# Mayfield Childcare Limited

**ABN: 53 604 970 390**

# *Annual Report*

## *31 December 2018*

# About Mayfield Childcare

Mayfield Childcare (the Company) owns 20 long day childcare centres located in and around metropolitan Melbourne. The Company has 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's vision is 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 the children under our care and our team of dedicated educators.

# Corporate Governance

A copy of our Corporate Governance Statement may be obtained from our website (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
W: 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
W: www.linkmarketservices.com.au

## Banker

Westpac Banking Corporation
150 Collins Street
Melbourne VIC 3000

# Contents

# 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 2018.

Revenue from continuing operations was $31.5 million (up 16.1%), delivering EBITDA of $5.3m (up 2.7%) and a Net Profit After Tax (NPAT) of $3.4m (down 1.2%). Additionally, the business has realised a profit of $897k from the disposal of centres, resulting in a statutory NPAT of $4.3m.

Overall, performance for the Mayfield business, along with the sector as a whole, has been challenging, with sector headwinds remaining through 1H18. July 2 saw the introduction of the new Child Care Subsidy (CCS) and, while not an instant stimulus to the sector, it has brought welcome financial relief to many families, which is now translating into increased participation.

While timing of acquisitions was slower than anticipated, the business secured three (3) additional centres, while taking the decision to divest two (2) underperforming centres, resulting in a total portfolio of 20 centres, with the new acquisitions trading above expectations.

With a continuous focus on Quality, we have continued to invest in our centre upgrades, educational programs, training and technology, along with expansion of our Field Management function and continued development of our Centre Management Team. This has brought about a significant shift in our National Quality Standard profile, with 85% of our centres rated “Exceeding” or “Meeting”, up from 44%.

Strong operating cash flows continue to underpin the business, with a closing cash position of $1.8m, while the drop in net operating cash flow reflects our Year 1 income tax obligation of $1.8m. A further $10.6m of debt funding was provided by Westpac, taking our group debt facility limit to $19.1m and facilitating our 2018 acquisitions.

The Board is pleased to announce a fully franked dividend of 8.97 cents per share (cps), payable in March 2019. The Board recommends your consideration of the Dividend Reinvestment Plan (DRP). Shareholders who elect to take shares instead of cash under the DRP will receive shares at a discount of 5% to the volume weighted average share price (VWAP) over the pricing period.

While it has been a year of challenges and changes, Mayfield has successfully weathered a tough trading environment with solid performance results, delivering attractive earnings and dividends. With a more stable market outlook as cyclical improvements in the sector flow through, Mayfield looks forward to improvements in earnings as it continues to invest in strategic growth opportunities.

Yours faithfully,

| | |
|---|---|
| Peter Lowe | Dean Clarke |
| **Chairman** | **Chief Executive Officer** |

# Directors' Report

Your directors present their report on Mayfield Childcare Limited ("Mayfield Childcare", "Company") for the year ended 31 December 2018.

## 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 activity of the Company consisted of operating long day childcare centres located in Victoria.

## REVIEW OF OPERATIONS

During the year the Company acquired an additional three Victorian childcare centres and sold two, increasing its number of licensed places from 1,588 to 1,693 at year-end. The Company paid its inaugural dividend in March 2018.

The Company's financing facility with Westpac was restructured such that those loan facilities which were expiring before the end of December 2019 were extended by a further twelve months.

The Company made a statutory profit after tax for the year ended 31 December 2018 of $4,274,742, representing a 25.0% increase on the previous year.

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.

## EARNINGS PER SHARE

| | ***2018*** ***cents*** | *2017* *cents* |
|---|---|---|
| Basic and diluted earnings per share | **13.91** | 11.40 |

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Other than the childcare centre acquisitions and disposals, and the restructuring of its loan facility 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 1 February 2019 a first and final dividend for the year ended 31 December 2018 of 8.97 cents per ordinary share, fully franked, was declared, with a record date of 6 March 2019. The dividend will be paid on 28 March 2019 and is estimated to total $2,778,582. The Company offers its Dividend Reinvestment Plan (DRP) to all shareholders.

## MATTERS SUBSEQUENT TO THE END OF THE YEAR

No matter or circumstance has arisen since 31 December 2018 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 investor presentation released to the ASX on 1 February 2019, which includes both organic growth and the acquisition of additional childcare centres.

## 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 16 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***

253,609 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.*

***Experience and expertise***

Dean has been actively involved in the childcare industry for over 13 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***

3,102,076 ordinary, fully paid shares (2,995,108 held by D.W. & M.R. Clarke Pty Ltd; 106,968 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.*

***Experience and expertise***

Michelle's experience in the Early Childhood industry has spanned over 13 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.

In 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***

3,142,076 ordinary, fully paid shares (2,995,108 held by D.W. & M.R. Clarke Pty Ltd; 106,968 held by Riversdale Road Shareholding Company Pty Ltd on trust for D.W & M.R Clarke Pty Ltd; 40,000 held by M.R. Clarke personally).

## 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 19 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 2018, were as follows:

| **Name of director** | **Full meetings of directors** | |
|---|---|---|
| | **A** | **B** |
| ***Current directors*** | | |
| Peter Lowe, *Chairman* | 9 | 9 |
| Dean Clarke, *Executive Director & CEO* | 9 | 9 |
| Michelle Clarke, *Executive Director* | 4 | 9 |

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.

## 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*.

## 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:

| ***Director*** | ***Director's Fee*** | ***Comment*** |
|---|---|---|
| Peter Lowe | $80,000 p.a. | Chairman of the Board. Unchanged from last year. |

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:

| ***Director*** | ***Director's Fee*** | ***Comment*** |
|---|---|---|
| Michelle Clarke | $40,000 p.a. | Executive role: Quality Improvement Advisor. Unchanged from last year. |

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 2018, 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 2018 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 2018 consisted of the directors (see pages 6 to 7 above) and the Chief Financial Officer (CFO). Details of the remuneration of the KMP of the Company are as follows:

| ***2018*** | Short-term benefits | Post-employment benefits | |
|---|---|---|---|
| Name | Cash salary & fees<br>$ | Super-annuation<br>$ | Total<br>$ |
| *Non-Executive Directors* | | | |
| Peter Lowe, *Chairman* | 73,059 | 6,941 | 80,000 |
| *Executive Directors* | | | |
| Dean Clarke, *CEO* | 175,721 | 19,979 | 195,700 |
| Michelle Clarke, *Quality Improvement Advisor* [1] | 156,530 | 3,470 | 160,000 |
| *Other KMP* | | | |
| Glenn Raines, *CFO* | 164,800 | 15,656 | 180,456 |
| Total | 570,110 | 46,046 | 616,156 |

1. Michelle Clarke's 'Cash salary & fees' includes $120,000 (2017: $60,000) for her executive role of Quality Improvement Advisor.

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

All KMP remuneration for the year ended 31 December 2018 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: $195,700 p.a. inclusive of statutory superannuation, reviewable annually (next review due Q1 CY 2019)
- 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: $180,456 p.a. inclusive of statutory superannuation, reviewable annually (next review due Q1 2019)
- 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 2018, including their personally related parties, is set out below:

| Name | Balance at the start of the year | Received as remuneration | Dividend Reinvestment Plan | Other | Balance at the end of the year |
|---|---|---|---|---|---|
| *Directors* | | | | | |
| Peter Lowe | 250,000 | - | 3,609 | - | 253,609 |
| Dean & Michelle Clarke | 2,900,000 | - | 202,076 | - | 3,102,076 |
| *Other KMP* | | | | | |
| Glenn Raines | 125,000 | - | - | 10,000 | 135,000 |
| | 3,275,000 | - | 205,685 | 10,000 | 3,490,685 |

*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.

## INSURANCE OF OFFICERS AND INDEMNIFICATION OF AUDITOR

During the year ended 31 December 2018, Mayfield Childcare Limited paid a premium of $55,550 (2017: $41,800) 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.

## 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.

The Board of directors has considered the position and is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001* 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*.

During the year the following fees were paid or payable to the auditor and its related entities for non-audit services:

| | ***2018*** | *2017* |
|---|---|---|
| | ***$*** | *$* |
| **Taxation services** | | |
| Preparation of income tax returns and related matters | **19,500** | 7,750 |
| **Other non-audit services** | | |
| Independent Expert's Report (for related party business acquisition) | **-** | 15,000 |
| Total fees for non-audit services | **19,500** | 22,750 |

## 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 14.

## 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
15 February 2019

**AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF MAYFIELD CHILDCARE LIMITED**

In relation to our audit of the financial report of Mayfield Childcare Limited for the year ended 31 December 2018, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

**PKF**
**Melbourne, 15 February 2019**

**Kenneth Weldin**
**Partner**

PKF Melbourne
Audit & Assurance Pty Ltd
ABN 75 600 749 184

Melbourne

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Melbourne VIC 3000 Australia

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# Financial Report

## For the year ended 31 December 2018

## Contents



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 15 February 2019. 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) or Mayfield Childcare Limited (www.mayfielchildcare.com.au).

## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
## For the year ended 31 December 2018

| | *Note* | *2018* $ | *2017* $ |
|---|---|---|---|
| Revenue from continuing operations | 5 | **31,488,841** | 27,117,031 |
| Net profit on disposal of centres | | **896,708** | - |
| Employees | 6 | **(19,198,468)** | (16,440,238) |
| Facilities | 6 | **(4,466,429)** | (3,643,065) |
| Centre operations | | **(1,814,331)** | (1,390,002) |
| Administration | | **(704,603)** | (424,293) |
| Acquisition costs | | **(35,498)** | (59,268) |
| Initial listing costs | | **-** | (27,333) |
| Depreciation and amortisation | | **(179,035)** | (57,240) |
| Finance costs | | **(561,575)** | (330,152) |
| Profit before income tax | | **5,425,610** | 4,745,440 |
| Income tax expense | 7 | **(1,150,868)** | (1,326,050) |
| Profit after income tax for the year entirely attributable to the owners of Mayfield Childcare Limited | | **4,274,742** | 3,419,390 |
| Other comprehensive income for the year, net of tax | | **-** | - |
| Total comprehensive income for the year entirely attributable to the owners of Mayfield Childcare Limited | | **4,274,742** | 3,419,390 |

| | *Note* | *Cents* | *Cents* |
|---|---|---|---|
| Basic earnings per share | 21 | **13.91** | 11.40 |
| Diluted earnings per share | 21 | **13.91** | 11.40 |

*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 2018

| | Note | 2018 $ | 2017 $ |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | **1,776,803** | 1,539,166 |
| Trade and other receivables | 8 | **933,544** | 764,292 |
| Prepayments | | **322,066** | 289,060 |
| Total current assets | | **3,032,413** | 2,592,518 |
| **Non-current assets** | | | |
| Plant and equipment | 9 | **1,324,485** | 451,680 |
| Intangibles | 10 | **38,855,655** | 32,943,065 |
| Deferred tax | 11 | **396,063** | 364,452 |
| Other | | **-** | 5,844 |
| Total non-current assets | | **40,576,203** | 33,765,041 |
| **Total assets** | | **43,608,616** | 36,357,559 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 12 | **1,317,483** | 2,427,938 |
| Borrowings | 13 | **17,218** | 15,295 |
| Current tax liabilities | | **764,576** | 1,386,879 |
| Provisions | | **916,479** | 747,063 |
| Total current liabilities | | **3,015,756** | 4,577,175 |
| **Non-current liabilities** | | | |
| Borrowings | 13 | **13,366,586** | 7,532,018 |
| Provisions | | **75,528** | 88,110 |
| Total non-current liabilities | | **13,442,114** | 7,620,128 |
| **Total liabilities** | | **16,457,870** | 12,197,303 |
| **Net assets** | | **27,150,746** | 24,160,256 |
| **EQUITY** | | | |
| Contributed equity | 14(b) | **23,000,856** | 21,989,690 |
| Retained earnings | | **4,149,890** | 2,170,566 |
| **Total equity** | | **27,150,746** | 24,160,256 |

*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 2018

| | *Share Capital* *$* | *Retained Earnings* *$* | *Total* *$* |
|---|---|---|---|
| ***2017*** | | | |
| Balance as at 1 January 2017 | 22,028,381 | (1,248,824) | 20,779,557 |
| 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 |
| *Transactions with owners in their capacity as owners* | | | |
| Contributions of equity, net of transaction costs | (38,691) | - | (38,691) |
| Balance as at 31 December 2017 | 21,989,690 | 2,170,566 | 24,160,256 |
| ***2018*** | | | |
| Profit after income tax expense for the year | - | 4,274,742 | 4,274,742 |
| Other comprehensive income for the year, net of tax | - | - | - |
| Total comprehensive income for the year | - | 4,274,742 | 4,274,742 |
| *Transactions with owners in their capacity as owners* | | | |
| Contributions of equity (via DRP), net of transaction costs | 1,011,166 | - | 1,011,166 |
| Dividend paid | | (2,295,418) | (2,295,418) |
| **Balance as at 31 December 2018** | **23,000,856** | **4,149,890** | **27,150,746** |

*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 2018

| | Note | 2018 $ | 2017 $ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers, including government funding | | **31,464,598** | 26,192,518 |
| Payments to suppliers and employees | | **(26,261,593** | (21,063,238) |
| | | **5,203,005** | 5,129,280 |
| Other receipts | | **50,932** | 15,724 |
| Net interest paid | | **(523,252)** | (329,486) |
| Income tax paid | | **(1,782,886)** | (49,755) |
| **Net cash inflow from operating activities** | 19 | **2,947,799** | 4,765,763 |
| **Cash flows from investing activities** | | | |
| Proceeds from disposal of centres, net of costs | | **1,034,462** | - |
| Payments for purchases of businesses plus associated costs | | **(7,178,837)** | (4,331,214) |
| Payments for plant and equipment | | **(1,086,875)** | (240,109) |
| Proceeds from disposal of plant and equipment | | **8,849** | - |
| **Net cash outflow from investing activities** | | **(7,222,401)** | (4,571,323) |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of shares | | **-** | 340,000 |
| Proceeds from borrowings | | **6,800,000** | - |
| Share issue costs | | **(5,497)** | (366,471) |
| Payment of public company initial listing costs | | **-** | (28,252) |
| Repayment of borrowings | | **(963,509)** | (11,024) |
| Payment of borrowing costs | | **(40,000)** | - |
| Dividend paid | | **(1,278,755)** | - |
| **Net cash inflow/(outflow) from financing activities** | | **4,512,239** | (65,747) |
| **Net increase in cash and cash equivalents** | | **237,637** | 128,693 |
| Cash and cash equivalents at the beginning of the year | | **1,539,166** | 1,410,473 |
| **Cash and cash equivalents at the end of the year** | | **1,776,803** | 1,539,166 |

*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 2018

## 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.

### (b) 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.

### (c) Revenue recognition

The Company provides long day childcare and educational services to its customers. Fees are generally billed weekly and, in the usual course of business, payment is received within one week of billing. Revenue is recognised once the contracted service has been provided. Payments for services provided are usually sourced from both the federal government and private individuals, else solely from the latter if ineligible for funding support. Payments in advance of services provided are recognised as contract liabilities until such time as the services are provided.

## NOTES TO THE FINANCIAL STATEMENTS
## For the year ended 31 December 2018

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

### (c) Revenue recognition (continued)

*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 once the contracted services have been provided.

*Kinder and Inclusion Support funding*

Grants from the Commonwealth, State or Local Governments are recognised as revenue once the amount of the grant can be reliably measured and all performance obligations, including compliance with the associated grant terms and conditions, have been fully performed.

*Consultancy and management services*

Distinct performance obligations within consultancy and management services contracts are individually identified. Revenue is recognised as each performance obligation is satisfied through the provision, to the customer, of the relevant service. Any revenue received in advance of the satisfaction of a performance obligation is classified as a contractual liability and recognised as such until the performance obligation thereof has been satisfied.

### (d) 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.

### (e) 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.

### (f) 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.

The Company applies the AASB 9 simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for all trade and other receivables. The expected loss rates are based on the payment profiles of sales to reporting date and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors expected to potentially affect the ability of customers to settle the receivables.

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

# NOTES TO THE FINANCIAL STATEMENTS
# For the year ended 31 December 2018

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

### (g) 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.

### (h) 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.

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.

### (i) Intangible assets

*Goodwill*

Goodwill is measured as described in Note 1(b) above. Goodwill is not amortised but 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.

### (j) Impairment of assets

Goodwill is not subject to amortisation and is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it 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. 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.

### (k) 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.

# NOTES TO THE FINANCIAL STATEMENTS
# For the year ended 31 December 2018

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

### (l) Borrowings

Loans and borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. 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.

Borrowings are derecognised when the contractual obligations are discharged, cancelled or expired.

### (m) Finance costs

All finance costs are expensed in the period in which they are incurred, including interest on short-term and long-term borrowings.

### (n) Employee benefits

*Short-term employee benefits*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be wholly 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 wholly 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.

### (o) 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.

### (p) 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.

### (q) 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 2018

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

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

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 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 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).

  *Impact*
  The standard will primarily affect the accounting for the Company's property operating leases. As at the reporting date, the Company has non-cancellable property operating lease commitments of $22,265,947 (Note 17).

  The Company will be adopting the modified retrospective approach to implementation, meaning that adoption will be from 1 January 2019, the value of the recognised right-of-use asset will equal the value of the lease liability at that date, there will be no need to adjust retained earnings and prior period comparatives will not need to be restated. Preliminary modelling indicates that the initial value of the right-of-use asset and lease liability will be significant. The asset will be non-current and the liability will have both current and non-current components.

  Whilst over the life of each lease there is no expected impact upon the overall net profit after tax recognised in the statement of profit or loss, the Company has undertaken preliminary modelling which indicates that, on an individual lease basis, net profit after tax will be lower at the beginning of the lease and higher towards the end. This is due to the requirement to expense the charge (against the 'right-of-use' asset) on a straight line basis, whilst the interest expense on the liability is calculated using the effective interest rate method, meaning a higher charge in the beginning (when the principal balance outstanding is relatively higher) and a lower charge towards the end (when the principal balance outstanding is relatively lower).

  Based on ongoing discussions with Westpac, the Company does not expect this change in lessee accounting to adversely 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 2018

## Note 2. Financial risk management (continued)

The Company holds the following financial instruments:

| | ***31 Dec 2018*** | *31 Dec 2017* |
|---|---|---|
| | ***$*** | *$* |
| ***Financial assets*** | | |
| Cash and cash equivalents | **1,776,803** | 1,539,166 |
| Trade and other receivables | **933,544** | 764,292 |
| | **2,710,347** | 2,303,458 |
| ***Financial liabilities*** | | |
| Trade and other payables | **1,317,483** | 2,427,938 |
| Borrowings | **13,383,804** | 7,547,313 |
| | **14,701,287** | 9,975,251 |

### (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 2018 the interest rates on the Company's loan facilities were as follows:

- $7,400,000 at 3.90% fixed ($7,400,000 drawn)
- $1,700,000 at 3.1361% variable (unused)
- $10,000,000 at 3.31% variable ($5,900,000 drawn)

Including a line fee of 0.75% p.a. on the full amount of each facility, the average interest rate for the year was 4.79% (2017: 4.14%).

Any reasonably possible movement in interest rates is not expected to cause a material impact upon profit or equity.

### (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 2018 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 2018 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.

## NOTES TO THE FINANCIAL STATEMENTS
## For the year ended 31 December 2018

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

#### (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.

*Financing arrangements*

Unused borrowing facilities are as follows:

| | ***31 Dec 2018*** ***$*** | *31 Dec 2017* *$* |
|---|---|---|
| ***Westpac Banking Corporation*** | | |
| Variable rate loan (available for working capital requirements) | **1,700,000** | 1,051,786 |
| Variable rate loan (availability for centre acquisitions subject to meeting lending criteria) | **4,100,000** | - |
| Commercial credit card facility | **45,000** | 55,000 |
| | **5,845,000** | 1,106,786 |

*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 2018*** | Within 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years | Total contractual cash flows | Carrying amount of liabilities |
|---|---|---|---|---|---|---|
| ***Non-interest bearing*** | | | | | | |
| Trade and other payables | 1,317,483 | - | - | - | 1,317,483 | 1,317,483 |
| ***Interest bearing – fixed*** | | | | | | |
| Borrowings | 452,348 | 7,787,647 | 33,344 | - | 8,273,339 | 7,483,804 |
| ***Interest bearing – variable*** | | | | | | |
| Borrowings | 195,290 | 5,980,791 | - | - | 6,176,081 | 5,900,000 |
| Total financial liabilities | 1,965,121 | 13,768,438 | 33,344 | - | 15,766,903 | 14,701,287 |

| *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 |
|---|---|---|---|---|---|---|
| *Non-interest bearing* | | | | | | |
| Trade and other payables | 2,427,938 | - | - | - | 2,427,938 | 2,427,938 |
| *Interest bearing – fixed* | | | | | | |
| Borrowings | 20,499 | 20,498 | 68,066 | - | 109,063 | 99,099 |
| *Interest bearing – variable* | | | | | | |
| Borrowings | 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 |

**NOTES TO THE FINANCIAL STATEMENTS**
**For the year ended 31 December 2018**

## 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 tests annually, or more frequently if events or changes in circumstances indicate impairment, whether or not goodwill has suffered an impairment, in accordance 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.

## Note 4. Operating segments

*Identification of reportable segments*
The Company continues to operate in one operating segment, as a long day childcare services provider. The Company operates in one geographical region, being the Australian state of Victoria.

*Major customers*
During the year ended 31 December 2018, none of the Company's revenue was derived from sales to specific customers generating, individually, 10% or more of total reported revenue.

## NOTES TO THE FINANCIAL STATEMENTS
## For the year ended 31 December 2018

### Note 5. Revenue

New accounting standard AASB 15 *Revenue from Contracts with Customers,* applicable to the Company from 1 January 2018, requires disclosure of (i) revenue from contracts with customers, as distinct from revenue from other sources; (ii) significant judgements made in the application of the standard; and (iii) any assets recognised from the costs to obtain or fulfil customer contracts.

**(i) Contracts with customers**

***Disaggregation of revenue***

The requirement to disaggregate revenue from contracts with customers into categories that depict how the nature, amount, timing and uncertainty (of revenue) and cash flows are affected by economic factors is subject to materiality. The following categories were considered in deciding not to disaggregate revenue from contracts with customers:

- *Type of service:* Within the provision of childcare services, revenue is earned from supplementary government funding for the provision of approved kindergarten programmes and for the support of children with additional needs and, whilst grant funding is also provided from time to time on an ad-hoc, specific needs basis, none of these revenue streams are individually material. Hence they, along with other non-material services such as consultancies and managed services, have not been disaggregated and separately disclosed.
- *Geographical region:* Services are provided from childcare centres located within approximately 2 hours drive of Melbourne's CBD – further disaggregation would not be meaningful and no individual centre's revenue is material.
- *Market:* The Company operates solely within the early education sector.
- *Type of customer:* The majority of customers are private individuals, with only an immaterial proportion of fees being met by government agencies (for children placed within the Company's care).
- *Type of contract:* Revenue earned from consultancy fee and managed services contracts is not material when compared to revenue earned from the provision of childcare services, childcare service contracts between the provider (the Company) and customer being the predominant means of earning contracted revenue.
- *Contract duration:* Whilst childcare service contracts may be terminated at any time within agreed notice periods, contracts are open-ended insofar as services will continue to be provided for as long as the customer remains in good financial standing. As previously noted, revenue earned from consultancy and managed services contracts is not material.
- *Timing of provision of service:* Childcare services are provided on a day-to-day basis. Consultancy and managed services performance obligations are expected to be met over a longer timeframe however, as previously noted, revenue earned therefrom is not material.
- *Sales channel:* Not considered applicable - the Company contracts directly with each customer.

***Contract balances***

The closing balance of contract liabilities (previously denoted as deferred revenue) as at reporting date is expected to fully flow through and be recognised as revenue within twelve months from reporting date. Thus, with the exception of refunds to those parents who terminate their contracts whilst in credit (which are not material), the closing balance of contract liabilities from the prior reporting period has been fully recognised within the current reporting period.

Revenue is not normally recognised in the current reporting period from performance obligations satisfied in a prior reporting period.

There is usually no significant change in the balance of contract liabilities from one reporting period to the next. Acquisitions of childcare centres will increase the balance whilst, conversely, disposals of childcare centres will reduce the balance, however such changes are not normally material within the context of the overall balance.

## NOTES TO THE FINANCIAL STATEMENTS
## For the year ended 31 December 2018

### Note 5. Revenue (continued)

***Performance obligations***

Customers are usually billed weekly in advance of the provision of childcare services and payment is generally received within one week, before services for the billed week have been completely provided. Therefore, the Company usually provides services for up to 3 days before receiving cleared funds. Thereafter, for the remainder of the week, the Company has been paid in advance for up to 3 days. The exact number of days by which customer accounts will be in advance or in arrears depends upon the method of payment used by the customer, the timing of any public (that is, non-banking day) holidays within the week and, lastly, the day of the week on which the reporting date falls.

Performance obligations are satisfied and completed daily, once the child has been collected by its care giver, and brought to reckon weekly through the issuing of weekly customer statements of account. Given the nature of the services provided, there are no return, refund or warranty obligations.

***Transaction price allocated to the remaining performance obligations***

Weekly billing of customers is based on the duration of care for which the child has been enrolled, with some centres offering discounts for full-time bookings (Monday to Friday inclusive), as distinct from part-time or casual bookings. At reporting date the Company calculates the amount earned from each customer to the end of that day and, if this is less than the amount billed to the customer, the excess is recognised as a contract liability for performance obligations unfulfilled.

**(ii) Significant judgements in applying the standard**

***Determining the transaction price and the amounts allocated to performance obligations***

There is no variable consideration, nor post-billing discounts, to be taken into account in determining the transaction price. Any non-refundable enrolment and waiting list fees are not material and are recognised as revenue when received.

Other than those disclosed above, there are no significant judgements made in applying the standard.

**(iii) Assets recognised from contract procurement and fulfilment costs**

Any direct costs of procuring and fulfilling childcare service contracts are negligible and not separately captured, hence no asset is recognised from contract procurement and fulfilment costs.

**NOTES TO THE FINANCIAL STATEMENTS**
**For the year ended 31 December 2018**

| | ***2018*** | *2017* |
|---|---|---|
| | ***$*** | *$* |

## Note 6. Expenses

Profit before income tax includes the following specific expenses:

| | | |
|---|---|---|
| Rental expense relating to operating leases – Minimum lease payments | **3,380,809** | 2,745,007 |
| Defined contribution superannuation expense | **1,534,707** | 1,288,667 |

## Note 7. Income tax expense

| | | |
|---|---|---|
| Aggregate income tax expense | **1,150,868** | 1,326,050 |
| *Deferred income tax* | | |
| Increase in deferred tax assets (Note 11) | **(31,611)** | (130,092) |
| **Numerical reconciliation of income tax expense to prima facie tax payable** | | |
| Profit before income tax | **5,425,610** | 4,745,440 |
| Tax expense at the statutory rate of 27.5% (2017: 30%) | **(1,492,043)** | (1,423,632) |
| Tax effect of amounts which are not taxable/(taxable) in calculating taxable income: | | |
| Net profit on disposal of centres | **246,595** | - |
| Acquisition costs | **(9,762)** | (17,780) |
| Share issue costs | **110,968** | 120,726 |
| Non-deductible expenses | **(6,626)** | (5,364) |
| Income tax expense | **(1,150,868)** | (1,326,050) |

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

| | | |
|---|---|---|
| Trade receivables | **840,573** | 650,980 |
| Less: Provision for impairment of trade receivables | **(31,608)** | (11,556) |
| | **808,965** | 639,424 |
| GST receivable | **63,455** | 75,368 |
| Other receivables | **61,124** | 49,500 |
| | **933,544** | 764,292 |

*Impairment of trade receivables*

Trade receivables assessed as impaired were 30 or more days overdue. Customers with balances more than 30 days overdue but assessed as not being impaired totalled $99,263 (2017: $49,051).

## NOTES TO THE FINANCIAL STATEMENTS
## For the year ended 31 December 2018

### Note 9. Non-current assets - Plant and equipment

| | ***2018*** | *2017* |
|---|---|---|
| | ***$*** | *$* |
| **Plant and equipment** | | |
| Plant and equipment - at cost | **1,567,651** | 523,821 |
| Less: Accumulated depreciation | **(243,166)** | (72,141) |
| Net book amount | **1,324,485** | 451,680 |
| *Reconciliation* | | |
| Opening net book amount | **451,680** | 1,160,515 |
| Net additions through business combinations | **14,348** | 30,000 |
| Adjustments from prior period business combinations | **(11,637)** | (988,903) |
| Additions | **1,086,875** | 307,308 |
| Disposals | **(37,746)** | - |
| Depreciation expense | **(179,035)** | (57,240) |
| Balance at year end | **1,324,485** | 451,680 |

**Leased assets**

Plant and equipment includes the following amounts where the Company is a lessee under a finance lease:

| | | |
|---|---|---|
| Plant and equipment - at cost | **101,006** | 101,006 |
| Less: Accumulated depreciation | **(29,485)** | (12,650) |
| Net book amount | **71,521** | 88,356 |

### Note 10. Non-current assets – Intangibles

| | | |
|---|---|---|
| Goodwill – at cost | **38,855,655** | 32,943,065 |
| *Reconciliation* | | |
| Balance at beginning of year | **32,943,065** | 27,018,231 |
| Additions through business combinations | **6,001,249** | 5,455,931 |
| Adjustments from prior period business combinations | **11,637** | 988,903 |
| Disposal of centres | **(100,296)** | - |
| Additional purchase consideration (earn-out) unused | **-** | (520,000) |
| Balance at end of year | **38,855,655** | 32,943,065 |

*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% (2017: 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 estimated growth rates of occupancy and daily fees. 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 2018

### Note 11. Non-current assets – Deferred tax

| | ***2018*** **$** | *2017* *$* |
|---|---|---|
| *Deferred tax comprises temporary differences attributable to:* | | |
| Amounts recognised in profit or loss: | | |
| Employee benefits | **323,647** | 297,889 |
| Initial listing costs | **28,011** | 45,675 |
| Prospectus liability insurance | **15,332** | - |
| Borrowing costs | **13,288** | 8,421 |
| Audit fees | **9,625** | 9,000 |
| Impairment of receivables | **6,158** | 3,467 |
| Deferred tax asset | **396,063** | 364,452 |
| *Movements:* | | |
| Opening balance | **364,452** | 234,360 |
| Change of tax rate (from 30% to 27.5%) | **(30,371)** | - |
| Adjustment recognised to recognise prospectus liability insurance | **22,998** | - |
| Adjustment recognised for prior period | **-** | (49,753) |
| Movements in provisions | **17,088** | 60,829 |
| Additions through business combinations (Note 15) | **21,896** | 119,016 |
| Closing balance | **396,063** | 364,452 |

### Note 12. Current liabilities - Trade and other payables

| | | |
|---|---|---|
| Trade payables | **124,188** | 105,266 |
| Other payables | **899,923** | 2,258,708 |
| Contract liabilities (Note 5) | **293,372** | 63,964 |
| | **1,317,483** | 2,427,938 |

### Note 13 Current & Non-current liabilities – Borrowings

| | | |
|---|---|---|
| **Loans** | | |
| Non-current | **13,300,000** | 7,448,214 |
| **Finance lease** | | |
| Current | **17,218** | 15,295 |
| Non-current | **66,586** | 83,804 |
| | **83,804** | 99,099 |
| <u>*Reconciliation*</u> | | |
| Balance at beginning of year | **7,547,313** | 7,484,847 |
| Cash borrowings | **6,800,000** | - |
| Cash repayments | **(963,509)** | (11,024) |
| Non-cash finance leases | **-** | 73,490 |
| Balance at end of year | **13,383,804** | 7,547,313 |

# NOTES TO THE FINANCIAL STATEMENTS
## For the year ended 31 December 2018

## Note 13. Current & Non-current liabilities – Borrowings (continued)

***Financing arrangements***

**Loans**

The bank loans are secured on the assets and undertakings of the Company.

| | ***2018 $*** | *2017 $* |
|---|---|---|
| Total bank loan facility at reporting date | **19,100,000** | 8,500,000 |
| Less amount used at reporting date | **(13,300,000)** | (7,448,214) |
| Unused facility at reporting date | **5,800,000** | 1,051,786 |

Of the $5.8 million unused, $4.1 million is only available for future acquisitions and there are specific criteria which need to be met prior to any draw-down. There have been no events of default on the financing arrangements of the Company during the year.

## Note 14. Contributed equity

### (a) Share capital

The share capital account of the Company consists of 30,964,116 fully paid up, ordinary shares as at 31 December 2018.

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

### (b) Movements in ordinary share capital

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

| Date | Details | Number of shares | Amount $ |
|---|---|---|---|
| 1 Jan 2017 | Opening balance | 30,005,000 | 22,028,381 |
| | Less: Share issue transaction costs, net of tax | | (38,691) |
| 31 Dec 2017 | Balance | 30,005,000 | 21,989,690 |
| 29 March 2018 | Issued under Dividend Reinvestment Plan | 959,116 | 1,016,663 |
| | Less: Share issue transaction costs, net of tax | | (5,497) |
| **31 Dec 2018** | **Balance** | **30,964,116** | **23,000,856** |

### (c) Dividend Reinvestment Plan (DRP)

The Company has established a Dividend Reinvestment Plan (DRP) under which holders of ordinary shares may elect to have all or part of their dividend entitlement satisfied by the issue of new ordinary shares, rather than by being paid in cash. Shares are issued under the DRP at a 5% discount to the 15 day volume-weighted average price (VWAP) over the pricing period.

### (d) Share options

There were no unissued ordinary shares of Mayfield Childcare Limited under option at 31 December 2018. There were no ordinary shares of Mayfield Childcare Limited issued on the exercise of options during the year.

## NOTES TO THE FINANCIAL STATEMENTS
## For the year ended 31 December 2018

## Note 14. Contributed equity (continued)

### (e) Capital management

*Risk 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.

*Dividends*

The final dividend recommended after reporting date will be fully franked out of either franking credits as at 31 December 2018 or out of franking credits arising from the payment of income tax in the year ending 31 December 2019.

| | ***2018*** | *2017* |
|---|---|---|
| | ***$*** | *$* |
| Franking credits available for subsequent reporting periods based on a tax rate of 27.5% | **1,017,746** | - |

The above amount is calculated from the balance of the franking account as at the end of the reporting period.

## Note 15. Business combinations

During the year the Company acquired one childcare centre in June 2018 and two centres in September 2018, for total cash consideration of $5,957,871. The fair values ascribed to the assets acquired and liabilities assumed were as follows:

| ***2018*** | *Balnarring* | *Moorabbin* | *Carrum Downs* | *Total* |
|---|---|---|---|---|
| | *Jun'18* | *Sep'18* | *Sep'18* | |
| | *$* | *$* | *$* | *$* |
| Plant and equipment | 5,000 | 5,000 | 5,000 | 15,000 |
| Deferred tax assets (Note 11) | 5,846 | 15,818 | 232 | 21,896 |
| Provisions for employee benefits | (21,258) | (57,521) | (843) | (79,622) |
| Goodwill | 1,481,836 | 2,949,956 | 1,568,805 | 6,000,597 |
| Acquisition-date fair value of the total consideration transferred | 1,471,424 | 2,913,253 | 1,573,194 | 5,957,871 |
| *Representing* | | | | |
| Cash paid to vendors (before settlement adjustments) | 1,471,424 | 2,913,253 | 1,573,194 | 5,957,871 |

## NOTES TO THE FINANCIAL STATEMENTS
## For the year ended 31 December 2018

### Note 16. Key management personnel (KMP) disclosures

| | ***2018*** | *2017* |
|---|---|---|
| | ***$*** | *$* |
| The aggregate compensation made to directors and other KMP of the Company was as follows: | | |
| Short-term employee benefits | **570,110** | 503,105 |
| Long-term benefits | **46,046** | 42,095 |
| | **616,156** | 545,200 |

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

*Completion of payment for acquisition of Cranbourne childcare centre*

During the year the Company made cash payments totalling $1,185,468 (net of settlement adjustments) to Michelle Clarke to extinguish its outstanding purchase consideration obligation with regards to the acquisition in 2017 of the Pebble Patch Early Learning Centre in Cranbourne.

### Note 17. Commitments

**(a) Capital commitments**

The Company has no capital commitments as at reporting date (2017: $Nil)

**(b) Lease commitments**

***Operating leases***

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

| | ***2018*** | *2017* |
|---|---|---|
| Within 1 year | **3,692,111** | 3,170,574 |
| Between 1 and 5 years | **11,190,485** | 10,697,465 |
| Later than 5 years | **7,383,351** | 12,745,493 |
| Commitments not recognised in the financial statements | **22,265,947** | 26,613,532 |

Operating lease commitments are for the Company's head office and childcare centres under non-cancellable leases expiring within 13 months to just under 15 years, all with options to extend for further periods. The leases 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:

| | ***2018*** | *2017* |
|---|---|---|
| Within 1 year | **20,498** | 20,498 |
| Between 1 and 5 years | **68,066** | 88,565 |
| Minimum lease payments | **88,564** | 109,063 |
| Less: Future finance charges | **(4,760)** | (9,964) |
| Total lease liability | **83,804** | 99,099 |
| Representing lease liabilities (Note 13) | | |
| Current | **17,218** | 15,295 |
| Non-current | **66,586** | 83,804 |
| | **83,804** | 99,099 |

## NOTES TO THE FINANCIAL STATEMENTS
## For the year ended 31 December 2018

### Note 18. Remuneration of auditor

| | ***2018 $*** | *2017 $* |
|---|---|---|
| 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 | **55,000** | 42,500 |
| **Non-audit services** | | |
| Preparation of income tax returns and related matters | **19,500** | 7,750 |
| Independent Expert's Report (for related party business acquisition) | **-** | 15,000 |
| | **19,500** | 22,750 |
| Total fees of PKF Melbourne and its related practices | **74,500** | 65,250 |

### Note 19. Reconciliation of profit after income tax to net cash from operating activities

| | | |
|---|---|---|
| Profit after income tax | **4,274,742** | 3,419,390 |
| Net profit on disposal of centres | **(896,708)** | - |
| Depreciation and amortisation | **179,035** | 57,240 |
| Borrowing costs | **40,000** | - |
| Acquisition costs | **35,498** | 59,268 |
| Impairment charge on trade receivables | **20,052** | 2,835 |
| Net gain on disposal of non-current assets | **(8,561)** | - |
| Initial listing costs | **-** | 27,333 |
| Change in operating assets and liabilities | | |
| Increase in trade and other receivables | **(189,302)** | (35,308) |
| Increase in other operating assets | **(27,162)** | (1,780) |
| Increase in deferred tax assets | **(138,708)** | (483,468) |
| Increase/(decrease) in trade and other payables | **151,833** | (323,287) |
| (Decrease)/Increase in current tax liabilities | **(672,056)** | 1,386,879 |
| Increase in provisions | **179,136** | 656,661 |
| Net cash inflow from operating activities | **2,947,799** | 4,765,763 |

### Note 20. Events occurring after the reporting period

No matter or circumstance has arisen since 31 December 2018 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.

## NOTES TO THE FINANCIAL STATEMENTS
## For the year ended 31 December 2018

### Note 21. Earnings per share

| | ***2018 Cents*** | *2017 Cents* |
|---|---|---|
| Basic and diluted earnings/(loss) per share | **13.91** | 11.40 |
| | ***Number*** | *Number* |
| **Weighted average number of shares** | | |
| Weighted average number of shares used as the denominator in calculating basic and diluted earnings per share | **30,735,505** | 30,005,000 |
| | ***$*** | *$* |
| **Earnings used in calculating basic and diluted earnings per share** | | |
| Profit after tax attributable to the ordinary equity holders of the Company | **4,274,742** | 3,419,390 |

### Note 22. Contingencies

The Company has no contingent liabilities, nor any contingent assets, as at reporting date.

## DIRECTORS' DECLARATION

**In the directors' opinion:**

(a) the financial statements and notes set out on pages 16 to 37 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 2018 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
15 February 2019

**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 2018, 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 2018 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.

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<table>
<tr><th>Matter and Significance</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>
Acquisition Accounting
As set out in Note 10 of the financial statements, during the year ended 31 December 2018, the Company acquired the net assets of three Victorian childcare centres and disposed of a further two.
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.
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.
</td><td>
Our audit procedures included, but were not limited to:
<ul>
<li>Considering the Company’s assessment of the application of AASB 3 Business Combinations;</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>
</td></tr>
<tr><td>
Valuation of Goodwill
As set out in Note 10 of the financial statements, as at 31 December 2018, Mayfield has goodwill of $38,855,655 (2017: $32,943,065).
An annual impairment test for intangible assets is required under AASB 136 Impairment of Assets.
The evaluation of the recoverable amount requires the Company to exercise significant judgement in determining key assumptions, which include:
<ul>
<li>5 year cash flow forecast;</li>
<li>Occupancy rates;</li>
<li>Terminal growth factor; and</li>
<li>Discount rate.</li>
</ul>
Based on the above, we have determined that the evaluation of the recoverable amount of intangible assets including goodwill is a key audit matter.
</td><td>
Our audit procedures included, but were not limited to:
<ul>
<li>Assessing and challenging:
<ul>
<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 2019 budget approved by the Board by comparing the budget to Financial Year 2018 actuals and forecasts;</li>
<li>the assumptions used for forecast occupancy rates across the portfolio of centres in the impairment model noting the current supply of places in the sector and changes to childcare funding;</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 including:
<ul>
<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 the assumptions used in Note 10.</li>
<li>Assessing of appropriateness of the reduction of goodwill relating to disposal of centres during the year.</li>
</ul>
</td></tr>
</table>

| Matter and Significance | How our audit addressed the key audit matter |
|---|---|
| **Revenue Recognition**<br><br>The Company's revenue amounted to $31,488,841 (2017: $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.<br><br>Based on the above, the introduction of AASB 15 and the significant volume of revenue transactions, we have determined that revenue recognition is a key audit matter. | Our audit procedures included, but were not limited to:<br><br>• Reviewing the reports generated from the childcare management software used by the childcare centres, and related analytical reviews,<br><br>• Testing controls over the Company's information technology systems supporting the accounting for revenue,<br><br>• Assessing and testing the operating effectiveness of the key controls around revenue recognition, including those over:<br>o Input of enrolment details to the accounting system;<br>o Billing rates and payment cycles; and<br>o Reconciliation of revenue and deferred revenue reports from the accounting system to underlying support.<br><br>• 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;<br><br>• Assessing the cut-off of revenue and completeness of deferred revenue for the year; and<br><br>• 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. |

**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 2018.

In our opinion, the Remuneration Report of Mayfield Childcare Limited, for the year ended 31 December 2018, 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, 15 February 2019**

**Kenneth Weldin**

**Partner**

# Shareholder Information

The shareholder information in this section was applicable as at 13 February 2019.

### Number of equity securities

The Company had on issue 30,964,116 fully paid ordinary shares, held by a total of 609 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 | 56 |
| 1,001 to 5,000 | 160 |
| 5,001 to 10,000 | 106 |
| 10,001 to 100,000 | 245 |
| 100,001 and over | 42 |
| Total | 609 |

There are 23 security holders holding less than a marketable parcel (being $500) at the ASX closing price of $1.005.

### Substantial holders

A person has a substantial holding if, together with their associates, they have relevant interests in voting shares or interests carrying 5% or more of total votes. A substantial shareholder notice must usually be given to the Company, and immediately released to the market, within two business days of a shareholder first becoming, or ceasing to be, a substantial shareholder. Subsequently, substantial shareholder notices are only required for any further movement of a person's holding of at least 1% (up or down). Therefore, due to a shareholder's ability to increase or decrease their holding by up to 1% without notifying the Company, the following substantial shareholder details, representing the most recent substantial shareholder notices received, may not represent the total shareholding of each shareholder as at 13 February 2019:

| Holder | Number of shares held | Percentage of total shares on issue |
|---|---|---|
| Riversdale Road Shareholding Company Pty Ltd (ATF Riversdale Road Shareholding Trust), J.T. Campbell & Co Pty Ltd, J.T. Campbell Properties Pty Ltd | 7,900,000 | 25.5 |
| D.W. & M.R. Clarke Pty Ltd (ATF D.W. & M.R. Clarke Family Trust) | 2,900,000 | 9.4 |
| Total | 10,800,000 | 34.9 |

### Restricted securities

The 6,005,000 ordinary shares previously held in escrow for a period of 24 months (from the date of listing on the ASX) were released from escrow on 18 December 2018, hence there are no restricted securities.

## 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 | 3,645,378 | 11.77 |
| RIVERSDALE ROAD SHAREHOLDING COMPANY PTY LTD | 2,701,868 | 8.73 |
| D.W & M.R CLARKE PTY LTD | 2,465,991 | 7.96 |
| NSR INVESTMENTS PTY LTD | 1,260,000 | 4.07 |
| JT CAMPBELL PROPERTIES PTY LTD | 1,072,170 | 3.46 |
| KEWRAY PTY LTD | 911,345 | 2.94 |
| D.W. & M.R. CLARKE PTY LTD | 536,085 | 1.73 |
| J & P CHICK PTY LIMITED | 500,000 | 1.61 |
| TELUNAPA PTY LTD | 450,000 | 1.45 |
| MACLAW NO 544 PTY LTD | 428,868 | 1.39 |
| MR IVAN TANNER & MRS FELICITY TANNER | 391,559 | 1.26 |
| J T CAMPBELL & CO PTY LTD | 364,538 | 1.18 |
| MARCUS BESEN & EVA BESEN & NAOMI GAYE MILGROM | 350,000 | 1.13 |
| KAMGA PTY LTD | 350,000 | 1.13 |
| PLUSH NOMINEES PTY LTD | 350,000 | 1.13 |
| AUSTRALIAN SALES & LEASING PTY LTD | 321,651 | 1.04 |
| BNP PARIBAS NOMINEES PTY LTD | 319,776 | 1.03 |
| J P MORGAN NOMINEES AUSTRALIA PTY LIMITED | 318,589 | 1.03 |
| MR IVAN TANNER & MRS FELICITY TANNER | 291,411 | 0.94 |
| DR JEFFREY ERIC DALE CHICK & DR PAMELA HAZEL CHICK | 270,000 | 0.87 |
| Total | 17,299,229 | 55.87 |

## Voting rights

The only class of securities issue 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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