G8 EDUCATION LIMITED

Annual Report 2011

G8 Education ltd

Mission Statement.

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

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

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

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

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

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

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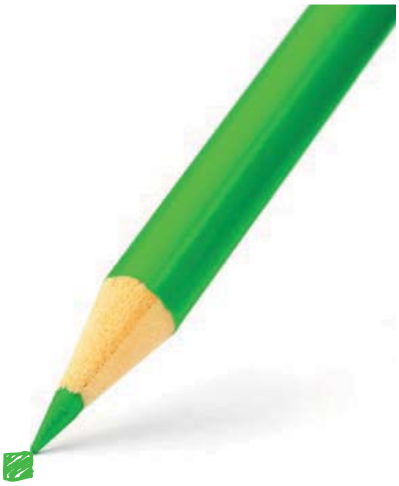


Notice of Annual General Meeting

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

The Boardroom Cafe

Southport Yacht Club - 1 Macarthur Parade, Main Beach

Time - 11:30am **Date -** Thursday 26 April 2012

2011 Highlights.

January

- 2010 yearly result is announced – 105% of the forecast result for the period

February

- Acquisition of 8 centres is announced
- Full year result is reported – revenue of $66.44m was in line with guidance and delivered NPAT of $4.8m compared to guidance of $4.7m.

March

- Acquisition of 30 centres is announced
- Mr Andrew Kemp joined the Board
- Quarterly dividend of one cent per share

June

- Acquisition of 7 centres is announced

July

- Acquisition of 2 centres is announced

August

- Half yearly results are announced - Record profit:
    - Profit after tax before significant items $4.3m, up 370%
    - Profit after tax after significant items $3.76m, up 446%
    - Earnings per share of 2.03c, up 133%
    - Annual dividend of 4.0c, up from NIL
    - Operating cash flow of $3.36m, up 225%

September

- Quarterly dividend of one cent per share

October

- Acquisition of 1 centre is announced

November

- Guidance affirmed – EBIT $20.26m
- Ms Susan Forrester and Mr Matthew Reynolds joined the Board

December

- Acquisition of 6 centres is announced
- Quarterly dividend of one cent per share
- End year with 135 owned centres (Aust.), 7 owned centres (Sing.) and 64 managed and franchised centres (Sing.)

Chairperson's Report

Dear Shareholders,

The 2011 annual report outlines what has been an exciting year of growth and success for G8 Education Limited and the child care industry.

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

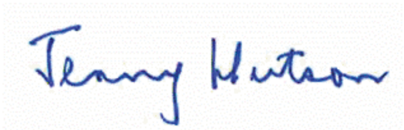
This year has seen G8 Education Limited continue the growth of its portfolio, adding 53 child care centres and 2 new brands. Our continued growth is in response to our aim to be responsive to local families and delivering upon community expectations. Our team has worked diligently throughout the year to ensure all our centres offer innovative services, systems and management to ensure exceptional care is offered to each child in G8's care.

Each individual centre and brand has its own important place in its respective community. The company is committed to positioning itself as a reputable brand of excellence through the implementation of qualified educators and specialised curriculums and resources.

I am pleased to report positive financial results in 2011. The consolidated group achieved a reported Net Profit After Tax of $17.25m. This reported Net Profit After Tax includes a number of non-recurring transactions and a reconciliation to the underlying Net Profit After Tax of $13.9m can be found on page 6.

As the industry prepares for significant operational changes moving forward, I have confidence the Executive and Management team will continue to ensure G8 Education provides high quality child care services to Australasian families whilst seeking further opportunities for growth to the portfolio.

Yours sincerely,

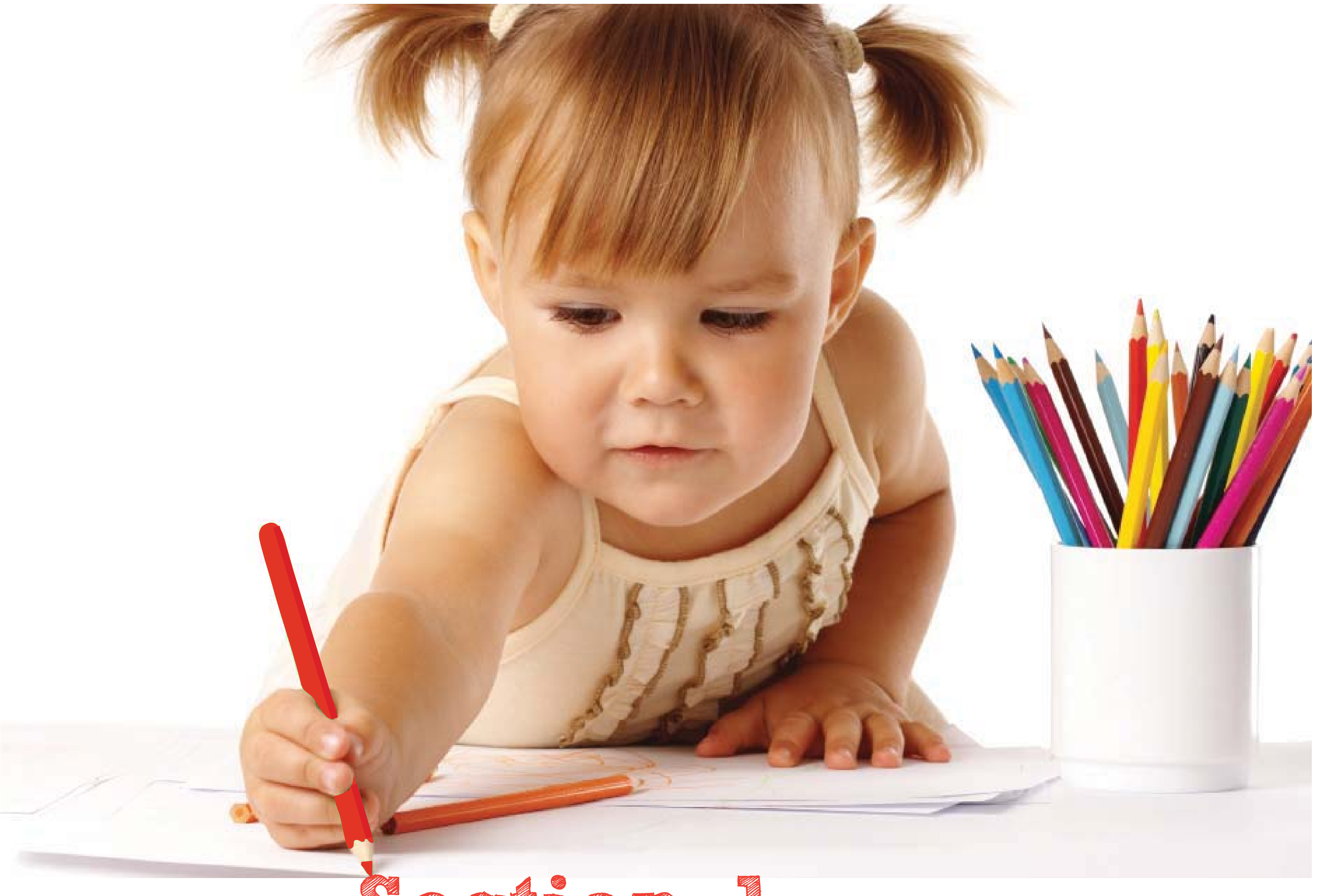


Jennifer J Hutson
Chairperson
Brisbane,
27 February 2012

Key Financial Information

	Australia	Singapore	Total
Average number of centres in year	**124**	**6**	**130**
Number of owned centres at year end	**135**	**7**	**142**
Number of managed or franchised centres at year end	**-**	**64**	**64**
Licence capacity of owned centres at year end	**9,868 per day**	**618 per day**	**10,486 per day**
Total Number of employees at year end	**2,870**	**248**	**3,118**
Total Number of Full Time Equivalent employees at year end	**1,847**	**240**	**2,087**

Consolidated **Year end 31 December ($'000)**	**2011**	**2010**	**Variance (%)**
Revenue	142,899	66,549	115%
Expenses	(118,017)	(59,682)	98%
Earnings Before Interest and Tax	24,882	6,867	262%
Interest	(2,188)	(1,318)	66%
Net Profit Before Tax	**22,694**	**5,549**	**309%**
Net Profit After Tax	**17,250**	**3,480**	**396%**
Less non-recurring abnormal transactions:			
Write back of Headstart deferred consideration	(4,299)	-	
Legal expenses in relation to the Singapore court case (post tax effect)	956	-	
Share based payment expense	-	1,040	
Underlying Net Profit After Tax	**13,907**	**4,520**	**208%**
Underlying EPS (cents per share)	**7.48**	**4.15**	**80%**
Gearing ratio	**32%**	**20%**	
Adjusted Gearing ratio (refer Note 22 (f))	**25%**	**20%**	



Section 1

Directors’ Report & Corporate Governance Statement

Directors' Report

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of G8 Education Limited and the entities it controlled at the end of, or during, the year ended 31 December 2011.

Directors

The following persons were directors of G8 Education Limited during the whole of the financial year and up to the date of this report.

J J Hutson

C J Scott

B H Bailison

A P S Kemp was appointed a director on 15 March 2011 and continues in office at the date of this report.

S M Forrester and M Reynolds were appointed as directors on 1 November 2011 and continue in office at the date of this report.

C G Chapman was a director from the beginning of the financial year until his resignation on 26 August 2011.

Principal Activities

The principal continuing activities of the Group during the year were:

- Operation of child care centres owned by the Group
- Contract management of childcare centres
- Ownership of childcare centre franchises

Dividends

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

	2011 $	2010 $
Dividend for the quarter ended 31 March 2011 of 1 cent per share paid on 11 April 2011	1,863,837	-
Dividend for the quarter ended 30 June 2011 of 1 cent per share paid on 11 July 2011	1,866,865	-
Dividend for the quarter ended 30 September 2011 of 1 cent per share (2010: 1 cent per share) paid on 10 October 2011 (2010: Paid on 7 October 2010)	1,871,190	1,281,741
Dividend for the quarter ended 31 December 2011 of 1 cent per share (2010: 1 cent per share) paid on 16 January 2012 (2010: Paid 11 January 2011)	1,874,185	1,623,046
	7,476,077	2,904,787

Review of operations

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

Significant changes in the state of affairs

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

- reported a profit after tax of $17,250,351 in 2011 compared to $3,480,324 in 2010
- acquired an additional 53 child care centres and sold 7 underperforming child care centres in Australia
- acquired 6 child care centres in Singapore (outside of the Cherie Hearts Group International acquisition).

- Awaiting judgment on the legal proceedings between G8 Education Limited and the Cherie Hearts Group, Sam Yap and Gurchran Singh in relation to various issues involving the contractual arrangements between the parties. It is anticipated that a decision will be made in early 2012.

Matters subsequent to the end of the financial year

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

- G8 Education Limited announced to the ASX on 15 February 2012 its proposed long term incentive program for Mr Chris Sacre (Chief Operating Officer) and Mr Jae Fraser (General Manager, Operations). The incentive program involves (subject to shareholder approval) the issue of 1,285,714 shares to Mr C Sacre and 857,143 shares to Mr J Fraser. The shares will be issued at $0.70 per share and funded via a full recourse loan from the company.
- G8 Education Limited announced to the ASX the appointment of Mr Damien Peters as Chief Financial Officer of G8 Education Limited with effect from March 2012.
- G8 Education Limited announced to the ASX that it has entered into a new syndicated finance arrangement with the Bank of Western Australia. The facility provides for an overall limit of $56.5m.

Likely developments and expected results of operations

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

Judgment of the legal proceedings between G8 Education Limited and the Cherie Hearts Group, Sam Yap and Gurchran Singh noted above in significant changes in the state of affairs.

Judgment on the proceedings before the A.C.T Supreme court which was heard in April 2009, as disclosed in note 27.

Environmental regulation

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

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

Information on directors

Jennifer Joan Hutson B.Com, LLB, FAIM
Chairperson. Age 44.
Independent Non-Executive since 25 March 2010.

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

She has over 20 years' experience in board issues involving listed companies including as chair of S8 Limited, Harvey World Travel and Travelscene American Express.

Other current listed public company directorships
Nil.

Former listed public company directorships in the last 3 years
Nil.

Special responsibilities
Chair of the board.
Member of audit committee.

Interest in shares and options
800,000 ordinary shares in G8 Education Limited.

Christopher John Scott B.Econ (Hons)
Managing director.
Executive director since 25 March 2010. Age 64

Experience and expertise

Chris has over 25 years experience in senior management positions. He has spent over 20 years in business in Singapore where he was involved in a number of successful businesses.

Chris Scott was also the founder and managing director of ASX listed S8 Limited which was an integrated travel company that made 36 acquisitions over 5 years and was capitalized at $700 million. His operational, analytical and strategic skills were critical in the selection of potential acquisitions.

Other current listed public company directorships

Nil.

Former listed public company directorships in the last 3 years

Nil

Special responsibilities

Managing director.

Interest in shares and options

2,000,000 ordinary shares in G8 Education Limited.

Brian Hilton Bailison B.Com., B.Acc (Cum Laude), ACA
Non executive director since 25 March 2010. Age 41.

Experience and expertise

Brian has over 16 years experience in finance, corporate finance and operations from senior roles in listed and unlisted businesses in South Africa and Australia, including senior positions at Rand Merchant Bank Limited (South Africa's largest bank-assurance business), the Ivany Investment Group (diversified investment group) and Payce Consolidated Limited which operated 59 child care centres prior to them becoming part of the G8 Education group.

Other current listed public company directorships

Nil.

Former listed public company directorships in the last 3 years

Nil.

Special responsibilities

Member of audit committee.

Interest in shares and options

Nil.

Andrew Peter Somerville Kemp B.Com., CA
Non executive director since 15 March 2011. Age 60.

Experience and expertise

Andrew is the managing director of Huntington Group, a Queensland based advisory firm. Mr Kemp has structured and implemented the ASX listing of over 10 companies in addition to other corporate advisory and investment activities.

Mr Kemp joined AIFC, the merchant banking affiliate of the ANZ Banking Group in Sydney and then opened AIFC's Queensland office in 1979. He established Huntington Group in 1987.

Other current listed public company directorships

- Trojan Equity Limited, Chairman (appointed March 2005),
- PTB Group Limited (appointed August 2006); and
- Silver Chef Limited (appointed February 2005).

Former listed public company directorships in the last 3 years
Eureka Group holdings Limited (previously called SCV Group Limited), appointed March 2004.

Special responsibilities
Chair of audit committee.

Interest in shares and options
90,000

Susan Margaret Forrester BA, LLB (Hons) EMBA, FAICD
Non-executive director since 1 November 2011. Age 44

Experience and expertise
Ms Forrester is an experienced company director with a diverse portfolio career. She has a significant blend of commercial, financial and legal management experience gained across public, private and charitable organisations.

She is currently a director of Ergon Energy Corporation Limited and leads the Strategy Practice of Board Matters Pty Ltd. In this role, she provides expert advice to listed and unlisted boards on board governance, executive and strategy issues.

Through these appointments, Ms Forrester has a keen focus on strategy development, corporate governance, brand and reputation management and strategic human resources.

Other current listed public company directorships
Nil.

Former listed public company directorships in the last 3 years
Nil.

Special responsibilities
Nil.

Interest in shares and options
Nil.

Matthew Reynolds BSc (Hons), LLB (Hons), MQLS
Non-executive director since 1 November 2011. Age 42

Experience and expertise
Mr Reynolds is currently a partner at HWL Ebsworth Lawyers and has experience in capital markets, ASX listings, private equity and mergers and acquisitions. He specialises in providing tailored legal and strategic advice in a highly regulated and technical market and has advised on a large number of complex capital market and merger and acquisition projects.

Mr Reynolds is a director of three operational subsidiaries of the Thailand based conglomerate Minor International. Those subsidiaries are Delicious Food Holding (Australia), Delicious Food Australia Finance and MHG Hotel Holding Australia. The group recently acquired the Oaks Hotel group in Australia. He has held a number of board positions on emerging companies in the energy and resources and technology sectors.

Other current listed public company directorships
Nil

Former listed public company directorships in the last 3 years
Nil

Special responsibilities
Nil.

Interest in shares and options
Nil.

Craig Graeme Chapman B. Com., A.S.C.P.A., C.S.A.
Former Chief Executive Officer.
Executive director from 25 March 2010 until his resignation on 26 August 2011. Age 47.

Experience and expertise
Craig has had 25 years' experience in business holding senior management roles.

Other current listed public company directorships
Nil.

Former listed public company directorships in the last 3 years
Nil.

Special responsibilities
None.

Interest in shares and options
1,208,333 ordinary shares in G8 Education Limited.

Information on Company Secretary

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

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

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

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

Meeting of Directors

The number of meetings of the Company's Board of directors and of each Board committee held during the year ended 31 December 2011, and the number of meetings attended by each director were:

Director	Full meetings of Directors		Audit & Risk Committee	
	A	**B**	**A**	**B**
J J Hutson	10	11	1	2
C J Scott	11	11	N/A	2
B H Bailison	10	11	2	2
C G Chapman	7	7	1	1
A P S Kemp	9	9	1	1
S M Forrester	2	1	N/A	-
M Reynolds	2	2	N/A	-

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

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

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

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

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

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

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

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

Alignment to program participants' interests:

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

Non-executive directors

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

Directors' fees

The current base remuneration was last reviewed with effect from 28 February 2011.

Non-executive directors' fees are determined within an aggregate directors' fee pool limit, which has been approved by shareholders. The approved maximum is $500,000 per annum.

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

Base Fees	25 March 2010 to 28 February 2011	From 28 February 2011
Chairperson	$30,000 per annum	$80,000 per annum
Non-executive directors	$15,000 per annum	$40,000 per annum
Committee members	Nil	$10,000 per annum

Executive Pay

The Executive Pay currently has two components being base pay and benefits, including superannuation.

Base Pay

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

Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. External consultants provide advice to ensure base pay is set to reflect the market for a comparable role. Base pay for executives is reviewed annually to ensure the executive's pay is competitive with the market. An executive's pay is also reviewed on promotion.

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

Benefits

Executives receive benefits including car allowances.

B. Details of remuneration

Amounts of remuneration

Details of the remuneration of key management personnel (as defined in AASB 124 *Related Party Disclosures*) of G8 Education Limited are set out in the following tables on pages 14 and 15.

The key management personnel of G8 Education Limited and the Group are the same personnel and includes the directors as per pages 9 to 12 and the following executive officers who have authority and responsibility for planning, directing and controlling the activities of the entity.

- C P Sacre – Chief Operating Officer and Company Secretary
- J D Fraser – General Manager Operations
- M Crawford – Senior Operations Manager
- B Miess – Support and Administration Manager – until her redundancy on 3 March 2011

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

2011	**Short term employee benefits**		**Post – employment benefits**	**Share based payments**	**Termination payments**	**Total**
Name	**Cash salary and fees**	**Other**	**Superannuation**	**Options**		
Non-executive directors						
J J Hutson, Chairperson	71,346	-	6,421	-	-	**77,767**
B H Bailison	35,673	-	3,211	-	-	**38,884**
A P S Kemp (appointed 15 March 2011)	30,000	-	-	-	-	**30,000**
S M Forrester (appointed 1 November 2011)	6,000	-	540	-	-	**6,540**
M Reynolds (appointed 1 November 2011)	6,000	-	540	-	-	**6,540**
Executive directors						
C J Scott, Managing director#	296,608	31,650	6,177	-	-	**334,435**
C G Chapman, Chief Executive Officer (From 1 January 2011 to 26 August 2011) #	151,538	-	14,770	-	92,056	**258,364**
Other key management personnel						
C P Sacre^	201,154	-	19,504	1,279	-	**221,937**
J D Fraser^	165,000	3,000	15,120	-	-	**183,120**
M J Crawford^	76,375	2,000	7,054	-	-	**85,429**
Total	**1,039,694**	**36,650**	**73,337**	**1,279**	**92,056**	**1,243,016**

2010	Short term employee benefits		Post – employment benefits	Share based payments	Termination payments	Total
Name	Cash salary and fees	Other	Superannuation	Options		
Non-executive directors						
J J Hutson, Chairperson (appointed 25 March 2010)	20,769	-	1,869	-	-	**22,638**
B H Bailison (appointed 25 March 2010)	10,385	-	935	-	-	**11,320**
A G Hartnell AM (resigned 25 March 2010)	28,559	-	2,570	-	-	**31,129**
G J Kern (resigned 25 March 2010)	31,441	-	2,830	-	-	**34,271**
A J P Staines (resigned 27 May 2010)	20,321	-	1,829	-	-	**22,150**
Executive directors						
C J Scott, Managing director (appointed 25 March 2010) #	158,077	200,000	12,238	520,000	-	**890,315**
C G Chapman, Chief Executive Officer (appointed 25 March 2010) #	130,769	200,000	10,369	312,000	-	**653,138**
Other key management personnel						
C P Sacre^**	200,391	58,500	15,940	3,955	-	**278,786**
G M Edwards^ (resigned 16 December 2010)	110,529	-	9,948	-	9,277	**129,754**
J D Fraser^***	125,228	10,000	11,072	-	-	**146,300**
B Miess^	83,399	-	7,506	-	-	**90,905**
D R Tarry^ (resigned 29 May 2010)	47,317	-	4,738	-	33,098	**85,153**
Total	**967,185**	**468,500**	**81,844**	**835,955**	**42,375**	**2,395,859**

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

The amount included in Short term employee benefits - Other for Mr C J Scott and Mr C G Chapman relates to consultancy fees due from Payce Child Care Pty Ltd prior to the merger. The amount disclosed in share based payments for Mr C J Scott and Mr C G Chapman represents the difference between the market price on the date the shares were issued compared to the amount paid for the shares via a company loan.

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

*** The other amount included for Mr J D Fraser relates to a quarterly performance bonus which is based on the achievement of predetermined key performance indicators.

All proportions of remuneration for Directors, Key Management personnel and other executives were fixed, not linked to performance, in 2011 with the exception of Mr J Fraser.

C. Service agreements

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

Remuneration and other terms of employment for the Managing Director (MD), Chief Executive Officer (CEO), Chief Operating Officer (COO) and Chief Financial Officer (CFO) are formalised in service agreements which have a provision for bonuses and other benefits which may be granted from time to time by the board of directors.

Contracts with executives may be terminated by either party with up to 6 weeks notice. The MD, CEO and COO require three months notice by either party.

C J Scott, Managing Director

- Term of agreement – on going, commenced March 2010, with a three month termination notice period.
- Base salary, exclusive of superannuation, of $350,000 per annum effective 1 July 2011, to be reviewed annually by the Board.

C G Chapman, Chief Executive Officer (Resigned 26 August 2011)

- Term of agreement – on going, commenced March 2010, with a three month termination notice period.
- Base salary, exclusive of superannuation, of $350,000 per annum effective 1 July 2011, to be reviewed annually by the Board.

C P Sacre, Chief Operating Officer and Company Secretary

- Term of agreement – on going, commenced April 2008, with a three month termination notice period.
- Base salary, exclusive of superannuation, of $250,000 per annum effective 1 July 2011, to be reviewed annually by the Board.

J D Fraser, General Manager - Operations

- Term of agreement – on going, commenced October 2006, with a one month termination notice period.
- Base salary, exclusive of superannuation, of $180,000 per annum effective 1 January 2012, to be reviewed annually by the Board.

M J Crawford, Senior Operations Manager

- Term of agreement – on going, commenced October 2006, with a one month termination notice period.
- Base salary, exclusive of superannuation, of $100,000 per annum effective 1 January 2012, to be reviewed annually by the Board.

D. Share based compensation

Options

No options over ordinary shares in G8 Education Limited were provided as remuneration in 2011 (2010 – Nil).

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

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

Other than timeframe, no other vesting conditions exist in respect of options issued to C P Sacre.

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

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

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

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

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

Shares under option

As at 31 December 2011 there were no shares under option.

Insurance of officers

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

Proceedings on behalf of the Group

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

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

Non-audit services

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

Details of the amounts paid or payable to the auditors (HLB Mann Judd (SE Qld Partnership)) for audit and non-audit services provided during the year are set out below.

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

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

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

	Consolidated	
	2011	**2010**
	$	**$**
1. Audit Services		
HLB Mann Judd:		
• Audit and review of financial reports – half year	42,620	25,000
• Audit and review of financial reports – Year end	75,000	54,000
Total remuneration for audit services	**117,620**	**79,000**
2. Non- audit Services		
Taxation and Advisory services		
HLB Mann Judd:		
• Advisory services	6,250	12,500
• Taxation services	31,535	-
Total remuneration for non-audit services	**37,785**	**12,500**

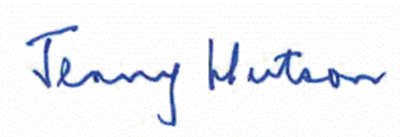
Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 21.

Auditor

HLB Mann Judd (SE Qld Partnership) continue in office in accordance with section 327 of the *Corporations Act 2001.*

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



Jennifer J Hutson
Chairperson
Brisbane,
27 February 2012

HLB Mann Judd

Accountants | Business and Financial Advisers

G8 Education Limited

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

I declare that, to the best of my knowledge and belief, during the year ended 31 December 2011 there have been:

(i) No contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) No contraventions of any applicable code of professional conduct in relation to the audit.

HLB Mann Judd.

HLB MANN JUDD

C J M King
Partner

Date: 23 February 2012
Brisbane, Queensland

HLB Mann Judd (SE Qld Partnership) ABN 68 920 406 716
Level 15, 66 Eagle Street, Brisbane QLD 4000 | GPO Box 5225 Brisbane QLD 4001
Telephone +61 (0)7 3001 8800 | Facsimile +61 (0)7 3221 0812 | Email: infobne@hlbqld.com.au | Website: www.hlb.com.au
Level 3, Corporate Centre One, 2 Corporate Court, Bundall QLD 4217 | PO Box 5714 Gold Coast Mail Centre QLD 9726
Telephone +61 (0)7 5574 0922 | Facsimile +61 (0)7 5574 0632 | Email: infogc@hlbqld.com.au

Corporate Governance Statement

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

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

Principle 1: Lay solid foundations for management and oversight

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

The responsibilities of the Board include:

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

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

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

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

The Group undertook performance evaluations for the management team and senior executives in November 2011.

Principle 2: Structure the board to add value

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

Board composition

The charter states:

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

The board seeks to ensure that:

- at any point in time, its membership represents an appropriate balance between directors with experience and knowledge of the group and directors with an external or fresh perspective; and
- the size of the board is conducive to effective discussion and efficient decision-making.

Board members

Details of the members of the Board, their experience, expertise, qualifications, term of office and independent status are set out in the directors' report under the heading ''Information on directors''. The Board consists of six directors, five of whom are non-executive and all five (J J Hutson, B H Bailison, A Kemp, S Forrester and M Reynolds) are considered independent under the principles set out below.

Directors' Independence

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

- not be a substantial shareholder of the Group or an officer of, or otherwise associated directly with, a substantial shareholder of the Group;
- within the last three years, not have been employed in an executive capacity by the Company or any other Group member, or been a director after ceasing to hold any such employment;
- within the last three years not have been a principal of a material professional adviser or a material consultant to the Company or any other Group member, or an employee materially associated with the service provided;
- not be a material supplier or customer of the Company or any other Group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- must have no material contractual relationship with the Company or a controlled entity other than as a director of the Group; and
- be free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the directors' ability to act in the best interests of the Company.

Materiality for these purposes is determined on both a quantitative and qualitative bases. An amount of over 5% of annual turnover of the Company or Group or 5% of the individual directors' net worth is considered material for these purposes.

Principle 2: Structure the board to add value (continued)

In addition, a transaction of any amount or a relationship is deemed material if knowledge of it may impact the shareholders' understanding of the directors performance.

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

Term of Office

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

Commitment

The Board held 11 Board meetings during the year.

The number of meetings of the Company's Board of directors and of each Board committee held during the year ended 31 December 2011, and the number of meetings attended by each director is disclosed on pages 12 – 13.

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

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

Conflict of interests

There was no conflict of interests during the year ended 31 December 2011.

Independent professional advice

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

Nominations and Remuneration

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

Board Performance Assessment

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

Principle 3: Promote ethical and responsible decision making

Code of Conduct

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

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

Trading in Company Securities

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

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

Diversity policy

The Company values diversity and recognises the benefits it can bring to the organisation's ability to achieve its goals. Accordingly the Company has developed a diversity policy, a copy of which can be found on the Company website. This policy outlines the Company's diversity objectives in relation to gender, age, cultural background and ethnicity. It includes requirements for the board to establish measurable objectives for achieving diversity, and for the board to assess annually both the objectives, and the Company's progress in achieving them.

In accordance with this policy and ASX corporate Governance Principles the board expects to set the measurable objectives during 2012.

Principle 4: Safeguard integrity in financial reporting

Audit Committee

The audit committee consists of the following non-executive directors:

- A Kemp (Chair)
- J Hutson
- B Bailison

Details of these directors' qualifications and attendance at audit committee meetings are set out in the directors' report on pages 12 – 13.

All members of the audit committee are financially literate and have an appropriate understanding of the industries in which the group operates.

The audit committee operates in accordance with a charter which is available on the company website. The main responsibilities of the committee are to:

Principle 4: Safeguard integrity in financial reporting (continued)

- review, assess and approve the annual full and concise reports, the half year financial report and all other financial information published by the company or released to the market
- assist the board in reviewing the effectiveness of the organisation's internal control environment covering:
  - effectiveness and efficiency of operations
  - reliability of financial reporting
  - compliance with applicable laws and regulations
- oversee the effective operation of the risk management framework
- recommend to the board the appointment, removal and remuneration of the external auditors, and review the terms of their engagement, the scope and quality of the audit and assess performance
- consider the independence and competence of the external auditor on an ongoing basis
- review and approve the level of non-audit services provided by the external auditors and ensure it does not adversely impact on auditor independence
- review and monitor related party transactions and assess their propriety
- report to the board on matters relevant to the committee's role and responsibilities.

In fulfilling its responsibilities, the audit committee:

- receives regular reports from management and the external auditors
- meets with external auditors at least twice a year, or more frequently if necessary
- reviews the processes the MD and CFO have in place to support their certifications to the board
- review any significant disagreements between the auditors and management, irrespective of whether they have been resolved.

The audit committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

External Auditors

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

An analysis of fees paid to the external auditors, including a break-down of fees for non-audit services, is provided in the directors' report and in note 26 to the financial statements. The external auditors provide an annual declaration of their independence to the audit committee in accordance with the requirements of the Corporations Acts.

The external auditor attends the annual general meeting to be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

Principle 5 and 6: Make timely and balanced disclosures and respect the rights of shareholders

Continuous disclosure and shareholder communication

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

The Company Secretary has been nominated as the person responsible for communications with the Australian Securities Exchange (ASX). This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing

Principle 5 and 6: Make timely and balanced disclosures and respect the rights of shareholders (continued)

Rules and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.

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

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

Principle 7: Recognise and manage risk

Risk assessment and management

The Board is responsible for satisfying itself annually, or more frequently as required, that management has developed and implemented a sound system of risk management and internal control. Detailed work on this task is delegated to the audit committee and reviewed by the full board.

The audit committee is responsible for ensuring there are adequate policies in relation to risk management, compliance and internal control systems. They monitor the Company's risk management by overseeing management's actions in the evaluation, management, monitoring and reporting of material operational, financial, compliance and strategic risks. In providing this oversight, the committee:

- reviews the framework and methodology for risk identification, the degree of risk the Company is willing to accept, the management of risk and the processes for auditing and evaluation the Company's risk management system
- reviews group wide objectives in the context of the abovementioned categories of corporate risk
- reviews and, where necessary, approves guidelines and policies governing the identification, assessment and management of the Company's exposure to risk
- reviews and approves the delegations of financial authorities and addresses any need to update these authorities on an annual basis, and
- review compliance with agreed policies.

The committee recommends any actions it deems appropriate to the board for its consideration.

Responsibility for Risk Management and Internal control is delegated to the appropriate level of management within the Group, with the MD and COO having ultimate responsibility to the Board for the risk management and internal control framework.

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

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

Corporate Reporting

In complying with recommendation 7.3, the Managing Director and COO have made the following certifications to the Board:

Principle 7: Recognise and manage risk (continued)

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

Principle 8: Remunerate fairly and responsibly

Remuneration

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

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

Further information on directors' and executives' remuneration, including principles used to determine remuneration, is set out in the directors' report under the heading ''Remuneration report'', which is disclosed on pages 12-16.

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

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

Adoption of ASX Corporate Governance Recommendations

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

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

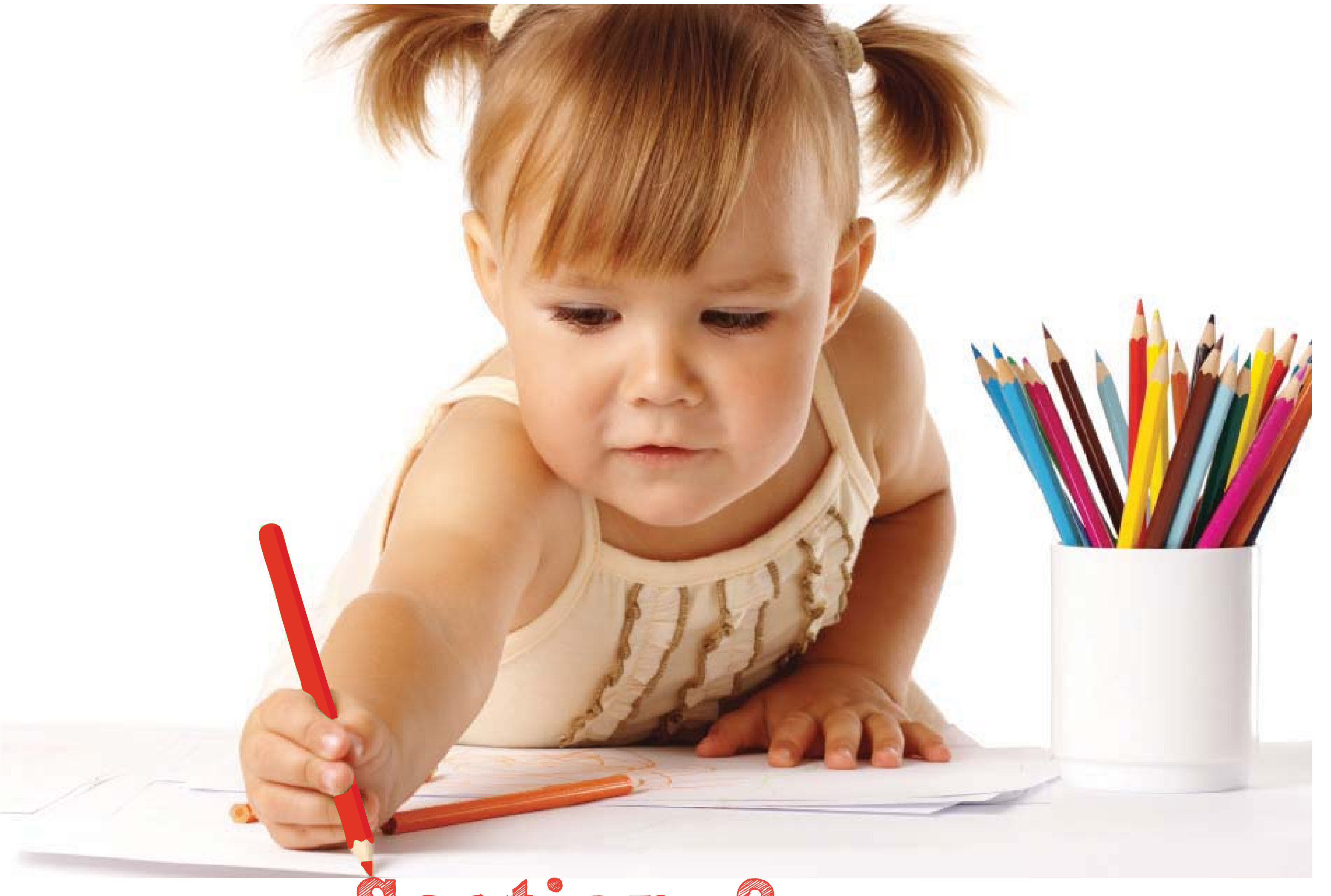
The Board does not have a Nomination or Remuneration Committee due to the small size of the Board.

Council Recommendation 3.2: Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them.

Council Recommendation 3.3: Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.

Council Recommendation 3.4: Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.

The Board has established a policy concerning diversity which is disclosed on the Company website www.g8education.com. The board did not set measurable objectives for achieving gender diversity but expects to set these during 2012. G8 Education Ltd currently has two women on the Board out of a total of six directors', and five women in the management team, out of a total of eight.



Section 2

Financial Report

Consolidated Income Statement

For the year ended 31 December 2011

	Notes	Consolidated 2011 $	Consolidated 2010 $
Revenue from continuing operations	5	137,949,541	66,392,288
Other Income	6	4,949,953	157,126
Expenses			
Employee benefits expense		(82,801,952)	(42,306,812)
Occupancy		(18,390,080)	(8,252,033)
Direct costs of providing services		(9,844,859)	(4,979,675)
Legal fees		(1,400,507)	(397,118)
Amortisation	7	(191,671)	(143,775)
Depreciation expense	7	(1,710,630)	(992,538)
Impairment	7	(586,718)	(425,206)
Insurance		(511,845)	(501,933)
Other expenses		(2,578,309)	(1,683,203)
Finance costs	7	(2,188,401)	(1,318,205)
Total expenses		(120,204,972)	(61,000,498)
Profit before income tax		22,694,522	5,548,916
Income tax expense	8	(5,444,171)	(2,068,592)
Profit for the year		**17,250,351**	**3,480,324**
		Cents	**Cents**
Basic earnings per share	36	9.27	3.20
Diluted earnings per share	36	9.27	3.20

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

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

		Consolidated	
		2011	2010
	Notes	$000	$000
Profit for the year		17,250,351	3,480,324
Other comprehensive income			
Exchange differences on translation of foreign operations	23	(785,079)	-
Total comprehensive income for the year		**16,465,272**	**3,480,324**

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

Consolidated Balance Sheet
As at 31 December 2011

	Notes	Consolidated 2011 $	Restated 2010 $
ASSETS			
Current assets			
Cash and cash equivalents	9	14,166,146	8,015,645
Trade and other receivables	10	8,109,984	1,785,269
Other current assets	11	14,614,694	23,764,923
Assets classified as held for sale	12	-	50,000
Total current assets		36,890,824	33,615,837
Non-current assets			
Receivables	13	-	1,000,385
Property plant and equipment	14	7,975,414	6,049,678
Deferred tax assets	15	1,882,801	1,352,439
Intangible assets	16	142,082,894	72,786,538
Total non-current assets		151,941,109	81,189,040
Total assets		**188,831,933**	**114,804,877**
LIABILITIES			
Current liabilities			
Trade and other payables	17	27,926,195	12,290,461
Borrowings	18	315,961	1,637,581
Employee Entitlements	19	4,367,387	2,175,473
Current tax liabilities		3,879,517	501,092
Total current liabilities		36,489,060	16,604,607
Non-current liabilities			
Borrowings	20	36,437,637	13,913,614
Provisions	21	741,145	443,572
Total non-current liabilities		37,178,782	14,357,186
Total liabilities		**73,667,842**	**30,961,793**
Net assets		**115,164,091**	**83,843,084**
EQUITY			
Contributed equity	22	117,829,441	95,461,544
Reserves	23	(785,079)	31,444
Accumulated losses	23	(1,880,271)	(11,649,904)
Total equity		**115,164,091**	**83,843,084**

The above Consolidated Balance Sheet should be read in conjunction with the accompanying notes.
Restated 2010 Balance Sheet is disclosed in detail in note 22(b) and note 38.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Notes	Contributed equity $	Reserves $	Accumulated losses $	Total $
Consolidated					
Balance 1 January 2010		**30,957,697**	**33,843**	**(12,225,441)**	**18,766,099**
Total comprehensive income for the year as reported in the 2010 financial statements		-	-	4,520,324	4,520,324
Retrospective Adjustment to Profit	22	-	-	(1,040,000)	(1,040,000)
Restated Total Comprehensive Income for the year		**-**	**-**	**3,480,324**	**3,480,324**
Transactions with owners in their capacity as owners					
Contributions of Equity, net of transaction cost as reported in the 2010 financial statements	22	47,020,639	-	-	47,020,639
Retrospective adjustment to Contributed Equity	22	17,476,854	-	-	17,476,854
Restated Contributions of Equity net of transaction costs		**64,497,493**	**-**	**-**	**64,497,493**
Dividends		-	-	(2,904,787)	(2,904,787)
Employee share options expense		-	3,955	-	3,955
Employee share options exercised		6,354	(6,354)	-	-
Balance 31 December 2010	22,23	**95,461,544**	**31,444**	**(11,649,904)**	**83,843,084**
Balance 1 January 2011		**95,461,544**	**31,444**	**(11,649,904)**	**83,843,084**
Profit for the year		-	-	17,250,351	17,250,351
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction cost		22,361,257	-	-	22,361,257
Dividends		-	-	(7,476,077)	(7,476,077)
Foreign currency translation movements		-	(785,079)	(4,641)	(789,720)
Employee share options expense		-	(24,804)	-	(24,804)
Employee share options exercised		6,640	(6,640)	-	-
Balance 31 December 2011	22,23	**117,829,441**	**(785,079)**	**(1,880,271)**	**115,164,091**

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	Notes	Consolidated 2011 $	Consolidated 2010 $
Cash flows from Operating Activities			
Receipts from customers (inclusive of goods and service tax)		134,603,005	64,803,437
Payments to suppliers and employees (inclusive of goods and service tax)		(118,789,656)	(56,519,106)
Interest received		543,781	357,620
Borrowing costs		(332,017)	(60,670)
Interest paid		(1,986,684)	(1,226,662)
Income taxes paid		(2,280,309)	-
Net cash in flows from operating activities	35	**11,758,120**	**7,354,619**
Cash flows from Investing Activities			
Payments for purchase of businesses (net of cash acquired)	11,30	(36,153,270)	(12,886,010)
Repayment of loans by related parties		108,333	195,395
Outflow of funds for term deposits		(1,889,458)	(1,090,540)
Payments for pre-acquisition costs		(6,612)	-
Proceeds from sale of property, plant and equipment		350,212	1,173,250
Payments for property plant & equipment		(2,249,138)	(912,799)
Net cash out flows from investing activities		**(39,839,933)**	**(13,520,704)**
Cash flows from Financing Activities			
Share issue costs		(1,048,625)	(1,003,913)
Dividends paid		(6,418,642)	(1,281,741)
Proceeds from issue of shares		18,956,639	17,934,968
Inflows from borrowings		21,588,960	-
Repayment of borrowings		(735,476)	(2,731,100)
Net cash inflows from financing activities		**32,342,856**	**12,918,214**
Net increase in cash and cash equivalents		**4,261,043**	**6,752,129**
Cash and cash equivalents at the beginning of the financial year		6,925,105	172,976
Cash and cash equivalents at the end of the financial year	9	**11,186,148**	**6,925,105**

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

INDEX TO NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report is for the consolidated entity consisting of G8 Education Limited and its subsidiaries.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards (AASB's), Australian Accounting Interpretation, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001.*

The company is a listed public company, incorporated in Australia and operating in Australia and Singapore. The entity's principal activities are operating childcare centres, contract management and ownership of franchised childcare centres.

The financial statements were authorised for issue on 27 February 2011.

Compliance with IFRS

Compliance with AASB's ensures that the financial report of G8 Education Limited and the Group complies with International Financial Reporting Standards (IFRS).

Historical cost convention

These financial statements have been prepared under the historical cost convention as modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and liabilities.

Critical accounting estimates

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

(b) Principles of consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of G8 Education Limited ("Company" or "parent entity") as at 31 December 2011 and the results of all subsidiaries for the year then ended. G8 Education Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries (as stated in note 32) are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

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

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

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(c) Segment reporting

Operating segments are reported in a manner that is consistent with the internal reporting provided to the Chief Operating Decision Maker. The Chief Operating Decision Maker has been identified as the Board of Directors that makes strategic decisions.

(d) Seasonality

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

(e) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is G8 Education Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in income statement, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the income statement, within finance costs. All other foreign exchange gains and losses are presented in the income statement on a net basis within other income or other expenses.

Non-monetary items are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets are liabilities such as equities held at fair value through profit or loss are recognized in other comprehensive income.

(iii) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet.
- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximations of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income.

When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange difference is reclassified to profit or loss, as part of the gain or loss on sale where applicable.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities or the foreign operation and translated at the closing rate.

(f) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of discounts, refunds, rebates and amounts collected on behalf of third parties.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that the future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the service provided have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each.

Revenue is recognised for the major business activities as follows:

a) Child care fees

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

b) Management fees

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

c) Government Funding/Grants

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

d) Deferred income

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

e) Interest income

Interest income is recognised using the effective interest method.

(g) Income Tax

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

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax base of investments in controlled entities where the group is able to control the timing of the reversal of the temporary difference and it is probable that the differences will not reverse in the foreseeable future.

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

Current and deferred tax is recognised in profit and loss, expect to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Tax consolidation legislation

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

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

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

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

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

(h) Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the statements of comprehensive income over the lease year so as to produce a constant periodic rate of interest on the remaining balance of the liability for each year. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statements of comprehensive income on a straight-line basis over the year of the lease.

(i) Business combinations

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (refer note 1 (p)). If the cost of acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the Income Statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in the income statement.

(j) Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The value in use is calculated based on the discounted cash flows of the childcare centres over the lease period including a terminal value calculation, which is assessed on a segment level.

Goodwill must be assessed for impairment at the lowest level at which management monitors goodwill, however the level cannot be higher than the operating segment level. The group operates two operating segments and management monitors goodwill at each of these two levels. Therefore goodwill is tested for impairment at each of the two levels of operating segments.

(k) Cash and cash equivalents

For statement of cash flows presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Trade receivables

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

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

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

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

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

(m) Non-current assets (or disposal Groups) held for sale

Non-current assets (or disposal Groups) are classified as held for sale and stated at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

An impairment loss is recognised for any initial or subsequent write down of the asset (or disposal Group) to fair value less costs to sell.

Non-current assets (including those that are part of a disposal Group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal Group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal Group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal Group classified as held for sale are presented separately from other liabilities in the balance sheet.

(n) Investments and other financial assets

Classification

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting period which are classified as non-current assets. Loans and receivables are included in trade and other receivables (note 10) in the balance sheet.

(ii) Held-to-maturity investments

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

(iii) Available-for-sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

Recognition and de-recognition

Regular purchases and sales of financial assets are recognised on trade date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss, are initially recognised at fair value and transaction costs are expensed in the statements of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in equity are included in the Statements of Comprehensive Income as gains and losses from investment securities.

Measurement

At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through the profit or loss are expensed in the profit or loss.

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

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

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of Financial Assets

The Group assesses at each reporting date whether there is objective evidence that a financial asset or Group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the statements of comprehensive income. Increases in the value of available for sale investments are taken to Other Comprehensive Income.

(o) Property, plant and equipment

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

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

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

Buildings	40 years
Vehicles	3- 5 years
Furniture, fittings and equipment	2 – 15 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

(p) Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised. Instead, goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or group of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segments (note 4).

(q) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the year which are unpaid. The amounts are unsecured and are usually paid within 30 – 45 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Borrowings and borrowing costs

Borrowings are initially recognised at fair value, net of transaction cost incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the statements of comprehensive income over the year of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities, which are not an incremental cost relating to the actual draw-down of the facility, are capitalised as a prepayment for borrowing services and amortised on a straight-line basis over the term of the facility.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in impairment of intangible assets.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance date.

(s) Provisions

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

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

(t) Employee benefits

(i) Short term obligations

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave and accumulating sick leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

(ii) Other long-term employee benefit obligations

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and years of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Share-based payments

Share-based compensation benefits are provided to key management personnel. Information relating to this is set out in note 25.

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

The company may issues loans to key management personal to acquire shares in the company as part of the remuneration and retention planning of key management personal. If the market value of the shares on issue date is higher than the value of the shares prescribed in the loan agreement then the difference is expensed to the income statement and corresponding increase in equity.

(iv) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or to providing termination benefits as a result of an offer made to encourage voluntary redundancy.

(u) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(v) Dividends

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

(w) Earnings per share

(i) *Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) *Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(x) Goods and Services Tax (GST)

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(y) New accounting standards and interpretations

In the year ended 31 December 2011, the Group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for the current annual reporting period.

It has been determined by the Group that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Group accounting policies.

The Group has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the year ended 31 December 2011. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change necessary to Group accounting policies.

NOTE 2: FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: interest rate risk, credit risk, foreign exchange risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, and other risks, ageing analysis for credit risk.

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

(a) Interest Rate Risk

Cash flow and fair value interest rate risk

The Group's main interest rate risk arises from borrowings. Borrowings issued at variables rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates do not expose the Group to fair value interest rate risk as the interest rate is fixed.

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

	31 December 2011		**31 December 2010**	
	Weighted average interest rate %	**Balance $**	**Weighted average interest rate %**	**Balance $**
Bank Loan	5.12	36,437,637	5.16	5,868,821
Net exposure to cash flow interest rate risk		**36,437,637**		**5,868,821**

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

NOTE 2: FINANCIAL RISK MANAGEMENT (CONTINUED)

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

Group sensitivity

At 31 December 2011, if interest rates had changed by -/+ 1 % absolute from the year end rates with all other variables held constant, post-tax profit for the year would have been $209,182 higher or $208,865 lower respectively (net profit for 2010:$41,764 or $37,178 respectively).

Summarised sensitivity analysis

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

		Interest rate risk			
		-1%		+1%	
31 December 2011	**Carrying amount $**	**Profit S**	**Equity $**	**Profit $**	**Equity $**
Financial Liabilities					
Bank Loan	36,437,637	209,182	209,182	(208,865)	(208,865)
Total increase /(decrease)		209,182	209,182	(208,865)	(208,865)
31 December 2010					
Financial Liabilities					
Bank Loan	15,368,821	41,764	41,764	(37,178)	(37,178)
Total increase /(decrease)		41,764	41,764	(37,178)	(37,178)

(b) Credit risk

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

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

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

NOTE 2: FINANCIAL RISK MANAGEMENT (CONTINUED)

	Consolidated	
	2011	**2010**
	$	**$**
Trade receivables		
Counterparties with external credit rating		
AAA	1,279,034	850,623
Counterparties without external credit rating		
Receivables (current and non-current)	6,830,950	1,935,032
Total receivables	**8,109,984**	**2,785,655**
Cash at bank and short term deposits		
Counterparties with external credit rating		
AA	14,166,146	8,015,645

(c) Liquidity risk

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

Financing arrangements

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

Maturities of financial liabilities

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

	Consolidated 2011 $			
	0 to 6 months	**6 to 12 months**	**Greater than 12 months**	**Carrying Amount**
Bank Loan	-	-	36,437,637	36,437,637
Other loans	211,677	74,833	-	286,510
Equipment loans	10,480	18,971	-	29,451
Deferred Centre Acquisition	11,940,000	3,311,000	-	15,251,000
Trade and Other Payables	11,499,455	1,175,740	-	12,675,195

Included in the above figure disclosed for deferred centre acquisitions is a liability of $11.94m for Kindy Patch to be settled by the issue of shares valued at $0.995, being the value of the company's shares at the date control was gained. These shares will be issued in February 2012 as the Kindy Patch group exceeded the earnout target.

The bank loan is a revolving bill which rolls on a monthly basis and is next due on 20 January 2013. The bill facility has an expiry of 31 March 2014. Debt covenants are in place over this facility which were met as at 31 December 2011, and are forecast to be met throughout 2012.

NOTE 2: FINANCIAL RISK MANAGEMENT (CONTINUED)

	Consolidated 2010 $			
	0 to 6 months	6 to 12 months	Greater than 12 months	Carrying Amount
Bank Loan	507,691	1,007,692	13,884,163	15,399,546
Interest rate cap	49,626	49,626	-	99,252
Hire Purchase	46,645	-	-	46,645
Other loans	28,182	28,183	-	56,365
Equipment loans	9,594	9,594	29,451	48,639
Deferred Centre acquisition	4,369,595	98,050	-	4,467,645
Trade and Other Payables	7,209,091	613,725	-	7,822,816

NOTE 3: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Critical accounting estimates and assumptions

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

(i) *Estimated impairment of goodwill*

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

(ii) Deferred contingent consideration on acquisition of business

The group includes the fair value of deferred contingent consideration as a liability for the acquisition of a business where it expects the earnout target to be met during the measurement period. This judgement is based on operational due diligence and knowledge of the business trading conditions including location, occupancy and profitability at the time of settlement.

(iii) Contingent liability

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

   The plaintiff is seeking an order that the Company perform the contracts of \$3.9m, being the price of the two leasehold childcare centres which the Group had contracted to purchase. The case was heard in April 2009 and judgement has been reserved. It is not known when the decision will be handed down.

b. Singapore – The Group is a defendant in proceedings before the High Court of Singapore in regards to the completion of the Business Acquisition Contract. The assignment of the franchise centres are not in dispute by either party and the Group has been receiving the royalty fees from these centres.

NOTE 4: SEGMENT INFORMATION

(a) Description of segments

Management has determined the operating segments based on the reports reviewed by the board of directors that are used to make strategic decisions.

The board of directors consider the business from a geographic perspective and has identified two reportable segments;

a. Operation of child care centres, both owned and managed, within Australia; and

b. Operation of child care centres, both owned and franchised, within Singapore.

Although the Singapore segment does not meet the quantitative threshold required by AASB 8, the Directors have concluded that this segment should be reported, as it is closely monitored as a potential growth segment, and is expected to materially contribute to the future group revenue.

(b) Segment information provided to the board of directors

The segment information provided to the board of directors for the reportable segments for the year ended 31 December 2011 is as follows:

		Operations of Childcare	
2011	**Australia**	**Singapore**	**Total**
Total segment revenue	139,023,066	3,876,428	142,899,494
Revenue from external customers	**139,023,066**	**3,876,428**	**142,899,494**
Adjusted EBITDA	**21,828,299**	**1,746,326**	**23,574,625**
Depreciation and amortisation	(1,884,874)	(17,427)	(1,902,301)
Goodwill impairment	(586,718)	-	(586,718)
Income Tax Expense	(5,346,318)	(97,853)	(5,444,171)
Total Segment Assets	**170,444,582**	**18,387,351**	**188,831,933**
Total Segment Liabilities	**72,924,496**	**743,346**	**73,667,842**

		Operations of Childcare	
2010	**Australia**	**Singapore**	**Total**
Total segment revenue	66,549,414	-	66,549,414
Revenue from external customers	**66,549,414**	**-**	**66,549,414**
Adjusted EBITDA	**9,311,514**	**-**	**9,311,514**
Depreciation and amortisation	(1,136,313)	-	(1,136,313)
Goodwill impairment	(425,206)	-	(425,206)
Income Tax Expense	(2,068,592)	-	(2,068,592)
Total Segment Assets	**114,804,877**	**-**	**114,804,877**
Total Segment Liabilities	**30,961,793**	**-**	**30,961,793**

The board of directors assess the performance of the operating segments based on a measure of adjusted EBITDA. This measure basis excludes the effects of non-recurring expenditure from the operating segments such as loss on sale of non-current assets, legal expenses and goodwill impairments when the impairment is the result of an isolated, non-recurring event. Furthermore, the measure excludes the effects of equity-settled share based payments.

NOTE 4: SEGMENT INFORMATION (CONTINUED)

A reconciliation of adjusted EBITDA to profit before income tax is provided as follows:

	2011	2010
Adjusted EBITDA	23,574,625	9,311,514
Finance costs	(2,188,401)	(1,318,205)
Depreciation and amortisation expense	(1,902,301)	(1,136,313)
Deferred consideration not payable recognised as income	4,298,816	-
Legal expenses	(1,152,636)	-
Share based payment expense for share loan issued to key management personal	-	(1,040,000)
Gain on disposal of assets	651,137	157,126
Impairment expense	(586,718)	(425,206)
Profit before income tax from continuing operations	22,694,522	5,548,916

The amounts provided to the board of directors with respect to total assets and liabilities are measured in a manner consistent with that of the financial statements. These assets and liabilities are allocated based on the operations of the segment and the physical location of the assets.

NOTE 5: REVENUE

	Consolidated	
	2011 $	2010 $
From continuing operations		
Sales revenue		
Revenue from childcare centres	134,156,609	65,249,234
Other revenue		
Management fees & royalties	1,890,772	751,328
Interest *	1,902,160	391,726
Total revenue from operations	**137,949,541**	**66,392,288**

*Includes interest earned from loans as disclosed in note 25.

NOTE 6: OTHER INCOME

		Consolidated	
		2011 $	2010 $
Net gain on disposal of assets		651,137	157,126
Headstart deferred consideration not payable	(a)	4,298,816	-
		4,949,953	**157,126**

(a) Headstart deferred consideration not payable

The Headstart earnout payment is not payable due to the centres not achieving the earnout EBIT for the earnout period. As a result, in accordance with AASB 3, the earnout amount which was disclosed as a liability in deferred consideration has been written back to the Consolidated Income Statement.

NOTE 7: EXPENSES

	Consolidated 2011 $	2010 $
Profit before income tax includes the following specific expenses:		
Depreciation		
Buildings	37,500	37,500
Vehicles	142,976	109,316
Furniture, fittings and equipment	1,530,154	845,722
Total Depreciation	1,710,630	992,538
Finance Costs		
Interest and finance charges paid/payable	2,188,401	1,318,205
Rental expenses relating to operating leases		
Minimum lease payments	16,599,491	7,314,917
Amortisation		
Borrowing costs	191,671	143,775
Impairment		
Intangible assets and Plant and Equipment	586,718	425,206
Total Impairment expense	586,718	425,206
Bad & doubtful debts	130,561	250,111

The impairment expense relates to the loss on the sale of Capalaba of $532,329, $21,410 on Little Pearlers and total of $32,979 relating to disposal of assets including assets in the Emerald World of Learning centre that were not recoverable as a result of flooding.

NOTE 8: INCOME TAX EXPENSE

	Consolidated 2011 $	Consolidated 2010 $
(a) Income tax expense		
Current tax	5,659,946	554,818
Deferred tax	(215,775)	1,513,774
Income tax expense	5,444,171	2,068,592
Income tax expense is attributable to:		
Profit from continuing operations	5,444,171	2,068,592
	5,444,171	**2,068,592**
Deferred income tax expense included in income tax expense comprises:		
(Increase) decrease in deferred tax assets (refer note 15)	(215,775)	1,513,774
	(215,775)	1,513,774
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit from continuing operations before income tax expense	22,694,522	5,548,916
Tax on Australian operations at the Australian tax rate of 30% (2010:30%)	6,635,677	1,664,674
Tax on Singapore operations at the Singapore tax rate of 17%	97,853	-
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Entertainment	27,082	9,299
Other	355	2,194
Net gain on disposals	(195,341)	(47,138)
Impairment	176,015	127,563
Share based payment reserve adjustment	(7,825)	312,000
Headstart deferred consideration not payable	(1,289,645)	-
Income tax expense	**5,444,171**	**2,068,592**

(c) Amounts recognised directly in equity

Aggregate current and deferred tax arising in the reporting year and not recognised in net profit or loss but directly debited or credited to equity

	2011 $	2010 $
Net deferred tax – debited (credited) directly to equity	314,587	301,174

NOTE 9: CURRENT ASSETS – CASH AND CASH EQUIVALENTS

	Consolidated 2011 $	Consolidated 2010 $
Cash at bank and in hand	5,022,889	3,038,165
Deposits at call*	9,143,257	4,977,480
	14,166,146	**8,015,645**

**The effective average interest rate for the deposits at call was 4.38%. Included in above is $2,979,998 used as security against the company's bank guarantee facility (2010 –$1,090,540) as such this cash balance cannot currently be used for operating expenses.*

(a) Reconciliation to cash at the end of the year

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

	Consolidated 2011 $	Consolidated 2010 $
Balance as per above	14,166,146	8,015,645
Less: Term Deposits held as security against bank guarantees	(2,979,998)	(1,090,540)
Balance as per Statement of Cash Flows	**11,186,148**	**6,925,105**

Interest rate risk exposure

The Group's exposure to interest rate risk is discussed in note 2.

NOTE 10: CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

	Consolidated 2011 $	Consolidated 2010 $
Trade and other receivables		
Trade receivables	5,611,671	1,521,179
Allowance for impairment of receivables (note (a) below)	(25,205)	(71,418)
	5,586,466	1,449,761
GST Receivable	261,219	190,464
Other debtors	1,423,886	145,044
Related party debtors*	838,413	-
Total trade and other receivables	**8,109,984**	**1,785,269**

***** See note 29 (d).

(a) Impaired trade receivables

As at 31 December 2011 current trade receivables of the group with a nominal value of $50,409 (2010 - $142,836) were impaired. The amount of the allowance for impairment was $25,205 (2010 - $71,418). It was assessed that a portion of the receivables is expected to be recovered.

NOTE 10: CURRENT ASSETS – TRADE AND OTHER RECEIVABLES (C0NTINUED)

The ageing of these receivables is as follows:

	Consolidated 2011 $	2010 $
Up to 3 months	50,409	142,836
	50,409	142,836

The Group has recognised a loss of $130,561 in respect of impaired trade receivables during the year ended 31 December 2011 (2010 - $250,111). The loss has been included in 'other expenses' in the Consolidated Income Statement.

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

	Consolidated 2011 $	2010 $
Opening balance	71,418	15,139
Allowance for impairment recognised during the year	130,561	250,111
Receivables written off during the year as uncollectable	(176,774)	(193,832)
Closing balance	25,205	71,418

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

(b) Past due but not impaired

As of 31 December 2011, trade receivables of $3,071,632 (2010 - $861,019) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	Consolidated 2011 $	2010 $
Up to 3 months	2,696,393	860,813
3 to 6 months	43,376	-
Over 6 months	331,863	206
	3,071,632	861,019

The amount past due but not impaired in 2011 is greater than that of 2010 due to the increased number of centres in the group at year end compared to the prior year. The balance above included in over 6 months category solely relates to funds due to G8 Education Limited from Cherie Hearts Group International. This receivable forms part of the court case between G8 Education Ltd & CHGI as disclosed in note 27.

(c) Fair value and credit risk

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

Information concerning the credit risk of receivables is set out in note 2.

NOTE 11: CURRENT ASSETS – OTHER

	Consolidated		
	2011 $	2010 $	2009 $
Other current assets			
Prepayments	1,924,173	1,169,339	931,599
Deposits	574,306	190,104	5,910
Deposits on acquisitions	12,116,215	22,405,480	-
Total other current assets	**14,614,694**	**23,764,923**	**937,509**

(a) Deposits on acquisitions – Cherie Hearts

As announced on 28 October 2010 the Company has entered into a contract to purchase the assets of Cherie Hearts International Group *("CHGI").* The total purchase price is $19.23 million. The transaction will be fully funded from cash reserves. As at 31 December 2011, $12,031,215 has been paid and is accounted for as a deposit.

The acquisition of the assets of CHGI is currently in dispute. The case has been heard by the High Court in Singapore with final submissions completed in December 2011. The Group is the defendant in the matter (refer to Note 27)

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

	Consolidated	
	2011 $	2010 $
Current assets classified as held for sale		
Assets held for sale	-	393,189
Less accumulated depreciation	-	(30,315)
Less allowance for impairment	-	(312,874)
Total Assets classified as held for sale	**-**	**50,000**

NOTE 13: NON-CURRENT ASSETS – RECEIVABLES

	Consolidated	
	2011 $	2010 $
Loans to key management personnel	-	900,385
Other receivables	-	100,000
	-	**1,000,385**

Further information relating to loans to key management personnel is set out in note 25.

(a) Impaired receivables and receivables past due

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

NOTE 13: NON-CURRENT ASSETS – RECEIVEABLES (CONTINUED)

(b) Fair values

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

	2011		2010	
	Carrying amount $	Fair value $	Carrying amount $	Fair value $
Loans to nominees of management personnel	-	-	900,385	900,385
Other receivables	-	-	100,000	100,000
	-	**-**	**1,000,385**	**1,000,385**

(c) Risk exposure

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

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

Consolidated	**Buildings** $	**Vehicles** $	**Furniture, fittings and equipment** $	**Total** $
Year ended 31 December 2011				
Opening net book amount	1,385,739	339,784	4,324,155	6,049,678
Additions through business combinations	-	33,797	1,507,167	1,540,964
Additions - other	-	85,559	2,137,481	2,223,040
Disposals	-	(32,209)	(95,429)	(127,638)
Depreciation charge	(37,500)	(142,976)	(1,530,154)	(1,710,630)
Closing net book amount	1,348,239	283,955	6,343,220	7,975,414
At 31 December 2011				
Cost	1,500,001	631,269	9,752,200	11,883,470
Accumulated depreciation	(151,762)	(347,314)	(3,408,980)	(3,908,056)
Net Book amount	1,348,239	283,955	6,343,220	7,975,414

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

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

(a) Leasehold Improvements

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

	Consolidated 2011	Consolidated 2010
	$	$
Cost	3,903,251	3,109,607
Accumulated depreciation	(1,094,943)	(626,548)
Net book amount	2,808,308	2,483,059

(b) Leased assets

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

	Consolidated 2011	Consolidated 2010
	$	$
Cost	217,969	217,959
Accumulated depreciation	(117,963)	(69,081)
Net book amount	100,006	148,878

(c) Non-current assets pledged as security

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

NOTE 15: NON-CURRENT ASSETS – DEFERRED TAX ASSETS

Deferred Tax Asset	Consolidated 2011 $	Consolidated 2010 $
The balance comprises temporary differences attributable to:		
Employee benefits	1,504,104	785,713
IPO/share issue transaction costs	626,081	663,964
	2,130,185	1,449,677
Other		
Doubtful debts	7,561	21,426
Accrued expenses	162,326	93,239
Sub total other	169,887	114,665
Total deferred tax assets	2,300,072	1,564,342
Deferred tax assets to be recovered within 12 months	1,570,655	962,390
Deferred tax assets to be recovered after more than 12 months	729,417	601,952
	2,300,072	1,564,342
Deferred Tax Liability		
Prepayments	(417,271)	(211,903)
Total deferred tax liability	(417,271)	(211,903)
Net Deferred Tax Asset	**1,882,801**	**1,352,439**

Movements – Consolidated

	Tax Losses $	Employee benefits $	IPO Transaction Costs $	Other $	Total $
At 1 January 2010	1,274,076	221,227	653,685	4,448	2,153,436
Tax losses acquired in business combination	411,603	-	-	-	411,603
Charged to the Consolidated Income Statement	(1,685,679)	564,486	(290,895)	(101,686)	(1,513,774)
Charged directly to equity	-	-	301,174	-	301,174
At 31 December 2010	**-**	**785,713**	**663,964**	**(97,238)**	**1,352,439**
Charged to the Consolidated Income Statement	-	718,391	(352,471)	(150,145)	215,775
Charged directly to share issue costs associated with contributed equity	-	-	314,587	-	314,587
At 31 December 2011	**-**	**1,504,104**	**626,080**	**(247,383)**	**1,882,801**

NOTE 16: NON-CURRENT ASSETS – INTANGIBLE ASSETS

Consolidated	Goodwill 2011 $	Goodwill 2010 $	Goodwill 2009 $
Year ended 31 December			
Opening net book amount	72,786,538	30,347,611	30,289,611
Additions	70,094,169	42,915,274	-
Adjustment in respect of prior year acquisition	-	-	58,000
Disposals	(211,095)	(51,141)	-
Impairment charge	(586,718)	(425,206)	-
Closing net book amount	142,082,894	72,786,538	30,347,611
At 31 December			
Cost	153,134,818	83,251,744	40,387,611
Accumulated impairment	(11,051,924)	(10,465,206)	(10,040,000)
Net Book amount	142,082,894	72,786,538	30,347,611

The Goodwill cost and addition figure shown in the 2010 column above differs from the 2010 lodged annual report due to fair value retrospective adjustments of the value of the shares issued as consideration for numerous acquisitions as disclosed in detail in note 22.

(a) Impairment tests for goodwill

Goodwill is tested for impairment on an operating segment level as outlined in note 1(j). The recoverable amount of the childcare centre assets in the segment is determined based on value-in-use calculations. These calculations use cash flow projections based on financial forecasts for 2012 and then extrapolated using estimated growth rates. The growth rate does not exceed the long-term average growth rate for the business in which the segment operates.

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

The value in use calculation is based on forecast EBITDA which is a function of occupancy, child care fees and centre expenses. The average long day care occupancy for the portfolio of centres is forecast at 80% for 2011 (79% in 2010). Child care fees are based on current market price plus forecast annual increases. Centre expenses include the following key items:

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

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

The impairment model has the following key attributes;

- Centre EBITDA growth of 4% until the end of lease and option years;
- Pre-tax discount rate of 12%;
- Full head office costs allocated to each cash generating unit based on centre licence capacity to the consolidated Group;
- Assumed additional expenditure of $15,000 per centre per annum to maintain assets in their current state; and
- Terminal growth calculation with a growth rate of 2% and a reduction in Terminal Value of 60%.

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

(c) Impairment charge

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

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

Sensitivity Analysis on Impairment calculations as at 31 December	Profit Impact 2011 $'000	Profit Impact 2010 $'000
Movement in WACC (+ 1%)	-	-
Movement in WACC (-1%)	-	-
Movement in EBITDA (+ 5%)	-	-
Movement in EBITDA (- 5%)	-	-

NOTE 17: CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	Consolidated	
	2011 $	2010 $
Trade payables	2,230,444	1,669,691
Deferred Centre Acquisitions	15,251,000	4,467,645
Dividends Payable	1,874,185	1,623,045
Centre Enrolment Advances	2,351,479	1,227,450
Other payables and accruals	3,693,832	1,792,196
Deferred income	2,525,255	1,510,434
	27,926,195	12,290,461

The balance shown above for deferred centre acquisitions includes 12 million shares due to be issued to the vendors of Kindy Patch as part of the earnout acquisition payment. The Kindy Patch group exceeded the earnout EBIT and as such the full amount of shares will be issued. The shares are valued in current liabilities above at $11.94 million which represents the fair value of the shares at date of control in accordance with AASB3.

NOTE 18: CURRENT LIABILITIES – BORROWINGS

	Consolidated 2011 $	Consolidated 2010 $
Secured		
Bank Loan	15,342	1,515,383
Equipment Loans	29,451	19,188
Hire Purchase	-	46,645
Other loans	271,168	56,365
Total current borrowings	315,961	1,637,581

(a) Interest rate risk exposures

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

(b) Fair value disclosures

Details of the fair value of borrowings for the Group are set out in note 20(f).

NOTE 19: EMPLOYEE ENTITLEMENTS

	Consolidated 2011 $	Consolidated 2010 $
Employee benefits	4,367,387	2,175,473
	4,367,387	2,175,473

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

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

	Consolidated 2011 $	Consolidated 2010 $
Leave obligations expected to be settled after 12 months	436,739	217,547
	436,739	217,547

NOTE 20: NON-CURRENT LIABILITIES – BORROWINGS

	Consolidated	
	2011	2010
	$	$
Secured		
Bank Loan	36,437,637	13,884,163
Equipment Loans	-	29,451
Total secured non-current borrowings	36,437,637	13,913,614
Total non-current borrowings	36,437,637	13,913,614

(a) Bills payable

Bills have been drawn as a source of financing on a needs basis. They are due to roll on the 20 January 2012 and bear variable interest. The Bill facility is revolving bill facility expiring on 31 March 2014.

(b) Total secured liabilities

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

	Consolidated	
	2011	2010
	$	$
Bank Loan	36,452,979	15,399,546
Equipment	29,451	48,639
Hire Purchase	-	46,645
Other Loans	271,168	56,365
Total secured liabilities	36,753,598	15,551,195

(c) Assets pledged as security

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

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

NOTE 20: NON-CURRENT LIABILITIES – BORROWINGS (CONTINUED)

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

	Notes	Consolidated 2011 $	Consolidated 2010 $
Current			
First Mortgage			
Current assets classified as held for sale	12	-	50,000
Floating Charge			
Cash and cash equivalents	9	14,166,146	8,015,645
Trade and other receivables	10	8,109,984	1,785,269
Other current assets	11	14,614,694	23,764,923
Total current assets pledged as security		36,890,824	33,615,837
Non-current			
First Mortgage			
Buildings	14	1,348,239	1,385,739
Floating charge			
Vehicles, plant and equipment	14	6,627,175	4,663,939
Total non-current assets pledged as security		7,975,414	6,049,678
Total assets pledged as security		44,866,238	39,665,515

(d) Financing arrangements

As at 31 December 2011 the following lines of credit were in place:

	Consolidated 2011 $	Consolidated 2010 $
Credit standby arrangements		
Total facilities		
Bank overdrafts	-	1,000,000
Credit cards	170,000	170,000
Asset Finance-Leasing	200,000	200,000
	370,000	1,370,000
Used at balance date		
Bank overdrafts	-	-
Credit cards	91,401	65,488
Asset Finance-Leasing	44,153	181,784
	135,554	247,272

NOTE 20: NON-CURRENT LIABILITIES – BORROWINGS (CONTINUED)

	Consolidated 2011 $	Consolidated 2010 $
Unused at balance date		
Bank overdrafts	-	1,000,000
Credit cards	78,599	104,512
Asset Finance-Leasing	155,847	18,216
	234,446	1,122,728
Bank loan facilities		
Total facilities	50,000,000	15,430,000
Used at balance date	(36,680,000)	(15,430,000)
Unused at balance date	13,320,000	-
Bank Guarantee facilities		
Total Facilities	5,700,000	2,300,000
Used at Balance date	(4,976,136)	(1,829,444)
Unused at balance date	723,864	470,556

(e) Interest rate risk exposure

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

(f) Fair value

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

	2011 Carrying amount $	2011 Fair value $	2010 Carrying amount $	2010 Fair value $
Non-traded financial liabilities				
Bank Loan	36,452,979	36,452,979	15,399,546	15,399,546
Equipment Loans	29,451	29,451	48,639	48,639
Hire Purchase	-	-	46,645	46,645
Other loans	271,168	271,168	56,365	56,365
	36,753,598	36,753,598	15,551,195	15,551,195

NOTE 21: NON-CURRENT LIABILITIES – PROVISIONS

	Consolidated 2011 $	Consolidated 2010 $
Employee benefits	741,145	443,572
	741,145	443,572

NOTE 22: CONTRIBUTED EQUITY

	Consolidated		Consolidated	
	2011 Shares	2010 Shares	2011 $	2010 $
(a) Share capital				
Ordinary shares Fully paid	187,418,479	162,304,537	117,829,441	95,461,544

(b) Movements in ordinary share capital

Date	Details		Number of shares	$
31 December 2009	Balance		44,000,000	30,957,697
Transactions as reported in the 2010 Financial Statements				
	Shares issued to vendors during the year		91,674,149	30,953,411
	Exercise of options by C Sacre during the year		500,000	100,000
	Issue to nominees of C Scott & C Chapman		4,000,000	1,400,000
	Share Placement to institutions and professional investors		18,938,622	13,067,649
	Share Purchase Plan		3,191,766	2,202,318
	Less: Transaction costs of shares issued		-	(702,739)
	Plus: Transfer of option reserve for options exercised in 2010		-	6,354
31 December 2010	**Balance as reported in the 2010 Financial Statements**		**162,304,537**	**77,984,690**
	Fair Value adjustment on Issue to vendors	**	-	16,436,854
	Fair Value adjustment on Issue to nominees of C Scott & C Chapman	##	-	1,040,000
31 December 2010	**Restated balance as at 31 December 2010**		**162,304,537**	**95,461,544**
	Shares issued to vendors during the year		2,850,000	3,339,000
	Exercise of options by C Sacre during the year		250,000	50,000
	Share Placement to institutions and professional investors		21,000,000	18,900,000
	Dividend Reinvestment Plan		1,013,942	806,294
	Less: Transaction costs of shares issued		-	(734,037)
	Plus: Transfer of option reserve for options exercised in 2011		-	6,640
31 December 2011	**Balance**		**187,418,479**	**117,829,441**

Retrospective Restatement

*** The fair value adjustments listed above in 2010 relate to the difference between the contract price of the shares issued to vendors compared to the market price on the date of issue. The difference between these two values has been accounted for by increasing equity, intangibles and deposits on acquisitions as at 31 December 2010. The impact of the 2010 adjustments disclosed above was to increase goodwill by $13,325,854 and an increase to deposits on acquisitions of $3,111,000 and an increase to equity of $16,436,854.*

NOTE 22: CONTRIBUTED EQUITY (CONTINUED)

The fair value adjustment for the issue of shares to nominees of Mr C Scott and Mr C Chapman relates to the difference between the loan value of the shares issued compared to the market price on the date of issue. The difference between these two values has been treated as a share based payment and accounted for by increasing employment expenses for the year ended 31 December 2010 and equity as at 31 December 2010. The impact of the 2010 adjustment disclosed above was to increase employee expenses by $1,040,000 and a corresponding increase to equity. The prior year adjustment disclosed above has the impact of reducing earnings per share by $0.0096.

(c) Ordinary shares

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

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

Ordinary shares have no par value and the company does not have a limited amount of authorised capital.

(d) Options

Information relating to the G8 Education Limited options issued, exercised and lapsed during the year and options outstanding at the end of the financial year are as disclosed in note 25. There were no new options granted during 2011.

(e) Dividend reinvestment plan

The company has established a dividend reinvestment plan under which holders of ordinary shares may elect to have all or part of their dividend entitlements satisfied by the issue of new ordinary shares rather than by being paid in cash. Shares are issued under the plan and the company will advise the market at the time of announcing the dividend if there will be a discount applied to the market price.

(f) Capital risk management

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

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

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

NOTE 22: CONTRIBUTED EQUITY (CONTINUED)

The gearing ratios at 31 December 2011 were as follows:

	Notes	Consolidated 2011 $	Consolidated 2010 $
Total borrowings	17,18, 20	68,559,310	28,342,748
Less: cash and cash equivalents	9	(14,166,146)	(8,015,645)
Net debt		54,393,164	20,327,103
Total equity		115,164,091	83,843,084
Total capital		169,557,255	104,170,187
Gearing ratio		**32%**	**20%**
Adjusted Gearing ratio*		**25%**	**20%**

*The adjusted gearing ratio disclosed above decreases total borrowings by $11.94m and increases total equity by the same amount. The $11.94m represents the deferred consideration for the Kindy Patch acquisition which will be settled via the issue of G8 Education Ltd shares and not cash settled. The shares will be issued during February 2012.

NOTE 23: RESERVES AND ACCUMULATED LOSSES

	Consolidated 2011 $	Consolidated 2010 $
(a) Reserves		
Share-based payments reserve	-	31,444
Movements		
Share-based payments reserve		
Opening balance	31,444	33,843
Employee share options exercised	(6,640)	(6,354)
Employee share option expense	(24,804)	3,955
Closing balance	-	31,444
Foreign currency translation	(785,079)	-
Movements		
Foreign Currency Translation Reserve		
Opening balance	-	-
Currency translation differences arising during the year	(785,079)	-
Closing balance	(785,079)	-

NOTE 23: RESERVES AND ACCUMULATED LOSSES (CONTINUED)

	Consolidated 2011 $	2010 $
(b) Accumulated losses	(1,880,271)	(11,649,904)
Movements		
Opening balance	(11,649,904)	(12,225,441)
Profit for the year*	17,250,351	3,480,324
Items in other comprehensive income recognised directly in retained earnings		
Exchange differences on translation of foreign operations	(4,641)	-
Dividends	(7,476,077)	(2,904,787)
Closing balance	(1,880,271)	(11,649,904)

*Refer to note 22 for explanations on the retrospective adjustments made in the 2010 comparative numbers in the accounting for share based payment expense in respect of the loan and shares issued at the direction of Mr C Chapman and Mr C Scott.

(c) Nature and purpose of reserves

(i) Share-based payments – the share-based payments reserve is used to recognise the grant date fair value of options issued to employees but not exercised.

(ii) *Foreign currency translation* – Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income as described in note 1(e) and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

NOTE 24: DIVIDENDS

(a) Ordinary Shares

	Consolidated 2011 $	Consolidated 2010 $
Interim dividend for the quarter ended 31 March 2011 of 1 cent (2010 – Nil) per fully paid share paid on 11 April 2011		
Unfranked interim dividend	1,863,837	-
Interim dividend for the quarter ended 30 June 2011 of 1 cent (2010 – Nil) per fully paid share paid on 11 July 2011		
Unfranked interim dividend	1,866,865	-
Interim dividend for the quarter ended 30 September 2011 of 1 cent (2010 – 1 cent) per fully paid share paid on 10 October 2011 (2010 – 7 October 2010)		
Unfranked interim dividend	1,871,190	1,281,741
Interim dividend for the quarter ended 31 December 2011 of 1 cent (2010 – 1 cent) per fully paid share paid on 16 January 2012 (2010 – 11 January 2011)		
Fully franked based on tax paid @ 30%	1,874,185	1,623,046
Total dividends provided for or paid	**7,476,077**	**2,904,787**
Dividends paid in cash or satisfied by the issue of shares under the dividend reinvestment plan during the years ended 31 December 2011 and 2010 were as follows:		
Paid in cash	6,445,601	2,694,686
Satisfied by issue of shares	1,030,476	210,101
	7,476,077	**2,904,787**

(b) Franked credits

The franked portions of the December 2011 quarterly dividend will be franked out of existing franking credits.

	Consolidated 2011 $	Consolidated 2010 $	Parent entity 2011 $	Parent entity 2010 $
Franking credits available for subsequent financial years based on a tax rate of 30%	5,316,961	-	5,316,961	-

The above amounts represent the balance of the franking account as at the end of the reporting period, adjusted for:

a) Franking credits that will arise from the payment of the amount of the provision for income tax
b) Franking debits that will arise from the payment of dividends recognised as a liability at the reporting date, and
c) Franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

The consolidated amounts include franking credits that would be available to the parent entity if the distributable profits of subsidiaries were paid as dividends.

NOTE 25: KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Directors

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

(i) ***Chairperson –Independent non-executive***
J J Hutson

(ii) ***Executive Directors***
C J Scott
C G Chapman (resigned 26 August 2011)

(iii) ***Non-executive directors***
B H Bailison
A P S Kemp (from 15 March 2011)
S M Forrester (from 1 November 2011)
M Reynolds (from 1 November 2011)

(b) Other key management personnel

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

Name	Position	Employer
C P Sacre	Chief Financial Officer (up to 29 August 2011), Chief Operating Officer (from 29 August 2011) and Company Secretary	G8 Education Ltd
J D Fraser	General Manager – Operations Manager	G8 Education Ltd
M J Crawford	Senior Operations Manager	G8 Education Ltd

(c) Key management personnel compensation

	Consolidated	
	2011	**2010**
	$	**$**
Short term employee benefits	1,076,344	1,435,685
Post employment benefits	73,337	81,844
Share based payments	1,279	835,955
Termination Payments	92,056	42,375
	1,243,016	**2,395,859**

The relevant information on detailed remuneration disclosures can be found in sections A-C of the remuneration report on pages 12-16.

NOTE 25: KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(d) Equity instrument disclosures relating to key management personnel

(i) Options provided as remuneration and shares issued on exercise of such options

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in Section D of the remuneration report on pages 16-17.

(ii) Option holdings

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

2011

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

** The options issued to C P Sacre on 24 November 2008 are disclosed in detail in section D of the remuneration report on pages 16-17.

2010

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

** The options issued to C P Sacre on 24 November 2008 are disclosed in detail in section D of the remuneration report on pages 16-17.

(iii) Share holdings

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

NOTE 25: KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

2011

Name	**Balance at the start of the year**	**Received during the year on the exercise of options**	**Other changes during the year**	**Balance at the end of the year**
Directors of G8 Education Limited				
Ordinary Shares				
J J Hutson^	800,000	-	-	800,000
C J Scott^	2,000,000	-	-	2,000,000
C G Chapman*	1,208,333	-	-	1,208,333
B H Bailison	-	-	-	-
A P S Kemp	-	-	90,000	90,000
S M Forrester	-	-	-	-
M Reynolds	-	-	-	-
Other key management personnel of the Group				
Ordinary Shares				
C P Sacre	500,000	250,000	(250,000)	500,000
J D Fraser	3,000	-	-	3,000
M J Crawford	3,000	-	-	3,000

** C G Chapman was a director until his resignation on 26 August 2011.*

2010

Name	**Balance at the start of the year**	**Received during the year on the exercise of options**	**Other changes during the year**	**Balance at the end of the year**
Directors of G8 Education Limited				
Ordinary Shares				
J J Hutson^	-	-	800,000	800,000
C J Scott^	-	-	2,000,000	2,000,000
C G Chapman	-	-	1,208,333	1,208,333
B H Bailison	-	-	-	-
A G Hartnell AM	10,000	-	(10,000)	-
G J Kern	-	-	-	-
Other key management personnel of the Group				
Ordinary Shares				
C P Sacre	-	500,000	-	500,000
G M Edwards	-	-	121,739	121,739
J D Fraser	13,000	-	(10,000)	3,000
D Tarry	-	-	-	-

^ Shares held by nominee

NOTE 25: KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

Loans to key management personnel

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

(i) Aggregates for key management personnel

Group	Balance at the start of the year $	Interest paid and payable for the year $	Interest not charged $	Balance at the end of the year $	Number in group at the end of the year
2011	900,385	46,361	-	838,413	2
2010	-	32,802	-	900,385	2

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

2011 Name	Balance at the start of the year $	Interest paid and payable for the year $	Interest not charged $	Balance at the end of the year $	Highest indebtedness during the year $
C G Chapman*	422,893	22,481	-	397,041	422,893
C J Scott	477,492	23,880	-	441,372	477,492

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

*Mr C G Chapman was a director from the beginning of the financial year until his resignation on 26 August 2011.

Loans outstanding at the end of the current year, made to current and prior directors of G8 Education Limited include an unsecured loan to Mr C G Chapman of $428,676 and an unsecured loan to nominees of Mr C J Scott of $700,000 both of which were made for a period of two years and are repayable in full on 27 May 2012. Interest is payable on these loans at the rate of 6% per annum. All dividends paid for the shares issued under the loan agreement are used to repay the loan balance. The loans are full recourse and were issued to align executive interests with shareholders.

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

(e) Other transactions with key management personnel

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

NOTE 25: KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

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

			2011 $	2010 $
Mr G J Kern was a director up until 25 March 2010 and an entity related to him a shareholder of Hutchison Kern Pty Ltd (HK P/L) which had the following transactions:				
a)	paid child care centre management fees to the Group	Revenue Management fees	-	77,220
b)	reimbursed the group for expenses paid on their behalf	Trade and other receivables	-	8,344
Mr G J Kern is a director and an entity related to him Kern Consulting Group which had the following transactions:				
a)	provided consultancy services to the Group	Expense Other Expense	-	20,000

The following transactions occurred with Mr C G Chapman up until 31 December 2011:

			2011 $	2010 $
Mr C G Chapman is a former director (resigned 26 August 2011) who had the following transactions:				
a)	interest charged on share loan agreement	Revenue Interest income	22,481	14,976
b)	loan made to facilitate the purchase of 1,200,000 shares G8 Education Limited shares for a total amount of $420,000 plus accrued interest less repayments	Non-current Receivables	397,041	422,893
c)	share based payment expense for the difference in market price of the shares issued in (b) above compared to loan value	Employment Expenses Equity	-	312,000
d)	issue of 1,200,000 described in (b) above	Equity Contributed Equity	-	732,000

1,200,000 shares were issued to C G Chapman on 27 May 2010 at $0.35. The loan is for a period of 2 years at 6% per annum. The interest on the loan is to be capitalised and repaid at the end of the 2 year term. All dividend payments from the Group will be utilised to repay interest repayments and/or debt reduction. The fair value of the shares on issue date was $0.61 and as a result the difference between the agreed price of $0.35 and the price on issue date has been taken to employment expenses and equity as a share based payment.

The following transactions occurred with Mr C J Scott up until 31 December 2011:

			2011 $	2010 $
Mr C J Scott is a director who had the following transactions:				
e)	interest charged on share loan agreement	Revenue Interest income	23,880	17,826

NOTE 25: KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

			2011 $	2010 $
f)	loan granted to nominee of Mr C J Scott to purchase 2,000,000 shares G8 Education Limited for a total amount of $700,000 plus accrued interest less repayments	Non-current receivables	441,372	477,492
g)	share based payment expense for the difference in market price of the shares issued in (f) above compared to loan value	Employment Expenses Equity	-	520,000
h)	issue of 2,000,000 shares to nominee of Mr C J Scott as described in (f) above	Equity Contributed Equity	-	1,220,000

A loan was granted to issue 2,000,000 shares to Mr C J Scott's nominee on 18 May 2010 at $0.35. The loan issued is for a period of 2 years at 6% per annum. The interest on the loan is to be capitalised and repaid at the end of the 2 year term. All dividend payments from the Group will be utilised to repay interest repayments and/or debt reduction. The fair value of the shares on issue date was $0.61 and as a result the difference between the agreed price of $0.35 and the price on issue date has been taken to employment expenses and equity as a share based payment.

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

	Consolidated	
	2011 $	2010 $
Revenue		
Interest income	46,361	32,802
Management fees	-	77,220
Expenses		
Other expenses	-	20,000
Employment Expense	-	832,000
Current assets		
Trade and other receivables	-	8,344
Non Current assets		
Receivables	838,413	900,385
Equity		
Contributed equity	-	1,952,000

NOTE 26: REMUNERATION OF AUDITORS

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

	Consolidated 2011 $	Consolidated 2010 $
1. Audit services		
HLB Mann Judd		
Audit and review of financial reports – half year	42,620	25,000
Audit and review of financial reports – year end	75,000	54,000
Total Remuneration for audit services	**117,620**	**79,000**

	Consolidated 2011 $	Consolidated 2010 $
2. Non-audit services		
HLB Mann Judd (SE QLD Partnership/Gold Coast Pty Ltd)		
Advisory services	6,250	12,500
Taxation services	31,535	-
Total remuneration for non-audit services	**37,785**	**12,500**

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

NOTE 27: CONTINGENCIES

(a) Contingent liabilities

The Group had contingent liabilities at 31 December 2011 in respect of:

a. Australia – The Group is a defendant in proceedings before the A.C.T Supreme Court. The proceedings relate to the decision by the company not to proceed with the purchase of two child care centres in the A.C.T. in 2008. The matter was heard before the Supreme Court of ACT in April 2009.

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

b. Singapore – The Group is a defendant in proceedings before the High Court of Singapore in regards to the completion of the Business Acquisition Contract. The assignment of the franchise centres are not in dispute by either party and the Group has been receiving the royalty fees from these centres from 1 December 2010.

NOTE 28: COMMITMENTS

(a) Capital commitments

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

(b) Lease commitments : Group as lessee

(i) Non-cancellable operating leases for premises and vehicles

	Consolidated	
	2011	**2010**
	$	**$**
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:		
Payable:		
Within one year	22,859,853	10,080,024
Later than one year but no later than five years	72,681,098	37,480,283
Later than five years	46,290,185	19,464,668
	141,831,136	67,024,975
Representing:		
Non-cancellable operating leases	141,831,136	67,024,975

(ii) Finance Leases

	Consolidated	
	2011	**2010**
	$	**$**
Commitments in relation to vehicle finance leases are payable as follows:		
Within one year	46,812	88,151
Later than one year but no later than five years	-	46,812
Minimum lease payments	46,812	134,963
Future finance charges	(2,019)	(8,953)
Total lease liabilities	44,793	126,010
Representing lease liabilities:		
Current	44,793	81,216
Non-current	-	44,794
	44,793	126,010

(c) Interest rate cap fees

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

Within one year	-	99,252
Later than one year but no later than five years	-	-
Minimum payments	-	99,252

NOTE 29: RELATED PARTY TRANSACTIONS

(a) Parent entity

The parent entity within the Group is G8 Education Limited.

(b) Subsidiaries

Interests in subsidiaries are set out in note 32.

(c) Key management personnel

For details of transactions that key management personnel and their related entities had with the Group during the year refer note 25 (e) and (f).

(d) Outstanding balance arising from transactions with related parties

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

	Consolidated	
	2011	**2010**
	$	**$**
Current receivables (provision of services)		
Key management personnel	838,413	900,385
Current payables (purchase of goods and services)		
Key management personnel	6,973	4,620

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

NOTE 30: BUSINESS COMBINATIONS

1. 2011 Business Combinations - AUSTRALIA

Five business combination events occurred in the current period.

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

(a) On 7 February 2011 the parent entity acquired seven child care centres in New South Wales.

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

Purchase consideration

	$000
Cash consideration	8,500
Contingent consideration	4,300
Purchase price adjustments	(116)
Total purchase consideration	12,684

NOTE 30: BUSINESS COMBINATIONS (CONTINUED)

Assets and liabilities acquired

The assets and liabilities recognised as a result of the acquisition are as follows:	Fair Value $000
Property plant and equipment	280
Payables	(153)
Employee benefit liabilities	(435)
Net identifiable assets/(liabilities) acquired	(308)
Goodwill	12.992
	12,684

Contingent consideration

The contingent consideration arrangement required the Group to pay the former owners of the 7 centres a deferred cash payment in the event that the centre based EBIT exceeds $2,125,000 for the year ended 31 December 2011. It has been determined that this deferred consideration will not be payable based on the centre EBIT achieved for the year ended 31 December 2011. This amount of $4,298,816 has now been recognised as other income in the consolidated income statement for 2011. Please refer to note 6 – other income.

Acquisition-related costs

Legal and due diligence costs of $18,562 relating to the acquisition have been expensed.

Revenue and profit contribution

The acquired business contributed revenues of $10,735,509 and profit before tax of $1,066,391 to the Group for the period 7 February 2011 to 31 December 2011. Contribution from the acquisition to both revenue and profit for the year ended 31 December 2011, had the acquisition settled on 1 January 2011, is unable to be accurately quantified due to unknown seasonality impacts.

(b) On 15 March 2011 the Group acquired 100% of the units in Kindy Patch Unit Trust which owned thirty child care centres; twenty-two in New South Wales and eight in Queensland.

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

Purchase consideration

	$000
Shares issued	11,940
Contingent consideration	11,940
Cash consideration	9,806
Purchase price adjustments	817
Total purchase consideration	34,503

NOTE 30: BUSINESS COMBINATIONS (CONTINUED)

Assets and liabilities acquired

The assets and liabilities recognised as a result of the acquisition are as follows:	**Fair Value $000**
Cash and cash equivalents	465
Property plant and equipment	754
Receivables	1,106
Prepayments	238
Payables	(1,811)
Employee benefit liabilities	(1,317)
Net identifiable assets/(liabilities) acquired	(565)
Goodwill	35,068
	34,503

Contingent consideration

Under the agreement for the purchase, the Buyer will cause the issue of 12 million shares in the Group to the Sellers at $0.60 per share subject to the actual centre level EBIT being no less than $4.5m for the 12 months ending 31 December 2011. EBIT will be determined by the Buyer's auditor. In the event that the centre level EBIT is less than $4.5m for the 12 months ending 31 December 2011 then the number of shares issued will be reduced by the equivalent of $4 for each $1 the EBIT falls short of $4.5 million based on the notional share price of $0.60 per share.

For the purposes of accounting for this transaction, in accordance with AASB 3, the final value of the equity issued will be taken up in the Group's accounts at $0.995 per security issued. This was the share price at date of control.

Acquisition-related costs

Legal and due diligence costs of $40,851 relating to the acquisition have been expensed.

Revenue and profit contribution

The acquired businesses contributed revenues of $29,216,304 and profit before tax of $5,176,054 to the Group for the period 1 January 2011 to 31 December 2011.

(c) On 10 June 2011 the parent entity acquired six child care centres in New South Wales.

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

Purchase consideration

	$000
Cash consideration	4,609
Contingent consideration	2,471
Purchase price adjustments	(389)
Total purchase consideration	6,691

NOTE 30: BUSINESS COMBINATIONS (CONTINUED)

Assets and liabilities acquired

The assets and liabilities recognised as a result of the acquisition are as follows:	**Fair Value $000**
Property plant and equipment	240
Payables	(316)
Employee benefit liabilities	(209)
Net identifiable assets/(liabilities) acquired	(285)
Goodwill	6,976
	6,691

Contingent consideration

The contingent consideration arrangement requires the Group to pay the former owners of the 6 centres a deferred cash payment in the event that the centre based EBIT exceeds $1.765m for the 12 months following completion. The deferred payment will be based on four times actual centre EBIT. The deferred consideration is capped at $2.471m. The payment of the contingent consideration is to be paid by the Group on or before 31 August 2012.

Acquisition-related costs

Legal and due diligence costs of $8,759 relating to the acquisition have been expensed.

Revenue and profit contribution

The acquired business contributed revenues of $4,378,382 and profit before tax of $924,312 to the Group for the period 10 June 2011 to 31 December 2011. Contribution from the acquisition to both revenue and profit for the year ended 31 December 2011, had the acquisition settled on 1 January 2011, is unable to be accurately quantified due to unknown seasonality impacts.

(d) During the period 10 June 2011 to 21 October 2011 the parent entity acquired four child care centres in Australian Capital Territory and Victoria.

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

Purchase consideration

	$000
Cash consideration	3,300
Contingent consideration	850
Purchase price adjustments	(250)
Total purchase consideration	3,900

Assets and liabilities acquired

The assets and liabilities recognised as a result of the acquisition are as follows:	**Fair Value $000**
Property plant and equipment	140
Payables	(26.5)
Employee benefit liabilities	(168.5)
Net identifiable assets/(liabilities) acquired	(55)
Goodwill	3,955
	3,900

NOTE 30: BUSINESS COMBINATIONS (CONTINUED)

Acquisition-related costs

Legal and due diligence costs of $14,240 relating to the acquisitions have been expensed.

Revenue and profit contribution

The acquired business contributed revenues of $2,859,672 and profit before tax of $684,637 to the Group for the period from settlement to 31 December 2011. Contribution from the acquisitions to both revenue and profit for the year ended 31 December 2011, had the acquisition settled on 1 January 2011, is unable to be accurately quantified due to unknown seasonality impacts.

(e) On 9 December 2011 the parent entity acquired six child care centres in Queensland.

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

Purchase consideration

	$000
Cash consideration	8,200
Purchase price adjustments	90
Total purchase consideration	8,290

Assets and liabilities acquired

The assets and liabilities recognised as a result of the acquisition are as follows:	**Fair Value $000**
Property plant and equipment	120
Payables	(165)
Employee benefit liabilities	(161)
Net identifiable assets/(liabilities) acquired	(206)
Goodwill	8,496
	8,290

Acquisition-related costs

Legal and due diligence costs of $30,778 relating to the acquisition have been expensed.

Revenue and profit contribution

The acquired business contributed revenues of $372,131 and loss before tax of $54,725 to the Group for the period 9 December 2011 to 31 December 2011 due to employment entitlements accruals taken up. Contribution from the acquisition to both revenue and profit for the year ended 31 December 2011, had the acquisition settled on 1 January 2011, is unable to be accurately quantified due to unknown seasonality impacts.

NOTE 30: BUSINESS COMBINATIONS (CONTINUED)

2. 2011 Business Combinations - SINGAPORE

(a) During the period 1 July 2011 to 1 September 2011 the Group acquired 6 child care centres in Singapore.

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

Purchase consideration

	$000
Cash consideration	2,467
Purchase price adjustments	(189)
Total purchase consideration	2,278

Assets and liabilities acquired

The assets and liabilities recognised as a result of the acquisition are as follows:	**Fair Value $000**
Payables	(189)
Net identifiable assets/(liabilities) acquired	(189)
Goodwill	2,467
	2,278

Revenue and profit contribution

The acquired businesses contributed revenues of $1,097,174 and profit before tax of $303,727 to the Group for the period from settlement to 31 December 2011. Contribution from the acquisitions to both revenue and profit for the year ended 31 December 2011, had the acquisition settled on 1 January 2011, is unable to be accurately quantified due to unknown seasonality impacts.

NOTE 31: PARENT ENTITY DISCLOSURES

As at, and throughout the financial year ended 31 December 2011 the parent entity of the Group was G8 Education Limited.

Result of parent entity	**2011 $**	**2010 $**
Profit for the year after tax	5,079,948	44,833
Other comprehensive income	-	-
Total comprehensive income for the year	5,079,948	44,833
Financial position of parent entity at year end		
Current assets	29,740,733	32,156,918
Non-current assets	151,322,813	78,165,811
Total assets	181,063,546	110,322,729
Current liabilities	30,770,426	13,816,646
Non-current liabilities	50,281,818	16,427,830
Total liabilities	81,052,244	30,244,476
Total equity of parent entity comprising of:		
Contributed equity	117,829,441	95,461,543
Reserves	-	31,444
Accumulated losses	(17,818,139)	(15,414,734)
Total equity	100,011,302	80,078,253

Parent entity contingencies

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

The parent entity had contingent liabilities at 31 December 2011 in respect of:

a. Australia – The Group is a defendant in proceedings before the A.C.T Supreme Court. The proceedings relate to the decision by the company not to proceed with the purchase of two child care centres in the A.C.T. in 2008.
The plaintiff is seeking an order that the Company perform the contracts of $3.9m, being the price of the two leasehold childcare centres which the Group had contracted to purchase. The case has been heard and judgement has been reserved. It is not known when the decision will be handed down.

b. Singapore – The Group is a defendant in proceedings before the High Court of Singapore in regards to the completion of the Business Acquisition Contract. The assignment of the franchise centres are not in dispute by either party and the Group has been receiving the royalty fees from these centres.

Parent entity guarantees in respect of the debts of its subsidiaries

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

Further details of the Deed of Cross Guarantee and the subsidiaries subject to the deed are disclosed in note 33.

Loans from subsidiaries

During the year ended 31 December 2011, the parent entity issued and incurred loans from its wholly owned subsidiaries which are interest free and with no fixed terms of repayments. These loans are at call with no defined repayment period.

NOTE 32: SUBSIDIARIES

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

Name of entity	Country of incorporation	Class of shares	Equity holding *	
			2011 %	2010 %
Subsidiaries of Company				
Grasshoppers Early Learning Centre Pty Ltd	Australia	Ordinary	52	52
Togalog Pty Ltd	Australia	Ordinary	100	100
RBWOL Holding Pty Ltd (Formerly Payce Child Care Pty Limited)	Australia	Ordinary	100	100
Ramsay Bourne Holdings Pty Limited	Australia	Ordinary	100	100
Bourne Learning Pty Ltd (Formerly Ramsay & Bourne Pty Ltd)	Australia	Ordinary	100	100
Ramsay Bourne Acquisitions (No.1) Pty Limited	Australia	Ordinary	100	100
Ramsay Bourne Acquisitions (No.2) Pty Limited	Australia	Ordinary	100	100
RBL No. 1 Pty Ltd	Australia	Ordinary	100	100
Ramsay Bourne Licences Pty Limited	Australia	Ordinary	100	100
World Of Learning Pty Limited	Australia	Ordinary	100	100
World Of Learning Acquisitions (No.1) Pty Limited	Australia	Ordinary	100	100
World Of Learning Acquisitions Pty Limited	Australia	Ordinary	100	100
World Of Learning Licences Pty Limited	Australia	Ordinary	100	100
G8 KP Pty Ltd	Australia	Ordinary	100	100
G8 Singapore Pte Ltd 201022281N	Singapore	Ordinary	100	100
Cherie Hearts Corporate Pte Ltd	Singapore	Ordinary	100	100
Cherie Hearts Holdings Pte Ltd	Singapore	Ordinary	100	100
Cherie Hearts @ SC Pte Ltd	Singapore	Ordinary	100	100
Cherie Hearts @ YS Pte Ltd	Singapore	Ordinary	100	100
Cherie Hearts @ KK Pte Ltd	Singapore	Ordinary	100	100
Cherie Hearts @ TM Pte Ltd	Singapore	Ordinary	100	100
Cherie Hearts @ SK Pte Ltd	Singapore	Ordinary	100	100
Our Juniors Schoolhouse @ Punggol Pte Ltd	Singapore	Ordinary	100	100
Cherie Hearts @ Gombak Pte Ltd	Singapore	Ordinary	100	100
Bright Juniors Pte Ltd	Singapore	Ordinary	100	100
Subsidiaries of Togalog Pty Ltd				
Grasshoppers Early Learning Centre Pty Ltd	Australia	Ordinary	48	48

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

NOTE 33: DEED OF CROSS GUARANTEE

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

(a) Consolidated statements of comprehensive income

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

Set out below is a consolidated statement of comprehensive income for the year ended 31 December 2011 of the closed group consisting of G8 Education Limited, RBWOL Holding Pty Ltd, World of Learning Pty Ltd, Ramsay Bourne Holding Pty Ltd and Ramsay Bourne Acquisitions (No 2) Pty Ltd.

	2011 $	2010 $
Revenue from continuing operations	127,013,977	60,870,383
Other Income	4,949,953	157,126
Expenses		
Employee benefits expense	(77,696,202)	(39,308,512)
Occupancy	(17,200,517)	(7,577,881)
Direct costs of providing services	(9,217,168)	(4,584,751)
Legal fees	(247,872)	(396,618)
Amortisation	(191,671)	(143,775)
Depreciation expense	(1,621,401)	(963,542)
Evaluation costs incurred in respect of potential acquisitions	-	-
Impairment	(547,747)	(425,206)
Insurance	(484,513)	(475,487)
Other Expenses	(2,137,012)	(1,602,151)
Finance costs	(2,187,739)	(1,318,205)
Total expenses	(111,531,843)	(56,796,128)
Profit /(Loss) before income tax	20,432,088	4,231,381
Income tax (expense)/benefit	(5,346,318)	(2,068,592)
Profit / (Loss) for the year	**15,085,770**	**2,162,789**
Other Comprehensive income for the year, net of Tax	-	-
Total Comprehensive income for the year	**15,085,770**	**2,162,789**

NOTE 33: DEED OF CROSS GUARANTEE (CONTINUED)

(b) Balance Sheets

Set out below is a consolidated balance sheet as at 31 December 2011 of the closed group consisting of G8 Education Limited, RBWOL Holding Pty Ltd, World of Learning Pty Ltd, Ramsay Bourne Holding Pty Ltd and Ramsay Bourne Acquisitions (No 2) Pty Ltd.

	2011 $	2010 $
Current assets		
Cash and cash equivalents	13,439,307	6,635,751
Trade and other receivables	5,199,634	1,737,950
Other current assets	18,766,660	23,462,610
Assets classified as held for sale	-	50,000
Total current assets	37,405,601	31,886,311
Non-current assets		
Receivables	-	1,000,385
Investments in extended group	7,503,700	3,675,268
Property, plant and equipment	7,374,986	5,691,048
Deferred tax assets	1,882,801	1,352,438
Intangible assets	133,680,518	69,596,425
Total non-current assets	150,442,005	81,315,564
Total assets	**187,847,606**	**113,201,875**
Current liabilities		
Trade and other payables	26,928,756	11,896,354
Borrowings	315,961	1,637,581
Provisions	4,027,484	2,055,648
Current tax liabilities	3,711,626	504,821
Total current liabilities	34,983,827	16,094,404
Non-current liabilities		
Borrowings	36,437,637	13,913,614
Borrowings from extended group	3,067,595	89,127
Provisions	717,909	421,341
Total non-current liabilities	40,223,141	14,424,082
Total liabilities	**75,206,968**	**30,518,486**
Net assets	**112,640,638**	**82,683,389**
Equity		
Contributed equity	117,840,544	95,461,544
Reserves	-	31,444
Accumulated losses	(5,199,906)	(12,809,599)
Total equity	**112,640,638**	**82,683,389**

NOTE 34: EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

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

- G8 Education Limited announced to the ASX on 15 February 2012 its proposed long term incentive program for Mr Chris Sacre (Chief Operating Officer) and Mr Jae Fraser (General Manager, Operations). The incentive program involves (subject to shareholder approval) the issue of 1,285,714 shares to Mr C Sacre and 857,143 shares to Mr J Fraser. The shares will be issued at $0.70 per share and funded via a full recourse loan from the company.

- G8 Education Limited announced to the ASX the appointment of Mr Damien Peters as Chief Financial Officer of G8 Education Limited with effect from March 2012.

- G8 Education Limited announced to the ASX that it has entered into a new syndicated finance arrangement with the Bank of Western Australia. The facility provides for an overall limit of $56.5m.

NOTE 35: RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	Consolidated	
	2011	**2010**
	$	**$**
Profit for the year	17,250,351	3,480,324
Depreciation and amortisation	1,710,630	992,538
Impairment expense	586,718	425,206
Net gain on sale of operations	651,137	(157,126)
Write back of deferred consideration not payable	(4,298,816)	-
Increase in borrowing cost prepayments	332,017	(60,670)
Amortisation of borrowing costs	191,671	143,775
Tax benefit on equity – non cash	314,587	301,174
Option expense – non cash	(24,804)	3,955
Decrease (Increase) in trade and other debtors	(6,806,274)	(1,439,215)
Decrease(Increase) in deferred tax asset	(530,363)	800,997
(Decrease) Increase in trade and other payables	2,381,266	1,767,382
(Decrease) Increase in other provisions	-	56,279
Non-cash employee benefits expense - share based payments	-	1,040,000
Net cash inflows from operating activities	**11,758,120**	**7,354,619**

NOTE 36: EARNINGS PER SHARE

	Consolidated 2011 Cents	2010 Cents
(a) Basic earnings per share		
Profit attributable to the ordinary equity holders of the Company	9.27	3.20
(b) Diluted earnings per share		
Profit from continuing operation attributable to the ordinary equity holders of the Company	9.27	3.20
Profit attributable to the ordinary equity holders of the Company	9.27	3.20
(c) Reconciliation of earnings used in calculating earnings per share		
Basic earnings per share		
Profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	17,250,351	3,480,324
Diluted earnings per share		
Profit attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share	17,250,351	3,480,324

(d) Weighted average number of shares used as the denominator

	Consolidated 2011 Number	2010 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	186,034,545	108,539,855
Adjustments for calculation of diluted earnings per share:		
Options	-	250,000
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	186,034,545	108,789,855

NOTE 37: SHARE-BASED PAYMENTS

Details of options over ordinary shares in G8 Education Limited provided as remuneration to key management personnel of the Group are set out below. Value of options at grant date is set out below. When exercisable, each option is convertible into one ordinary share of G8 Education Limited. Further information on the options are set out in note 22 and 25 to the financial statements.

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

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

There were no options granted during the year ended 31 December 2011.

NOTE 37: SHARE BASED PAYMENTS (CONTINUED)

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

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

Refer to the Directors report Section D on pages 16 and 17 for further details.

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

(a) Fair value of options granted

There were no options granted during the year ended 31 December 2011. The assessed fair value at grant date of options during the year ended 31 December 2008 was $12,995.

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

(b) Expenses arising from share based transactions

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

	Consolidated 2011 $	**Consolidated 2010 $**
Options issued under executive option plan	(24,804)	3,955
Share based payment expense on fair value adjustment on shares issued to nominees of Mr C Scott and Mr C Chapman	-	1,040,000

NOTE 38: DISCLOSURE OF THIRD BALANCE SHEET

In accordance with AASB101 the table below discloses the restated balance sheet as at 31 December 2010 and the original 1 January 2010 comparatives. The fair value adjustments as disclosed in Note 22 (b) have no impact on the 1 January 2010 balance sheet. Refer to Note 22 (b) for detailed calculations of the retrospective adjustments.

		Consolidated	
		Restated	
		31 December 2010	1 January 2010
	Notes	$	$
ASSETS			
Current assets			
Cash and cash equivalents	9	8,015,645	172,976
Trade and other receivables	10	1,785,269	1,041,669
Other current assets	11	23,764,923	937,509
Assets classified as held for sale	12	50,000	1,173,250
Total current assets		33,615,837	3,325,404
Non-current assets			
Receivables	13	1,000,385	-
Property plant and equipment	14	6,049,678	3,771,949
Deferred tax assets	15	1,352,439	2,153,436
Intangible assets	16	72,786,538	30,347,611
Total non-current assets		81,189,040	36,272,996
Total assets		**114,804,877**	**39,598,400**
LIABILITIES			
Current liabilities			
Trade and other payables	17	12,290,461	2,641,337
Borrowings	18	1,637,581	2,749,331
Employee Entitlements	19	2,175,473	679,476
Current tax liabilities		501,092	-
Total current liabilities		16,604,607	6,070,144
Non-current liabilities			
Borrowings	20	13,913,614	14,704,210
Provisions	21	443,572	57,947
Total non-current liabilities		14,357,186	14,762,157
Total liabilities		**30,961,793**	**20,832,301**
Net assets		**83,843,084**	**18,766,099**
EQUITY			
Contributed equity	22	95,461,544	30,957,697
Reserves	23	31,444	33,843
Accumulated losses	23	(11,649,904)	(12,225,441)
Total equity		**83,843,084**	**18,766,099**

In the directors' opinion:

(a) the financial statements and notes set out on pages 28 to 91 are in accordance with the *Corporations Act 2001,* including:
   i. complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
   ii. giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of their performance for the financial year ended on that date; and

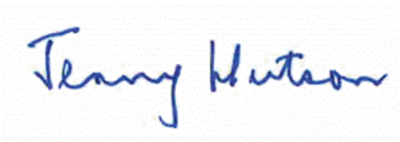
(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

(c) At the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in note 33 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 33.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

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



Jennifer J Hutson
Chairperson

Brisbane
27 February 2012

HLB Mann Judd

Accountants | Business and Financial Advisers

Independent Auditors Report to the Members of

G8 Education Limited

Report on the Financial Report

We have audited the accompanying financial report of G8 Education Limited ("the company"), which comprises the consolidated balance sheet as at 31 December 2011, the consolidated income statement, consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration for the consolidated entity. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements* that the consolidated financial report complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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HLB Mann Judd

Independent Auditors Report (continued)

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors G8 Education Limited on 23 February 2012, would be in the same terms if provided to the directors as at the time of this auditor's report.

Auditor's Opinion

In our opinion:

(a) the financial report of G8 Education Limited is in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(a).

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 12 to 17 of the directors' report for the year ended 31 December 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion, the Remuneration Report of G8 Education Limited for the year ended 31 December 2011 complies with section 300A of the *Corporations Act 2001*.

HLB Mann Judd

Independent Auditors Report (continued)

Matters relating to the electronic presentation of the audited financial report and remuneration report

This auditor's report relates to the financial report and remuneration report of G8 Education Limited for the financial year ended 31 December 2011 published in the annual report and included on the company's website. The company's directors are responsible for the integrity of the company's website. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report and remuneration report identified above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report and remuneration report. If users of the financial report and remuneration report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information contained in this website version of the financial report and remuneration report.

HLB Mann Judd.

HLB MANN JUDD

C J M King
Partner

Brisbane, Queensland
27 February 2012

The Shareholder information set out below was applicable as at 14 February 2012.

(a) Distribution of equity securities

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

	Class of equity security		
	Ordinary Shares		
	Shares	**Holders**	**Options**
100,001 and Over	176,579,780	80	-
10,001 – 100,000	10,173,883	301	-
5,001 - 10,000	930,331	108	-
1,001 - 5,000	495,888	165	-
1 - 1,000	29,128	75	-
	188,209,010	**729**	**-**

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

(b) Quoted Equity security holders

Twenty largest quoted equity security holders.

Name	**Quoted Ordinary Shares held**	**Percentage of issued shares**
J P MORGAN NOMINEES AUSTRALIA LIMITED	32,289,041	17.16%
WALLACE INFRASTRUCTURE PTY LTD	24,021,739	12.76%
RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	23,409,423	12.44%
NATIONAL NOMINEES LIMITED	20,309,242	10.79%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	10,894,186	5.79%
MR CRAIG GRAEME CHAPMAN	7,500,000	3.96%
ORCHARD AUSTRALIA HOLDINGS PTY LTD	7,268,000	3.86%
CITICORP NOMINEES PTY LIMITED	6,977,333	3.71%
COGENT NOMINEES PTY LIMITED	5,744,047	3.05%
MRS JUWARSEH SCOTT	4,033,333	2.14%
RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	2,735,502	1.45%
MIRRABOOKA INVESTMENTS LIMITED	2,336,229	1.24%
THE TRAVEL MANAGERS PTY LTD	2,090,000	1.11%
GWYNVILL TRADING PTY LTD	1,753,325	0.93%
ORCHARD AUSTRALIA (HOLDINGS) PTY LTD	1,500,000	0.80%
OPM SUPER CO PTY LTD	1,413,912	0.75%
CUSTODIAL SERVICES LIMITED	1,248,939	0.66%
CHRISTOPHER DOUGLAS PASSFIELD	1,116,000	0.59%
RHONDA PASSFIELD	1,116,000	0.59%
PERSHING AUSTRALIA NOMINEES PTY LTD	1,115,946	0.59%
	158,872,197	**84.37%**

(c) Substantial holders

Substantial holders in the company are set out below:

Ordinary shares	Number held	Percentage
J P MORGAN NOMINEES AUSTRALIA LIMITED	32,289,041	17.16%
WALLACE INFRASTRUCTURE PTY LTD	24,021,739	12.76%
RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	23,409,423	12.44%
NATIONAL NOMINEES LIMITED	20,309,242	10.79%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	10,894,186	5.79%
	110,923,631	**58.94%**

(d) Voting rights

The voting rights attaching to each class of equity securities are set out below.

(i) Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share will have one vote.

(ii) Options

There are no voting rights attached to the options.

(e) Unquoted Securities

There are no unquoted securities on issue.

Corporate Directory.

Directors
J Hutson, Chairperson
C Scott, Managing Director
B Bailison, Non-Executive Director
A Kemp, Non-Executive Director
S Forrester, Non-Executive Director
M Reynolds, Non-Executive Director

Secretary
C Sacre, Chief Operating Officer and Company Secretary

Principal Registered Business Office in Australia
G8 Education Limited is a Company limited by shares, incorporated, and domiciled in Australia. Its registered office and principal place of business is:

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

Share Registry:
Advanced Share Registry Limited
150 Stirling Hwy
Nedlands, WA 6009

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

Lawyers:
Minter Ellison
159 Varsity Parade
Varsity Lakes, QLD 4227

Securities Exchange Listing
G8 Education Limited shares are listed on the Australian Securities Exchange

G8 Education ltd