in Laws

Changes in laws (including tax laws) or their interpretation may affect the value of, and returns from, an investment in the Shares.

For instance, changes in the taxation treatment of companies may adversely affect the market price of the company.

4.10 Accounting Standards

Accounting Standards may change. This may necessitate a change in the accounting policies currently adopted by G8. Changes in the Accounting Standards may affect the reported net financial performance and financial position of G8.

4.11 Impact of Hostilities, Terrorism or Other Force Majeure Events

War, other hostilities, terrorism or major catastrophes can adversely affect global and Australian market conditions. Such events can have direct and indirect impacts on the G8's business and earnings.

5. Industry Specific Risks

5.1 Changes in Law and Government Policy

The child care industry in Australia is heavily regulated by each level of government. The State and Territory Governments are responsible for the issue of licences to operate the business of a child care centre and for determining the standards that operators must meet in order to obtain and retain a licence. The Commonwealth Government operates the Childcare Benefits Scheme to provide funding for child care. In order to be eligible for funding, the centres must participate satisfactorily in the Quality Improvement and Assurance accreditation process administered by the National Childcare Accreditation Council. Local governments are responsible for planning matters.

Any change or addition to the regulation imposed by any of the levels of government could affect the operation of the centres and could impact on the profitability of G8.

Other government legislation, including changes to the taxation system, may affect future earnings and the relative attractiveness of investing in the Company.

5.2 Changes to Subsidies

The Federal Government provides assistance to the child care industry through the Government's Child Care Benefit (CCB) scheme. The subsidy is utilised in the operations of all the Company's centres and represents a large percentage of the Company's revenues. This subsidy is reviewed each year in the Federal Budget and any reduction will have a significantly adverse impact on the operations of the Company.

5.3 Sourcing of high quality staff

The industry's product is care, delivered by staff at child care centres. The availability of high quality staff is critical to service delivery. The Company may not be able to attract and retain high quality staff.

Further, the industry is exposed to changes in award wages for staff. A substantial change in wages that cannot be recouped through increases in fees will have an impact on the profitability of each centre and the financial performance of G8 as a whole.

5.4 Competition

Although there are barriers to entry in the child care industry, increased competition from existing and new industry participants may reduce G8 revenues and profits.

In addition, G8 faces competition from other companies involved in the consolidation of child care centres when seeking to acquire additional centres. This competition may increase the price that, G8 must pay to acquire centres or limit the centres that the Company can acquire. This may adversely impact on G8's profitability and growth prospects.

The recent financial failure of competitors could decrease the price of acquiring additional centres but may adversely affect investors' perception of the industry and may reduce the value of GEM existing child care centres.

5.5 Regulatory risk and accreditation

The regulation and availability of the Governments CCB scheme is dependent upon individual child care centres being registered with the NCAC. The accreditation process and receipt of CCB funding involves regular review by representatives of the NCAC, including inspections of child care centres, the quality of services provided and facilities. Negative evaluations could result in loss of this registration, licence and the withdrawal of the CCB funding. This would have a negative impact on G8 operations and financial position.

6. Company Specific Risks

6.1 Due Diligence Risk

The Company's business model includes the acquisition of additional centres. Management has and will perform pre-acquisition diligence on each of the centres to be acquired. There is a risk that due diligence has or will not identify issues that would have been material to the decision to acquire the centres. Further, there is a specific risk that information provided by the vendors on historical occupancy levels of the centres may not be reliable, and that this could affect G8's view on forecast occupancy levels, particularly in the early months after acquisition.

G8, as part of its growth strategy, proposes to regularly acquire assets and businesses in the child care sector. From time to time, G8 will likely consider litigation against, or receive threats of litigation from, persons associated with such assets and businesses acquired by G8 in relation to matters associated with such assets and businesses. There is a risk that if any such litigation were to proceed, it could have an impact on the financial performance of the assets or businesses in question or on the financial performance or reputation of G8 more generally.

6.2 Risks arising from new acquisition opportunities

It is the Director's strategy to grow the Portfolio over time. Accordingly G8 may acquire additional centres in the future. As the details of any future centres are unknown, there is risk that the inclusion of additional centres in the Portfolio may detrimentally affect the value of returns to shareholders.

Future growth in operating results depends to a large extent on management's ability to successfully manage expansion and growth. This will require expansion of some or all of the business operations of the Company and associated management disciplines, such as revenue forecasting, addressing new markets, controlling expenses, implementing infrastructure and systems and managing assets. Inability to control the costs and organisational impacts of business growth or an unpredicted decline in the growth rate of revenues without a corresponding and timely reduction in expense growth or a failure to manage other issues arising from growth could adversely affect the Company's operating results.

6.3 Availability of funding

The Company's acquisition strategy is intended to be financed by a combination of debt and equity funding. G8's ability to pursue its strategy may be constrained by access to further debt and equity funding.

6.4 Net tangible asset position of the Company

G8 does not possess a large tangible asset base as it is a service organisation. Most of G8's value is derived from its ability to generate future profits. A reduction in G8's ability to generate these profits will have an adverse effect on its share price and could have a material effect on reported results, including the potential future recognition of losses.

7. Risks Associated with Operating Child Care Centres

7.1 Key Personnel

G8's business model depends on a management team with the talent and experience to integrate and manage new child care centres into the Company's core business operations. G8 also depends on its ability to identify and retain high quality centre directors who, with the assistance of our head office management team, execute the strategies of the Company at a centre level.

There is a risk that operating and financial performance would be adversely affected by the loss of key personnel.

7.2 Reputation risk

Having a reputation as being a provider of high quality child care services is an important factor in ensuring that G8 maintains the occupancy rates and earnings of the child care centres it will own. As G8 will be the owner of a large number of child care centres, there is a risk that an isolated incident occurring at one centre may impact on the reputation of G8 and impact adversely on the profitability of all of G8's child care centres. This risk is mitigated from the multi brand strategy.

7.3 Employee misconduct

Misconduct by employees of the Group could result in regulatory sanctions and serious reputational or financial harm. Whilst the Company believes that its processes for preventing employee misconduct are adequate, it is not always possible to avoid employee misconduct, and the precautions taken to detect and prevent this activity may not be effective in all cases. This risk may also attract regulatory sanctions and adverse media coverage.

7.4 Liability risk

G8 is exposed to the potential risk of damages claims in the event of a child being incapacitated, injured or harmed in any way either while at a child care centre or in transit to or from a centre while under the control of a G8 employee. Any such claim could, because of the age of the injured party, take many years to be finalised.

The insurance market has been fluid in recent years and there is ongoing risk faced by G8 that the level of coverage and / or premium deemed appropriate for its business may not be available.

G8 is dependent on the reputation and goodwill generated by its centres for the sustainability and growth of its business. If any criminal or civil proceedings are commenced against G8 or an employee in respect of any child who is incapacitated, injured or harmed in any way while under the supervision of, and in the care of G8, damage may be caused to G8's business. The quantum of the potential damage in those circumstances may be substantial.

7.5 Integration risks

G8 will need to integrate centres as they are acquired, pursuant to its integration plan. There is a risk that fully integrating the centres may take longer or cost more than anticipated by G8, which could impact on the profitability of the Company.

There is no guarantee the centres will operate as profitably after integration as they did prior to their acquisition by G8. The performance of the centres may be adversely affected by changes such as an increase in overheads, the change in management or a reduction in custom from parents who do not view the acquisition of the centres by G8 favourably.

7.6 Operational risk

Operational risk relates to the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events which impact on the Company's business. The Company is exposed to operational risks present in the current business including risks arising from fraud, system failure, failure of security and physical protection systems. Operational risk has the potential to have an effect on the Company's financial performance and position as well as reputation.

In accordance with standard commercial practice G8 maintains policies of insurance, however, similar to all businesses, is vulnerable to having operations influenced and interrupted by failure of critical plant and equipment, loss or destruction of assets by natural disaster, fire or service disruptions caused by industrial action.

G8 is reliant on its information technology systems in efficiently undertaking the management of a large number of child care centres located across the country. A major hardware or software failure could create delays in business processes, resulting in abnormal costs and potential losses if the failure cannot be addressed quickly and decisively. Any significant change to the technology employed could result in a substantial increase in costs.

7.7 Lease arrangements

At most of the child care centre businesses owned by G8 or the subject of Acquisition Contracts, the centre land and buildings are (and will continue to be) leased from third parties. Each lease or proposed lease requires G8 to comply with various obligations including the payment of rent and other monies due. In the event of default by G8 under a lease, the landlord may terminate the lease if the default is not remedied. There is also no guarantee that leases will be renewed at the end of their term. Termination or expiry (particularly of key centre sites) could have an adverse effect on G8's financial performance and operations.

A substantial change in rent under any of the centre leases that cannot be quickly recouped through fee increases or other efficiencies will have an impact on G8's financial performance.

7.8 No Market Sector Diversification

G8 is a child care centre business because it predominantly owns or intends to own leasehold child care centres and intends to own very few freehold child care centres. As such, G8's performance depends significantly on the performance of the child care market as a whole. If the child care market performs poorly, G8's performance may be adversely impacted as its business is almost entirely concentrated in this market.

7.9 Intellectual Property Risk

G8 has applied for trademark registrations and other common law marks in Australia. For example, in Australia the G8 logo is to be a registered trademark. If the trademarks are not registered or there is a subsequent challenge to the trademark registration, or any other trademark registration or common law mark owned by G8, it may have an impact on the business and financial performance of G8 as rebranding costs may be incurred.