

**Mayfield Childcare Limited**

**ABN: 53 604 970 390**

# ***Annual Report***

***31 December 2017***

## About Mayfield Childcare

Mayfield Childcare owns 19 long day childcare centres located in and around metropolitan Melbourne. The Company has been established with a clear vision of enhancing and delivering high quality childcare to children and families. Our team of educators brings a collaborative culture of continuous improvement and learning to the children within our care. Collectively, our Board and Management team have decades of experience delivering exceptional quality care and education in the childcare industry.

We have an inherent and common desire to 'raise the bar' in early childhood education and care. In pursuit of this desire, we seek to improve the quality of the service offering at each of our centres, with the ultimate, long-term ambition of achieving 'Exceeding' National Quality Standard ratings across all centres. As we achieve our ambition of delivering the highest quality of education and care, financial prosperity for our shareholders should follow.

## Our Philosophy

At Mayfield Childcare, we believe that children begin their learning journey from the moment they are born and that the years from birth to eight years old are fundamental in establishing a child's sense of identity, value and confidence. We believe that families are the first and primary educator of children and that our role is to facilitate and foster a child's development, rather than to define it.

## Our Mission and Vision

Mayfield Childcare was established to 'raise the bar' in early childhood care. Our team continues to work tirelessly to build a philosophy and a method of implementation which ensures that each of our centres provides exceptional quality care and education.

Our vision is to develop a stimulating environment and a culture of continuous learning for both children and our team of educators.

## Corporate Governance

Our current Corporate Governance Statement has been separately released to the market today; a copy may also be obtained from our web-site ([www.mayfieldchildcare.com.au](http://www.mayfieldchildcare.com.au)).

## Corporate Directory

### Board of Directors

Peter Lowe, *Chairman*  
Michelle Clarke, *Executive Director*  
Dean Clarke, *Executive Director & CEO*

### Company Secretary

Andrew Draffin

### Registered Office

Level 1, Suite 3  
275 Wattletree Road  
Malvern VIC 3144  
T: +61 3 9576 3156  
E: [admin@mayfieldchildcare.com.au](mailto:admin@mayfieldchildcare.com.au)  
W: [www.mayfieldchildcare.com.au](http://www.mayfieldchildcare.com.au)

### Auditor

PKF Melbourne  
Level 12, 440 Collins Street  
Melbourne VIC 3000

### Share Registry

Link Market Services Limited  
Tower 4, 727 Collins Street  
Melbourne VIC 3008  
T: +61 1300 554 474  
E: [registrars@linkmarketservices.com.au](mailto:registrars@linkmarketservices.com.au)  
W: [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)

### Banker

Westpac Banking Corporation  
150 Collins Street  
Melbourne VIC 3000

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## Message from the Chairman and Chief Executive Officer

Dear Shareholders,

The Board of Directors are pleased to present the Annual Report for Mayfield Childcare Limited (Mayfield) for the year ended 31 December 2017.

The first full year presented many challenges for Mayfield and we were adversely affected by:

1. The delay in increases to the childcare rebate resulting in reduced days of childcare;
2. The oversupply of childcare centres resulting in pressure on occupancy; and
3. The low forward enrolments from acquisition in December 2016.

Despite these challenges, Mayfield was able to deliver the Prospectus forecast. The Board is extremely proud of the way management worked tirelessly to achieve this outcome.

### Highlights of our operational achievements this year

- The initial integration proceeded without fault and our strategic focus of delivering high quality care and education was well received by parents and educators.
- We moved quickly to implement physical improvements in the centres, including investment in educational resources and equipment. This enhanced the centre experience for families and nurtured trust in, and appreciation of, Mayfield as the new owner.
- We put significant effort into engagement with educators and empowerment of our centre managers. As the primary touch point with families, success depended on taking ownership of the centres while advocating the dues and standards of Mayfield.
- We focused our Quality Improvement Plan on the educational programming and leadership aspects of the National Quality Standards by facilitating professional development courses across all levels of the centres.
- We implemented our ePortfolio and Learning System which supports children's development whilst enhancing the parent experience and engagement with the centre.
- We implemented our payroll system, supported by online rostering and time and attendance systems, which allows for effective control of labour costs relative to occupancy.

In addition, our operational plans were delivered successfully. These included:

- Extensive marketing and community engagement programmes aimed at attracting new families.
- Targeted pricing initiatives to increase participation by existing families.
- Strong cost control in the centres and head office.
- Recruitment of talented educators and centre managers and expansion of our Area Management team.
- Investment in social media and website platforms.

These initiatives delivered the first leg of our growth by increasing occupancy and achieving cost efficiencies.

## Highlights of our financial achievements this year

Additionally, we made time to deliver growth by acquisition, adding three new centres to the portfolio. The centres were selected on the basis of strict criteria and are expected to make a significant contribution in 2018.

We were also able to develop our third growth area by incorporating revenue streams from managing childcare centres not owned by Mayfield and from consulting to potential childcare operators on construction and set up of centres. Again, we expect this revenue to be enhanced in 2018.

The other benefit resulting from the hard work in 2017 is that a base has been created for growth and profit improvement in the business in 2018. This enabled us to provide guidance in our ASX release of 30 January 2017 that we were expecting 20% growth in net profit after tax in 2018. This will be built around improved occupancy and continued cost control. We also plan to acquire further centres that meet our strict purchase criteria. These purchases will be funded from a combination of operating cash flow and debt.

We were also proud to confirm our maiden dividend of 7.65 cents per share, which was as forecast in the Prospectus. In addition, we were able to fully frank the dividend, which will be paid on 29 March 2018. We have implemented a Dividend Reinvestment Plan (DRP) and encourage all shareholders to participate so as to obtain a 5% discount to the volume weighted average share price.

We believe the long day-care sector in Australia will continue to grow and maintain the support of government. We are well placed to participate in this growth, having established a sound financial base, and we are pursuing a strategy that has already proved successful.

We are pleased to see the result of the hard work and energy from everyone in the Mayfield team. We extend our greatest thanks to the educators, managers, families, office team and everyone who contributed to the fantastic outcome this year.

Yours faithfully,



Peter Lowe  
**Chairman**



Dean Clarke  
**Chief Executive Officer**

## Directors' Report

Your directors present their report on Mayfield Childcare Limited ("Mayfield Childcare", "Company") for the year ended 31 December 2017.

### DIRECTORS

The directors of the Company in office at the date of this report are:

Peter Lowe, *Chairman*

Michelle Clarke

Dean Clarke, *Chief Executive Officer*

### PRINCIPAL ACTIVITIES

During the year the principal activities of the Company consisted of acquiring and operating childcare centres.

### REVIEW OF OPERATIONS

During the year the Company completed the integration of the sixteen Victorian childcare centre businesses it acquired late in 2016, and acquired an additional three Victorian childcare centre businesses, one of which was a related party transaction approved at a general meeting of shareholders on 16 November 2017.

The Company made a profit after tax for the year ended 31 December 2017 of \$3,419,390.

The financial position of the Company, as detailed in the Statement of Financial Position in the financial statements, is in line with management's expectations.

### ***Non-Australian Accounting Standards Financial Measures***

The Company's underlying earnings before interest, taxation, depreciation and amortisation (EBITDA), excluding initial acquisition, integration and listing expenses (Underlying EBITDA), was a profit of \$5,248,500 (2016: \$325,697), calculated as follows:

	<b><i>Year ended 31 Dec 2017</i></b> \$	<b><i>Period ended 31 Dec 2016</i></b> \$
Profit/(Loss) before income tax	<b>4,745,440</b>	(1,432,698)
Add: Depreciation and amortisation	<b>57,240</b>	14,901
Add: Finance costs	<b>330,152</b>	29,949
EBITDA	<b>5,132,832</b>	(1,387,848)
Add: Acquisition costs	<b>59,268</b>	1,257,025
Add: Integration costs	<b>29,067</b>	207,793
Add: Initial listing costs	<b>27,333</b>	248,727
Underlying EBITDA	<b>5,248,500</b>	325,697

EBITDA and Underlying EBITDA are financial measures not prescribed by Australian Accounting Standards. They are, however, used widely in the financial investment community and are, in the directors' opinion, reflective of the core earnings of the Company.

## **SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS**

Other than the acquisition of three childcare businesses noted in the Review of Operations (above), in the opinion of the directors there were no other significant changes in the state of affairs of the Company that occurred during the year not otherwise disclosed in this report or in the accompanying financial statements.

## **DIVIDENDS**

On 30 January 2018 a first and final dividend for the year ended 31 December 2017 of 7.65 cents per ordinary share, fully franked, was declared, with a record date of 7 March 2018. The dividend will be paid on 29 March 2018 and is estimated to total \$2,295,383.

## **MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL PERIOD**

On 2 January 2018 the Company converted its \$7,448,214 variable rate bank loan into a \$7,400,000 loan at a fixed interest rate of 3.9% per annum, through to 24 November 2019, and repaid the \$48,214 difference. This increased the unused loan facility to \$1,100,000.

No other matter or circumstance has arisen since 31 December 2017 which has significantly affected, or may significantly affect:

- (a) the Company's operations in future financial years, or
- (b) the results of those operations in future financial years, or
- (c) the Company's state of affairs in future financial years.

## **LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS**

The Company expects to continue to execute its business plan, in line with its strategic objectives, as outlined in the IPO Prospectus of 14 November 2016, which includes both organic growth and the acquisition of additional childcare businesses.

## **ENVIRONMENTAL REGULATION**

The Company is not subject to any significant environmental regulation under a law of the Commonwealth, or of a State or Territory, of Australia.

## **DIRECTORS' DETAILS**

Further information regarding the directors of Mayfield Childcare Limited, in office at the date of this report, is as follows:

### **Peter Lowe**

*B.Comm., MBA, FCPA, MAICD.*

*Chairman and Non-Executive Director since 22 August 2016.*

#### **Experience and expertise**

Peter is an experienced director who has held Non-Executive Director (NED) roles on 17 listed and private company boards over the last 15 years. His current board roles include Non-Executive Chair of United Energy Pty Ltd (July 2003 – current), Multinet Pty Ltd (January 2002 – current) and Lochard Energy Pty Ltd (November 2015 – current) and Non Executive Director of Australian Gas Networks Limited (May 2017 – current) and DBNGP Holdings Pty Limited (May 2017 – current).

Peter also provides a range of services to companies including coaching and mentoring, and has an advisory role in a private company that utilises his extensive knowledge of the utilities industry.

Peter's corporate career included PricewaterhouseCoopers (February 1974 – April 1982), Fosters Brewing Group Limited (April 1982 – November 1994) and Utilicorp United Inc (November 1994 – December 2001). His roles included Chief Financial Officer and Managing Director.

#### **Current directorships of other listed companies**

None.

#### **Former directorships of other listed companies (last 3 years)**

None.

#### **Interests in Company shares and options**

250,000 ordinary, fully paid shares (held in the name of Company Lowego Pty Ltd)

### **Dean Clarke**

*B.Bus., CPA, AICD.*

*Executive Director and Chief Executive Officer since 28 November 2016 (appointed a Director on 22 May 2015 and re-appointed on 16 March 2016, having resigned on 3 August 2015).*

#### **Experience and expertise**

Dean has been actively involved in the childcare industry for over 12 years. Since 2005, Dean has overseen the identification, design and construction of greenfield sites into compliant, licensed and profitable centres. Concurrently, Dean held senior executive positions at Tabcorp Holdings Ltd, most recently as General Manager Retail, leading a multi-site network of over 800 venues. Dean brings to Mayfield Childcare considerable expertise in business strategy formulation, sales and marketing, underperforming asset turnarounds, rapid business expansion and cultivation of high performing teams.

#### **Current directorships of other listed companies**

None.

#### **Former directorships of other listed companies (last 3 years)**

None.

#### **Interests in Company shares and options**

2,900,000 ordinary, fully paid shares (2,800,000 held by D.W. & M.R. Clarke Pty Ltd; 100,000 held by Riversdale Road Shareholding Company Pty Ltd on trust for D.W & M.R Clarke Pty Ltd).

## **Michelle Clarke**

*Advanced Diploma of Children's Services*

*Executive Director since 28 November 2016 (appointed a Director on 22 May 2015).*

### ***Experience and expertise***

Michelle's experience in the Early Childhood industry has spanned over 12 years. Opening her first childcare centre in 2005, Michelle has successfully developed, acquired, established and operated childcare services across a range of highly diverse and competitive areas, providing her with a comprehensive insight into the complex nature of the industry. Michelle's extensive knowledge of childcare regulatory requirements and quality frameworks, combined with her ability to identify and implement operational efficiencies, resulted in rapid growth and sustained high occupancy across all of her services.

Michelle's continued commitment to delivering quality outcomes and best practice standards in the Early Childhood Industry is evident in the high quality ratings her services received as part of the National rating and assessment process. Additionally, Michelle has an extensive knowledge of childcare industry reporting and end-user operating systems.

During 2017 Michelle joined the Advisory Board of Smiling Mind, a not-for-profit organisation that delivers meditation and mindfulness programs designed for children and adults.

### ***Current directorships of other listed companies***

None.

### ***Former directorships of other listed companies (last 3 years)***

None.

### ***Interests in Company shares and options***

2,900,000 ordinary, fully paid shares (2,800,000 held by D.W. & M.R. Clarke Pty Ltd; 100,000 held by Riversdale Road Shareholding Company Pty Ltd on trust for D.W & M.R Clarke Pty Ltd).

## **COMPANY SECRETARY**

### **Andrew Draffin**

*B.Comm.(Acc.), CA.*

*Company Secretary since 25 November 2016.*

### ***Experience and expertise***

Andrew is a Chartered Accountant with a strong focus on financial reporting, treasury management, management accounting and corporate advisory services. Andrew provides these services to both publicly listed and private companies, covering a broad range of industries. He has gained experience in capital markets at both primary and secondary levels over his 18 year career.

Andrew is also a Director, Company Secretary and CFO of ASX listed, London AIM listed, OTCQX listed and private companies operating in the renewable energy, exploration and mining and investment sectors. These companies have a broad range of projects and operations in various geographical locations including Australia, New Zealand, Asia, Europe, Africa and North and South America. His particular focus in performing these roles is providing oversight on financial reporting, treasury management and regulatory compliance. Andrew has experience in both pre and post initial public offerings.

## DIRECTORS' MEETINGS

The number of meetings of the Board of directors of Mayfield Childcare Limited, held during the year ended 31 December 2017, were as follows:

Name of director	Full meetings of directors	
	A	B
<b>Current directors</b>		
Peter Lowe, <i>Chairman</i>	11	11
Dean Clarke, <i>Executive Director &amp; CEO</i>	11	11
Michelle Clarke, <i>Executive Director</i>	7	11

A = Number of meetings attended.

B = Number of meetings held during the time the director was in office.

To date, the Company has conducted all business through meetings of the full Board.

## REMUNERATION REPORT

This audited remuneration report sets out remuneration information for Mayfield Childcare Limited's non-executive director, executive directors and other key management personnel (KMP).

KMP are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company, either directly or indirectly.

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

#### Non-Executive Directors

The fees paid to non-executive directors, including the Chairman, reflect the demands which are made on, and the responsibilities of, the directors. Directors' remuneration consists of an annual fee plus statutory superannuation. Directors are also entitled to reimbursement of reasonable expenses incurred on Company business. Directors do not receive additional 'per meeting' fees.

The current annual fee for the Company's only non-executive director, including statutory superannuation, is:

<b>Director</b>	<b>Director's Fee</b>	<b>Comment</b>
Peter Lowe	\$80,000 p.a.	Chairman of the Board.

The Board may adjust the remuneration of non-executive directors from time to time, up to an aggregate amount of \$300,000 in accordance with the Company's constitution. Any increase in the remuneration pool will require shareholder approval.

Non-executive directors are currently ineligible to receive benefits under the Employee Share and Option Plan (ESOP) adopted by the Company.

### **Executive Directors (excluding the Chief Executive Officer)**

The remuneration of Company directors employed in executive roles is set by the Board, taking into account the demands which are made on, and the responsibilities of, directors. Executive directors are also entitled to reimbursement of reasonable expenses incurred on Company business. Executive directors do not receive additional 'per meeting' fees.

The current annual fee for the Company's only director with an executive role, other than the CEO, including statutory superannuation, is:

<b>Director</b>	<b>Director's Fee</b>	<b>Comment</b>
Michelle Clarke	\$40,000 p.a.	Executive role: Quality Improvement Advisor

Executive directors are eligible to receive benefits under the ESOP adopted by the Company.

### **Executive Director (Chief Executive Officer) and other KMP Executives**

The Company enters into individual employment agreements with each of its executives, including the Chief Executive Officer (CEO). For the year ended 31 December 2017, executive pay was comprised solely of cash salary plus statutory superannuation - there was no 'at risk' component of remuneration. Each executive's annual remuneration is based upon market rates for that person's role and responsibilities within the Company.

The Board approves all KMP remuneration. The CEO will review the remuneration of each KMP executive at least annually against previously agreed key performance indicators (KPI's) and set KPI's for the next performance period. In recommending KMP remuneration changes to the Board, the CEO's review will take into account such factors as increases in the cost of living and market parity. Apart from the annual review process, the Board may also approve remuneration increases based upon changes in individual KMP roles which increase an individual's level of responsibility, or recognise an increased level of skill necessary to perform a role, as recommended by the CEO.

Please refer to section *B. Remuneration details* on the following page for further executive KMP remuneration information.

### **Employee Share and Option Plan (ESOP)**

The Company has adopted an Employee Share and Option Plan (ESOP) to encourage executives and employees to have a greater involvement in the achievement of the Company's objectives. Under the ESOP, eligible employees (including executives, officers, employees and Executive Directors) selected by the Plan Committee (or the Board, if no Plan Committee is established), which has been delegated power by the Board to administer the ESOP, may be offered shares or granted options or rights. For the year ended 31 December 2017 and to the date of this report, no shares, options or rights have been granted, nor have any been offered.

## B. Remuneration details

The KMP of the Company during the year ended 31 December 2017 consisted of the directors (see pages 8 to 9 above) and the Chief Financial Officer (CFO). Details of the remuneration of the KMP of the Company are as follows:

<b>Year ended 31 Dec 2017</b>	Short-term benefits	Post- employment benefits	
Name	Cash salary & fees \$	Super- annuation \$	Total \$
<i>Non-Executive Directors</i>			
Peter Lowe, Chairman	73,059	6,941	80,000
<i>Executive Directors</i>			
Dean Clarke, CEO	173,516	16,484	190,000
Michelle Clarke, Quality Improvement Advisor <sup>1</sup>	96,530	3,470	100,000
<i>Other KMP</i>			
Glenn Raines, CFO	160,000	15,200	175,200
<b>Total</b>	<b>503,105</b>	<b>42,095</b>	<b>545,200</b>

1. Michelle Clarke's 'Cash salary & fees' includes \$60,000 (2016: \$5,000) for her executive role of Quality Improvement Advisor.

<b>Period ended 31 Dec 2016</b>	Short-term benefits	Post- employment benefits	
Name	Cash salary & fees \$	Super- annuation \$	Total \$
<i>Non-Executive Directors</i>			
Peter Lowe, Chairman (28/11-31/12/2016)	6,931	658	7,589
<i>Executive Directors</i>			
Dean Clarke, CEO (28/11-31/12/2016)	16,462	1,564	18,026
Michelle Clarke, Quality Improvement Advisor (28/11-31/12/2016)	8,466	329	8,795
<i>Other KMP</i>			
Glenn Raines, CFO (28/11-31/12/2016)	15,179	1,303	16,482
<b>Total</b>	<b>47,038</b>	<b>3,854</b>	<b>50,892</b>

All KMP remuneration for the year ended 31 December 2017 was fixed, with no performance-based, 'at risk' component.

### C. Service agreements

Remuneration and other terms of employment for KMP are formalised in written agreements, the major provisions of which are as follows:

#### Dean Clarke, Chief Executive Officer

- Employment contract: Fixed term of 3 years
- Commencement date: 28 November 2016
- Remuneration: \$190,000 p.a. inclusive of statutory superannuation, reviewable annually (next review 1 January 2018)
- Executive's (and Company's) notice period: 6 months

#### Glenn Raines, Chief Financial Officer

- Employment contract: Fixed term of 3 years
- Commencement date: 28 November 2016
- Remuneration: \$175,200 p.a. inclusive of statutory superannuation, reviewable annually (next review 1 January 2018)
- Executive's (and Company's) notice period: 3 months

The Company may terminate KMP employment agreements at any time without notice or payment in lieu of notice in the event of fraud or other serious misconduct.

### D. Share-based compensation

To the date of this report, KMP have no contractual right to receive share-based compensation. Any future offer of share-based compensation would be at the discretion of the Board, in accordance with the ESOP approved by shareholders.

### E. Additional information

The number of shares in the Company held by KMP during the year ended 31 December 2017, including their personally related parties, is set out below:

Name	Balance at the start of the year	Received as remuneration	Other	Balance at the end of the year
<i>Directors</i>				
Peter Lowe	250,000	-	-	250,000
Dean & Michelle Clarke <sup>1</sup>	2,900,000	-	-	2,900,000
<i>Other KMP</i>				
Glenn Raines	125,000	-	-	125,000
	3,275,000	-	-	3,275,000

1. As announced on 16 November 2017, Michelle Clarke will acquire a further \$250,000 of Mayfield shares on-market, in accordance with the Company's share trading policy, after final settlement of the Pebble Patch ELC acquisition.

*This concludes the audited Remuneration Report.*

## **LOANS TO DIRECTORS AND EXECUTIVES**

No loans were made to directors or to executives during the year and to the date of this report.

## **SHARES UNDER OPTION**

There were no unissued ordinary shares of Mayfield Childcare Limited under option at the date of this report.

## **SHARES ISSUED ON THE EXERCISE OF OPTIONS**

There were no ordinary shares of Mayfield Childcare Limited issued on the exercise of options during the year and to the date of this report.

## **PROCEEDINGS ON BEHALF OF THE COMPANY**

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*.

## **INSURANCE OF OFFICERS AND INDEMNIFICATION OF AUDITOR**

During the year ended 31 December 2017, Mayfield Childcare Limited paid a premium of \$41,800 (2016: \$38,445) to insure the directors and secretary, other KMP and officers of the Company.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings which may be brought against the officers in their capacity as officers of the Company, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of:

- Conduct involving a wilful breach of duty in relation to the Company, or
- Improper use of position or information to gain advantage for self or someone else, or
- Conduct causing detriment to the Company.

It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

The auditor is indemnified by the Company against claims from third parties arising from the provision of audit services except where prohibited by the *Corporations Act 2001*, or due to negligence, fraudulent conduct, dishonesty or breach of trust by the auditor.

## **NON-AUDIT SERVICES**

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and/or experience with the Company is important.

PKF Melbourne Corporate Pty Ltd (PKF Corporate) provided an Independent Expert's Report (IER) for the purpose of assessing whether or not the acquisition of the Pebble Patch ELC childcare business in Cranbourne was fair and reasonable to the non-associated shareholders. PKF Corporate is a related party of PKF Melbourne Audit & Assurance Pty Ltd, the Company's auditor.

The Board of directors considered the position and is satisfied that the provision of non-audit services in the form of the provision of the IER is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001* and that it has not undermined the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

Details of the amounts paid or payable to the auditor and its related entities for non-audit services provided to the end of the reporting period are as follows:

	<b>2017</b>	2016
	<b>\$</b>	\$
<b>Non-audit services</b>		
Independent Expert's Report (for related party business acquisition)	<b>15,000</b>	-
Investigating Accountant's Report (for Prospectus)	-	245,000
Prospectus financial modelling services	-	55,143
Total fees for non-audit services	<b>15,000</b>	300,143

## AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration, as required under section 307C of the *Corporations Act 2001*, is set out on page 16.

## AUDITOR

PKF Melbourne Audit & Assurance Pty Ltd continues in office in accordance with section 327 of the *Corporations Act 2001*.

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



Peter Lowe  
**Chairman**

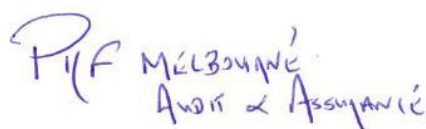
Melbourne  
1 March 2018

## Auditor's Independence Declaration to the Directors of Mayfield Childcare Limited

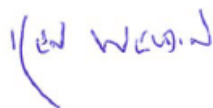
In relation to our review of the financial report of Mayfield Childcare Limited for the year ended 31 December 2017, I declare, to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect Mayfield Childcare Limited during the financial year.



**PKF Melbourne Audit & Assurance Pty Ltd**



**Kenneth Weldin**

**Partner**

**Melbourne, 1 March 2018**

# Financial Report

## For the year ended 31 December 2017

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This financial report is for Mayfield Childcare Limited ("Mayfield Childcare", "Company").

The financial statements are presented in Australian dollars, which is the Company's functional and presentation currency.

Mayfield Childcare Limited is a public company limited by shares, incorporated and domiciled in Australia, and listed on the Australian Securities Exchange since 30 November 2016. Its registered office and principal place of business is:

Level 1, Suite 3  
275 Wattletree Road  
Malvern VIC 3144

A description of the nature of the Company's operations and its principal activities is included in the directors' report, which is not part of this financial report.

The financial report was authorised for issue by the directors on 1 March 2018. The directors have the power to amend and to reissue the financial report.

A copy of this financial report may be obtained from the websites of either the ASX ([www.asx.com.au](http://www.asx.com.au)) or Mayfield Childcare Limited ([www.mayfielchildcare.com.au](http://www.mayfielchildcare.com.au)).

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
**For the year ended 31 December 2017**

	<b>Note</b>	<b>2017</b> <b>\$</b>	<b>2016</b> <b>\$</b>
<b>Revenue</b>		<b>27,117,031</b>	2,288,185
<b>Expenses</b>			
Employees	5	<b>(16,440,238)</b>	(1,443,881)
Facilities		<b>(3,643,065)</b>	(315,732)
Centre operations	5	<b>(1,390,002)</b>	(121,781)
Administration	5	<b>(395,226)</b>	(81,094)
Acquisition costs		<b>(59,268)</b>	(1,257,025)
Integration costs		<b>(29,067)</b>	(207,793)
Initial listing costs		<b>(27,333)</b>	(248,727)
Depreciation and amortisation		<b>(57,240)</b>	(14,901)
Finance costs		<b>(330,152)</b>	(29,949)
Profit/(loss) before income tax		<b>4,745,440</b>	(1,432,698)
Income tax (expense)/benefit	6	<b>(1,326,050)</b>	184,607
Profit/(loss) after income tax for the year entirely attributable to the owners of Mayfield Childcare Limited	18	<b>3,419,390</b>	(1,248,091)
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income/(expense) for the year entirely attributable to the owners of Mayfield Childcare Limited		<b>3,419,390</b>	(1,248,091)
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	26	<b>11.40</b>	(4.16)
Diluted earnings per share	26	<b>11.40</b>	(4.16)

*The above statement of profit or loss and comprehensive income should be read in conjunction with the accompanying notes*

**STATEMENT OF FINANCIAL POSITION**  
**As at 31 December 2017**

	<b>Note</b>	<b>2017</b> \$	<b>2016</b> \$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	7	1,539,166	1,410,473
Trade and other receivables	8	764,292	1,114,475
Other	9	289,060	287,280
Total current assets		<u>2,592,518</u>	<u>2,812,228</u>
<b>Non-current assets</b>			
Plant and equipment	10	451,680	1,160,515
Intangibles	11	32,943,065	27,018,231
Deferred tax	12	364,452	234,360
Other	13	5,844	-
Total non-current assets		<u>33,765,041</u>	<u>28,413,106</u>
<b>Total assets</b>		<u>36,357,559</u>	<u>31,225,334</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	14	2,427,938	2,019,793
Borrowings	15	15,295	4,635
Current tax liabilities		1,386,879	49,753
Provisions	16	747,063	278,226
Total current liabilities		<u>4,577,175</u>	<u>2,352,407</u>
<b>Non-current liabilities</b>			
Borrowings	15	7,532,018	7,480,212
Provisions	16	88,110	613,158
Total non-current liabilities		<u>7,620,128</u>	<u>8,093,370</u>
<b>Total liabilities</b>		<u>12,197,303</u>	<u>10,445,777</u>
<b>Net assets</b>		<u>24,160,256</u>	<u>20,779,557</u>
<b>EQUITY</b>			
Contributed equity	17(b)	21,989,690	22,028,381
Retained earnings/(accumulated losses)	18	2,170,566	(1,248,824)
<b>Total Equity</b>		<u>24,160,256</u>	<u>20,779,557</u>

*The above statement of financial position should be read in conjunction with the accompanying notes.*

**STATEMENT OF CHANGES IN EQUITY**  
**For the year ended 31 December 2017**

	<b>Share Capital \$</b>	<b>Retained Earnings \$</b>	<b>Total \$</b>
<b>2016</b>			
Balance as at 1 January 2016	710	(670)	40
Loss after income tax benefit for the period	-	(1,248,154)	(1,248,154)
Other comprehensive income for the period, net of tax	-	-	-
Total comprehensive expense for the period	710	(1,248,824)	(1,248,114)
<i>Transactions with owners in their capacity as owners</i>			
Contributions of equity, net of transaction costs	22,027,671	-	22,027,671
Balance as at 31 December 2016	22,028,381	(1,248,824)	20,779,557
<b>2017</b>			
Profit after income tax expense for the year	-	3,419,390	3,419,390
Other comprehensive income for the year, net of tax	-	-	-
Total comprehensive income for the year	-	3,419,390	3,419,390
<i>Transactions with owners in their capacity as owners</i>			
Contributions of equity, net of transaction costs	(38,691)	-	(38,691)
<b>Balance as at 31 December 2017</b>	<b>21,989,690</b>	<b>2,170,566</b>	<b>24,160,256</b>

*The above statement of changes in equity should be read in conjunction with the accompanying notes.*

## STATEMENT OF CASH FLOWS

### For the year ended 31 December 2017

	<b>Note</b>	<b>2017</b> \$	<b>2016</b> \$
<b>Cash flows from operating activities</b>			
Receipts from customers, including government funding		<b>26,192,518</b>	1,660,616
Payments to suppliers and employees		<b>(21,063,238)</b>	(1,405,345)
		<b>5,129,280</b>	255,271
Other receipts		<b>15,724</b>	-
Net interest paid		<b>(329,486)</b>	(28,616)
Income tax paid		<b>(49,755)</b>	-
<b>Net cash inflow from operating activities</b>	25	<b>4,765,763</b>	226,655
<b>Cash flows from investing activities</b>			
Payments for purchases of businesses plus associated costs		<b>(4,331,214)</b>	(25,019,715)
Payments for plant and equipment		<b>(240,109)</b>	(46,762)
<b>Net cash outflow from investing activities</b>		<b>(4,571,323)</b>	(25,066,477)
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares		<b>340,000</b>	20,761,085
Proceeds from borrowings		-	7,628,964
Share issue costs		<b>(366,471)</b>	(1,681,087)
Payment of public company initial listing costs		<b>(28,252)</b>	(232,917)
Repayment of borrowings		<b>(11,024)</b>	(180,750)
Payment of borrowing costs		-	(45,000)
<b>Net cash (outflow)/inflow from financing activities</b>		<b>(65,747)</b>	26,250,295
<b>Net increase in cash and cash equivalents</b>		<b>128,693</b>	1,410,473
Cash and cash equivalents at the beginning of the year		<b>1,410,473</b>	-
<b>Cash and cash equivalents at the end of the year</b>	7	<b>1,539,166</b>	1,410,473

*The above statement of cash flows should be read in conjunction with the accompanying notes.*

## **NOTES TO THE FINANCIAL STATEMENTS**

### **For the year ended 31 December 2017**

#### **Note 1. Summary of significant accounting policies**

The principal accounting policies adopted by Mayfield Childcare Limited ("Mayfield Childcare", "Company") in the preparation of the financial statements are set out below.

The preparation of current financial information, and the presentation of any prior reporting period comparatives, is consistent from one reporting period to the next.

##### **(a) Basis of preparation**

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. Any new, revised or amending Accounting Standards and Interpretations that are not yet mandatory have not been adopted early. The Company is a for-profit entity for the purpose of preparing the financial statements.

##### *Compliance with IFRS*

The financial statements of Mayfield Childcare Limited also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

##### *Historical cost convention*

The financial statements have been prepared under the historical cost convention.

##### *Critical accounting estimates*

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

##### *Going concern*

Current liabilities exceed current assets at reporting date, however the Company has strong operational cash flows, it can draw down up to \$1.1 million from its bank lending facility, and it closely monitors its cash resources, hence the directors believe it appropriate to prepare the financial statements on a going concern basis.

##### **(b) Operating segments**

Any operating segments requiring separate disclosure will be reported in a manner consistent with the internal reporting provided to the chief operating decision maker, who is responsible for allocating resources to, and assessing the performance of, any such operating segments. The Chief Executive Officer is considered to be the chief operating decision maker.

##### **(c) Business combinations**

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree. Identifiable assets acquired and liabilities assumed are measured at their acquisition-date fair values.

The excess of the consideration transferred over the fair value of the net identifiable assets acquired is recorded as goodwill.

Where settlement of any part of cash consideration is deferred for more than twelve months, the amount payable in the future is discounted to its present value as at the date of acquisition. The resulting contingent consideration is recognised as a financial liability and is remeasured to fair value at the end of each reporting period, with any such changes in fair value recognised in profit or loss.

Business combinations are initially accounted for on a provisional basis. The Company will retrospectively adjust the provisional amounts recognised and also recognise any additional assets or liabilities identified during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition date. The measurement period ends on the earlier of either (i) 12 months from the date of acquisition; or (ii) when the Company receives all the information possible to determine fair value.

## **NOTES TO THE FINANCIAL STATEMENTS**

### **For the year ended 31 December 2017**

#### **Note 1. Summary of significant accounting policies (continued)**

##### **(d) Revenue recognition**

Revenue is recognised when it is probable that the economic benefit will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable. Revenue received in advance is recognised as deferred income and classified as a liability until earned.

##### *Provision of childcare services*

Benefits and rebates received from the Commonwealth and State Governments, and fees received from parents and guardians, are recognised as revenue as and when the underlying service is provided.

##### *Commonwealth, State and Local Government grants*

Grants from the Commonwealth, State or Local Governments are recognised at their fair value when there is reasonable assurance that the grant will be received and the Company will comply with all conditions associated with the grant.

##### *Interest*

Interest income is recognised using the effective interest method.

##### **(e) Income tax**

The income tax expense or benefit for the period is the tax payable on that period's taxable income, based on the applicable income tax rate, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, any unused tax losses and any adjustments recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for when the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits.

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.

The carrying amounts of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amounts to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the assets.

Deferred tax assets and tax liabilities are offset only when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax balances relate to the same taxation authority.

##### **(f) Cash and cash equivalents**

Cash and cash equivalents includes all cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

## **NOTES TO THE FINANCIAL STATEMENTS**

### **For the year ended 31 December 2017**

#### **Note 1. Summary of significant accounting policies (continued)**

##### **(g) Trade and other receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 days. Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the Company will not be able to collect the entire amount due. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired.

Other receivables are recognised at amortised cost, less any provision for impairment.

##### **(h) Plant and equipment**

Plant and equipment is stated at historical cost less accumulated depreciation and any impairment. 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 net cost of each item of plant and equipment over their expected useful lives as follows:

- Plant and equipment: 5 - 10 years
- Computer equipment: 3 - 5 years
- Vehicles: 3 - 6 years

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

Plant and equipment under lease is depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Company. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

##### **(i) Leases**

Leases of plant and equipment where the Company, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included as a liability. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Assets acquired under finance leases are depreciated over their useful lives or, if there is no reasonable certainty that the Company will obtain ownership at the end of the lease term, over the shorter of the assets' useful lives and the lease terms.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Company are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

##### **(j) Intangible assets**

###### *Goodwill*

Goodwill is measured as described in Note 1(c) above. Goodwill is not amortised but it is tested for impairment at least annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

## **NOTES TO THE FINANCIAL STATEMENTS**

### **For the year ended 31 December 2017**

#### **Note 1. Summary of significant accounting policies (continued)**

##### **(k) Impairment of assets**

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested 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 purpose 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 or CGU's). Non-financial assets, other than goodwill, which suffer an impairment are reviewed for possible reversal of the impairment at the end of each subsequent reporting period.

##### **(l) Trade and other payables**

These amounts represent liabilities for goods and services provided to the Company prior to the end of the reporting period and which are unpaid. The amounts are unsecured and are usually due for settlement no more than 30 days from the date of recognition. Due to their short-term nature the amounts recognised are deemed to reflect fair value.

##### **(m) Borrowings**

Loans and borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are no longer recognised when the contractual obligations are discharged, cancelled or expired.

##### **(n) Provisions**

Provisions are recognised when the Company has a present (legal or constructive) obligation as a result of a past event, it is probable the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation.

The discount rate used to determine the present value is a pre-tax rate which reflects current market assessments of the time value of money and the liability specific risks. Any increase in the provision due to the passage of time would be recognised as a finance cost.

##### **(o) Deferred consideration**

Deferred consideration arises when settlement of all or any part of the cost of a business acquisition is deferred. It is initially recognised at fair value at the acquisition-date, which is determined by discounting the amount due to present value at that date. The liability is subsequently measured at amortised cost using the effective interest method.

##### **(p) Finance costs**

Finance costs attributable to qualifying assets, being assets which necessarily take a substantial period of time to be readied for their intended use or sale, are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred, including interest on short-term and long-term borrowings.

## **NOTES TO THE FINANCIAL STATEMENTS**

### **For the year ended 31 December 2017**

#### **Note 1. Summary of significant accounting policies (continued)**

##### **(q) Employee benefits**

###### *Short-term employee benefits*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled within 12 months of the reporting date, are measured at the amounts expected to be paid when the liabilities are settled.

###### *Other long-term employee benefits*

The liability for employee benefits (annual and long service leave) not expected to be settled within 12 months of the reporting date is measured as the estimated present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on corporate bonds with terms to maturity and currency which match, as closely as possible, the estimated future cash outflows.

##### **(r) Contributed equity**

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

##### **(s) Earnings per share**

###### *Basic earnings per share*

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

###### *Diluted earnings per share*

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

##### **(t) Goods and Services Tax (GST)**

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

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

## NOTES TO THE FINANCIAL STATEMENTS

### For the year ended 31 December 2017

#### Note 1. Summary of significant accounting policies (continued)

##### (u) New Accounting Standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the Company. The Company's assessment of the impact of these new standards and interpretations is set out below.

- **AASB 9 Financial Instruments**

*Timing*

Applicable to annual reporting periods beginning on or after 1 January 2018.

*Nature of changes*

Introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost if it is held within an entity whose objective is to hold assets in order to collect contractual cash flows arising on specified dates and comprising solely principal and interest components. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not 'held-for-trading') in other comprehensive income (OCI). For financial liabilities the portion of the change in fair value which relates to the entity's own credit risk is required to be presented in OCI, unless it would create an accounting mismatch. Hedge accounting requirements have been simplified and are intended to more closely align the accounting treatment with the entity's risk management activities. Updated impairment requirements will use an expected credit loss (ECL) methodology to recognise a provision for impairment. Impairment will be measured using a twelve month ECL model unless the credit risk on the financial instrument has increased significantly since initial recognition, in which case a lifetime ECL model would be adopted. Additional new disclosures are also required.

*Impact*

AASB 9 is not currently expected to materially impact the Company's financial statements because Mayfield's material financial assets comprise cash and cash equivalents and trade receivables (neither of which incorporate a financing component), both of which comprise principal-only cash flows and, for trade receivables, equates to the transaction price. Both of these asset classes will continue to be measured and recognised in the statement of financial position at face value.

- **AASB 15 Revenue from Contracts with Customers**

*Timing*

Applicable to annual reporting periods beginning on or after 1 January 2018.

*Nature of changes*

Effectively consolidates revenue recognition into a single standard. The core principle is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The standard: requires the identification of contracts; sets rules for when multiple contracts are to be combined and treated as a single contract and how to deal with subsequent contract modifications; requires the identification of contractual performance obligations (both explicit and implied); allows the recognition of revenue only upon satisfaction of performance obligations (which are either satisfied over time or at a point in time); deals with determining the transaction price (including discounts, variable and non-cash consideration); and requires significant contract credit risk to be recognised as an expense (rather than as reduced revenue). For services, the performance obligation is satisfied once the promised service has been provided. For performance obligations satisfied over time, an appropriate measure of progress must be selected to determine the quantum of revenue to be recognised upon the progressive satisfaction of the obligations. At any point in time the degree of satisfaction of contractual performance obligations, when combined with the amount of customer consideration received, will determine whether a customer contract is depicted in the statement of financial position as a contractual liability, an asset or a receivable. Sufficient quantitative and qualitative disclosure is required to enable financial report users to understand the customer contracts recognised, any significant judgements made in applying the standard's guidance to those contracts, and any assets recognised from any costs incurred to procure or satisfy customer contracts.

## NOTES TO THE FINANCIAL STATEMENTS

### For the year ended 31 December 2017

#### Note 1. Summary of significant accounting policies (continued)

##### (u) New Accounting Standards and interpretations not yet adopted (continued)

- **AASB 15 Revenue from Contracts with Customers (continued)**

*Impact*

The Company does not expect the standard to have a significant impact upon its financial statements, on the basis that the Company predominantly earns its revenue from the provision of care to children (primary performance obligation satisfaction) and only recognises revenue once that care has been provided, with revenue from billings in advance being deferred and presented as a current liability in the statement of financial position.

- **AASB 16 Leases**

*Timing*

Applicable to annual reporting periods beginning on or after 1 January 2019.

*Nature of changes*

For lessees, requires almost all leases to be recognised in the statement of financial position, as the distinction between 'operating' and 'finance' leases is removed. The only exceptions are short-term (less than 12 months) and low-value leases. Generally, a 'right-of-use' asset will be recognised in the statement of financial position, measured as the present value of the unavoidable future lease payments to be made over the lease term. A corresponding liability for the lease rental payments will also be recognised, adjusted for any lease prepayments made, lease incentives received, initial direct costs incurred and estimates for future restoration, removal and dismantling costs (if any). The expensing of lease payments evenly over the lease period will be replaced with (i) a charge against the leased ('right-of-use') asset, classified as an operating expense (not as depreciation); and (ii) an interest expense (classified as a finance cost) on the recognised lease liability. Within the statement of cash flows, lease payments will be recognised as financing cash flows (principal component of lease payment) and operating cash flows (interest component of lease payment). For lessors, the accounting is substantially unchanged.

*Impact*

The standard will affect primarily the accounting for the Company's operating leases. As at the reporting date, the Company has non-cancellable operating lease commitments of \$26,613,532 (Note 21). However, the Company has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Company's profit and classification of cash flows. Some of the commitments may be excluded from recognition by the exception for short-term and low-value leases, whilst some commitments may relate to arrangements that will not qualify as leases under AASB 16. Additionally, and based on preliminary discussions with Westpac, the Company does not expect this change in lessee accounting to impact its debt covenants.

#### Note 2. Financial risk management

The Company's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise any potentially adverse effects upon the performance of the Company. To date, the Company has not used derivative financial instruments to hedge its risk exposures.

Financial risk management is the responsibility of the Chief Financial Officer, acting within guidelines approved by the Board of Directors. The Company's risk exposures are identified and analysed using different methods, such as sensitivity analysis for interest rate risk and debtor ageing for credit risk.

## NOTES TO THE FINANCIAL STATEMENTS

### For the year ended 31 December 2017

#### Note 2. Financial risk management (continued)

The Company holds the following financial instruments:

	31 Dec 2017 \$	31 Dec 2016 \$
<b>Financial assets</b>		
Cash and cash equivalents	1,539,166	1,410,473
Trade and other receivables	764,292	1,114,475
	<b>2,303,458</b>	<b>2,524,948</b>
<b>Financial liabilities</b>		
Trade and other payables	2,427,938	2,019,793
Borrowings	7,547,313	7,484,847
	<b>9,975,251</b>	<b>9,504,640</b>

#### (a) Market Risk

##### *Foreign exchange risk*

The Company has not undertaken any material foreign currency denominated transactions, hence it is not exposed to foreign currency risk through foreign currency exchange rate fluctuations.

##### *Price risk*

The Company is not exposed to any material price risk.

##### *Interest rate risk*

The Company's predominant interest rate risk arises from its long-term borrowings. Borrowings undertaken at variable rates exposes the Company to interest rate risk, whereas borrowings undertaken at fixed rates expose the Company to fair value interest rate risk.

At 31 December 2017 the Company's \$8,500,000 Westpac loan facility bore a 3.32% p.a. variable interest rate on the amount of \$7,448,214 drawn down, plus a 0.75% p.a. line fee on the overall facility, which amounted to an average interest rate for the year of 4.14% (2016: 4.07%) on the amount drawn down.

An increase/decrease in these interest rates of 50 basis points, if applied for a whole year and with all other variables held constant, would result in a decrease/increase in after-tax profit of \$55,819 p.a.

#### (b) Credit Risk

The Company is exposed to credit risk arising from the potential of a counterparty to fail to fulfil their financial obligations, thereby exposing the Company to financial loss. Throughout the year ended 31 December 2017 the Company's exposure to credit risk lay predominantly with its trade receivables. The Company utilises a three tiered approach to managing its trade receivables: firstly, at the centre manager level, then, at the area manager level and, finally, at the corporate executive level. Given the relatively small individual trade receivable balances, the use of external debt collection agencies would not normally be appropriate.

At 31 December 2017 the maximum exposure to credit risk of recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The Company does not hold any collateral.

#### (c) Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash, cash equivalents and readily marketable investments to enable it to meet its debts as and when they become due and payable. The Company manages liquidity by continuously monitoring forecast and actual cash flows, ensuring it holds adequate cash reserves and has sufficient borrowing capacity to meet its future funding requirements.

## NOTES TO THE FINANCIAL STATEMENTS

### For the year ended 31 December 2017

#### Note 2. Financial risk management (continued)

##### (c) Liquidity Risk (continued)

###### *Financing arrangements*

Unused borrowing facilities are as follows:

	31 Dec 2017 \$	31 Dec 2016 \$
<b>Westpac Banking Corporation</b>		
Business Finance Loan <sup>1</sup>	1,051,786	551,786
Commercial credit card facility	55,000	52,500
	<b>1,106,786</b>	<b>604,286</b>

In addition to the above unused borrowing facilities, the Company is awaiting the finalisation of Westpac's 2017 annual review of the Company, whereupon it will be advised of its new, pre-approved, additional borrowing capacity for funding further childcare business acquisitions.

###### *Maturity of financial liabilities*

The following table analyses the Company's financial liabilities into relevant maturity groupings, based on their contractual maturities – they are not expected to occur significantly earlier than as contracted at reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying amounts as the impact of discounting is not significant.

31 December 2017	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying amount of liabilities
<b>Non-interest bearing</b>						
Trade and other payables	2,427,938	-	-	-	2,427,938	2,427,938
<b>Interest bearing – fixed</b>						
Borrowings (finance lease)	20,499	20,498	68,066	-	109,063	99,099
<b>Interest bearing – variable</b>						
Borrowings (bank loan)	311,031	7,726,863	-	-	8,037,894	7,448,214
Total financial liabilities	2,759,468	7,747,361	68,066	-	10,574,895	9,975,251

31 December 2016	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying amount of liabilities
<b>Non-interest bearing</b>						
Trade and other payables	2,019,793	-	-	-	2,019,793	2,019,793
<b>Interest bearing – fixed</b>						
Borrowings (finance lease)	6,866	6,866	27,955	-	41,687	36,633
<b>Interest bearing – variable</b>						
Borrowings (bank loan)	303,184	303,184	7,719,833	-	8,326,201	7,448,214
Total financial liabilities	2,329,843	310,050	7,747,788	-	10,387,681	9,504,640

## NOTES TO THE FINANCIAL STATEMENTS

### For the year ended 31 December 2017

#### Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions which affect the amounts reported in the financial statements. Management regularly evaluates its judgements and estimates in relation to assets, liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on various other factors, including expectations of future events, which management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual, eventual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next 12 months are as follows:

##### *Goodwill*

The Company will test annually, or more frequently if events or changes in circumstances indicate impairment, whether or not goodwill has suffered an impairment, in according with the accounting policy stated in Note 1 above. The recoverable amounts of cash-generating units (CGU's) are determined based on value-in-use calculations, which require the use of assumptions, including estimated discount rates, based on the current cost of capital, and the growth rates of the estimated future cash flows.

##### *Recovery of deferred tax assets*

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

##### *Employee benefits provision*

As discussed in Note 1 above, the liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been made.

##### *Business combinations*

Business combinations are initially accounted for on a provisional basis, as discussed in Note 1 above. The fair values of assets acquired and liabilities assumed, both actual and contingent, are initially estimated by taking into consideration all information available at the reporting date. Any subsequent fair value adjustments, on the finalisation of business combinations accounting standard requirements, are retrospective to the period in which the combination occurred and may, therefore, have an impact on the value of assets and liabilities, and concomitant depreciation and amortisation, reported.

#### Note 4. Operating segments

##### *Identification of reportable segments*

The Company continues to operate in one operating segment, as a childcare services provider. The Company operates in one geographical region, being Australia and, more specifically, Victoria.

##### *Major customers*

During the year ended 31 December 2017, none of the Company's revenue was derived from sales to specific customers generating, individually, 10% or more of total reported revenue.

<b>2017</b>	<b>2016</b>
<b>\$</b>	<b>\$</b>

#### Note 5. Expenses

Profit/(loss) before income tax includes the following specific expenses:

Rental expense relating to operating leases – Minimum lease payments	<b>2,745,007</b>	266,259
Defined contribution superannuation expense	<b>1,288,667</b>	110,186

## NOTES TO THE FINANCIAL STATEMENTS

### For the year ended 31 December 2017

	2017 \$	2016 \$
<b>Note 6. Income tax (expense)/benefit</b>		
Aggregate income tax (expense)/benefit	<u>(1,326,050)</u>	<u>184,607</u>
Deferred income tax expense/(revenue) included in income tax benefit comprises:		
Decrease/(increase) in deferred tax assets (Note 12)	<u>(130,092)</u>	<u>(234,360)</u>
<b>Numerical reconciliation of income tax benefit to prima facie tax refund</b>		
Profit/(loss) before income tax	4,745,440	(1,432,698)
Tax (expense)/benefit at the statutory rate of 30%	(1,423,632)	429,809
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Acquisition costs	(17,780)	(356,408)
Share issue costs	120,726	118,406
Non-deductible expenses	(5,364)	(7,200)
Income tax (expense)/benefit	<u>(1,326,050)</u>	<u>184,607</u>

### Note 7. Current assets - Cash and cash equivalents

#### Cash and cash equivalents

Cash at bank (balance as per statement of cash flows)	<u>1,539,166</u>	<u>1,410,473</u>
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Cash at bank is non-interest bearing and is denominated entirely in Australian currency.

### Note 8. Current assets - Trade and other receivables

Trade receivables	650,980	515,150
Less: Provision for impairment of trade receivables	<u>(11,556)</u>	<u>(8,721)</u>
	639,424	506,429
GST receivable	75,368	198,729
Other receivables	49,500	409,317
	<u>764,292</u>	<u>1,114,475</u>

#### *Impairment of trade receivables*

Trade receivables assessed as impaired were no more than 1 month overdue. Customers with balances past due but assessed as not being impaired totalled \$49,051 (2016: \$38,095).

### Note 9. Current assets - Other

Prepayments	<u>289,060</u>	<u>287,280</u>
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## NOTES TO THE FINANCIAL STATEMENTS

### For the year ended 31 December 2017

	2017 \$	2016 \$
<b>Note 10. Non-current assets - Plant and equipment</b>		
<b>Plant and equipment</b>		
Plant and equipment - at cost	523,821	1,175,416
Less: Accumulated depreciation	(72,141)	(14,901)
Net book amount	<u>451,680</u>	<u>1,160,515</u>
<i>Reconciliation</i>		
Opening net book amount	1,160,515	-
Additions through business combinations	30,000	1,072,853
Adjustments from prior period business combinations	(988,903)	-
Additions	307,308	102,563
Depreciation expense	(57,240)	(14,901)
Balance at year end	<u>451,680</u>	<u>1,160,515</u>
<b>Leased assets</b>		
Plant and equipment includes the following amounts where the Company is a lessee under a finance lease:		
Plant and equipment - at cost	101,006	33,807
Less: Accumulated depreciation	(12,650)	-
Net book amount	<u>88,356</u>	<u>33,807</u>

### Note 11. Non-current assets – Intangibles

Goodwill – at cost	<u>32,943,065</u>	<u>27,018,231</u>
<i>Reconciliation</i>		
Balance at beginning of year	27,018,231	-
Additions through business combinations	5,455,931	27,018,231
Adjustments from prior period business combinations	988,903	-
Additional purchase consideration (earn-out) adjustment	(520,000)	-
Balance at end of year	<u>32,943,065</u>	<u>27,018,231</u>

#### *Impairment test for goodwill*

Goodwill is allocated to a single cash-generating unit (CGU), which is based on the Company's operating segment. The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use a pre-tax discount of 15% and cash flow projections based on financial forecasts for the 12 months immediately following reporting date. Cash flows beyond 12 months are extrapolated using the estimated growth rates of occupancy and daily fee rate. The growth rate does not exceed the long-term average growth rate for the business.

#### *Impact of possible changes in assumptions – sensitivity analysis*

Any reasonable possible change in valuation parameters would not cause the carrying amount of the CGU to exceed its recoverable amount.

## NOTES TO THE FINANCIAL STATEMENTS

### For the year ended 31 December 2017

**2017**  
\$

**2016**  
\$

#### Note 12. Non-current assets – Deferred tax

*Deferred tax comprises temporary differences attributable to:*

Amounts recognised in profit or loss:

Employee benefits	<b>297,889</b>	144,642
Initial listing costs	<b>45,675</b>	59,182
Borrowing costs	<b>8,421</b>	12,920
Audit fees	<b>9,000</b>	15,000
Impairment of receivables	<b>3,467</b>	2,616
Deferred tax asset	<b>364,452</b>	234,360

*Movements:*

Opening balance	<b>234,360</b>	-
Adjustment recognised for prior period	<b>(49,753)</b>	-
Credited/(debited) to profit or loss (Note 6)	<b>(1,326,050)</b>	184,607
Current tax payable	<b>1,386,879</b>	49,753
Additions through business combinations (Note 19)	<b>119,016</b>	-
Closing balance	<b>364,452</b>	234,360

#### Note 13. Non-current assets – Other

Property lease security deposit	<b>5,844</b>	-
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#### Note 14. Current liabilities - Trade and other payables

Trade payables	<b>105,266</b>	210,736
Other payables	<b>2,258,708</b>	1,673,391
Deferred revenue	<b>63,964</b>	135,666
	<b>2,427,938</b>	2,019,793

*Other payables*

Other payables includes \$1,215,615 (net of settlement adjustments) outstanding on acquisition of Pebble Patch ELC Cranbourne.

#### Note 15. Current & Non-current liabilities – Borrowings

##### Loans

Non-current	<b>7,448,214</b>	7,448,214
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##### Finance lease

Current	<b>15,295</b>	4,635
Non-current	<b>83,804</b>	31,998
	<b>99,099</b>	36,633

## NOTES TO THE FINANCIAL STATEMENTS

### For the year ended 31 December 2017

	2017 \$	2016 \$
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#### Note 15. Current & Non-current liabilities – Borrowings (continued)

##### Reconciliation

##### Current liabilities

Leases	15,295	4,635
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##### Non-current liabilities

Loans	7,448,214	7,448,214
Leases	83,804	31,998
	<u>7,532,018</u>	<u>7,480,212</u>

##### *Financing arrangements*

##### Bank loan

The bank loan is secured on the assets and undertakings of the Company.

Total bank loan facility at reporting date	8,500,000	8,000,000
Less amount used at reporting date	<u>(7,448,214)</u>	<u>(7,448,214)</u>
Unused bank loan facility at reporting date	<u>1,051,786</u>	<u>551,786</u>

The unused portion of the bank loan facility is only available for future acquisitions and there are specific criteria that need to be met prior to any draw-down. There were no events of default on the financing arrangements of the Company during the year.

##### Overdraft

The Company does not have an overdraft.

#### Note 16. Current & Non-current liabilities – Provisions

##### Provisions for employee benefits: annual and long service leave

Current	747,063	278,226
Non-current	88,110	93,158
	<u>835,173</u>	<u>371,384</u>

##### Provision for additional purchase consideration (earn-out)

Non-current	-	520,000
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##### Reconciliation

##### Current Liabilities

Provisions for employee benefits	747,063	278,226
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##### Non-current liabilities

Provision for employee benefits	88,110	93,158
Provision for additional purchase consideration (earn-out)	-	520,000
	<u>88,110</u>	<u>613,158</u>

## NOTES TO THE FINANCIAL STATEMENTS

### For the year ended 31 December 2017

#### Note 16. Current & Non-current liabilities – Provisions (continued)

##### Movements in provisions

Movements in each class of provision during the year were as follows:

<b>2017</b>	Employee benefits	Additional purchase consideration (earn-out)	Total
	\$	\$	\$
Carrying amount at start of year	371,384	520,000	891,384
Recognised upon acquisition of childcare businesses	101,924	-	101,924
Charged/(credited) to income statement			
- additional provisions recognized	1,037,697	-	1,037,697
- unused amounts reversed	-	(520,000)	(520,000)
Amounts used during the period	(675,832)	-	(675,832)
Carrying amount at end of year	<b>835,173</b>	-	<b>835,173</b>

#### Note 17. Contributed equity

##### (a) Share capital

The share capital account of Mayfield Childcare Limited (the Company) consists of 30,005,000 fully paid up, ordinary shares as at 31 December 2017.

##### (b) Movements in ordinary share capital

Movements in the ordinary share capital of the Company during the past two years were as follows:

<b>Date</b>	<b>Details</b>	<b>Number of shares</b>	<b>Amount \$</b>
1 Jan 2016	Opening balance	7,100,000	710
22 Aug 2016	New issue	3,750,000	1,085
27 Oct 2016	Share reduction	(3,080,000)	-
31 Oct 2016	Share reduction	(1,765,000)	-
24 Nov 2016	Issue of shares at IPO	21,100,000	21,100,000
24 Nov 2016	Issue of shares in lieu of cash	2,900,000	2,900,000
	Less: Share issue transaction costs, net of tax		(1,973,414)
31 Dec 2016	Balance	30,005,000	22,028,381
	Less: Share issue transaction costs, net of tax		(38,691)
<b>31 Dec 2017</b>	<b>Balance</b>	<b>30,005,000</b>	<b>21,989,690</b>

## NOTES TO THE FINANCIAL STATEMENTS

### For the year ended 31 December 2017

#### Note 17. Contributed equity (continued)

##### (c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends, and the proceeds on winding up of the Company, in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting of the Company, either personally or by duly authorised representative, proxy or attorney, is entitled to one vote, and upon a poll each share is entitled to one vote.

##### (d) Share options

There were no unissued ordinary shares of Mayfield Childcare Limited under option at 31 December 2017.

There were no ordinary shares of Mayfield Childcare Limited issued on the exercise of options during the year.

##### (e) Capital management

The Company's objective when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders, benefits for other stakeholders and minimise the cost of capital by optimising its capital structure.

Future optimisation measures may include any or all of adjusting the amount of dividends it distributes and/or returning capital to its shareholders, raising capital by issuing new shares, selling assets to reduce debt and further borrowing from Westpac. As a general principle, the Company will seek to utilise its borrowing capacity to fund the acquisition of new childcare businesses, whilst ensuring it adheres to the financial and operating covenants therein. The Company has not defaulted on any of these covenants during the reporting year.

<b>2017</b>	<b>2016</b>
<b>\$</b>	<b>\$</b>

#### Note 18. Accumulated profits/(losses)

Movements in accumulated profits/(losses) were as follows:

Opening balance	<b>(1,248,824)</b>	(733)
Profit/(Loss) after income tax expense/benefit for the year	<b>3,419,390</b>	(1,248,091)
Closing balance	<b>2,170,566</b>	(1,248,824)

#### Note 19. Business combinations

The Company acquired 3 childcare centres during the year, for total cash consideration of \$5,503,023. The fair values ascribed to the assets acquired and liabilities assumed are as follows:

**Fair value**  
**\$**

Plant and equipment	30,000
Deferred tax asset	119,016
Provisions for employee benefits	(101,924)
Goodwill	5,455,931
Acquisition-date fair value of the total consideration transferred	<b>5,503,023</b>
<i>Representing</i>	
Cash paid to vendors	3,863,758
Amount owed to vendor at year end (before settlement adjustments)	1,639,265
	<b>5,503,023</b>

## NOTES TO THE FINANCIAL STATEMENTS

### For the year ended 31 December 2017

	2017 \$	2016 \$
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#### Note 20. Key management personnel (KMP) disclosures

The aggregate compensation made to directors and other KMP of the Company was as follows:

Short-term employee benefits	503,105	47,038
Long-term benefits	42,095	3,854
	<b>545,200</b>	<b>50,892</b>

Detailed remuneration disclosures are provided in the Directors' Report, within sections A to D of the Remuneration Report.

#### Note 21. Commitments

##### (a) Capital commitments

Commitments for the acquisition of plant and equipment contracted for at the reporting date but not recognised as liabilities, payable:

Within 1 year	-	3,985
Between 1 and 5 years	-	-
Later than 5 years	-	-

Commitments not recognised in the financial statements	<b>-</b>	<b>3,985</b>
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##### (b) Lease commitments

###### *Operating leases*

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

Within 1 year	3,170,574	2,562,309
Between 1 and 5 years	10,697,465	9,254,072
Later than 5 years	12,745,493	7,029,467

Commitments not recognised in the financial statements	<b>26,613,532</b>	<b>18,845,848</b>
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Operating lease commitments are for the Company's childcare centres under non-cancellable leases expiring within 2 to 10 years, all with options to extend for further periods. The lease have various escalation terms, varying from CPI through to fixed percentages, many with periodic rent reviews.

###### *Finance leases*

Commitments for minimum lease payments in relation to non-cancellable finance leases are payable as follows:

Within 1 year	20,499	6,866
Between 1 and 5 years	88,564	34,821
Later than 5 years	-	-

Minimum lease payments	<b>109,063</b>	<b>41,687</b>
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Less: Future finance charges	<b>(9,964)</b>	<b>(5,054)</b>
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Total lease liability	<b>99,099</b>	<b>36,633</b>
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Representing lease liabilities (Note 15)

Current	15,295	4,635
Non-current	83,804	31,998
	<b>99,099</b>	<b>36,633</b>

## NOTES TO THE FINANCIAL STATEMENTS

### For the year ended 31 December 2017

**2017**                      **2016**  
\$                                      \$

#### Note 22. Remuneration of auditor

During the period the following fees were paid or payable for services provided by the auditor and its related practices:

##### Audit services

Audit of financial reports	<b>42,500</b>	50,000
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##### Non-audit services

Independent Expert's Report (for related party business acquisition)	15,000	
Investigating Accountant's Report (for Prospectus)	-	245,000
Prospectus financial modelling services	-	55,143
	<b>15,000</b>	300,143

Total fees of PKF Melbourne and its related practices	<b>57,500</b>	350,143
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#### Note 23. Related party transactions

##### Subsidiaries

The Company does not have any subsidiaries.

##### Key management personnel (KMP)

Detailed remuneration disclosures relating to KMP are set out in Note 20 and in the Directors' Report, within sections A to D of the Remuneration Report.

##### Transactions with related parties

###### *Acquisition of Cranbourne childcare centre*

During the year Company purchased the Pebble Patch Early Learning Centre, a 75 licensed places long day childcare centre business located in Cranbourne, from a company controlled by Michelle Clarke, a director of the Company, for \$2.2 million cash consideration in a transaction approved by shareholders in general meeting on 16 November 2017.

Other payables includes \$1,215,615 of outstanding purchase consideration, net of settlement adjustments, owed to Michelle Clarke on acquisition of Pebble Patch ELC Cranbourne.

###### *Managed services agreements*

During the year the Company entered into agreements to manage two childcare centres owned by Dean and Michelle Clarke, directors of the Company. The agreements are initially for 12 months, with options to renew. Pricing is on commercial, arms-length bases. Revenue of \$176,667 (2016: Nil) has been recognized from these contracts during the reporting year.

## NOTES TO THE FINANCIAL STATEMENTS

### For the period ended 31 December 2016

#### Note 24. Events occurring after the reporting period

On 2 January 2018 the Company converted its \$7,448,214 variable rate bank loan into a \$7,400,000 loan at a fixed interest rate of 3.90% per annum, through to 24 November 2019, and repaid the \$48,214 difference. This increased the unused loan facility to \$1,100,000.

No other matter or circumstance has arisen since 31 December 2017 that has significantly affected, or may significantly affect, the Company's operations, the results of those operations or the Company's state of affairs in future years.

	2017 \$	2016 \$
<b>Note 25. Reconciliation of profit/(loss) after income tax to net cash from operating activities</b>		
Profit/(loss) after income tax	3,419,390	(1,248,091)
Acquisition costs	59,268	1,257,025
Depreciation and amortisation	57,240	14,901
Initial listing costs	27,333	248,727
Impairment charge	2,835	8,721
Change in operating assets and liabilities		
Decrease/(increase) in trade and other receivables	(35,308)	(728,984)
Decrease/(increase) in other operating assets	(1,780)	(287,280)
Decrease/(increase) in deferred tax assets	(483,468)	(234,360)
Increase/(decrease) in trade and other payables	(323,287)	1,069,655
Increase/(decrease) in current tax liabilities	1,386,879	49,753
Increase/(decrease) in provisions	656,661	76,588
Net cash inflow/(outflow) from operating activities	<u>4,765,763</u>	<u>226,655</u>

#### Note 26. Earnings per share

	2017 Cents	2016 Cents
Basic and diluted earnings/(loss) per share	11.40	(4.16)
	<b>Number</b>	<b>Number</b>
<b>Weighted average number of shares</b>		
Weighted average number of shares used as the denominator in calculating basic and diluted earnings per share	30,005,000	30,005,000
	\$	\$
<b>Earnings used in calculating basic and diluted earnings per share</b>		
Profit/(loss) after tax attributable to the ordinary equity holders of the Company	3,419,390	(1,248,091)

There were no results from discontinued operations, nor net loss attributable to outside equity interests, to be taken into account in determining earnings used in calculating basic and diluted earnings per share.

#### Information concerning the classification of securities

As at reporting date the Company had not issued any share options, therefore diluted earnings per share is the same as basic earnings per share.

## DIRECTORS' DECLARATION

### In the directors' opinion:

- (a) the financial statements and notes set out on pages 18 to 40 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the Company's financial position as at 31 December 2017 and of its performance for the financial period ended on that date; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

The directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

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



Peter Lowe  
**Chairman**

Melbourne  
1 March 2018

## Independent Auditor's Report to the Members of Mayfield Childcare Limited

### Report on the Audit of the Financial Report

#### Our Opinion

We have audited the accompanying financial report of Mayfield Childcare Limited (the Company), which comprises the statement of financial position as at 31 December 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and the Directors' Declaration.

In our opinion the accompanying financial report of Mayfield Childcare Limited is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Company's financial position as at 31 December 2017 and of its performance for the year then ended; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have communicated the key audit matters to the Directors but they are not a comprehensive reflection of all matters identified by our audit and that we discussed with the Directors.

We have determined the matters described in the table to be the key audit matters to be communicated in our report.

Matter and significance	How our audit addressed the key audit matter
<p><b>Acquisition Accounting</b></p> <p>As set out in Note 11 of the financial statements, during the year ended 31 December 2017, the Company acquired the net assets of three Victorian childcare centres.</p> <p>Acquisition accounting involves the recognition and measurement of identifiable assets and liabilities at their fair value. This process is inherently complex and requires a level of judgement and assumptions.</p> <p>Based on the above, we have determined that the accounting relating to the</p>	<p>Our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"> <li>Considering the Company's assessment of the application of AASB 3 <i>Business Combinations</i>;</li> <li>Reviewing the provisional accounting entries associated with the business combinations;</li> <li>Assessing the methodology applied to recognise the fair value of identifiable assets and liabilities;</li> <li>Validating inputs of the components of the business combinations to underlying support including settlement contracts; and</li> <li>Reviewing the related financial statement disclosures for the acquisition of the centres for consistency with the relevant financial reporting standards.</li> </ul>

Matter and significance	How our audit addressed the key audit matter
<p>acquisition of childcare centres during the year represents a key audit matter.</p>	
<p><b>Acquisition Accounting</b></p> <p>As set out in Note 11 of the financial statements, during the year ended 31 December 2017, the Company acquired the net assets of three Victorian childcare centres.</p> <p>Acquisition accounting involves the recognition and measurement of identifiable assets and liabilities at their fair value. This process is inherently complex and requires a level of judgement and assumptions.</p> <p>Based on the above, we have determined that the accounting relating to the acquisition of childcare centres during the year represents a key audit matter.</p>	<p>Our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"> <li>• Considering the Company's assessment of the application of AASB 3 <i>Business Combinations</i>;</li> <li>• Reviewing the provisional accounting entries associated with the business combinations;</li> <li>• Assessing the methodology applied to recognise the fair value of identifiable assets and liabilities;</li> <li>• Validating inputs of the components of the business combinations to underlying support including settlement contracts; and</li> <li>• Reviewing the related financial statement disclosures for the acquisition of the centres for consistency with the relevant financial reporting standards.</li> </ul>
<p><b>Valuation of Goodwill</b></p> <p>As set out in Note 11 of the financial statements, as at 31 December 2017, Mayfield has goodwill of \$32,943,065 (2016: \$27,018,231).</p> <p>An annual impairment test for intangible assets is required under AASB 136 <i>Impairment of Assets</i>.</p> <p>The evaluation of the recoverable amount requires the Company to exercise significant judgement in determining key assumptions, which include:</p> <ul style="list-style-type: none"> <li>• 5 year cash flow forecast;</li> <li>• Occupancy rates;</li> <li>• Terminal growth factor; and</li> <li>• Discount rate.</li> </ul> <p>Based on the above, we have determined that the evaluation of the recoverable amount of intangible assets including goodwill is a key audit matter.</p>	<p>Our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"> <li>• Assessing and challenging: <ul style="list-style-type: none"> <li>◦ the assumption of one cash generating unit is appropriate in the context of its acquisitions and the goodwill allocated to it;</li> <li>◦ the reasonableness of the Financial Year 2018 budget approved by the Board by comparing the budget to Financial Year 2017 actuals and forecasts;</li> <li>◦ the assumptions used for the future growth rate by comparing normalised average growth rates for centres in recent years to the growth rate adopted in the impairment model noting the regulatory environment in the sector;</li> <li>◦ the key assumptions for long term growth in the forecast cash flows by comparing them to historical results and industry forecasts; and</li> <li>◦ the discount rate applied by comparing the WACC to industry benchmarks.</li> </ul> </li> <li>• Reviewing the mathematical accuracy of the cash flow models: <ul style="list-style-type: none"> <li>◦ agreeing inputs in the cash flow models to relevant data including approved budgets and latest forecasts; and</li> <li>◦ reviewing the basis of management's key assumptions including discount rates, growth rates, occupancy rates and terminal value.</li> </ul> </li> <li>• Assessing the appropriateness of the disclosures including those relating to sensitivities in the assumptions used in Note 11.</li> </ul>
<p><b>Revenue Recognition</b></p> <p>The Company's revenue amounted to \$27,117,031 for the year. Revenue from the centres is recognised at the fair value of the consideration received or receivable upon provision of the related service.</p>	<p>Our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"> <li>• Reviewing the reports generated from the childcare management software used by the childcare centres, and related analytical reviews;</li> </ul>

Matter and significance	How our audit addressed the key audit matter
Based on the above, and the significant volume of revenue transactions, we have determined that revenue recognition is a key audit matter.	<ul style="list-style-type: none"> <li>• Testing controls over the Company's information technology systems supporting the accounting for revenue;</li> <li>• Assessing and testing the operating effectiveness of the key controls around revenue recognition, including those over: <ul style="list-style-type: none"> <li>○ Input of enrolment details to the accounting system;</li> <li>○ Billing rates and payment cycles; and</li> <li>○ Reconciliation of revenue and deferred revenue reports from the accounting system to underlying support.</li> </ul> </li> <li>• Substantively testing revenue recognised for the year including revenue on provision of childcare services, Child Care Rebates and Child Care Benefits from the accounting system to underlying support;</li> <li>• Assessing the cut-off of revenue and completeness of deferred revenue for the year; and</li> <li>• Performing detailed analytical review of revenue and the timing of its recognition based on expectations derived from our industry knowledge and external market data and following up variances from our expectations.</li> </ul>

### Other Information

The Directors are responsible for the other information. The other information comprises the information included in the Company's Annual Report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Directors' Responsibilities for the Financial Report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the Directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the financial report complies with International Financial Reporting Standards.

In preparing the financial report, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using a going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

### Auditor's Responsibilities for the Audit of the Financial Report

Our responsibility is to express an opinion on the financial report based on our audit. Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report.

The procedures selected depend on the auditor's judgement, including assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of 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.

We conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

We evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We obtain sufficient appropriate audit evidence regarding the financial information of the business activities within the Company to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements. We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## **Report on the Remuneration Report**

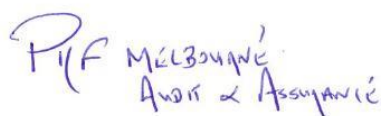
### ***Opinion on the Remuneration Report***

We have audited the Remuneration Report included in pages 10 to 13 of the Directors' Report for the year ended 31 December 2017.

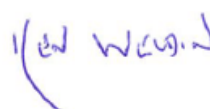
In our opinion, the Remuneration Report of Mayfield Childcare Limited, for the year ended 31 December 2017, complies with section 300A of the *Corporations Act 2001*.

### ***Responsibilities***

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



**PKF Melbourne Audit & Assurance Pty Ltd**  
**Melbourne, 1 March 2018**



**Kenneth Weldin**  
**Partner**

## Shareholder Information

The shareholder information in this section was applicable as at 27 February 2018.

### Number of equity securities

The Company had on issue 30,005,000 fully paid ordinary shares, held by a total of 557 shareholders. There is no on-market buy-back scheme.

### Distribution of equity securities

The distribution of equity securities categorised by size of holding is as follows:

Range	Number of holders of ordinary shares
1 to 1,000	48
1,001 to 5,000	120
5,001 to 10,000	105
10,001 to 100,000	254
100,001 and over	30
Total	557

There are 18 security holders holding less than a marketable parcel (being \$500) at the ASX closing price of \$1.11.

### Substantial holders

To date, the Company has received substantial shareholding notices from the following holders:

Holder	Number of shares held	Percentage of total shares on issue
Riversdale Road Shareholding Company Pty Ltd (ATF Riversdale Road Shareholding Trust)	7,260,000	24.2
D.W. & M.R. Clarke Pty Ltd (ATF D.W. & M.R. Clarke Family Trust)	2,900,000	9.7
Total	10,160,000	33.9

### Restricted securities

As required by the ASX as a condition of listing, the following securities, which are all the shares then on issue immediately prior to the IPO, are subject to a 24 month escrow period:

Class	Expiry date	Number of shares subject to escrow	Percentage of total shares on issue
Ordinary shares	30 November 2018	6,005,000	20.0

## Top 20 Shareholders

The names of the twenty individually largest holders of the Company's quoted shares is as follows:

Registered holder of shares	Number of shares held	% of total shares on issue
RIVERSDALE ROAD SHAREHOLDING COMPANY PTY LTD	5,920,000	19.73
D.W & M.R CLARKE PTY LTD	2,800,000	9.33
JT CAMPBELL PROPERTIES PTY LTD	1,000,000	3.33
NSR INVESTMENTS PTY LTD	960,000	3.20
KEWRAY PTY LTD	850,000	2.83
MR IVAN HAMILTON TANNER & MRS FELICITY TANNER	638,000	2.13
BNP PARIBAS NOMINEES PTY LTD	531,557	1.77
TELUNAPA PTY LTD	500,000	1.67
BUTTONWOOD NOMINEES PTY LTD	479,290	1.60
MACLAW NO 544 PTY LTD	400,000	1.33
MARCUS BESEN & EVA BESEN & NAOMI GAYE MILGROM	350,000	1.17
J T CAMPBELL & CO PTY LTD	340,000	1.13
AUSTRALIAN SALES & LEASING PTY LTD	300,000	1.00
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	300,000	1.00
KAMGA PTY LTD	300,000	1.00
COMPANY LOWEGO PTY LTD	250,000	0.83
KINGSLEY DEVELOPMENTS PTY LTD	250,000	0.83
D R DADON HOLDINGS PTY LTD	245,159	0.82
PLUSH NOMINEES PTY LTD	235,000	0.78
CUMULARE CAPITAL PTY LTD	229,648	0.77
Total	16,878,654	56.25

## Voting rights

The only class of securities issued by the Company is fully paid ordinary shares. On a show of hands every holder of ordinary shares present at a meeting of the Company, either personally or by duly authorised representative, proxy or attorney, is entitled to one vote, and upon a poll each share is entitled to one vote.

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