

**G8 Education Limited**

**ABN: 95 123 828 553**

## **Accounting Policy**

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

## 1. Basis of Preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards (AASB), Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The Company is a listed for profit public Company, incorporated and operating in Australia. The Company's principal activities are operating child care centres.

### Compliance with IFRS

Compliance with AASB ensures that the financial statements of the Group complies with International Financial Reporting Standards (IFRS).

### Historical cost convention

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

### Comparatives

In certain instances in the notes to the financial statements, the comparative information has been reclassified to allow for ease of comparison to the current year.

## 2. Principles of Consolidation

### Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of G8 Education Limited ("Company" or "parent entity") as at balance sheet date and the results of all subsidiaries for the year then ended.

G8 Education Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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

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

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

### 3. Goods and Services Tax (GST)

Revenues, expenses and assets and liabilities 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 balance sheet.

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

### 4. Rounding Amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' reports) Instrument 2016/191, relating to the "rounding off" of amounts in the financial reports. Amounts in the financial statements have been rounded off in accordance with that Instrument to the nearest thousand dollars, or in certain cases, the nearest tenth of a million dollars.

### 5. Reserves

#### i. Share-based payments

The share-based payments reserve is used to recognise the expensing of the grant date fair value of rights issued to employees but not exercised. Upon exercise of the Performance Rights, the balance of the share-based payments reserve relating to those rights is reclassified to contributed equity.

#### ii. Profits

The profits reserve comprises the transfer of net profit for the current and previous years and characterises profits available for distribution as dividends in future years.

The amount transferred to profits reserve comprises the transfer from net profit for the current year for profit making entities within the Group and characterises profits available for distribution as dividends in the future years.

## 6. Revenue

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

Revenue is recognised for the major business activities as follows:

### i. Revenue from child care centres

Fees paid by families and/or the Australian Government (Child Care Subsidy) are recognised as and when a child is booked to attend a child care service, as under AASB 15 Revenue from Contracts with Customers this is when the customer has consumed the benefits of this service (satisfies its performance obligation).

Revenue received in advance from parents, guardians and government is recognised as deferred income and classified as a current liability (i.e. contract liability for performance obligations yet to be satisfied).

### ii. Funding related to child care operations

Training incentives and additional funding receipts are recognised when there is reasonable assurance that the incentive/receipt will be received and when the relevant conditions have been met as under AASB 120 Accounting for Government Grants and Disclosure of Government Assistance. Subsidies to support businesses to take on new apprentices and trainees, as well as workers retention payments for the early childhood education and care (ECEC) workforce, are recognised as a credit to employment costs.

## 7. Income Tax and Deferred Tax Assets

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

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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

G8 Education and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

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

The Group applies judgement in identifying uncertainties over income tax treatments and considers whether it has any uncertain tax positions. The Group determines, based on its tax compliance and reviews, whether it is probable that its tax treatments (including those for the subsidiaries) would be accepted by the taxation authorities.

## 8. Earnings per Share

### i. Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to 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 financial year, adjusted for bonus elements in ordinary shares issued during the year.

### ii. Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

## 9. Trade and Other Receivables

A trade receivable is recognised if an amount of consideration that is unconditional is due from the customer (i.e., only the passage of time is required before payment of the consideration is due).

Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price.

Trade receivables represent child care fees receivable from families (parent fees) and/or the Australian Government.

Under the Child Care Subsidy (CCS), subsidies are generally paid weekly in arrears by the Australian Government based on the actual attendance and entitlement of each child attending the child care centre.

Parent fees are required to be paid one week in advance. Any parent fees receivable relate to child care fees not paid in advance and are therefore all considered to be past due.

The Group applied the expected credit loss (ECL) model. For trade receivables the Group has applied the standard's simplified approach whereby the loss allowance is measured at an amount equal to lifetime expected credit losses. The Group assesses expected credit losses in a way that reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecast of future economic conditions.

The Group has established a calculation that is based on the Group's historic credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group has a policy of writing back to the income statement parent credits, where parents have been inactive for a period of greater than 18 months, given the low likelihood of needing to repay these credits based on historical actuals. The Group has a right to retain the parent credits due to section 14 of the Centre Fee Policy. For context on the 18 months, G8 wants to give a full CCS cycle the chance to flow through the accounts, the accounts to be checked thoroughly and parents time to apply their refunds before we have the right to retain them.

## 10. Inventories

Inventories relate to childcare centre consumables. These are measured at the lower of cost and net realisable value. Any write down in the value of the inventory due to obsolescence is booked as an expense when the inventory becomes obsolete.

## 11. Property, Plant and Equipment

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

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

Depreciation is calculated using the straight-line method (except in the case of assets allocated to a low-value pool) to allocate their cost net of their residual values, over their estimated lives, as follows:

- Buildings: 40 years
- Vehicles: 3 - 12 years

- Furniture, fittings and equipment: 2 - 15 years
- Leasehold Improvements: 5 - 15 years

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

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the consolidated income statement.

## 12. Employee Benefits

### i. Short term obligations

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

### ii. Other long-term employee benefit obligations

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

### iii. Share-based payments

Share-based compensation benefits are provided to certain employees via the GEIP.

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

The fair value at grant date takes into account the exercise price, the term of the right, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the right, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the right.

### Non-market vesting conditions

The fair value of performance rights with non-market performance conditions (Earnings Per Share) excludes the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of rights that are expected to vest. At each balance sheet date, the entity



revises its estimate of the number of Performance Rights that are expected to vest. The employee benefit expense recognised each period takes into account the most recent estimate.

### Market vesting conditions

The fair value of performance rights with market-based performance conditions (Total Shareholder Return) is calculated at the date of grant using the Monte-Carlo simulation model. The probability of achieving market-based performance conditions is incorporated into the determination of the fair value per award. The expense is recognised in full if the awards do not vest due to a market condition not being met.

Upon exercise of the Performance Rights, the balance of the share-based payments reserve relating to those rights is reclassified to contributed equity.

## 13. Make Good Provision

Costs required to return certain leased premises to their original condition as set out in the lease agreements are recognised as a provision in the financial statements. The provision has been calculated as an estimate of future costs and discounted to present value.

The Make Good provision for a standard centres is estimated at \$36,500 (excluding inflation) and \$200,000 for a high rise centres. The Groups estimates were updated last year and are reviewed yearly.

## 14. Business Combinations

The acquisition method of accounting is used to account for all business combinations. Purchase consideration is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange.

Acquisition costs paid by the Company are expensed.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is derived from the Group's weighted average cost of capital (WACC).

Contingent consideration is classified as a financial liability. Amounts classified as a financial liability that are subsequently not required to be paid at the end of the earn out period or are re-estimated during the period are recognised as other income or expense.

## 15. Financial Risk Management

Not required due to the Company not having any overseas operations at this time.

## 16. Cash and Cash Equivalents

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

## 17. Borrowings

### Measurement

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

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

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid is recognised in the consolidated income statement as other income or finance costs.

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

## 18. Leases

### Right of use assets

The Group recognises right of use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right of use assets are measured at cost, less any accumulated depreciation and impairment losses and adjusted for any remeasurement of lease liabilities. The cost of right of use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. The recognised right of use assets are depreciated on a straight-line basis over the shorter of useful life and the lease term.

### Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable and variable lease payments that depend on an index or a rate. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not

depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date as the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases to lease the assets for additional terms. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew.

Each quarter, the Group re-evaluates the lease term for profit making centres where the next renewal option is within 5 years, as this is when the option renewal becomes reasonably certain. Profit making centres are those that have earning above \$250,000 and their recoverable amount exceeds their carrying value.

Given the continuous effort and investment in profit making centres, and the fact that they are driving the return to shareholders, the Group is reasonably certain of exercising any renewal option for these centres, within the next 5 years, unless there are specific individual circumstances that impact this assessment.

In many of these centres, the Group has invested in leasehold improvements that provide a benefit that extends beyond the current lease term. Centre fitouts and upgrades to enhance service quality are the responsibility of G8 and will often have a useful life of greater than 5 years.

### **Short-term leases and leases of low-value assets**

The Group applies the short-term lease recognition practical expedient to its short-term leases of property (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). The Group applies the low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

## 19. Contributed Equity

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

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

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

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Costs directly attributable to the buy-back of shares are shown in equity as a deduction, net of tax, along with the payments for the shares.

## 20. Dividends

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

## 21. Software

### Software-as-a-Service (SaaS) arrangements

SaaS arrangements are arrangements in which the Group does not currently control the underlying software used in the arrangement.

Where costs incurred to configure or customise SaaS arrangements result in the creation of a resource which is identifiable, and where the company has the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits, such costs are recognised as a separate intangible software asset and amortised over the useful life of the software on a straight-line basis. The amortisation is reviewed at least at the end of each reporting period and any changes are treated as changes in accounting estimates.

## 22. Going Concern

Management expects the cash reserves and undrawn debt facilities, together with the forecast cash flow generation from operations will allow the Group to fulfil the Group's obligations and meet its debts for the 12 months from the date of this report. On this basis, the Directors have concluded that there are reasonable grounds to believe that the going concern basis is appropriate.

The Group expects to realise its assets and extinguish its liabilities in the ordinary course of business. As a result, the financial statements have been prepared on a going concern basis.

## 23. Review and Update

The Executive Management team is responsible for ensuring the content of this policy is kept current at all times. This Policy should be reviewed at intervals of no more than 12 months.