CFK Childcare Centres Limited

FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2007

Directors	Mark Evans "Chairman" Jennifer Scoble Leslie Wait Craig Napier
Secretary	Oliver Carton
Principal registered office in Australia	Level 3, Sydney Airport Centre 15 Bourke Road, Mascot NSW 2020 Telephone: 1300 769 529
Share and debenture register	Computershare Investor Services Pty Limited Level 3, 60 Carrington Street, Sydney NSW 2000 Telephone: 1300 787 272
Auditor	DTT NSW Grosvenor Place 225 George Street, Sydney NSW 2000
Solicitors	Dibbs Abbott Stillman Lawyers Level 8 Angel Place, 123 Pitt Street, Sydney NSW 2000
Bankers	National Australia Bank Limited Major Client Group Level 23, 255 George Street, Sydney NSW 2000
Stock exchange listings	CFK Childcare Centres Limited shares are listed on the Australian Stock Exchange
Website address	www.cfk.com.au

DIRECTOR'S REPORT

Your Directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of CFK Childcare Centres Limited and the entities it controlled as at or for the year ended 30 June 2007.

Directors

The following persons were directors of CFK Childcare Centres Limited ("the Company") during or since the end of the financial year;

Mark Evans was appointed a Director and Chairman of the company on 12 September 2007.

Leslie Wait was a Director for the full period and continues as a Director at the date of this report.

Jennifer Anne Scoble was a Director for the full period and continues as a Director at the date of this report.

Craig Napier was appointed a Director of the company on 12 September 2007.

Warren Robert Wilson was appointed a Director and Chairman of the company on 3 August 2006 and resigned on 12 September 2007.

Barrie Frederick Childs was a Director until his resignation on 29 November 2006.

Mark Langer Avery was a Director until his resignation on 7 July 2006.

Anthony Philip Fehon was a Director until his resignation on 10 May 2007.

Principal activities

During the year the principal continuing activities of the group consisted of the ownership and management of childcare centres.

Dividends

No dividends were paid or proposed to members during or since the end of the financial year.

Review of operations

The reported after tax loss for the Group of $12,861,286 (2006: $3,943,712) is largely attributable to the one-off adjustments relating to the impairment of childcare licence intangible assets and the write back of previously recognised tax losses.
There are three key operational issues which are impacting the ongoing profitability of the Group;

1) Occupancy – continues to track above the previous reporting period and it is expected that the capital expenditure made during the reporting period will continue to contribute to this trend.

2) Centre Staff Costs – during the reporting period the level of centre related employee costs grew as a result of wage increases and increased use of external labour. New rostering tools and procedures have recently been established and implemented to ensure that employee costs are appropriate for the levels of occupancy achieved.

3) Head Office Costs – since the end of the reporting period CFK has made significant savings due to the restructuring of its back office operations. These operations have been streamlined and are now in line with the current requirements of the business.

The Group's operating cashflow for the year; an outflow of $4,122,407 (2006: $3,316,949) remains the greatest concern for the Group. It is expected that through addressing the key profitability drivers that this will be improved. Additional funding will be required during FY08 to ensure that the company can continue to meet its obligations in the normal course of business. The company is actively pursuing all available options to secure the required funding.

Significant changes in the state of affairs

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

An increase in contributed equity of $516,109 (from $32,704,173 to $33,220,282) as a result of the following issues net of after tax share issue expenses of $1,251 and the writeback of previous equity related tax benefits of $442,000.

	2007
	$
Issue of 2,475,894 fully paid ordinary shares	959,360
Less: Transaction costs	(1,251)
Reversal of deferred tax assets in respect of share issue costs	(442,000)
Increase in Equity	516,109

Matters subsequent to the end of the financial year

(a) Changes to management and Board

Mark Evans has been appointed as a non executive director and Chairman of the Board. Mr Evans has over 15 years experience in investment banking with experience in all aspects of fund raising, mergers and acquisitions, and is currently Managing Director of Normanby Capital Pty Ltd.

Mr Evans was previously Managing Director of the ASX listed company Kids Campus Limited, and oversaw the growth of Kids Campus from 6 to over 100 childcare centres in 3 states. Kids Campus was acquired by ABC Learning in June 2006.

Evadon Pty Ltd, an entity associated with Mr Evans has participated in the placement of 13,200,000 shares referred to below under (d).

Craig Napier has also been appointed a non executive director and has entered into a consulting agreement with the company to undertake a full business and management review of the business and future direction.

Mr Napier has previously been Chief Executive Officer of Hutchison's Child Care Services Ltd and was involved in the listing of the company on the ASX in 2004. Mr Napier has also had 14 years senior management experience with Spotless Group Limited.

Usura Investments Pty Ltd, an entity associated with Mr Napier has also participated in the placement of 13,200,000 shares referred to below under (d).

Oliver Carton has been appointed Company Secretary. Mr Carton is an experienced company secretary and is currently company secretary of a number of listed and unlisted companies. He is a qualified lawyer with over 19 years' experience in a variety of corporate roles. He currently runs his own consulting business, and was previously a Director of the Chartered Accounting firm KPMG where he ran its Corporate Secretarial Group. Prior to that he was a senior legal officer with ASIC.

Warren Wilson has resigned as a Director of the Company – the Board would like to take the opportunity to thank Mr Wilson for his contribution over this period.

Warwick Smith has resigned as Company Secretary, but remains as Chief Financial Officer.

(b) Termination of Acre Woods Agreement

Further to recent announcements to the market CFK has now formally terminated its agreement with Acre Woods. The termination is by mutual consent, and CFK has paid Acre Woods a termination fee of $1.0m payable and a further $0.5m payment is due on 1 July 2008. The $1,000,000 commitment was funded by way of an additional loan facility from Macquarie Leisure Services Pty Limited ("MLS", refer to e) below), with the balance to be funded from future operating cashflows or facilities. CFK will have no further liability to Acre Woods once both payments have been finalised.

(c) Acquisition Agreement

CFK has agreed to acquire selected childcare centres from Glowclose Pty Ltd ("Glowclose"). A Term Sheet has been executed by the parties. The combined of Earnings Before Interest, Tax, Depreciation and Amortisation of the assets acquired will be a minimum of $1,250,000.

CFK will settle the Glowclose acquisition through the issue of ordinary shares to Glowclose or its nominee.

The acquisition is subject to, amongst other matters, due diligence and approval by CFK's shareholders. CFK will shortly issue a meeting document to shareholders giving full details of the acquisition. CFK expects, subject to the conditions being met, to complete the acquisition by 1 December 2007.

Glowclose will nominate a director to the Board should approval of the Glowclose acquisition be forthcoming.

(d) Placement

CFK successfully placed 13,200,000 ordinary fully paid shares to Evadon Pty Ltd (12,238,070 shares), a company associated with Mark Evans, the Chairman of the Company, and Usura Investments Pty Ltd (961,930 shares), a company associated with Craig Napier, a Director of the Company, which raised $974,160. Funds raised will be used for working capital purposes.

(e) Extension of facility from MLS

Macquarie Leisure Services Pty Limited ("MLS") has agreed to extend and change the terms of its loan facilities so that $4,100,000 in total is loaned on the terms and conditions set out below. In addition, $1,000,000 of the total loan will, subject to shareholder approval, be convertible into ordinary shares in CFK.

Terms of the new loan and conversion are as follows:

- The loan, other than the convertible amount referred to below, is repayable on 30 September 2009;
- Interest is capitalised and repayable on 30 September 2009. Interest is payable on amounts other than the convertible amount at the 90 day Bank Bill Swap Reference Rates plus 0.5%;
- Up to $1 million may, subject to shareholder approval, be converted into ordinary shares at 13.1 cents per share. If shareholder approval is given, no interest is payable on this amount. If shareholder approval is not given, then interest is payable at the 90 day Bank Bill Swap Reference Rates plus 0.5%.

The new loan is secured under the current second ranking charge, the terms of which include that MLS cannot acquire or deal with any assets of the Company under the charge without the Company first having complied with any applicable ASX Listing Rule, including Listing Rule 10.1. The new loan is on usual commercial terms or better.

(f) Future strategy

The new Board and management of CFK will immediately commence a review of all aspects of the current business and operations of the Company, the aim of which will be to take the business into a position of sustainable profitability. The Company's aim is that, with new skills brought in and the acquisition of the assets of Glowclose, it will maximise opportunities in the growing childcare sector in Australia.

Aside from the aforementioned there are no other matters or, circumstances have arisen since 30 June 2007 that have significantly affected, or may significantly affect:

(a) the groups' operations in future financial years; or

(b) the results of those operations in future financial years; or

(c) the groups' state of affairs in future financial years.

Likely developments and expected results of operations

Further information on likely developments in the operations of the group and the expected results of operations have not been included in this annual financial report because the directors believe it would be likely to result in unreasonable prejudice to the group.

Environmental regulation

The group is not subject to any significant environmental regulation under a law of the Commonwealth or of a State or Territory in relation to its childcare centres.

Information on Directors

The names and details of the company's Directors and Company Secretary in office at any time during the financial year and up until the date of this report are as follows. Directors were in the office for this entire period unless otherwise stated.

Mark Evans B.Bus (Acc), ASIA

Chairman and Non-Executive Director - Age 42

Experience and expertise

Mark is Managing Director of Normanby Capital Pty Ltd and has wide experience in the corporate advisory field including IPO's, mergers, acquisitions and all aspects of capital raising. Mark was Managing director of Kids Campus Limited and is currently Chairman of Dental Corporation Holdings Ltd.

Other current directorships

Symex Holdings Ltd, Dental Corporation Holdings Pty Ltd

Former directorships in last three years

Kids Campus Limited

Interests in shares and options

12,238,070 ordinary shares

Leslie Wait BProp, DipBus

Non-Executive Director - Age 38

Experience and expertise

Leslie Wait has had over 15 years experience in the property and finance industry.

Leslie was responsible for the creation of the childcare business within Macquarie Bank Limited, including the Parents@Work business in Australia and Forward Steps in New Zealand. Leslie is currently a Divisional Director at Macquarie Bank Limited. Leslie has been involved at a senior management level across a number of areas at Macquarie, including asset management, property development, debt and equity raising, investor relations, marketing and business operations.

Other current directorships

Macquarie Leisure Services Pty Limited

Parents@Work Pty Limited

Former directorships in last three years

Forward Steps Ltd

Forward Steps Holding Ltd

Kids First Ltd

Special responsibilities

Member of the Remuneration Committee

Chairperson of the Occupancy Committee

Member of the OH&S Committee

Interests in shares and options

Nil

Jennifer Anne Scoble SRN, JP

Non-Executive Director - Age 66

Experience and expertise

Jenny has 27 years experience in the childcare industry in New South Wales. She has owned and operated a number childcare centres.

During the course of her career she was responsible for pioneering and managing the operations of centres for the NSW Department of Education within school grounds. Amongst her other attributes, she has provided advisory services to the Childcare Association of NSW and managed the operations of an education equipment supplies company.

She has also lectured in diverse childcare matters such as behaviour management, Occupational Health and Safety, safe food handling, nutrition and menu planning.

Other current directorships

Nil

Former directorships in last three years

Nil

Special responsibilities

Member of the Audit Committee

Member of the Remuneration Committee

Member of the Occupancy Committee

Chairperson of the OH&S Committee

Interests in shares and options

4,272,120 ordinary shares beneficially held as at 30 June 2007.

Craig Napier

Non-Executive Director – Age 40

Experience and expertise

Craig has previously been Chief Executive Officer of Hutchison's Child Care Services Ltd and was involved in the listing of the company on the ASX in 2004. Craig has also had 14 years senior management experience with Spotless Group Limited.

Other current directorships

Usura Investments Pty Ltd, Health & Fitness Group Ltd

Former directorships in last three years

Nil

Interests in shares and options

5,000,000 ordinary shares

Warren Robert Wilson BCom, CPA

Chairman, Non-Executive Director - Age 49

Resigned 12 September 2007.

Experience and expertise: Warren Wilson's previous experience includes roles as Managing Director of TAB Limited from 1999 to 2004 and Managing Director of Sky Channel from 1996 to 1998.

Other current directorships

Chairman AWP Homes Pty Ltd

Chairman AWP Holdings Pty Ltd

Chairman Whoppie Unit Trust

Chairman AWP Holdings Unit Trust

Director Central Coast Studios Pty Ltd

Chairman JGT Investments Pty Ltd

Former directorships in last three years

Nil

Interests in shares and options

500,000 options.

Anthony Philip Fehon B.Com FCA, F.Fin JP

Non-Executive Director. - Age 43

Resigned 10 May 2007.

Experience and expertise

Tony has managed investment and operational businesses in Australia and globally. Tony previously headed the Branded Investments Division within Macquarie Bank Limited

Other current directorships

Nil

Former directorships in last three years

Macquarie Leisure Trust

Macquarie Leisure Services Pty Limited

Parents@Work Pty Limited

Forward Steps Ltd

Forward Steps Holdings Ltd

Kids First Properties Ltd

Interests in shares and options

Nil

Barrie Frederick Childs FAICD, JP

Non-Executive Director (from 15 September 2006) - Age 72

Retired 29 November 2006.

Experience and expertise

Barrie co-founded CFK Childcare Centres Limited which was listed on the ASX on 4 April 2005.

Other current directorships

Nil

Former directorships in last three years

Nil

Interests in shares and options

13,160,723 ordinary shares and 6,960,000 options expiring April 2008 exercisable at $1.00 as at 30 June 2007.

Mark Avery LLB MBA

Executive Director - Age 42

Resigned 10 July 2006.

Experience and expertise

Mark is a co-founder of CFK Childcare Centres Limited and is highly experienced in negotiations and acquisitions of childcare centre businesses.

Other current directorships

Not known.

Former directorships in last three years

Nil

Interests in shares and options

1,178,585 ordinary shares and 1,740,000 options expiring April 2008 exercisable at $1.00 as at 30 June 2007.

Company secretary

Oliver Carton B Juris LLB, age 43

Oliver is an experienced company secretary and is currently company secretary of a number of listed and unlisted companies, ranging from Symex Holdings Limited to the not for profit Melbourne Symphony Orchestra Pty Ltd.

Oliver is a qualified lawyer with over 15 years experience in a variety of corporate roles. He currently runs his own consulting business, and was previously a Director of the Chartered Accounting firm KPMG where he ran its Corporate Secretarial Group. Prior to that, he was a senior legal officer with ASIC.

The company secretary was Mark Avery till 10 July 2006. Mr Christopher Shane Kerr (MBA, CPA), was appointed company secretary on 10 July 2006 and has previously held the position of company secretary for listed public companies. Chris Kerr resigned from CFK on 12 July 2007 and Warwick Smith BAcc, CPA took on the role of company secretary in an acting capacity until the appointment of Oliver Carton on 12 September 2007.

Meetings of Directors

The numbers of meetings of the companies Board of Directors and of each board committee held during the year ended 30 June 2007, and the numbers of meetings attended by each director were:

Full meetings of directors

	Board		Audit		Remuneration		Nomination	
	A	B	A	B	A	B	A	B
Warren Wilson	15	16	2	2			2	2
Jennifer Scoble	20	20	2	2	2	2		
Anthony Fehon	16	16	2	2			2	2
Leslie Wait	20	20			2	2		
Mark Avery	2	2						
Barrie Childs	6	10					1	1

A = Number of meetings attended

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

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 paid;

(c) Service agreements;

(d) Share based compensation;

(e) Additional information

The Remuneration Committee is responsible for recommending to the Board the remuneration packages of the CFO, CEO and the senior executive team on an annual basis. CFK is moving to a culture that rewards its staff by assessment of a number of key performance indicators, which will result increasingly in remuneration being determined by performance.

The information provided under headings (a) to (d) includes remuneration disclosures that are required under Accounting Standard AASB 124 Related Party Disclosures. These disclosures have been transferred from the financial report and have been audited. The disclosures in Section (E) are additional disclosures required by the Corporations Act 2001 and the Corporations Regulations 2001 which have not been audited.

(A) Principles used to determine the nature and amount of remuneration (audited)

Non-executive Directors

Fees and payments to non-executive directors reflect the demands and responsibilities of the position. Non-executive Directors fees and payments are reviewed annually by the Board. The Chairman's fees are determined independently to fees of non-executive Directors based on comparative roles in the external market. The Chairman is not present at any discussions relating to determination of his own remuneration.

Director's fees

The current base remuneration was reviewed in August 2006 and was set at $36,000 for independent and non-independent non-executive Directors and $72,000 for the Chairman.

Executive remuneration

Executive remuneration is comprised of two main components, base remuneration and incentives.

Base pay

Structured as a total employment cost package which may be delivered as a mix of cash and prescribed benefits at the executives discretion, including vehicles. Base pay for executives is reviewed annually to ensure the executives pay is competitive with the market, however, there are no guaranteed increases fixed in any senior executives contract.

(B) Details of remuneration paid (audited)

Details of the remuneration of the directors and the key management personnel (as defined in AASB 124 : Related Party Disclosures) of CFK Childcare Centres Limited and the Group are as set out in the following tables.

Key management personnel of both CFK Childcare Centres Limited and of the Group

The key personnel listed in the table below are also the highest paid executives of both CFK Childcare Centres Limited and of the Group.

2007	Short-term benefits			Post Employment Benefits	Termination Benefits	Share Based Payment	
Name	Cash Salary and fees $	Cash Bonus $	Non Monetary Benefits $	Super-Annuation $	Cash $	Options $	Total $
Non-executive Directors							
W Wilson (1)	66,000	-	-	-	-	101,970	167,970
J Scoble	36,000	-	-	-	-	-	36,000
A Fehon (2)	30,000	-	-	-	-	-	30,000
L Wait	36,000	-	-	-	-	-	36,000
Sub total non-executive Directors	**168,000**	**-**	**-**	**-**	**-**	**101,970**	**269,970**
Executive Directors							
B Childs (3)	49,000	-	6,667	-	226,293	-	281,960
M Avery (4)	15,000	-	-	4,729	-	-	19,729
Sub total Executive Directors	**64,000**	**-**	**6,667**	**4,729**	**226,293**	**-**	**301,689**
Other Key Management Personnel							
P Kadar Chief Executive Officer (5)	173,754	-	-	8,377	-	-	182,131
C Kerr Chief Financial Officer and Company Secretary (8)	120,808	-	2,036	10,872	-	-	133,716
W Smith Chief Financial Officer (6)	25,385	-	-	2,285	-	32,982	60,652
S Klanke Operations Manager (7)	44,308	-	3,859	3,988	-	35,368	87,523
Subtotal key management personnel	**364,255**	**-**	**5,895**	**25,522**	**-**	**68,350**	**464,022**
TOTALS	**596,255**	**-**	**12,562**	**30,251**	**226,293**	**170,320**	**1,035,681**

(1) From appointment as Director and Chairman 3 August 2006

(2) Paid until his resignation 10 May 2007.

(3) Paid through a service company until resignation on 29 November 2006.

(4) Paid through a service company until resignation on 7 July 2006.

(5) From appointment as Chief Executive Officer 20 August 2006 until his resignation 28 June 2007.

(6) From appointment as Chief Financial Officer 26 April 2007

(7) From appointment as Operations Manager 19 March 2007

(8) Chief Financial Officer until 25 April 2007

2006	Short-term benefits			Post Employment Benefits	Termination Benefits	Share Based Payment	
Name	Cash Salary and fees $	Cash Bonus $	Non Monetary Benefits $	Super-Annuation $	Cash $	Options $	Total $
Non-executive Directors							
B Mathews (2)	15,000	-	-	-	-	-	15,000
N Childs (3)	18,000	-	-	-	-	-	18,000
J Scoble	36,000	-	-	-	-	-	36,000
A Fehon (4)	15,000	-	-	-	-	-	15,000
L Wait (4)	6,000	-	-	-	-	-	6,000
Sub total non-executive Directors	**90,000**	**-**	**-**	**-**	**-**	**-**	**90,000**
Executive Directors							
B Childs (1)	240,000	-	40,000	-	-	-	280,000
M Avery (1)	180,000	-	-	-	42,363	-	222,363
Sub total Executive Directors	**420,000**	**-**	**40,000**	**-**	**42,363**	-	**502,363**
Other Key Management Personnel							
C Kerr Chief Financial Officer and Company Secretary (5)	64,731	-	-	5,826	-	-	70,557
Subtotal key management personnel	**64,731**	**-**	**-**	5,826	**-**	-	**70,557**
TOTALS	**574,731**	**-**	**40,000**	**5,826**	**42,363**	-	**662,920**

(1) Paid through their service companies.

(2) Until his death on 30 January 2006.

(3) Until her resignation on 13 January 2006.

(4) From their appointment on 16 February 2006 and 15 May 2006 respectively.

(5) From his appointment on 21 October 2005. Mr Kerr was appointed Company Secretary on 10 July 2006.

(C) Service agreements (audited)

The following Directors had service agreements with the company.

Barrie Childs (resigned 29 November 2006)

Term of agreement

Agreement commenced from closure of Initial Public Offering (IPO) (March 2005) and was for a three year term, the agreement was terminated 15 September 2006.

Primary responsibility

Overall management of the company.

Remuneration

Base salary of $240,000 per annum, plus a performance bonus component which was payable if the reported Net Profit After Tax forecast for 30 June 2007 set out the company's prospectus are exceeded. In addition, Mr Childs was entitled to a car allowance of $40,000 per annum.

Mr Childs retired as CEO in September 2006 and continued as a non-executive Director until 29 November 2006. Until his retirement, Mr Childs was remunerated as an employee on the same basis as all other non-executive Directors.

Mark Avery (resigned 7 July 2006)

Term of agreement

Agreement commenced from closure of IPO (April 2005) and was for a three year term. This agreement was terminated on 7 July 2006.

Primary responsibility

Business development

Remuneration

Base salary of $180,000 per annum, plus a performance bonus component which was payable if the reported net profit after tax forecast for 30 June 2006 as set out in the company's prospectus were exceeded.

Bradley Childs Asset Manager

Term of agreement

Agreement commenced 17 October 2005 and was to conclude in May 2010, this agreement was terminated March 2007.

Primary responsibility

Centre sites development and maintenance

Remuneration

Base salary of $75,000 per annum.

There are no other services agreements in place with any executive or Directors at this time. All executives are required to give a minimum of one month's notice of resignation. Terms of employment can include novated leases on motor vehicles and payment of professional fees relevant to their employment as well as cash benefits and superannuation contributions.

(D) Share based compensation (audited)

Options were granted by the company pursuant to Performance Agreements dated 19 January 2005 with each of Wolram Investments Pty Limited ("Wolram") (a company associated with Barrie Childs) and Corporate Capital Pty Limited ("Corporate Capital") (a company associated with Mark Avery).

These Performance Agreements were cancelled September 2006 and July 2006 respectively. The options previously granted but not vested under the terms of the Performance Agreements have been cancelled. There is no obligation to issue any further options under the Performance Agreements.

Details of options over ordinary shares in the company provided as remuneration to each Director of the company and each of the key management personnel of the group are set out below. When exercisable, each option is convertible into one ordinary share. Further information on the options is set out in note 34 to the financial statements.

	Number of options granted during the year		**Number of options vested during the year**	
Name	**2007**	**2006**	**2007**	**2006**
Directors				
W Wilson	500,000 (i)	-	-	-
Key Management Personnel				
S Klanke	250,000 (ii)	-	250,000 (ii)	-
W Smith	250,000 (iii)	-	250,000 (iii)	-

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

The model inputs for options granted during the year ended 30 June 2007 included:

(a) options are granted for no consideration & vest immediately, except in the case of Mr Wilson where the shares vest in three tranches over a three year period commencing 1 September 2008.

(b) exercise price: (i) $0.39 - $0.47 (ii) $0.30 (iii) $0.28

(c) grant date: (i) 24 July 2006 (ii) 19 March 2007 (iii) 24 April 2007

(d) expiry date: (i) 30 September 2009 – 30 September 2011 (ii) 19 March 2010 (iii) 24 April 2010

(e) share price at grant date: (i) $0.395 (ii) $0.28 (iii) $0.275

(f) expected price volatility of the company's shares: 63%

(g) risk-free interest rate: (i) 6.5% (ii) 6.67% (iii) 6.62%

(h) standard deviation: 66%

(i) dividend yield: 0%

The expected price volatility was based on the average historic volatility of the company.

Shares provided on exercise of remuneration options

No options have been exercised upon vesting.

(E) Additional information (unaudited)

Principles used to determine the nature and amount of remuneration: relationship between remuneration and company performance.

The overall level of executive reward takes into account company performance plus other factors including competition and the need to retain good executives. No share-based remuneration was granted during the financial year ended 30 June 2007.

Details of remuneration: cash bonuses and options

For each grant of options included in the tables above, the percentage of the available grant that vested, in the financial year, and the percentage that was forfeited is set out below.

Name	Year granted	Vested %	Forfeited %	Financial years In which options may vest	Minimum total value of grant yet to vest $	Maximum total value of grant yet to vest $
Directors						
B Childs	2005	100	-	2005	Nil	Nil
M Avery	2005	100	-	2005	Nil	Nil
W Wilson	2007	-	-	2009 – 2011	Nil	101,970
Key Management						
S Klanke	2007	100	-	2007	Nil	Nil
W Smith	2007	100	-	2007	Nil	Nil

Loans to Directors and executives

There were no loans to Directors and executives during the year or the previous year.

Shares under option

Unissued ordinary shares of CFK Childcare Centres Limited under option at the date of this report are as follows:

Grant date	**Expiry Date**	**Issue price of shares**	**Number under option**
19 January 2005	4 April 2008	$1.00	8,700,000
24 July 2007	30 Sept 2009 – 30 Sept 2011	$0.39 - $0.47	500,000
19 March 2007	18 March 2010	$0.30	250,000
24 April 2007	25 April 2010	$0.28	250,000

Insurance of officers

All Directors of the company, its secretary and executive officers are entitled to be indemnified under the company's Constitution to the maximum extent permitted by law unless the liability arises out of conduct involving a lack of good faith.

During the financial year, the company paid insurance premiums in respect of a directors and officers liability insurance contract against certain liabilities (subject to exclusions), for all current and former officers of the company, including all directors named in the report, the company secretary and executive officers of the company, and directors and officers who have retired or relinquished their positions.

The insurance policy prohibits disclosure of the premium paid in respect of the policy and the nature of the liabilities insured by the policy.

Proceedings on behalf of the company

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

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

Non-audit services

The company may decide to employ the auditor (DTT NSW) on assignments additional to their statutory audit duties where the auditor's expertise and experience with the company and/or the consolidated entity are important.

Details of the amounts paid or payable to the auditor 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 non-audit services is compatible with the general standard of independence for auditors imposed by the Corporation Act 2001 for the following reasons:

- all non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor;
- none of the services undermine the general principles relating to auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the company, acting as an advocate for the company or jointly sharing economic risk and rewards.

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

		CONSOLIDATED	
		2007 $	2006 $
	Assurance services		
1.	**Audit services**		
	DTT NSW (formerly Howath Sydney Partnership)		
	Audit and review of financial reports and other audit work under the Corporations Act 2001	86,594	63,000
	Total remuneration for audit services	86,594	63,000
2.	**Other Assurance services**		
	Fees paid to DTT NSW (formerly Horwath Sydney Partnership)		
	Other services	-	6,000
		-	6,000
	TOTAL REMUNERATION	86,594	69,000

Auditor's independence declaration

A copy of the auditor's independence declaration is required under section 307C of the Corporations Act 2001 as set out on Page 14.

This report is made in accordance with the resolution of the Directors.

……………………………………………

Mark Evans

Chairman

Sydney

Date 28 September 2007

DTT NSW

DTT NSW has changed its name from Horwath Sydney Partnership and is a continuation of that partnership.
The partners of DTT NSW have also joined the Australian partnership of Deloitte Touche Tohmatsu.
All changes with effect from 1 February 2007.

DTT NSW
ABN 30 856 062 171

Grosvenor Place
225 George Street
Sydney NSW 2000
PO Box N250 Grosvenor Place
Sydney NSW 1217 Australia

DX 10307SSE
Tel: +61 (0) 2 9322 7000
Fax: +61 (0) 2 9322 7001
www.deloitte.com.au

28 September 2007

The Board of Directors
CFK Childcare Centres Limited
Level 3, Suite 4
15 Bourke Road
MASCOT NSW 2020

Dear Directors

CFK Childcare Centres Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of CFK Childcare Centres Limited.

As lead audit partner for the audit of the financial statements of CFK Childcare Centres Limited for the financial year ended 30 June 2007, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- any applicable code of professional conduct in relation to the audit.

Yours sincerely,

DTT NSW

DTT NSW

Alfred Nehama
Partner
Chartered Accountants

CORPORATE GOVERNANCE REPORT

CFK Childcare Centres Limited (the company) is responsible for the corporate governance of the company and its controlled entities.

The company and the Board are committed to achieving and demonstrating the highest standards of corporate governance.

An extensive review of the company's corporate governance framework was completed in August 2006. As part of this due diligence process, and in light of the Principles of Good Corporate Governance and Best Practice Recommendations (Recommendations) published by the Australian Stock Exchange corporate governance Council in March 2003, the company's policies are mainly consistent with those guidelines. Where the company's corporate governance policies are not consistent with the practices recommended, the company is working towards compliance.

The company and its controlled entities together are referred to as the group in this statement.

As stated in the Directors' Report, a number of Board changes were made on 12 September 2007, and the new Board has commenced a review of all aspects of the current business and operations of the Company. This review will include Board and sub committee composition and performance.

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 company 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.

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 Chief Executive Officer and senior executives as set out in the group's delegations policy. These delegations are reviewed as necessary, and at a minimum on an annual basis. At the date of this Report no CEO was in place and the Board were managing day to day affairs of the group.

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

The Board of Directors

The board operates in accordance with the broad principles set out in its charter which was adopted in August 2006. Operation of the charter was suspended on 25 September 2007 pending completion of the review of the group's business and operations referred to above.

Board composition

The charter states:

- the Board can be comprised of both executive and non-executive directors with the objective that a majority of non-executive directors.

Responsibilities

The responsibilities of the Board include:

- providing strategic guidance to the company 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 groups strategic goal's and objectives;

  - compliance with the company's Corporate Code;

  - 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 company's auditors;

- appointment, performance assessment and, if necessary, removal of the CEO;

- 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;

- overseeing the operation of the Group's system for compliance and risk management reporting to shareholders;

- act honestly, fairly, diligently and in accordance with the law.

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". There are currently four non-executive Directors, two of whom is deemed independent under the principles set out below.

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;

- the size of the Board is conducive to effective discussion and efficient decision-making.

Directors' independence

The board has adopted specific principles in relation to Directors independence. These state that to be deemed independent, a Director must be a non-executive and:

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

The Board accepts the criteria expressed in the recommendations defining independence and it agrees that there should be a majority of independent Directors. The current structure of the Board does not comply with the recommendations. Currently two of the four Directors are not independent namely: M Evans and L Wait.

Whilst these Directors are not deemed to be independent in view of the specific principles that CFK has adopted, it is the Boards view that at this time the mix of the Board is appropriate at this stage of the company's growth.

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 12 years.

Term of office

The company's Constitution specifies that all non-executive Directors must retire from office no later than the third annual general meeting (AGM) following their last election. Where eligible, a Director may stand for re-election, subject to the following limitations:

- no non-executive director may serve more than four terms (12 years).

Chairman and CEO

The Chairman is responsible for leading the Board, ensuring Directors are properly briefed in all matters relevant to their role and responsibilities, facilitating board discussions and managing the board's relationship with the company's senior executives.

The principle of separation of roles of Chairman and CEO is regarded as essential.

The CEO is responsible for implementing group strategies and policies. The CEO appoints the management team (with advice and assistance from the Board as to senior management positions).

Commitment

The Board held 20 board meetings during the period ending 30 June 2007.

The number of meetings of the company's Board of Directors and of each board committee held during the year ended 30 June 2007, and the number of meetings attended by each director is disclosed on page 8.

Conflict of interests

The Board manages conflicts of interest through disclosures at every meeting and requires abstinence from the discussion by conflicted members if considered material by the Board.

Directors or entities connected with Directors had business dealings with the consolidated entity during the year, as described in Note 25 in the financial statements. In accordance with the Board charter the Directors concerned declared their interests in those dealings to the company and took no part in decisions relating to them or the preceding discussions.

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 Chairman is required, but this will not be unreasonably withheld.

Corporate reporting

The Chairman and Chief Financial Officer have made the following certifications to the Board:

- that 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;

- that 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 that the company's risk management and internal compliance and control is operating efficiently and effectively in all material respects.

Board committees

The Board has established three committees to assist in the execution of its duties and to allow detailed consideration of complex issues. Current committees of the Board are the remuneration, occupancy and audit committees, all of which operated according to their charters during the period. As stated above, the new Board has commenced a review of all aspects of the current business and operations of the Company. This review will include sub committee composition and performance.

External auditors

The company and audit committee 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. Deloitte Touche Tohmatsu ("Deloitte") was appointed as the external auditor in 2004. It is Delloitte's policy to rotate audit engagement partners on listed companies at least every five years.

An analysis of fees paid to the external auditors, including a break-down of fees for non-audit services, is provided in the director's report and in Note 27 to the financial statements. It is the policy of the external auditors to provide an annual declaration of their independence to the audit committee.

A representative of the external auditor is now required to attend the AGM and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

Code of Conduct

The company has adopted a Code of Conduct. In summary, the Code of Conduct 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.

The purchase and sale of company securities by Directors is only permitted with the permission of the Chairman. Senior executives are required to gain the approval of the CEO as the delegate of the Chairman before the sale or purchase of company securities. No person is permitted to trade securities in periods when price sensitive information has not been released to the market.

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

This policy is in line with the Code of Conduct as outlined in the recommendations.

Risk assessment and management

The Board, through the audit committee, is responsible for ensuring there are adequate policies in relation to risk management, compliance and internal control systems.

Risk assessment and its management are monitored at board meeting and audit committee meetings, with key risks and changes in status of any of the risks being monitored.

The company recognises the importance of environmental and OH&S issues and is committed to the highest levels of performance.

Information on compliance with significant environmental regulations is set out in the Directors report.

Continuous disclosure and shareholder communication

The company has written policies and procedures on information disclosure that focus on continuous disclosure of any information concerning the group as required by the ASX Listing Rules and the Corporations Act. 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 ASX. This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.

When analysts are briefed on aspects of the groups operations, the material used in the presentation is released to the ASX. 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.

All shareholders receive a copy of the company's annual (full or concise) report. In addition, the company seeks to provide opportunities for shareholders to participate through electronic means.

The Board recognises the importance of the company's relationship with stakeholders. The importance of these relationships is being formalised through the development of procedures to ensure compliance with legal and other obligations to stakeholders.

CFK Childcare Centres Limited
ABN 75 102 498 797
Annual financial report - 30 June 2007

Contents

This financial report covers both CFK Childcare Centres Limited as an individual entity and the consolidated entity consisting of CFK Childcare Centres Limited and its subsidiaries. The financial report is presented in Australian currency.

CFK Childcare Centres Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

CFK Childcare Centres Limited
Level 3
Sydney Airport Centre
15 Bourke Road
MASCOT NSW 2020

A description of the nature of the consolidated entity's operation and its principal activities is included in the directors' report on pages 2 -13 which is not part of this financial report.

The financial report was authorised for issue by the directors on 28 September 2007. The company has the power to amend and reissue the financial report.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete, and available globally at minimum cost to the company.

CFK Childcare Centres Limited
Income statements
For the year ended 30 June 2007

	Notes	Consolidated 2007 $	Consolidated 2006 $	Parent entity 2007 $	Parent entity 2006 $
Revenue from continuing operations	3	**21,485,156**	19,840,543	**21,485,156**	19,840,543
Depreciation expense		**(609,602)**	(294,991)	**(609,602)**	(294,991)
Finance costs		**(1,453,657)**	(1,384,274)	**(1,453,657)**	(1,384,274)
Employee benefits expense		**(15,622,576)**	(13,339,295)	**(14,733,980)**	(12,174,326)
Child catering and other centre expenses		**(915,591)**	(983,223)	**(915,591)**	(983,223)
Cleaning and hygiene expenses		**(475,026)**	(518,385)	**(475,026)**	(518,385)
Communication expenses		**(227,925)**	(143,561)	**(227,925)**	(143,561)
Agency Contract Labour		**(757,291)**	(598,404)	**(1,925,464)**	(1,435,829)
Insurance		**(182,861)**	(185,472)	**(182,861)**	(185,472)
Payroll tax		**(814,006)**	(691,618)	**(814,006)**	(622,284)
Workers' compensation		**(312,385)**	(437,998)	**(312,385)**	(437,998)
Occupancy expenses		**(4,292,583)**	(3,944,906)	**(4,292,583)**	(3,942,197)
Damages paid		**-**	(1,145,142)	**-**	(1,145,142)
Share-based payment expense		**(170,320)**	-	**(170,320)**	-
Other expenses		**(1,676,593)**	(1,071,534)	**(1,674,744)**	(1,193,392)
Impairment of Intangible Asset	13	**(5,538,000)**	-	**(5,538,000)**	-
Loss before income tax		**(11,563,260)**	(4,898,260)	**(11,840,988)**	(4,620,531)
Income tax (expense)/benefit	5	**(1,298,026)**	954,548	**(1,214,707)**	871,229
Loss for the year		**(12,861,286)**	(3,943,712)	**(13,055,695)**	(3,749,302)

		Cents	Cents
Loss per share for loss from continuing operations attributable to the ordinary activities			
Basic (loss) per share	23	**(14.5)**	(6.1)
Diluted (loss) per share	23	**(14.5)**	(6.1)

The above income statements should be read in conjunction with the accompanying notes

	Notes	Consolidated 2007 $	Consolidated 2006 $	Parent entity 2007 $	Parent entity 2006 $
ASSETS					
Current assets					
Cash and cash equivalents	6	**448,796**	5,585,702	**448,796**	5,412,654
Trade and other receivables	7	**1,608,436**	1,148,747	**1,608,436**	1,145,931
Other assets	8	**236,187**	786,986	**236,187**	786,986
Total Current Assets		**2,293,419**	7,521,435	**2,293,419**	7,345,571
Non-current assets					
Receivables	10	**-**	-	**-**	98,288
Other financial assets	9	**-**	-	**3**	3
Property, plant and equipment	11	**3,276,820**	2,293,185	**3,276,820**	2,293,185
Deferred tax assets	12	**-**	1,713,043	**-**	1,629,724
Intangible assets	13	**33,105,978**	37,107,431	**33,105,978**	37,107,431
Other	14	**-**	41,686	**-**	41,686
Total non-current assets		**36,382,798**	41,155,345	**36,328,801**	41,170,317
Total assets		**38,676,217**	48,676,780	**38,676,220**	48,515,888
LIABILITIES					
Current liabilities					
Trade and other payables	15	**3,478,569**	2,886,016	**3,478,572**	2,530,715
Borrowings	16	**16,020,271**	15,064,320	**16,020,271**	15,064,320
Current tax liabilities		**-**	-	**-**	-
Provisions	17	**946,828**	699,513	**946,828**	699,513
Other	18	**1,544,795**	1,311,128	**1,544,795**	1,311,128
Total current liabilities		**21,990,463**	19,960,977	**21,990,466**	19,605,676
Non-current liabilities					
Borrowings	16	**254,166**	58,953	**254,166**	58,953
Provisions	17	**23,261**	73,666	**23,261**	73,666
Total non-current liabilities		**277,427**	132,619	**277,427**	132,619
Total liabilities		**22,267,890**	20,093,596	**22,267,893**	19,738,295
Net assets		**16,408,327**	28,583,184	**16,408,327**	28,777,593
EQUITY					
Contributed equity	19	**33,220,282**	32,704,173	**33,220,282**	32,704,173
Share-based payments reserve	20	**448,720**	278,400	**448,720**	278,400
Accumulated losses	21	**(17,260,675)**	(4,399,389)	**(17,260,675)**	(4,204,980)
Total equity		**16,408,327**	28,583,184	**16,408,327**	28,777,593

The above balance sheets should be read in conjunction with the accompanying notes.

Statements of Changes in Equity
For the year ended 30 June 2007

	CONSOLIDATED		PARENT ENTITY	
	2007 $	2006 $	2007 $	2006 $
Total equity at the beginning of the financial year	**28,583,184**	22,230,824	**28,777,593**	22,230,824
Reversal of deferred tax assets in respect of share issue costs	**(442,000)**	-	**(442,000)**	-
Net Income recognised directly in equity	**(442,000)**	-	**(442,000)**	-
(Loss) for the year	**(12,861,286)**	(3,943,712)	**(13,055,695)**	(3,749,302)
Total recognised income and expense for the year	**(13,303,286)**	(3,943,712)	**(13,497,695)**	(3,749,302)
Transactions with equity holders in their capacity as equity holders				
Net Contribution of equity	**958,109**	10,296,072	**958,109**	10,296,071
Employee share options	**170,320**	-	**170,320**	-
	1,128,429	10,296,072	**1,009,109**	10,296,071
Total equity at the end of the financial year	**16,408,327**	28,583,184	**16,408,327**	28,777,593

CFK Childcare Centres Limited
Cash flow statements
For the year ended 30 June 2007

	Notes	Consolidated 2007 $	Consolidated 2005 $	Parent entity 2007 $	Parent entity 2006 $
Cash flows from operating activities					
Receipts from customers		**20,611,779**	20,115,028	**20,611,779**	20,116,955
Payments to suppliers and employees		**(23,578,466)**	(21,892,051)	**(23,503,706)**	(21,968,734)
Interest received		**116,005**	217,484	**116,005**	217,484
Interest paid		**(1,271,725)**	(1,345,176	**(1,271,725)**	(1,345,176)
Income tax paid		**-**	(412,234)	**-**	(412,234)
Net cash (outflow) from operating activities	22	**(4,122,407)**	(3,316,949)	**(4,047,647)**	(3,391,705)
Cash flows from investing activities					
Acquisition of plant & equipment and software		**(1,572,892)**	(1,472,808)	**(1,572,892)**	(1,472,808)
Payment for acquisition of childcare licenses and related assets		**(965,280)**	(3,619,013)	**(965,280)**	(3,619,013)
Advances to controlled entities		**-**	-	**-**	(98,292)
Proceeds from repayment by controlled entities		**-**	-	**98,288**	-
Net cash (outflow) from investing activities		**(2,538,172)**	(5,091,821)	**(2,439,884)**	(5,190,113)
Cash flows from financing activities					
Proceeds from issues of shares / equity securities		**372,509**	9,634,482	**372,509**	9,634,482
Payment of share issue costs		**-**	(112,016)	**-**	(112,016)
Proceeds from borrowings		**1,256,957**	-	**1,256,957**	-
Repayments of borrowings		**(105,793)**	(235,957)	**(105,793)**	(235,957)
Net cash inflow from financing activities		**1,523,673**	9,286,509	**1,523,673**	9,286,509
Net increase/(decrease) in cash and cash equivalents		**(5,136,906)**	877,739	**(4,963,858)**	704,691
Cash and cash equivalents at the beginning of the financial year		**5,585,702**	4,707,963	**5,412,654**	4,707,963
Cash and cash equivalents at end of year	6	**448,796**	5,585,702	**448,796**	5,412,654

The above cash flow statements should be read in conjunction with the accompanying notes.

1. SIGNIFICANT ACCOUNTING POLICIES

CFK Childcare Centres Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian stock exchange.

The principal accounting policies adopted in 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 includes separate financial statements for CFK Childcare Centres Limited as an individual entity and the consolidated entity consisting of CFK Childcare Centres Limited and its subsidiary.

a) Basis of Preparation

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS) other authoritative pronouncements of the Australian Accounting Standards Board, Australian Accounting Interpretations and the *Corporations Act 2001.*

Compliance with IFRSs
Australian Accounting Standards include AIFRSs. Compliance with AIFRSs ensures that the consolidated financial statements and notes of CFK Childcare Centres Limited comply with International Financial Reporting Standards (IFRSs). The parent entity financial statements and notes also comply with IFRSs except that it has elected to apply the relief provided to parent entities in respect of certain disclosure requirements contained in AASB 132 *Financial Instruments: Presentation and Disclosure.*

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

Critical accounting estimates
The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to financial statements, are disclosed in Note 2.

b) Principles of consolidation

(i) Subsidiaries
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of CFK Childcare Centres Limited ("company" or "parent entity") as at 30 June 2007 and the results of all subsidiaries for the year then ended. CFK Childcare Centres Limited and its subsidiary, as described in note 27(b), together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries 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.

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.

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

Investments in subsidiaries are accounted for at cost in the individual financial statements of CFK Childcare Centres Limited.

c) 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 national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities, and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or liability. No deferred tax asset or liability is recognised in relation to those temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

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.

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

d) Impairment of Assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation 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. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units).

e) Plant and Equipment

Plant and equipment is stated at historical cost base depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight line basis to write off the cost, net of residual values of each item of plant and equipment over its expected useful life to the consolidated entity.

Estimates of remaining useful lives are made on a regular basis for all assets.

The useful lives for each class of depreciable asset are:

	June 2007	**June 2006**
Plant and Equipment:		
- childcare plant & equipment	5 yrs	5 yrs
- office equipment	4 yrs	4 yrs
- motor vehicles	8 yrs	8 yrs
- leasehold improvements	6 yrs	6 yrs
Building	40 yrs	40 yrs
Computer software	3 yrs	3 yrs

f) Leased Non-Current Assets

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incident to ownership of leased non current assets, and operating leases under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the interest expense.

The lease asset is amortised on a straight line basis over the term of the lease, or where it is likely that the consolidated entity will obtain ownership of the asset, the life of the asset.

Operating lease payments are recognised on a straight line basis over the term of the lease.

g) Borrowing Costs

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

h) Receivables and Payables

Trade receivables are generally settled within 60 days and are initially carried at amounts due.

Collectability of trade debtors is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off. A provision is raised where some doubt exists.

Trade payables represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid.

i) Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the consolidated entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Rendering of Services
Control of the right to be compensated for the childcare services upon the rendering of the service. Fees received in advance are reflected as deferred income. Revenue is recognised as the services are performed.

Interest received
Interest revenue is recognised on a time proportional basis taking into account the interest rates applicable to the financial assets.

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

j) Intangibles

Childcare licenses

Childcare licenses acquired by CFK Childcare Centres Limited in respect of the individual centres have been brought to account at fair value and subsequently measured at cost. The licenses comprise the amounts paid to the vendors to relinquish their exclusive accredited childcare business at the particular site together with the costs involved for the consolidated entity to acquire new licenses in its own name.

Licenses are renewable on an ongoing basis and the period of a license continues in perpetuity subject to meeting government review requirements. The higher of fair value less cost to sell and value-in-use is used to assess the impairment of the licenses and to the extent a reduction in the income earning capacity of a centre is identified, an impairment write-down would be recognised.

k) Employee Benefits

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

Provisions made in respect of wages and salaries, annual leave, and other employee entitlements expected to be settled within 12 months are measured at the amounts expected to be paid when the liabilities are settled.

Provisions made in respect of long service leave which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the consolidated entity 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 periods of service.

Contributions are made by the group to defined contribution employee superannuation funds and are charged as expenses when incurred.

l) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions and short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk changes in value.

m) Earnings per Share

Basic earnings per share is determined by dividing net profit after income tax attributable to members of the group, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted earnings per share adjusts the figures in the determination of basic earnings per share by taking 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.

n) Equity-based compensation benefits

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

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

The fair value of the options granted excludes the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance date, the entity revises its estimate of the number of options that are expected to be come exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

Upon the exercise of options, the balance of the share-based payments reserve relating to those options is transferred to exercised share option reserve.

o) Business Combinations

Acquisitions of subsidiaries and business are accounted for using the purchase method. The cost of the business combinations is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable issued by the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under AASB 3 'Business Combinations' are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 'Non-Current Assets Held for Sale and Discontinued Operations', which are recognised and measured at fair value less costs to sell.
Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

p) Contributed Equity

Issued and paid up capital is recognised at the fair value of the consideration received by the company.

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

q) Goods and Services Tax

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

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

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

r) Provisions

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of resources will result and the amount can be reliably measured.

s) Borrowings

Borrowings are recorded initially at fair value, net of transaction costs.

Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption amount being recognised in profit and loss over the period of the borrowing using the effective interest rate method.

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 balance sheet date.

t) Fair Value estimation

The fair value of financial instruments and share based payments that are not traded in an active market is determined using valuation techniques. The group uses a variety of methods and assumptions that are based on market conditions existing at each balance sheet date. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining instruments.

u) Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently measured to their fair value at each reporting date. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement and are included in other income or other expenses.

v) Going concern

As at 30 June 2007, the Consolidated and parent entity Income Statements reflected net loss of $12,861,156 (2006 : $3,943,712) and $13,055,695 (2006 : $3,749,302) respectively and the Consolidated and company Balance Sheet reflected working capital deficits of $19,697,044 (2006 : working capital deficit of $12,439,153) and $19,697,047 (2006 : working capital deficit of $12,260,105) respectively. The current liabilities in the Consolidated and company Balance Sheets include the following loan facilities:

- Bank bill facility of $15,000,000;
- Loan from Macquarie Leisure Services of $833,110

The Group is currently in breach of its financial covenants under the bank bill facility which have not been remedied, however, the bank bill facility has been extended until 30 November 2007 to allow the company to prepare an acceptable proposal to the company's bankers for the restructure of the operations as referred to in paragraph 5 below.

Since 30 June 2007, the Company undertook the following initiatives:

1. Termination of the agreement with Acre Woods by mutual consent for a termination fee of $1,500,000, $1,000,000 of which was paid on 28 September 2007 with the balance of $500,000 payable on 1 July 2008. The $1,000,000 payment was funded by way of an additional loan facility from Macquarie Leisure Services (refer to paragraph 4 below), with the balance funded from future operating cashflows or facilities.

2. Successfully placed 13,200,000 ordinary fully paid shares to Evadon Pty Ltd (12,238,070 shares), a company associated with Mark Evans, the Chairman of the Company and Usura Investments Pty Ltd (961,930 shares), a company associated with Craig Napier, a Director of the Company which raised $974,160. Funds raised were used for working capital purposes.

3. Entered into an agreement to acquire certain childcare centres from Glowclose Pty Limited ("Glowclose") by way of issue of ordinary shares in the Company to Glowclose. The acquisition is subject to, amongst other matters, due diligence and approval by the Company's shareholders. It is expected that these centres acquired will contribute positively to the Group's working capital requirements.

4. MLS has agreed to extend and change the terms of its loan facilities by lending an additional $2,500,000 million so that $4,100,000 million in total is loaned on the terms and conditions set out below. In addition, $1,000,000 of the total loan will, subject to shareholder approval, be convertible into ordinary shares in the Company at the option of MLS.

   Terms of the new loan facilities are as follows:

   - The loan, other than the convertible amount referred to below, is repayable on 30 September 2009;
   - Interest is capitalised and repayable on 30 September 2009. Interest is payable on amounts other than the convertible amount at the 90 day Bank Bill Swap Reference Rate plus 0.5%;
   - Up to $1,000,000 may, subject to shareholder approval, be converted into ordinary shares at 9.1 cents per share. If shareholder approval is given, no interest is payable on this amount. If shareholder approval is not given, then interest is payable at the 90 day Bank Bill Swap Reference Rate plus 8.5%.

The new loan facilities are secured under the current second ranking charge, the terms of which include that MLS cannot acquire or deal with any assets of the Company under the charge without the Company first having complied with any applicable ASX Listing Rule, including Listing Rule 10.1.

5. The Board and Management have commenced a review of all aspects of the current business and operations of the Company, the aim of which will be to restructure the business into a position of sustainable profitability. Strategies considered include further acquisition of new childcare centres, possible disposal of existing childcare centres and the refinancing of the existing bank bill facilities by 30 November 2007.

6. The Board is in negotiations with MLS and other parties concerning any additional funding required in the medium term.

The Directors of CFK Childcare Centres Limited are confident that, as a result of the above fund raising and plans to restructure the business, the consolidated entity and the company will continue as going concerns.

Notwithstanding the above initiatives, there is significant uncertainty as to whether the consolidated entity and the company will continue as going concerns, and therefore, whether they will realise their assets and settle their liabilities in the normal course of business and at the amounts stated in the financial report.

Should the consolidated entity and the company be unable to continue as going concerns, they may be required to realise their assets and extinguish their liabilities other than in the normal course of business and at amounts different from those stated in the financial report.

The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that may be necessary should the consolidated entity and the company be unable to continue as going concerns.

(w) New Accounting Standards and Interpretations

Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial report, a number of Standards and Interpretations were in issue but not yet effective.

Initial application of the following Standards will not affect any of the amounts recognised in the financial report, but may change the disclosures presently made in relation to the Group's and the Company's financial report:

Standard	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
• AASB 7 'Financial Instruments: Disclosures' and consequential amendments to other accounting standards resulting from its issue	1 January 2007	30 June 2008
• AASB 101 'Presentation of Financial Statements' – revised standard	1 January 2007	30 June 2008
• AASB 2007-7 'Amendments to Australian Accounting Standards'	1 July 2007	30 June 2008
• AASB 8 'Operating Segments' and consequential amendments to other standards resulting from its issue	1 January 2009	30 June 2010
• AASB 2007-4 'Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments'	1 July 2007	30 June 2008

Initial application of the following Standards and Interpretations is not expected to have any material impact to the financial report of the Group and the Company:

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
• AASB Interpretation 10 'Interim Financial Reporting and Impairment'	1 November 2006	30 June 2008
• AASB Interpretation 11 'AASB 2 – Group and Treasury Share Transactions'	1 March 2007	30 June 2008
• AASB 2007-1 'Amendments to Australian Accounting Standards arising from AASB Interpretation 11'	1 March 2007	30 June 2008
• AASB 2007-2 'Amendments to Australian Accounting Standards arising from AASB Interpretation 12'	1 January 2008	30 June 2009
• AASB 123 'Borrowing Costs' – revised standard	1 January 2009	30 June 2010
• AASB 2007-6 'Amendments to Australian Accounting Standards arising from AASB 123'	1 January 2009	30 June 2010

Further in September 2007 the IASB issued a revised IAS 1 'Presentation of Financial Statements' effective for annual periods beginning 1 January 2009. An equivalent Australian standard has not yet been issued. The new standard is expected to change the presentation and disclosure in the financial statements, but the directors do not anticipate that there will be a material financial impact arising on its adoption.

(x) Comparative Amounts

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

Note 2 – Critical accounting estimates and judgements

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

Share-based payments

The Group measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date on which they are granted. The fair value has been determined using the Black Scholes model. Further details on the assumptions used to calculate the value of the options can be found in Note 34. The Group assesses annually the number of options subject to non-market vesting conditions which may be exercisable.

Impairment of childcare licenses

The Group determines whether intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the intangibles and the cash generating units to which the intangibles are allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of intangibles with indefinite useful lives are discussed in note 13.

Recognition of deferred tax assets

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

Note 3 – Revenue

	Consolidated		**Parent entity**	
	2007	2006	**2007**	2006
	$	$	**$**	$
Revenue from continuing operations				
Revenue from childcare centres	**21,043,501**	19,600,706	**21,043,501**	19,600,706
Other Revenue				
Interest – Other Corporations	**116,005**	214,389	**116,005**	214,389
Other Revenue	**325,650**	25,448	**325,650**	25,448
Total Revenue	**21,485,156**	19,840,543	**21,485,156**	19,840,543

Note 4 – Expenses

	Consolidated		Parent entity	
	2007	2006	**2007**	2006
	$	$	**$**	$
Loss before income tax includes the following specific expenses:				
Depreciation				
Buildings	**6,922**	5,127	**6,922**	5,127
Plant & equipment	**235,234**	124,256	**235,234**	124,256
Office equipment	**46,728**	26,776	**46,728**	26,776
Motor vehicles under lease	**5,628**	2,861	**5,628**	2,861
Plant & equipment under lease	**60,674**	33,892	**60,674**	33,892
Computer software under lease	**63,071**	56,748	**63,071**	56,748
Leasehold improvements	**191,345**	45,331	**191,345**	45,331
Total depreciation expense	**609,602**	294,991	**609,602**	294,991
Finance Costs				
Interest and finance charges	**1,233,436**	968,162	**1,233,436**	968,162
Bill facility fees	**178,535**	287,240	**178,535**	287,240
Amortisation of borrowing costs	**41,686**	128,872	**41,686**	128,872
	1,453,657	1,384,274	**1,453,657**	1,384,274
Rent expense relating to operating leases				
Minimum lease payments	**3,681,522**	3,543,784	**3,681,522**	3,541,075
Damages paid (i)	**-**	1,145,142	**-**	1,145,142

(i) the damages paid in the previous year of $1,145,142 was as a result of the settlement of a dispute with Acre Woods Group over key terms within the Deed of Agreement dated 8 October 2004.

Note 5 – Income tax

	Consolidated		Parent entity	
	2007	2006	**2007**	2006
	$	$	**$**	$
a) Income Tax Expense / (Benefit)				
Current tax	-	-	-	-
Deferred tax	1,271,043	(1,057,624)	1,187,724	(974,305)
Prior year's adjustment	26,983	103,076	26,983	103,076
	1,298,026	(954,548)	1,214,707	(871,229)
Income tax (benefit)/expense is attributable to:				
Profit / (Loss) from continuing operations	1,298,026	(954,548)	1,214,707	(871,229)
Deferred income tax (benefit) expense included in income tax expenses compromises:				
Decreases/(increase) in deferred tax assets (note 12)	1,271,043	(1,057,624)	1,187,724	(974,305)

Note 5 – Income tax (continued)

	Notes	Consolidated 2007 $	Consolidated 2006 $	Parent entity 2007 $	Parent entity 2006 $
b) Numerical reconciliation of income tax expense (benefit) to prima facie tax payable					
(Loss) from continuing operations before income tax expense (benefit)		(11,563,260)	(4,898,260)	(11,840,988)	(4,620,531)
Tax at the Australia tax rate of 30% (2006 – 30%)		(3,468,978)	(1,469,478)	(3,552,296)	(1,386,158)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:					
Legal fees		105,209	68,312	105,209	68,312
Damages paid		-	343,542	-	343,542
Tax losses and timing differences not brought to account		3,363,769	-	3,447,087	-
Reversal of previously recognised tax benefits		1,271,043	-	1,187,724	-
		1,271,043	(1,057,624)	1,187,724	(974,304)
Prior year's adjustment		26,983	103,076	26,983	103,076
Income tax expense / (benefit)		1,298,026	(954,548)	1,214,707	(871,228)

The adjusted franking account balance is nil at year end (2006: nil).

Note 6 – Current assets – Cash and Cash Equivalents

	Consolidated 2007 $	Consolidated 2006 $	Parent entity 2007 $	Parent entity 2006 $
Cash on hand and at bank	**448,796**	5,585,702	**448,796**	5,412,654

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

	Consolidated 2007 $	Consolidated 2006 $	Parent entity 2007 $	Parent entity 2006 $
The above figures are reconciled to cash at the end of the financial year as shown in the Cash Flow Statements as follows:				
Cash on hand and at bank	**448,796**	4,385,702 `	**448,796**	4,212,654
Short term deposits	**-**	1,200,000	**-**	1,200,000
Total cash at end of period	**448,796**	5,585,702	**448,796**	5,412,654

(b) Cash at bank and on hand

The cash at bank and on hand bear floating interest rates of 5.7% (2006: between 5.0% and 5.5%)

Note 7 – Current assets – Trade and other receivables

	Consolidated		Parent entity	
	2007	2006	2007	2006
	$	$	$	$
Trade receivables	**1,461,266**	750,363	**1,461,266**	748,437
Allowance for doubtful receivables	**(301,045)**	(30,000)	**(301,045)**	(30,000)
	1,160,221	720,363	**1,160,221**	718,437
Sundry debtors	**75,388**	150,430	**75,388**	150,430
Goods and services tax receivable	**372,827**	250,974	**372,827**	250,084
Other receivables	**-**	26,980	**-**	26,980
	1,608,436	1,148,747	**1,608,436**	1,145,931

Note 8 – Current assets – Other Assets

	Consolidated		Parent entity	
	2007	2006	2007	2006
	$	$	$	$
Prepayments	**194,987**	609,318	**194,987**	609,318
Bonds and security deposits	**41,200**	177,668	**41,200**	177,668
	236,187	786,986	**236,187**	786,986

Note 9 – Non-current assets – Other financial assets

	Consolidated		Parent entity	
	2007	2006	2007	2006
	$	$	$	$
Shares in wholly-owned subsidiaries at cost (Note 27 (b))	-	-	3	3

Note 10 – Non Current assets - Receivables

	Consolidated		Parent entity	
	2007	2006	2007	2006
	$	$	$	$
Amounts receivable from:				
Wholly owned subsidiaries	**-**	-	**-**	98,288

Note 11 – Non-current Assets – Property, plant and equipment

	Notes	Consolidated 2007 $	Consolidated 2006 $	Parent 2007 $	Parent 2006 $
Freehold Land					
At cost	11 (b)	**32,010**	32,010	**32,010**	32,010
Freehold Building					
At cost		**276,871**	276,871	**276,871**	276,871
Accumulated depreciation		**(12,049)**	(5,127)	**(12,049)**	(5,127)
	11 (b)	**264,822**	271,744	**264,822**	271,744
Plant and equipment					
Childcare centre plant & equipment					
At cost		**1,181,932**	909,615	**1,181,932**	909,615
Accumulated depreciation		**(390,287)**	(155,053)	**(390,287)**	(155,053)
	11 (b)	**791,645**	754,562	**791,645**	754,562
Motor vehicles					
At cost		**84,785**	15,250	**84,785**	15,250
Accumulated depreciation		**(9,204)**	(3,576)	**(9,204)**	(3,576)
	11 (b)	**75,581**	11,674	**75,581**	11,674
Office equipment					
At cost		**282,540**	197,991	**282,540**	197,991
Accumulated depreciation		**(83,809)**	(37,081)	**(83,809)**	(37,081)
	11 (b)	**198,731**	160,910	**198,731**	160,910
Office equipment under finance lease					
At cost		**358,857**	146,004	**358,857**	146,004
Accumulated depreciation		**(106,447)**	(45,773)	**(106,447)**	(45,773)
	11 (b)	**252,410**	100,231	**252,410**	100,231
Leasehold Improvements					
At cost		**1,898,297**	1,007,385	**1,900,792**	1,007,385
Accumulated depreciation		**(236,676)**	(45,331)	**(239,171)**	(45,331)
	11 (b)	**1,661,621**	962,054	**1,661,621**	962,054
		3,276,820	2,293,185	**3,276,820**	2,293,185
Total property, plant and equipment					
Cost		**4,115,292**	2,585,126	**4,115,292**	2,585,126
Accumulated depreciation		**(838,472)**	(291,941)	**(838,472)**	(291,941)
Net book value		**3,276,820**	2,293,185	**3,276,820**	2,293,185

	Notes	Consolidated		Parent	
		2007	2006	2007	2006
		$	$	$	$
(b) Reconciliations					
Reconciliations of the carrying amounts of property, plant and equipment at the beginning and end of the current financial year.					
Freehold land					
Carrying amount at beginning		**32,010**	32,010	**32,010**	32,010
	11 (a)	**32,010**	32,010	**32,010**	32,010
Freehold buildings					
Carrying amount at beginning		**271,744**	276,871	**271,744**	276,871
Depreciation expense		**(6,922)**	(5,127)	**(6,922)**	(5,127)
	11 (a)	**264,822**	271,744	**264,822**	271,744
Childcare centre plant and equipment					
Carrying amount at beginning		**754,562**	588,712	**754,562**	588,712
Addition		**272,317**	290,106	**272,317**	290,106
Depreciation expense		**(235,234)**	(124,256)	**(235,234)**	(124,256)
	11 (a)	**791,645**	754,562	**791,645**	754,562
Motor vehicles under lease					
Carrying amount at beginning		**11,674**	14,535	**11,674**	14,535
Additions		**69,535**	-	**69,535**	-
Depreciation expense		**(5,628)**	(2,861)	**(5,628)**	(2,861)
	11 (a)	**75,581**	11,674	**75,581**	11,674
Office equipment					
Carrying amount at beginning		**160,910**	13,805	**160,910**	13,805
Additions		**84,549**	173,881	**84,549**	173,881
Depreciation expense		**(46,728)**	(26,776)	**(46,728)**	(26,776)
	11 (a)	**198,731**	160,910	**198,731**	160,910
Office Equipment under finance lease					
Carrying amount at beginning		**100,231**	134,123	**100,231**	134,123
Additions		**212,853**	-	**212,853**	-
Depreciation expense		**(60,674)**	(33,892)	**(60,674)**	(33,892)
	11 (a)	**252,410**	100,231	**252,410**	100,231
Leasehold Improvements					
Carrying amount at beginning		**962,054**	-	**962,054**	-
Additions		**890,912**	1,007,385	**890,912**	1,007,385
Depreciation expense		**(191,345)**	(45,331)	**(191,345)**	(45,331)
	11 (a)	**1,661,621**	962,054	**1,661,621**	962,054

Non-Current assets pledges as security

Refer to note 16 for information on non-current assets pledged as security by the parent entity and its controlled entities

Note 12 – Non – current assets – Deferred tax assets

	Consolidated		Parent entity	
	2007	2006	2007	2006
	$	$	$	$
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Audit fee	**-**	13,500	**-**	13,500
Doubtful debts	**-**	9,000	**-**	9,000
Employee benefits	**-**	231,817	**-**	231,817
Interest Receivable	**-**	(1,964)	**-**	(1,964)
Accrued expenditure	**-**	6,090	**-**	5,890
Accrued superannuation	**-**	10,464	**-**	-
Tax losses bought to account	**-**	1,001,531	**-**	928,876
	-	1,270,438	**-**	1,187,119
Amounts recognised directly in equity				
Share issue expense	**-**	442,605	**-**	442,605
Net deferred tax assets	**-**	1,713,043	**-**	1,629,724
Movements:				
Opening balance at 1 July	**1,713,043**	621,814	**1,629,724**	621,814
Credited/(charged) to equity	**(442,000)**	33,605	**(442,000)**	33,605
Credited/(charged) to the income statement (note 5)	**(1,271,043)**	1,057,624	**(1,187,724)**	974,305
Closing balance at 30 June	**-**	1,713,043	**-**	1,629,724
Deferred tax assets to be recovered after more than 12 months	**-**	1,713,043	**-**	1,629,724

(a) The amount recognised in the previous financial year as a Deferred Tax Asset in respect of deductible temporary difference and unused tax losses has been derecognised in the current financial year because it is no longer probable that future taxable amounts will be available to utilise those temporary differences and losses

(b) Unrecognised Deferred Tax Assets
The following deferred tax assets have not been brought to account:

	Consolidated		Parent entity	
	2007	2006	2007	2006
	$	$	$	$
Tax losses – revenue	2,453,870	-	2,453,870	-
Temporary differences				
- Impairment	1,661,400	-	1,661,400	-
- Other	519,542	-	519,542	-
	2,180,942	-	2,180,942	-
	4,634,812	-	4,634,812	-

Note 13 Non-current assets – intangible assets

	Consolidated		Parent entity	
	June 2007 $	June 2006 $	June 2007 $	June 2006 $
Childcare licences				
At cost	**38,593,357**	37,036,465	**38,593,357**	37,036,465
Allowance for impairment	**(5,538,000)**	-	**(5,538,000)**	-
Net carrying amount	**33,055,357**	37,036,465	**33,055,357**	37,036,465
Computer software				
At cost	**185,051**	142,325	**185,051**	142,325
Accumulated amortisation	**(134,430)**	(71,359)	**(134,430)**	(71,359)
Net carrying amount	**50,621**	70,966	**50,621**	70,966
Total Intangible Assets				
At cost	**38,778,408**	37,178,790	**38,778,408**	37,178,790
Accumulated amortisation	**(134,430)**	(71,359)	**(134,430)**	(71,359)
Impairment	**(5,538,000)**	-	**(5,538,000)**	-
Net Carrying Amount	**33,105,978**	37,107,431	**33,105,978**	37,107,431

	Consolidated		Parent entity	
	June 2006 $	June 2005 $	June 2006 $	June 2005 $
A reconciliation of the carrying amounts of intangibles at the beginning and the end of the financial year is as follows:				
Childcare Licences				
Opening balance	**37,036,465**	34,242,020	**37,036,465**	34,242,020
Acquisition of childcare centres	**1,556,892**	2,540,567	**1,556,892**	2,540,567
Additional costs relating to existing licences	**-**	253,878	**-**	253,878
Impairment charge	**(5,538,000)**	-	**(5,538,000)**	-
Closing balance	**33,055,357**	37,036,465	**33,055,357**	37,036,465
Computer Software				
Opening balance	**70,966**	126,277	**70,966**	126,277
Acquisition	**42,726**	1,437	**42,726**	1,437
Amortisation charges	**(63,071)**	(56,748)	**(63,071)**	(56,748)
Closing balance	**50,621**	70,966	**50,621**	70,966
Net Carrying Amount	**33,105,978**	37,107,431	**33,105,978**	37,107,431

Impairment Testing of Intangibles with Indefinite Lives

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

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

The discount rate applied to pre-tax cash flow projections is 16% and projected cash flows have been extrapolated using a 3% growth rate. This growth is consistent with the expected inflation range maintained by the Reserve Bank of Australia.

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

As a result of this analysis it was determined that an impairment of $5,538,000 was required to be recognised as an expense in the consolidated income statement to ensure that the carrying value of specific centres did not exceed their value-in-use calculations. The impairment charge arose as a result of decline in occupancy in certain childcare centres.

Note 14 – Non current assets - Other

	Consolidated		Parent entity	
	June 2007	June 2006	June 2007	June 2006
	$	$	$	$
Deferred borrowing expenses	-	41,686	-	41,686

Note 15 – Current liabilities – Trade and other payables

	Consolidated		Parent entity	
	June 2007	June 2006	June 2007	June 2006
	$	$	$	$
Trade payables	**838,572**	1,642,878	**838,572**	1,642,878
Other creditors and accruals	**2,639,997**	1,243,138	**2,640,000**	887,837
	3,478,569	2,886,016	**3,478,572**	2,530,715

Note 16 –Borrowings

	Consolidated		Parent entity	
	June 2007	June 2006	June 2007	June 2006
	$	$	$	$
Current				
Secured				
Lease liabilities (note 31)	**187,161**	64,320	**187,161**	64,320
Bank Bills (a)	**15,000,000**	15,000,000	**15,000,000**	15,000,000
Loan from related party (b)	**833,110**	-	**833,110**	-
Total secured current borrowings	**16,020,271**	15,064,320	**16,020,271**	15,064,320
Non Current				
Secured				
Lease liabilities (note 31)	**254,166**	58,953	**254,166**	58,953

(a) Bank Bills

The bank bills have been drawn to fund acquisitions of new childcare centres. The bank facility expired on 31 March 2007 and has been extended to 31 October 2007, and is subject to monthly review. The commercial bills bear floating interest at average 8.27% per annum payable in advance (2006: 6.17%).

(b) Loan from Related Party

A related party loan provided by Macquarie Leisure Services was extended to the company in June 2007. The loan is for a twelve month period and is due for repayment in June 2008. The prevailing rate of interest is the 90 day Bank Bill Swap Rate plus 8.55% (14.55% at 30 June 2007).

(c) Interest rate risk exposure

Details of the interest rate risk exposures relating to each of the secured liabilities their set out in note 29.

(d) Fair value disclosures

The carrying amounts of borrowings of the Company approximates their fair values.

Note 16 –Borrowings (continued)

(e) Assets pledged as security

The bank bills of the parent entity and controlled entities are secured by a fixed and floating registered charge over all the assets and undertakings of the consolidated group and interlocking guarantees between the Company and CFK Management Pty Limited.

The related party loan with Macquarie Bank is secured by a second ranking fixed and floating registered charge over all the assets and undertakings of the consolidated group (including goodwill and uncalled capital and called but unpaid capital).

Lease liabilities are effectively secured as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default.

The carrying amount of assets pledged as security for current and non-current borrowings is the Total Assets reflected in the Balance Sheet of $38,676,217 (2006 : $48,676,780) for the Group and $38,676,220 (2006: $48,515,888) for the parent entity.

(f) Financing facilities available

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

	Consolidated		**Parent entity**	
	June 2007 $	June 2006 $	June 2007 $	June 2006 $
Credit standby arrangements				
Total facilities				
– Credit standby arrangements	**850,000**	1,116,300	**850,000**	1,116,300
– Bank bill facility	**15,000,000**	15,000,000	**15,000,000**	15,000,000
– Leasing facility	**500,000**	500,000	**500,000**	500,000
– Guarantees	**1,000,000**	1,000,000	**1,000,000**	1,000,000
– Related Party Loan	**1,400,000**	-	**1,400,000**	-
Facilities used at reporting date				
– Credit standby arrangements	**63,250**	301,754	**63,250**	301,754
– Bank bill facility	**15,000,000**	15,000,000	**15,000,000**	15,000,000
– Leasing facility	**441,327**	127,658	**441,327**	127,658
– Guarantees	**971,382**	926,015	**971,382**	926,015
– Related Party Loan	**833,110**	-	**833,110**	-
Facilities unused at reporting date				
– Credit standby arrangements	**786,750**	814,546	**786,750**	814,546
– Bank bill facility	**-**	-	**-**	-
– Leasing facility	**58,673**	372,342	**58,673**	372,342
– Guarantees	**28,618**	73,985	**28,618**	73,985
– Related Party Loan	**566,890**	-	**566,890**	-

The secured bank bill acceptance facility may be drawn for acquisition of new businesses and is subject to monthly review. The review date has been extended to 31 October 2007.

The current interest rate on the commercial bills is 8.27% (2006: 6.17%)

Note 17 – Provisions

	Consolidated		Parent entity	
	June 2007 $	June 2006 $	June 2007 $	June 2006 $
Current				
Employee benefits – leave	**946,828**	699,513	**946,828**	699,513
Non-Current				
Employee benefits – leave	**23,261**	73,666	**23,261**	73,666

Note 18 – Current – Other Liabilities

	Consolidated		Parent entity	
	June 2007 $	June 2006 $	June 2007 $	June 2006 $
Unearned Income	**1,387,712**	958,758	**1,387,712**	958,758
Parents' bonds held	**157,083**	352,370	**157,083**	352,370
	1,544,795	1,311,128	**1,544,795**	1,311,128

Note 19 – Contributed equity

	Parent Entity		Parent Entity	
	2007 Shares	2006 Shares	2007 $	2006 $
(a) Share capital	**88,775,180**	86,299,286	**33,220,282**	32,704,173

Fully paid ordinary shares carry one vote per share and carry the rights to dividends

(b) Movement in Share Capital
Movements in issued capital over the past two years are as follows:

	No. of shares	Total $
Balance at 1 July 2005	**59,159,336**	**22,408,101**
Shares issued to Macquarie Leisure Services Pty Limited :		
Tranche 1 – 22/2/2006	8,873,900	3,372,082
Tranche 2 – 15/5/2006	16,480,000	6,262,400
Transaction costs relating to issue of shares	-	(78,410)
	25,353,900	9,556,072
Shares issued to Vendor for :		
- Purchase of Gorokan Centre on 23/6/2006 *	605,327	250,000
- Purchase of Rockdale Centre on 30/6/2006 *	1,180,723	490,000
Balance at 30 June 2006	**86,299,286**	**32,704,173**
Reversal of deferred tax asset relating to share issue cost previously included in equity	-	(442,000)
Shares issued to Macquarie Leisure Services Pty Limited;		
Tranche 3 – 18/8/2007	983,580	373,760
Transaction costs relating to issue of shares	-	(1,251)
	983,580	372,509
Shares issued to Vendor for:		
- Purchase of Kellyville North 14/8/2006	1,098,613	435,600
- Purchase of Greenpoint Centre on 15/8/2006 **	393,701	150,000
Balance at 30 June 2007	**88,775,180**	**33,220,282**

* Under escrow released post 30 June 2006.
** Under escrow released post 30 June 2007.

Note 20 – Share - based payments reserve

	Consolidated		Parent	
	2007 $	2006 $	**2007 $**	2006 $
(a) Reserves				
Share – based payments reserve				
Balance at beginning of financial year	278,400	278,400	278,000	278,000
Share based payment	170,320	-	170,320	
Balance at the end of financial year	448,720	278,400	448,720	278,400

Note 20 – Share - based payments reserve (continued)

(b) Nature and purpose of reserves

(i) Share-based payments reserve

The share based payments reserve arise on the grant of share option to executives and senior employees under their respective employment contracts. Amounts are transferred out of the reserve and into issue capital when the options are exercised. Further information about share based payments to employees is made in Note 34 to the financial statements.

Note 21 - Accumulated losses

	Consolidated		Parent	
	2007 $	2006 $	2007 $	2006 $
(Accumulated losses) at the beginning of the financial period	(4,399,389)	(455,677)	(4,204,980)	(455,677)
(Loss) attributable to members	(12,861,286)	(3,943,712)	(13,055,695)	(3,749,302)
(Accumulated losses) at end of financial period	(17,260,675)	(4,399,389)	(17,260,675)	(4,204,980)

Note 22 - Reconciliation of net (loss) after income tax to net cash outflow from operating activities

	Consolidated		Parent	
	2007 $	2006 $	2007 $	2006 $
Net (loss)	**(12,861,286)**	(3,943,712)	**(13,055,695)**	(3,749,302)
Non-Cash Items				
Depreciation & Amortisation	**609,602**	294,991	**609,602**	294,991
Share based payments	**170,320**	-	**170,320**	-
Intangible Impairment Write-down	**5,538,000**	-	**5,538,000**	-
Reversal of deferred tax assets in respect of share issue costs	**(442,000)**	-	**(442,000)**	-
(Increase)/decrease in assets and liabilities:				
(Increase) in receivables and other assets	**(418,003)**	(1,038,162)	**(420,819)**	(1,038,162)
(Increase)/decrease in prepayments	**550,799**	(139,722)	**550,799**	(139,722)
(Decrease) in deferred tax assets	**1,713,043**	-	**1,629,724**	-
Increase in trade and other payables	**820,208**	1,500,417	**1,175,512**	1,231,251
(Decrease) in tax payable	**-**	(385,254)	**-**	(385,254)
Increase in employee entitlements provisions	**196,910**	394,493	**196,910**	394,493
Net cash outflow from operating activities	**(4,122,407)**	**(3,316,949)**	**(4,047,647)**	**(3,391,705)**

Non-cash financing and investing activities

During the year, the Company issued 1,492,314 shares as part payment of the consideration for the acquisitions of childcare licenses and related assets. On acquisition, the shares were valued at market value on the date of settlement.

Note 23 – Loss per share

(a) *Basic (loss) per share*

	Consolidated	
	2007 Cents	2006 Cents
Loss from continuing operations attributable to the ordinary equity holders of the Company	(14.5)	(6.1)

(b) *Diluted (loss) per share*

	Consolidated	
	2007 Cents	2006 Cents
Loss from continuing operations attributable to the ordinary equity holders of the Company	(14.5)	(6.1)

(c) *Reconciliations or loss used in calculating loss per share*

Basic Loss per Share	**Consolidated**	
	2007 $	2006 $
Loss from continuing operations attributable to the ordinary equity holders of the Company used in calculating basic loss per share	(12,861,286)	(3,943,712)

Diluted Loss per Share	**Consolidated**	
	2007 $	2006 $
Loss from continuing operations attributable to the ordinary equity holders of the Company used in calculating diluted loss per share	(12,861,286)	(3,943,712)

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

	Consolidated	
	2007 Number	2006 Number
Weighted average number of ordinary shares used in the denominator in calculating basic loss per share	88,467,016	64,434,175
Weighted average number of ordinary shares and potential ordinary used as the denominator used in the denominator in calculating basic loss per share	88,467,016	64,434,175

(e) *Information concerning the classification of securities*

(i) Options

Options granted under performance agreements and employment agreement were not included in the calculation of diluted loss per share because they are anti dilutive for the year ended 30 June 2007. These options could potentially dilute basic earnings (loss) per share in the future. Refer to the remunerations report in the director's report for the number of options granted at 30 June 2007.

Note 24 – Key management personnel disclosures

(a) Directors

The following persons were directors of the company during the financial year:

(i) *Chairman – non-executive*

Warren Robert Wilson (from 3 August 2006)

(ii) *Executive directors*

Barrie Frederick Childs, Chief Executive Officer (from 1 July 2006 to 29 November 2006) *
Mark Langer Avery (from 1 July 2006 to 7 July 2006)*

(iii) *Non-executive directors*

Jennifer Ann Scoble (full year)
Anthony Philip Fehon (from 1 July 2006 to 10 May 2007)
Leslie Wait (full year)

(b) Other Key management personnel

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

Peter Kadar, *Chief Executive* officer, (from 20 October 2006 to 28 June 2007)

Christopher Kerr, *Chief Financial Officer and Company Secretary* (from 10 July 2006 to 12 July 2007) * ^

Warwick Smith, *Chief Financial Officer* (from 26 April 2007) **

Sue Klanke, *Operations Manager* (from 19 March 2007)

* These persons were also key management persons during the year ended 30 June 2006.

^ Mr Kerr was appointed Company Secretary on 10 July 2006.

** Mr Smith was appointed Acting Company Secretary on 12 July 2007.

(c) Key management personnel compensation

	Consolidated		**Parent entity**	
	2007	**2006**	**2007**	**2006**
	$	$	**$**	$
Short-term employee benefits	608,817	614,731	608,817	614,731
Post-employment benefits	30,251	5,826	30,251	5,826
Termination benefits	226,293	42,363	226,293	42,363
Share-based payments	170,320	-	170,320	-
	1,035,681	**662,920**	**1,035,681**	**662,920**

The company has taken advantage of the relief provided by the Corporations Regulations and has transferred the detailed remuneration disclosures to the directors' report. The relevant information can be found in sections A-D of the remuneration report on pages 8 to 12.

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 11 and 12.

(ii) *Option holdings*

The numbers of options over ordinary shares in the company held during the financial year by each director and other key management personnel of the Group, including their personally related parties, are set out below:

2007	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Cancelled during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Directors:						
W Wilson	-	500,000	-	-	500,000	-
B Childs	34,960,000	-	-	(28,000,000)	6,960,000	6,960,000
M Avery	8,740,000	-	-	(7,000,000)	1,740,000	1,740,000
Key Management personnel:						
S Klanke	-	250,000	-	-	250,000	250,000
W Smith	-	250,000	-	-	250,000	250,000

No options are vested and unexercisable at the end of the year.

2006	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Directors						
B Childs	34,960,000	-	-	-	34,960,000	6,960,000
M Avery	8,740,000	-	-	-	8,740,000	1,740,000

(iii) *Share holdings*

The numbers of shares in the company held during the financial year by each director of CFK Childcare Centres 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 period as compensation.

2007	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 CFK Childcare Centres Limited Ordinary Shares				
Barrie Childs *	12,206,000	-	954,723	13,160,723
Mark Avery	1,258,908	-	(80,323)	1,178,585
Jennifer Scoble	4,272,120	-	-	4,272,120

* Barrie and Noelene Childs' holdings aggregated for 2007 reporting purposes.

Note 25 – Key management personnel disclosures (continued)

2006	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 CFK Childcare Centres Limited Ordinary Shares				
Barrie Childs	10,200,000	-	-	10,200,000
Mark Avery	1,400,000	-	(141,092)	1,258,908
Brian Mathews	200,000	-	-	200,000
Noelene Childs	2,006,000	-	-	2,006,000
Jennifer Scoble	4,272,120	-	-	4,272,120

Note 26 – Remuneration of Auditors

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

	Consolidated		**Parent**	
	2007	2006	**2007**	2006
	$	$	**$**	$
Assurance services				
1. Audit services				
DTT NSW (formerly Horwath Sydney Partnership) Audit and review of financial reports and other audit work under the *Corporations Act 2001*	**86,594**	**63,000**	**86,594**	**63,000**
Total remuneration for audit services	**86,594**	**63,000**	**86,594**	**63,000**
2. Other assurance services				
Fees paid DTT NSW (formerly Horwath Sydney Partnership) - Other services	**-**	**6,000**	**-**	**6,000**
Total remuneration for other assurance services	**-**	**6,000**	**-**	**6,000**
Total remuneration	**86,594**	**69,000**	**86,594**	**69,000**

Note 27 – Related party transactions

a) Parent Entity

The parent entity within the Group is CFK Childcare Centres Limited, a company limited by shares, incorporated and domiciled in Australia.

b) Subsidiaries

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

Name of Entity	Country of Incorporation	Class of Share	Equity Holding	
			2007	2006
			%	%
Childcare Choice Pty Limited*	**Australia**	Ordinary	**100**	100
CFK Management Pty Limited**	**Australia**	Ordinary	**100**	100

** the subsidiary ceased operations in the current year*
** dormant entity*

c) Key Management Personnel

Disclosures relating to key management personnel are set out in Note 26.

d) Transactions with related parties

The Company transacted with the following related parties during the year.

1. Mr Bradley Childs, the son of Barrie Childs provided asset management services to the Company during the year. Total fees paid or payable was $86,717 (2006 : $57,115). Balance due to Bradley Childs was Nil at year end. (2006 : Nil).

2. BRC Property Inspections Pty Limited, a company controlled by Mr Brett Childs, a related party of Barrie Childs, and a provider of construction and building services was paid fees of $247,145 in 2006, no fees were paid in the current year. Balance due to BRC Property Inspections Pty Limited was Nil at year end (2006 : Nil).

3. Childs Pest Services Pty Limited, a company controlled by Mr Greg Childs, a son of Barrie Childs provided pest control services to the Company. Total fees paid or payable was $1,028 (2006 : $12,879). Balance due to Childs Pest Services Pty Limited was Nil at year end (2006 : Nil).

4. Netel Limited, a company associated with Mr Brenton Avery, the brother of Mr Mark Avery, a provider of information systems and telephone system support services was paid fees of $76,701 in 2006, no fees were paid in the current year. Balance due to Netel Limited was Nil at year end (2006 : Nil).

5. The Company paid $32,776 (2006 : $15,537) to Macquarie Leisure Services Pty Limited, in connection with services rendered by Macquarie staff.

6. During the year, the Company sourced contract labour from its subsidiary, Childcare Choice Pty Limited. Total contract labour paid or payable to Childcare Choice Pty Limited was $1,168,173 (2006 : $1,031,488).

   Net amount due from Childcare Choice Pty Limited at year end was $Nil (2006 : $98,288).

7. Macquarie Leisure Service (“MLS”) provided the company with a secured facility totalling $1.4m. Refer note 16(b).

Note 28 – Business Combination

a) Summary of Acquisition

i) *Acquisition of new childcare centres*

Two new childcare centres were purchased in the period 1 July 2006 to 30 June 2007.

On 14 August 2006 and 15 August 2006, the Company acquired the Watership Down Childcare Centre business at Greenpoint NSW and Dimples Childcare Centre business at Kellyville North NSW respectively.

Details of the fair values of the assets and liabilities acquired and goodwill are as follows :

	2007 $	**2006** $
Purchase consideration (refer b) below)		
Cash paid	965,280	1,349,767
Fair value of shares issued	585,600	740,000
Total purchase consideration	1,550,880	2,089,767
Fair value of net liabilities (assets) acquired (refer c) below)	1,550,880	2,089,767
Goodwill (refer c) below)	-	-

ii) Additional payment for childcare centres acquired

In the previous year, pursuant to the purchase contract entred into with the vendor of the Englorie Park Childcare Centre on 3 March 2005, the company paid a further final settlement sum of $404,500 (including incidental charges of $,5,500) in connection with the completion by the vendor of Stage 2 of the purchase contract whereby another building was built on the existing premises in which the company will conduct its childcare business.

iii) Additional Stamp Duty on Acquisition

In the previous year, the additional stamp duty of $1,864,746 was a result of a revised assessment issued by the Office of State Revenue in respect of the Group's acquisition of 37 childcare centres in 2005.

b) Purchase consideration

	Consolidated		**Parent**	
	2007 **$**	2006 $	**2007** **$**	2006 $
Outflow of cash to acquire businesses				
Cash consideration – new business (a) i) above	**965,280**	1,349,767	**965,280**	1,349,767
Cash consideration – existing business (a) ii) above	**-**	404,500	**-**	404,500
Settlement of additional stamp duty on acquisition of childcare centres in prior year (refer (a) iii) above)	**-**	1,864,746	**-**	1,864,746
Outflow of cash	**965,280**	3,619,013	**965,280**	3,619,013

c) Asset and Liabilities Acquired (At Fair value)

	2007 $	**2006** $
Childcare licences	1,556,892	2,136,067
Trade payables	(6,012)	(46,300)
Consideration	1,550,880	2,089,767

The acquiree's carrying amounts of assets and liabilities were similar to the fair values.

Note 29 – Financial Risk Management

The Groups' activities expose it to a variety of financial risks: market risk including fair value interest rate risk and price risk, credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

(a) Credit risk
The Group has no significant concentrations of credit risk.

(b) Liquidity risk
Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities. Given the Group's current liquidity conditions, as noted in Note 1(v) "Going Concern", management is monitoring the Group's cash requirements on a weekly basis.

(c) Fair value interest rate risk
As the Group has no significant interest-bearing assets other than cash, the Group's income and operating cash flows are not materially exposed to changes in market interest rates.

The Group's interest-rate risk arises from borrowings. Borrowings issued at variable rates exposed the Group to cash flow interest-rate risk.

In April 2007 the company entered into an interest rate swap facility with the National Australia Bank for an amount of $14.5m. The fair value of interest rate swap at balance date was not significant.

Note 30 – Financial Instruments

(a) Interest rate risk

The Group's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities, both recognised and unrecognised at the balance date, are as follows:

CONSOLIDATED Financial Instruments	Weighted average effective interest rate		Floating interest rate		Fixed interest rate maturing in: 1 year or less		Over 1 to 5 years		More than 5 years		Non-interest bearing		Total carrying amount as per the statement of financial position	
	2007 %	2006 %	2007 $	2006 $	2007 $	2006 $	2007 $	2006 $	2007 $	2006 $	2007 $	2006 $	2007 $	2006 $
(i) Financial assets														
Cash at bank and on deposit	5.7%	5%	448,796	4,385,702	-	-	-	-	-	-	-	-	448,796	4,385,702
Cash on deposit	-	5.40	-	-	-	1,200,000	-	-	-	-	-	-	-	1,200,000
Trade and other receivables	-	-	-	-	-	-	-	-	-	-	1,608,436	1,148,747	1,608,436	1,148,747
Total financial assets	5.7%	5.1%	448,796	4,385,702	-	1,200,000	-	-	-	-	1,608,436	1,148,747	2,057,232	6,734,449
(ii) Financial liabilities														
Trade payables	-	-	-	-	-	-	-	-	-	-	838,572	1,642,878	838,572	1,642,878
Other creditors and payables	-	-	-	-	-	-	-	-	-	-	2,639,997	1,243,138	2,639,997	1,243,138
Parents' Bonds held	-	-	-	-	-	-	-	-	-	-	41,200	177,668	41,200	177,668
Lease facility	9.25	11.99	-	-	187,161	64,320	254,166	58,953	-	-	-	-	441,327	123,273
Bank bills	8.27	8.10	15,000,000	15,000,000	-	-	-	-	-	-	-	-	15,000,000	15,000,000
Secured Loans	14.55	-	833,110	-	-	-	-	-	-	-	-	-	833,110	-
Total financial liabilities			15,833,110	15,000,000	187,161	64,320	254,166	58,953	-	-	3,519,769	3,063,684	19,794,206	18,186,957

Note 31 – Commitments

(a) Capital Commitments

CFK Childcare Centres Limited entered into a Deed of Agreement dated 8th October 2004 with various parties in the Acre Woods Group under which the Company is required to purchase 10 centres from the Acre Woods Group when each centre reaches 70% occupancy and a profit hurdle. This agreement was terminated by mutual consent on 17 September 2007, and CFK will pay Acre Woods a termination fee of $1.0m payable on or before 25 September 2007 and a further $0.5m payment on 1 July 2008. CFK is in discussions with its bankers and major shareholders to provide an extension and restructure of existing facilities to fund the initial $1m payment to Acre Woods. CFK will have no further liability to Acre Woods once both payments have been finalised.

	Consolidated Entity		Parent Entity	
(b) Lease expenditure commitments	**2007**	**2006**	**2007**	**2006**
	$	$	**$**	$
(i) Operating rental leases (non-cancellable):				
Minimum lease payments, payable:				
– not later than one year	**3,298,435**	2,732,005	**3,298,435**	2,732,005
– later than one year and not later than five years	**7,466,796**	6,288,444	**7,466,796**	6,288,444
– later than five years	**4,572,615**	5,845,984	**4,572,615**	5,845,984
– aggregate lease expenditure contracted for at reporting date	**15,337,866**	14,866,433	**15,337,866**	14,866,433

The Group leases childcare centres under non-cancellable operating leases with varying lease terms that will expire within one to twelve years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms are renegotiated.

(ii) Finance leases:				
Commitments in relation to finance lease payments, payable:				
– not later than one year	**199,432**	**72,024**	**199,432**	**72,024**
– later than one year and not later than five years	**308,137**	**66,022**	**308,137**	**66,022**
– later than five years	**-**	**-**	**-**	**-**
Minimum lease payments	**507,569**	**138,046**	**507,569**	**138,046**
Less: Future finance charge	**(66,242)**	**(14,773)**	**(66,242)**	**(14,773)**
Recognised as a liability	**441,327**	**123,273**	**441,327**	**123,273**
Representing lease liabilities:				
– Current	**187,161**	**64,320**	**187,161**	**64,320**
– Non-Current	**254,166**	**58,953**	**254,166**	**58,953**
	441,327	**123,273**	**441,327**	**123,273**

The Group leases office equipment for its childcare centres and head office with a carrying amount of $252,410 (2006: $100,231) expiring within two years. There is no option to renew the lease.

Note 31 – Commitments (Continued)

(c) Remuneration commitments

	Consolidated		Parent entity	
	2007	2006	**2007**	2006
	$	$	**$**	$
Commitments for the payment of salaries and other remuneration under long-term employment contracts in existence at the reporting date but not recognised as liabilities, payable:				
Within one year	**-**	280,000	**-**	280,000
Later than one year and not later than five years	**-**	210,000	**-**	210,000
Later than five years	**-**	-	**-**	-
	-	490,000		490,000

Amounts disclosed as remuneration commitments include commitments arising from the service contracts of key management personnel referred to in section C of the remuneration report on page 9 that are not recognised as liabilities and are not included in the key management personnel compensation.

Note 32 – Subsequent Events

(a) Termination of Acre Woods Agreement

Termination of the agreement with Acre Woods by mutual consent on 14 September 2007 for a termination fee of $1,500,000, $1,000,000 of which was paid on 28 September 2007 with the balance of $500,000 payable on 1 July 2008. The $1,000,000 commitment was funded by way of an additional loan facility from Macquarie Leisure Services Pty Limited ("MLS", refer to d) below), with the balance to be funded from future operating cashflows or facilities. CFK will have no further liability to Acre Woods once both payments have been finalised.

(b) Acquisition Agreement

CFK has agreed to acquire selected childcare centres from Glowclose Pty Ltd ("Glowclose"). A Term Sheet has been executed by the parties. The combined of Earnings Before Interest, Tax, Depreciation and Amortisation of the assets acquired will be a minimum of $1,250,000.

CFK will settle the Glowclose acquisition through the issue of ordinary shares to Glowclose or its nominee.

The acquisition is subject to, amongst other matters, due diligence and approval by CFK's shareholders. CFK will shortly issue a meeting document to shareholders giving full details of the acquisition. CFK expects, subject to the conditions being met, to complete the acquisition by 1 December 2007.

Glowclose will nominate a director to the Board should approval of the Glowclose acquisition be forthcoming.

(c) Placement

CFK successfully placed 13,200,000 ordinary fully paid shares to Evadon Pty Ltd (12,238,070 shares), a company associated with Mark Evans, the Chairman of the Company, and Usura Investments Pty Ltd (961,930 shares), a company associated with Craig Napier, a Director of the Company, which raised $974,160. Funds raised will be used for working capital purposes.

Note 32 – Subsequent Events (continued)

(d) Additional Fund Raising

MLS has agreed to extend and change the terms of its loan facilities by lending an additional $2,500,000 so that $4,100,000 in total is loaned on the terms and conditions set out below. In addition, $1,000,000 of the total loan will, subject to shareholder approval, be convertible into ordinary shares in the Company.

Terms of the new loan and conversion are as follows:

- The loan, other than the convertible amount referred to below, is repayable on 30 September 2009;
- Interest is capitalised and repayable on 30 September 2009. Interest is payable on amounts other than the convertible amount at the extremely advantageous rate of the 90 day Bank Bill Swap Reference Rates plus 0.5%;
- Up to $1 million may, subject to shareholder approval, be converted into ordinary shares at 9.1 cents per share. If shareholder approval is given, no interest is payable on this amount. If shareholder approval is not given, then interest is payable at the 90 day Bank Bill Swap Reference Rates plus 8.5%.

The new loan is secured under the current second ranking charge, the terms of which include that MLS cannot acquire or deal with any assets of the Company under the charge without the Company first having complied with any applicable ASX Listing Rule, including Listing Rule 10.1. The new loan is on usual commercial terms or better.

Note 33 – Contingent Liabilities

The directors believe that there are no material contingent liabilities at balance date.

Note 34 – Share - based payments

During the year, the Company granted options to the following executives of the Company pursuant to the remuneration agreements with these executives.

i. Warren Wilson, Director*
ii. Warwick Smith, Chief Financial Officer
iii. Sue Klanke, Operations Manager

* resigned on 12 September 2007

Details of options granted are tabled below. Options carry no dividend nor voting rights. When exercisable, each option is convertible into one ordinary share

Name	Grant Date	No of options	Vesting Date	Expiry Date	Exercise Price ($)	Fair Value at Grant date ($)
i. W Wilson	24 Jul 2006	500,000	30 Sept 2008^ 30 Sept 2009^ 30 Sept 2010^	30 Sept 2011	0.39 0.43 0.47	0.19 0.20 0.22
ii. S Klanke	19 Mar 2007	250,000	19 Mar 2007	19 Mar 2010	0.30	0.14
iii. W Smith	26 Apr 2007	250,000	26 Apr 2007	26 Apr 2010	0.28	0.13
iv. B Childs	19 Jan 2005	6,960,000	19 Jan 2005	4 Apr 2008	1.00	0.03
v. M Avery	19 Jan 2005	1,740,000	19 Jan 2005	4 Apr 2008	1.00	0.03

^ 166,667 options vesting per annum

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

The model inputs for options granted during the year ended 30 June 2007 included:

(a) options are granted for no consideration & vest immediately, except in the case of Mr Wilson's where the shares vest equally in three tranches over a three year period commencing 30 September 2008.

(b) exercise price: *refer table above*

(c) grant date: *refer table above*

(d) expiry date: *refer table above*

(e) share price at grant date: i. $0.395 ii. $0.28 iii. $0.275

(f) expected price volatility of the company's shares: 63%

(g) risk-free interest rate: i 6.5% ii. 6.67% iii. 6.62%

(h) standard deviation: 66%

(i) dividend yield: 0%

The expected price volatility was based on the average historic volatility of the company.

Note 34 – Share - based payments (continued)

The following table reconciles the outstanding share options granted at the beginning and at the end of the financial year :

Name	Balance at beginning of financial year	Granted during the year	Cancelled during the year	Exercised during the year	Balance at end of financial year	Exercisable at the end of financial year
2007						
i. W Wilson	-	500,000		-	500,000	-
ii. S Klanke	-	250,000		-	250,000	250,000
iii. W Smith	-	250,000		-	250,000	250,000
iv. B Childs ^^	34,960,000	-	(28,000,000)	-	6,960,000	6,960,000
iv. M Avery ^^	8,740,000	-	(7,000,000)	-	1,740,000	1,740,000
	43,700,000	1,000,000	(35,000,000)	-	9,700,000	8,500,000
2006						
B Childs ^^	34,960,000	-	-	-	34,960,000	6,960,000
M Avery ^^	8,740,000	-	-	-	8,740,000	1,740,000
	43,700,000	-	-	-	43,700,000	8,500,000

^^ Options were granted by the company pursuant to Performance Agreements dated 19 January 2005 with each of Wolram Investments Pty Limited ("Wolram") (a company associated with Barrie Childs) and Corporate Capital Pty Limited ("Corporate Capital") (a company associated with Mark Avery). These Performance Agreements were cancelled September 2006 and July 2006 respectively. The options previously granted but not yet vested under the terms of the agreement were cancelled on cancellation of the Perfomance Agreements. There is no obligation to issue any further options under the Performance Agreements.

Note 35 – Segment Reporting

The Group operates in a single industry, namely the operation of childcare centres in NSW.

CFK Childcare Centres Limited
Directors' declaration
30 June 2007

The directors declare that:

(a) in the directors' opinion, subject to the matters disclosed in Note 1(v), there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;
(b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving true and fair view of the financial position and performance of the company and the consolidated entity; and
(c) the directors have been given the declarations required by s.295A of the Corporations Act 2001.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the Corporation Act 2001.

On behalf of the Directors

Mark Evans
Chairman

Sydney
28 September 2007

DTT NSW

DTT NSW has changed its name from Horwath Sydney Partnership and is a continuation of that partnership.
The partners of DTT NSW have also joined the Australian partnership of Deloitte Touche Tohmatsu.
All changes with effect from 1 February 2007.

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Independent Auditor's Report to the members of CFK Childcare Centres Limited

Report on the Financial Report and AASB 124 Compensation Disclosures contained in the Directors' Report

We have audited the accompanying financial report of CFK Childcare Centres Limited, which comprises the balance sheet as at 30 June 2007, and the income statement, cash flow statement and statement of changes in equity for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 20 to 59.

We have also audited the compensation disclosures contained in the directors' report. As permitted by the *Corporations Regulations 2001*, the company has disclosed information about the compensation of key management personnel ("compensation disclosures") as required by paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard AASB 124 *Related Party Disclosures* ("AASB 124"), under the heading "remuneration report" on pages 8 to 12 of the directors' report, and not in the financial report. These compensation disclosures are identified in the directors' report as being subject to audit. The remuneration report also contains information not subject to audit.

Directors' Responsibility for the Financial Report and the AASB 124 compensation disclosures contained in the Directors' Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The Directors of CFK Childcare Centres Limited are also responsible for the compensation disclosures contained in the Directors' Report. In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements,* that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the consolidated financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report and compensation disclosures contained in the directors' report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement and the compensation disclosures comply with AASB 124.

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

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

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's Opinion on the Financial Report

In our opinion:

(a) the financial report of CFK Childcare Centres Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the company and consolidated entity's financial position as at 30 June 2007 and of their performance for the year ended on that date; and

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

(b) the consolidated financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Auditor's Opinion on AASB 124 Compensation Disclosures contained in the Directors' Report

In our opinion the compensation disclosures that are contained on pages 8 to 12 under the heading "remuneration report" of the directors' report and identified as being subject to audit, comply with paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard AASB 124 *Related Party Disclosures*.

DTT NSW

DTT NSW has changed its name from Horwath Sydney Partnership and is a continuation of that partnership.
The partners of DTT NSW have also joined the Australian partnership of Deloitte Touche Tohmatsu.
All changes with effect from 1 February 2007.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to Note 1 (v) "Going Concern" in the financial report which indicates that the consolidated entity and company incurred a net loss of $12,861,286 and $13,055,695 respectively during the year ended 30 June 2007 and, as of that date, the consolidated entity's and company's current liabilities exceeded their current assets by $19,697,044 and $19,697,047 respectively. These conditions, along with other matters as set forth in Note 1(v) "Going Concern", indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's and company's ability to continue as going concerns and whether they will realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report.

DTT NSW

DTT NSW

Alfred Nehama
Partner
Chartered Accountants
Sydney, 28 September 2007