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## ASX Release

### Chairman's Address to Shareholders – Annual General Meeting 2005

It's been just four years since I stood in front of ABC's first Annual General Meeting in a small room in a central Brisbane hotel and delivered my first Chairman's address to an intimate gathering of shareholders. I said then "I am proud of the company's growth and the confidence of the market." We had 43 centres at June 30 2001, which was a huge leap from ABC's first centre in Ashgrove, Brisbane, which opened in 1988 with three staff. By November 2001 and our AGM, we had 60 centres, 1500 staff and our share price had increased by 5 fold since we listed.

Today, of course, we not only have 697 centres (660 at the 30th June this year) throughout Australia and in New Zealand but we are about to take our boldest step yet. As you will have read and heard in the media, we are in the process of merging with the third largest childcare company in the US which will make us the largest listed childcare company in the world. Last Wednesday we announced that we were making a bid for the Learning Care Group Inc which currently operates 467 centres throughout the United States and is involved in providing early childhood education in several countries in South East Asia.

Back in November 2001 I said that "I'm particularly proud of the reason for that growth ... the skills of the management team and the quality of our product." It's a statement I repeat in November 2005.

Our Annual General Meeting is the time when we gather together all of us who have a particular interest in ABC ... to assess our progress in the year past, to share our intentions and direction for the year ahead and very importantly to re-affirm our philosophy and beliefs.

A message that I have delivered and repeated every year as we have continued to expand has been the importance of managed growth, of careful consideration of all the factors involved in every step of expansion, of careful nurturing of the people who work for us, of active participation of the communities in which we exist ... in other words taking it one step at a time, the good old steady as she goes approach.

And so it is with our move into the US market. This is no sudden rush of blood to the head, an overnight decision. We ... and Eddy in particular ... have been aware of the opportunities in the United States for several years and have developed an on-going relationship with the people involved in Learning Care.

There are many similarities between the particular demographics we serve. In the United States, as here, young women are better educated and more career-oriented than they have been in the past and so more in need of good quality child care for their children and even more demanding of its quality.

Families understand the importance of early childhood education. So too do governments, as they understand the economic benefits of women in the workforce, and this applies to American governments at all level, Federal, State and local, as well. The US has an increasing birth rate - and higher than Australia's - and latest available statistics (which are a few years old) show that 64% of women with children under 6 were in the workforce. Corporations are recognising the benefits to themselves and their employees of childcare services.

Learning Care Group Inc is the third largest childcare centre operator in the US with 460 centres and approximately 0.6 percent of market share. It operates in 25 American states under two brands, Child Time and Tutor Time. It has licensed capacity to care for about 70,000 children as against ours of 50,000. The company has been restructuring itself in recent years and now just needs an injection of capital to realise strong and profitable growth. The senior executive team will stay with us, beyond what we expect to be a smooth transition, and will report to Eddy in his new role as Global CEO.

The Tutor Time brand has 11 franchise centres in Hong Kong, Indonesia and the Philippines and by an interesting coincidence, wearing another hat, I visited one in Jakarta earlier this year. The Director had contacted the Queensland Government Trade Commissioner there about establishing a training college in Indonesia where there are currently no training programmes in early childhood education, and thought that we could help. At our next Board meeting I commented on how similar the Tutor Time centre was to one of ours!

The four key executive directors ... the CEO and President Bill Davis, CFO Frank Jerneycic, COO Kathryn Myers, and Chief HR Officer Scott Smith ... have entered new employment agreements with us. This is one of the reasons we have decided to withdraw Item 5 from today's agenda ... to enable us to negotiate incentive arrangements across the whole company.

We still do have a way to go with the acquisition. Learning Care's Board has given its approval and will recommend our acquisition to its shareholders. The shareholder meeting is expected to be held in mid January and after Learning Care has satisfied the usual closing conditions, the deal will be done.

But this foray into the US is the task ahead of us in the immediate future. I should now report to you the happenings of the year past.

First of all, our financial results are a cause for celebration as usual. As at June 30, 2005 our net profit after tax was \$52.3 million which was an increase of 144.4 percent over last year's.. Our total revenue was \$292.7 million which was up from last year's by 203.6 percent. We are passing this on to you as a full year dividend of 11 cents, fully franked.

We have become firmly established as Australia's leading provider of early childhood education as a result of the merger between A.B.C. Learning Centres Limited and the Peppercorn Group, in the form of Peppercorn Management Group Limited and Child Care Centres Australia Limited. The smoothness of this transition gave us great confidence in undertaking the merger with Learning Care.

Peppercorn was a huge undertaking at several levels ... the raising of \$400 million capital, the taking over of several hundred centres as part of the acquisition and then the divestment of almost seventy for a variety of reasons, the training of the new personnel in ABC's ways of doing things, the amalgamation of the companies' Head Offices, the establishment of an instant and centralised data source.

I am particularly proud of the way all this has happened when you consider that the history of mergers and acquisitions in Australian corporate life is littered with failures. These I believe have occurred not simply as the result of bad management but because there has been a lack of understanding that successful integration of different companies requires a blending of different cultures and systems and needs a considered methodology.

So Directors of centres throughout Australia and New Zealand ... the people who are at the coalface of our business have come together several times now in Centre Directors' conferences and they have always been a joy and a pleasure to attend. The most recent was earlier this month at the Gold Coast was attended by about 700 centre directors and addressed by both the Minister for Family and Community Services, the Hon Kay Patterson, and the Shadow Minister, Tanya Pliibersek.

Another joy and pleasure has been my visits to centres throughout Australia and New Zealand when I've happened to find myself in places as far apart as Cairns and Melbourne, Rockhampton and Auckland. I've often dropped in unannounced and it's always been quite inspirational to meet with the centre staff and see their obvious devotion and dedication to the children in their care.

Another major and important project this year has been the contract we signed with the Department of Defence to provide childcare services to Defence families throughout Australia. This has been important not just for ABC and the Department of Defence but to all those Defence Forces families who provide such an invaluable service to the country. The nature of their work dictates that they are posted all over Australia and overseas and it's very important that they (and its mothers now as well as fathers) have the security and confidence of knowing their children are getting the best possible early childhood care and education. Under the contract we signed, Defence families would have access to more than 650 of our centres as well as the 19 child care centres that the Defence had operated.

Senior Defence officials have told me how happy they are with this partnership, not only for the quality of our care but also because of the efficiencies we have introduced with the resulting incentives for families. Since the signing in April we have expanded our activities to offer a further 550 childcare places for Defence families.

Now to some of the business of the meeting. You will have noticed a new face at the top table, though I am sure not an unfamiliar one. As our company has grown we have seen the need for additions to the Board and in line with the requirements of good governance, for Non-Executive directors. We were looking for another when Larry Anthony had a career change and I was absolutely delighted when he accepted my invitation to join the Board. Apart from his personal skills (and his considerable charm) he has a Bachelor of Commerce degree, a background in banking, and some experience in our industry as Federal Minister for Children and Youth Affairs. As the company grows I do expect to be searching for at least one more Board member ... but as with everything we do, we won't be rushing and will be looking carefully.

Another item on the agenda is your approval for our issuing of shares to centre personnel and staff members throughout the company. One of the strengths of ABC has always been the wonderful people who work for us at every level, and we believe very strongly in giving them fair and just reward and Eddy was able to announce a range of new incentives at the Centre Directors' Conference. The staff turnover at our centres is about 7.5 percent, while the industry average is 40 percent. We prize this highly not only for the obvious economic benefits but also for the stability and security it gives our children.

It goes without saying, sadly, that we live in an increasingly unsafe and volatile world. At that first AGM, I acknowledged the tragedy that was 9/11 in New York. Since then we have had the horrors of the attack in Bali, and just this year millions of people have suffered as result of the Boxing Day tsunami, hurricane and floods, another Bali attack and a devastating earthquake. All this, tragic in itself, contributes to widespread feelings of fear, unease and security throughout the world as communities everywhere realise that so much of what happens to us is beyond our control.

What is in our control is being able to ensure that our children and their families and their communities are secure in the knowledge and understanding that they are getting the best possible care, the most challenging and exciting early childhood education and that all the policies and practices are in place that will give them the safest possible environment at the most important time in their lives and the time that will determine the kind of adults they become and the contribution they will make.

All of this happens as a result of the great people in ABC and I do especially want to thank them, beginning with our Executive Directors Eddy, Le Neve and Martin Kemp. Behind them is a skilled and solid team who are responsible for making this company what it is ... led by Jillian Purdie and the National Operations Managers. There are so many people in such a range of operations, IT, marketing, maintenance, the College that I daren't mention anyone for fear of leaving someone out.

But I know my fellow Directors would want me to thank especially Jillian Bannan, our Company Secretary, and Matt Loveday, our CFO, for the wonderful way they support the Board, help the Board meetings run smoothly and be always a pleasure to attend.

And of course I must thank those fellow Directors, Bill, David and Larry. They bring a range of skills to the Boardroom, and put them to good effect outside it. But most of all I thank them personally for their patience, good humour and very strong friendship.