THINK Childcare Group

ANNUAL REPORT **2019**

BUILDING CONFIDENT, CONNECTED AND ENGAGED LITTLE LEARNERS

Think Childcare Group is proud to present this annual report for the financial year ended 31 December 2019.

This report is intended to provide security holders information about the Group's activities and financial performance.

CONTENTS

Name	Think Childcare Group
ABN	81 600 793 388
Reporting period	1 January 2019 to 31 December 2019
ASX code	TNK
Cover photo	Nido Early School Salisbury Downs, SA
This photo	Nido Early School Woolangabba, QLD

FINANCIAL HIGHLIGHTS

Underlying EBITDA

$14.8m ↑

like-for-like[1]

Weighted average lease expiry

31.9 Years

includes options

Cash conversion ratio

125%

excludes impact of AASB16 Leases

Underlying NPAT

$5.8m ↑

like-for-like[1]

Weighted average lease expiry

14.8 Years

excludes options

Leverage ratio

2.0x

as defined in the syndicated facility agreement

DPS

7¢

Debt headroom

$24.5m

STRATEGIC HIGHLIGHTS

Total assets

$119.9m ↑

Capex

$5.0m ↑

existing portfolio

Educators

1,800 ↑

Services owned

72 ↑

140% since IPO

Greenfield pipeline

18 ↑

Kinder graduations

1,781 ↑

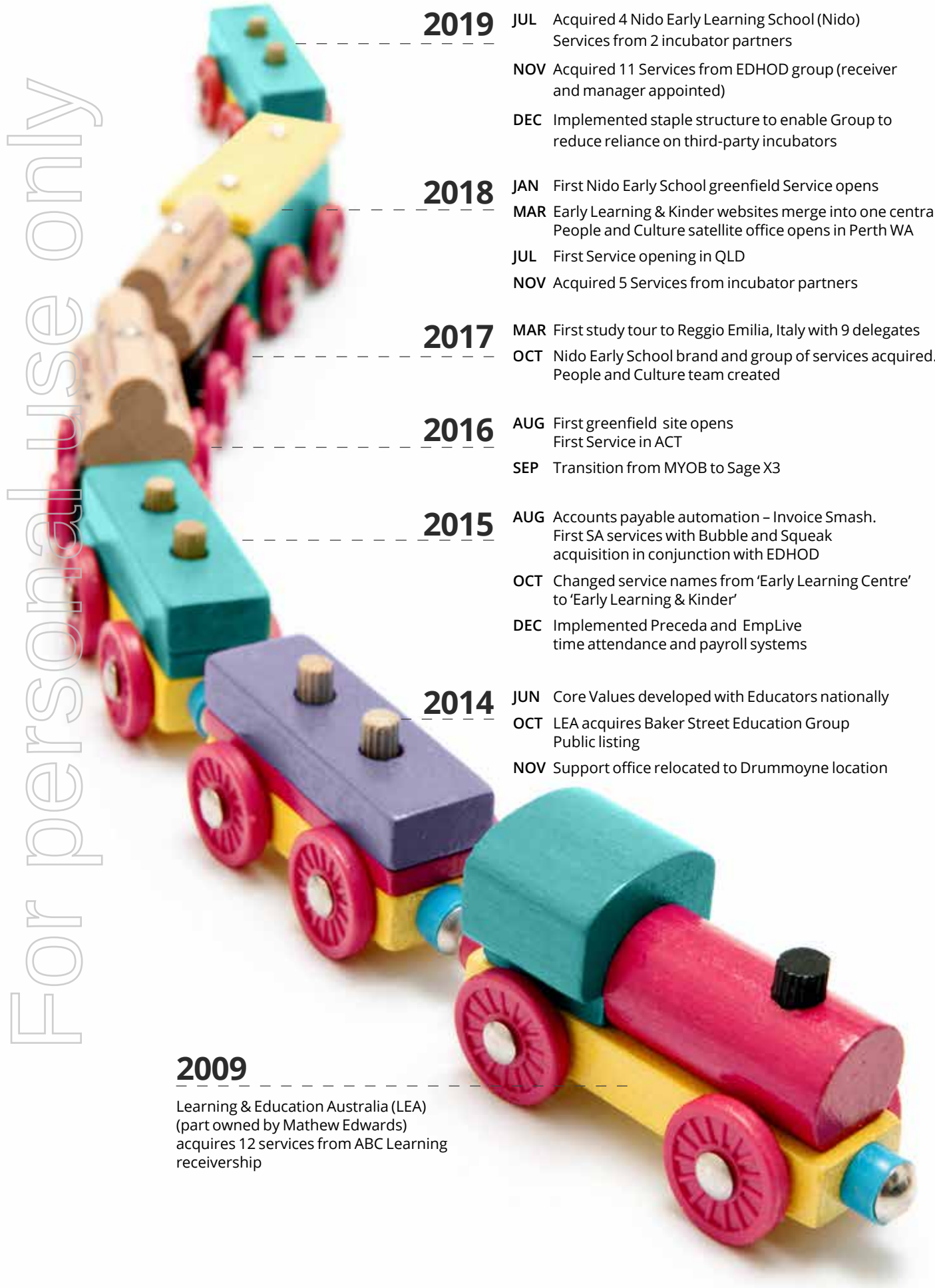
Greenfield services opened

2 TNK

2 TND ↑

1 Like-for-like refers to Think Childcare Operator (TNK) and excludes impact of Think Childcare Development (TND)

DELIVERING ON GROWTH EXPECTATIONS



2019

JUL Acquired 4 Nido Early Learning School (Nido) Services from 2 incubator partners

NOV Acquired 11 Services from EDHOD group (receiver and manager appointed)

DEC Implemented staple structure to enable Group to reduce reliance on third-party incubators

2018

JAN First Nido Early School greenfield Service opens

MAR Early Learning & Kinder websites merge into one central website. People and Culture satellite office opens in Perth WA

JUL First Service opening in QLD

NOV Acquired 5 Services from incubator partners

2017

MAR First study tour to Reggio Emilia, Italy with 9 delegates

OCT Nido Early School brand and group of services acquired. People and Culture team created

2016

AUG First greenfield site opens First Service in ACT

SEP Transition from MYOB to Sage X3

2015

AUG Accounts payable automation – Invoice Smash. First SA services with Bubble and Squeak acquisition in conjunction with EDHOD

OCT Changed service names from 'Early Learning Centre' to 'Early Learning & Kinder'

DEC Implemented Preceda and EmpLive time attendance and payroll systems

2014

JUN Core Values developed with Educators nationally

OCT LEA acquires Baker Street Education Group Public listing

NOV Support office relocated to Drummoyne location

2009

Learning & Education Australia (LEA) (part owned by Mathew Edwards) acquires 12 services from ABC Learning receivership

CHAIRMAN'S AND MANAGING DIRECTOR'S LETTER

The boards and executive leadership team are proud to present the Think Childcare Group Annual Report for 2019

Mark Kerr
Chairman

Mathew Edwards
Managing Director

We are pleased to report that Think Childcare Group has outperformed our market guidance as published on 27 May 2019 and has achieved earnings before income tax, amortisation and depreciation EBITDA (underlying) of $14.2 million, a 33% increase on prior comparison period (pcp).

On a like-for-like basis and excluding the impact of the stapling proposal, Think Childcare Limited (Operator) has achieved $14.8 million against a guidance range of $13.8 and $14.8 million.

The underlying net profit after tax was $4.5 million. On a like-for-like basis NPAT (underlying) was $5.8 million, representing a 16 % increase on pcp.

THE YEAR

Key highlights for the year include:

- Licence places grew by 35% to 6,080 and we:
  - Acquired 15 Nido Services representing 30% growth in licence places and a $22.4 million investment; and
  - Opened 15 new Services (4 for TNK/TND and 11 for incubator partners)
- Completed a $5.0 million capital investment program including new child care Services, to improve the quality of Service offerings resulting in 64% of our Services being premium branded Nido;
- Raised $18.1 million in equity to fund our acquisitions and capital investment program;
- Implemented a stapled group structure (TNK Operator, TND Developer) to underpin our future growth.

OUTPERFORMANCE IN THE FACE OF SIGNIFICANT CHALLENGES

2019 was a watershed year for Think Childcare Group; more supply came to market, completed an extensive capital works program, transitioned our Services to Nido, our biggest incubator went into receivership, recruited a further 800 new Educators, completed a significant capital raise, executed on our strategic plan to internalise a significant component of our growth through the launch of our stapled security structure.

It is a testament to the team and their resilience in the face of significant challenges. It is also a credit to our bankers, lawyers, accountants, external service providers, our boards and our security holders.

We continued to enhance our operations platform, building capacity and employing a quality, highly motivated professional team to facilitate growth and to maximise Service performance.
This includes the appointment of our Chief Operating Officer.

Our commitment to developing a sustainable platform to support profitable growth was articulated in our 2018 Annual Report and Investor Presentation as Project Elevate. Key 2019 achievements included the launch of a new service delivery model, collaborative technologies and an integrated risk and compliance framework.

AN ENHANCED QUALITY PORTFOLIO

At the time of listing, Think Childcare Limited operated child care Services across 30 sites, predominately located in Victoria. The Services traded under the brand of Early Learning & Kinder (ELK).

Today with our portfolio of 72 owned early education Services, with 64% of the Services trading as Nido (Nee-doh, means nest in Italian), we have a national footprint as follows:

- 58% located in Victoria;
- 17% in Western Australia; and
- balance of 25% located in South Australia; Queensland, New South Wales and Australian Capital Territory.

CAPITAL MANAGEMENT

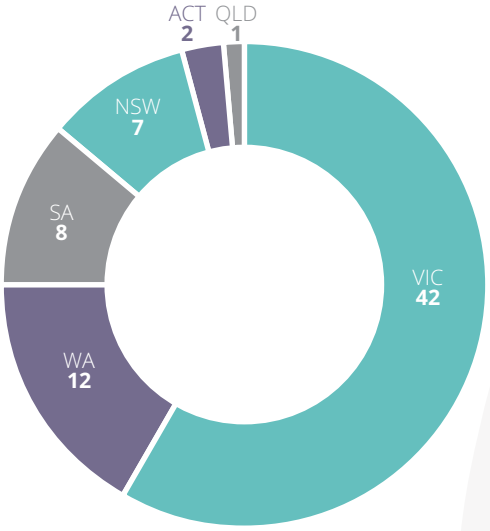
The Board took a long-term view to support future growth and, off the back of a strong acquisition pipeline, we raised $18.1 million in equity by issuing 11,479,114 million shares on 29 March 2019, at $1.58 per share.

This capital raise substantially funded $22.4 million in acquisitions and $5.0 million in capital improvements and enabled us to maintain a strong balance sheet by virtue of:

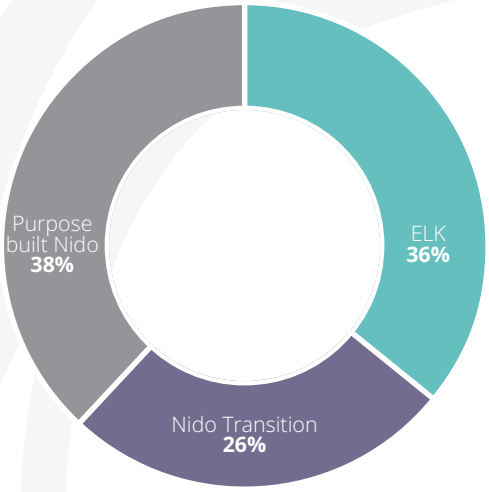
- Strong closing cash of $11.7 million;
- Healthy facility headroom of $24.5 million (3.5 years remaining term to June 2023); and
- Banking covenants of 2.0 times net leverage ratio and 1.9 times fixed cover ratio, well below the facility obligations.

The outcome of our capital management strategy is dilution to EPS to 3.47 cents in 2019 compared with 10.45 cents in 2018.

Think Childcare Group geographic diversification



Think Childcare Group Nido transition



CHAIRMAN'S AND MANAGING DIRECTOR'S LETTER CONTINUED

DIVIDENDS

Think Childcare Limited has the pleasure of determining a fully franked final dividend of 5 cents per stapled security. Think Childcare Limited paid an interim dividend of 2 cents on 20 September 2019. The 2019 full year dividend is 7 cents, an 8% increase on pcp.

The Board recommends your consideration of the Dividend Reinvestment Plan (DRP). Security holders that elect to take securities instead of cash under the DRP will receive their securities at a discount of 5% to the weighted average market price for the 10 business days from (and including) 27 February 2020 to 11 March 2020.

REMUNERATION REVIEW

The Board has undertaken the improvement of our disclosure in relation to Key Management Personnel remuneration and review of the existing remuneration framework within the Group. As highlighted in our 2018 Remuneration Report, the Human Resources and Remuneration Committee and the Board engaged PwC and Crichton Associates to advise on the remuneration policy and framework for the Group with effect from 1 January 2020.

OUTLOOK

The total number of Services owned has grown by 31% from 55 to 72 plus a pipeline of 18 Services expected to be delivered over the next 30 months.

We are continuing our transition to Nido Early School, the sector leading early education provider with all capex expected to be completed by the end of June.

DEMAND AND SUPPLY

Demographics are determined at a localised trade area of 2-3 kilometres and our outlook for the Think Childcare Group in the short to medium term remains positive. This is the result of our disciplined site selection criteria and our management capability.

> "We believe the rebranding to Nido as well as Service level initiatives should minimise the impact of the new supply."
>
> Canaccord Genuity Group inc
> **Supply Update** December Q19, 12 February 2020

Having increased the Group's portfolio from 30 services at the time of the initial public offer to 72 plus a pipeline of 18, we remain confident in our ability to grow and thereby create significant security holder value. With 64% of Services trading as Nido we expect to see growth into 2020 and further into 2021 as we complete our transition and Nido grows its quality brand recognition.

> "...we prefer stocks that profit from creating assets, rather than the ones recognised as pure asset owners..."
>
> Simon Chan and Lauren Berry, Analysts
> **Open For Inspection – Identifying The Best Investments**

Finally, on behalf of the Boards and management we would like to thank you for your support and our Educators and employees for their commitment and contribution to Think Childcare's success.

Mathew Edwards Managing Director
26 February 2020 | Sydney

Mark Kerr Chairman
26 February 2020 | Melbourne

STRATEGY

Nido Early School
Salisbury Downs, SA

STRATEGY

Think Childcare Group's strategy is to build a best in sector early education offering. We are achieving this by clearing a path and providing the platform for our Educators to deliver exceeding quality educational outcomes for children.

NIDO DEVELOPED CURRICULUM WITH A FOCUS ON QUALITY

NIDO LEARNING, 57,000 COURSES DELIVERED OVER THE PAST 2 YEARS

ALIGNMENT OF ROLES TO PEOPLES PASSION AND SKILLS

TRANSITIONING THE THIRD TEACHER, THE ENVIRONMENT, TO NIDO QUALITY

POINT OF SALE SYSTEM, TAKING 7 APPS INTO 1

PEOPLE

The vast majority of what we do is through our people:

- Nido Curriculum developed and rolled out with a focus on quality of educational programs
- Employment of Service-based Administrators and Curriculum Leaders, who, alongside the Executive Service Managers, enhance our offerings for educators, children and families
- Employment of Quality Advisors to support the operationalisation of our strategy of building best in sector education offering
- Re-alignment of roles with employees' skills and passion
- Enhancement of online professional learning platform with improved content and consideration of adult learning principles
- Supporting the development of a highly skilled and professional workforce through our Nido learning platform, with 57,000 courses delivered over the last two years
- We have strategic partnerships with educational institutions and seek to extend these relationships to assist the sourcing of qualified Educators

As a testament to our interpretation and application of the Reggio Emilia philosophy two of our Nido Services were selected to host delegates on a study tour.

STRATEGY CONTINUED

COMMUNITY

We seek to participate locally with an eye globally, our community:

- Engages with our local communities, mindful that we are global citizens - supporting locally through everyday efforts that lead to positive outcomes globally
- Encourages the organisation to participate in initiatives which align to our vision and mission; for example collecting 130kg of bread tags which will manufacture 8 wheelchairs for people in need www.breadtagsforwheelchairs.co.za
- Develops partnerships with local aged care facilities which benefits both early learning and aged care communities, the children visiting to lots of squeals and laughter
- Values our close relationships with our everyday heroes in our communities such as the police, fire fighters, hospitals, libraries and a network of support services.

Early childhood teacher Jake Keirnon, Cameron McCay (4), Kaylee Skeels (3), Harris McCay (3), Evie Larvin (3) and Executive Service Manager Mel Gereke at Nido Early School Baldivis.

PHYSICAL OFFERING

We seek to match the quality of our educational experience with our physical offering:

- Transitioning all Services to Nido quality environments, natural play-spaces and vegetable gardens based on sustainable practices which provide opportunity for children to develop 21st century skills needed in their world (communication, collaboration, critical thinking and creativity)
- Acquiring only purpose built Nido Services
- Developing only purpose built Nido Services
- Di-vesting Services that we believe cannot be transitioned to Nido

OPERATIONAL PLATFORM

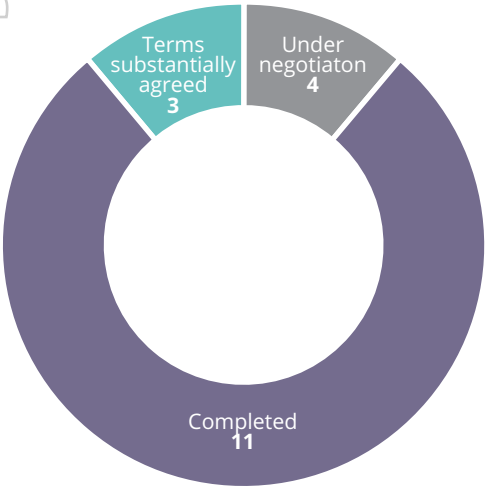
We are building robust systems, data-analytics and a platform that supports and informs the business at scale:

- Wage management tools to assist in better rostering
- New point of sale system bringing 7 apps into 1 platform
- New payroll and time and attendance system allowing real time analytics, allowing for self-service and managing our single biggest expense
- Enhanced Service Support Office systems with digitised workflows
- New compliance reporting system providing greater insight and data analytics allowing for proactive support

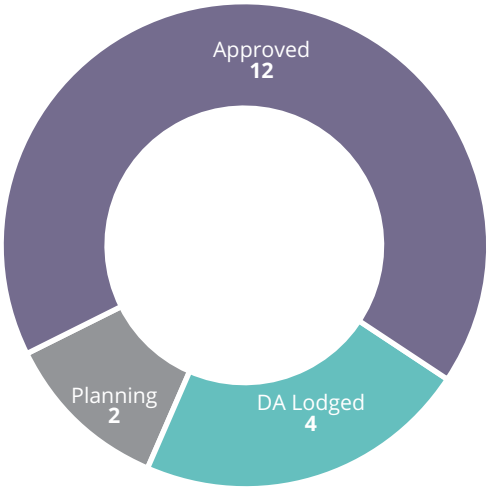
THINK CHILDCARE DEVELOPMENT

INITIAL TND PIPELINE AS AT 24 FEBRUARY 2020

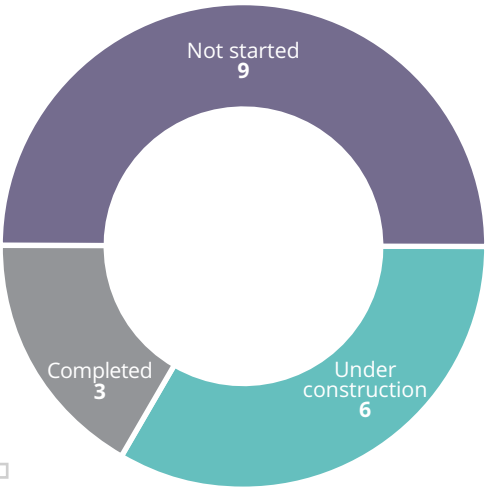
Legal status



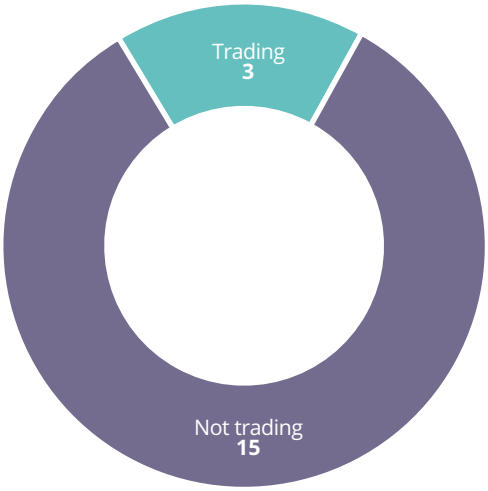
Development approval (DA) status



Construction status



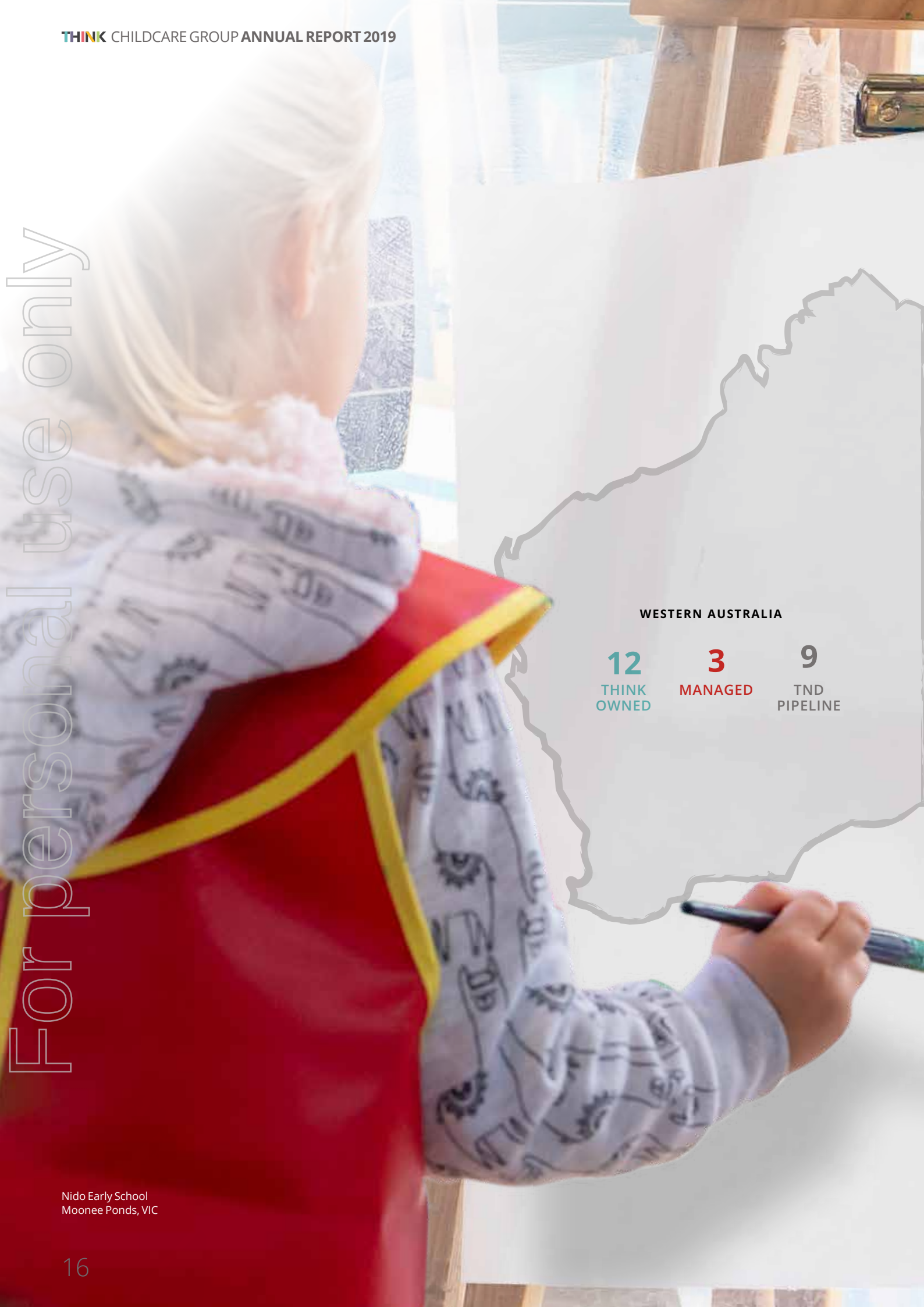
Trading status



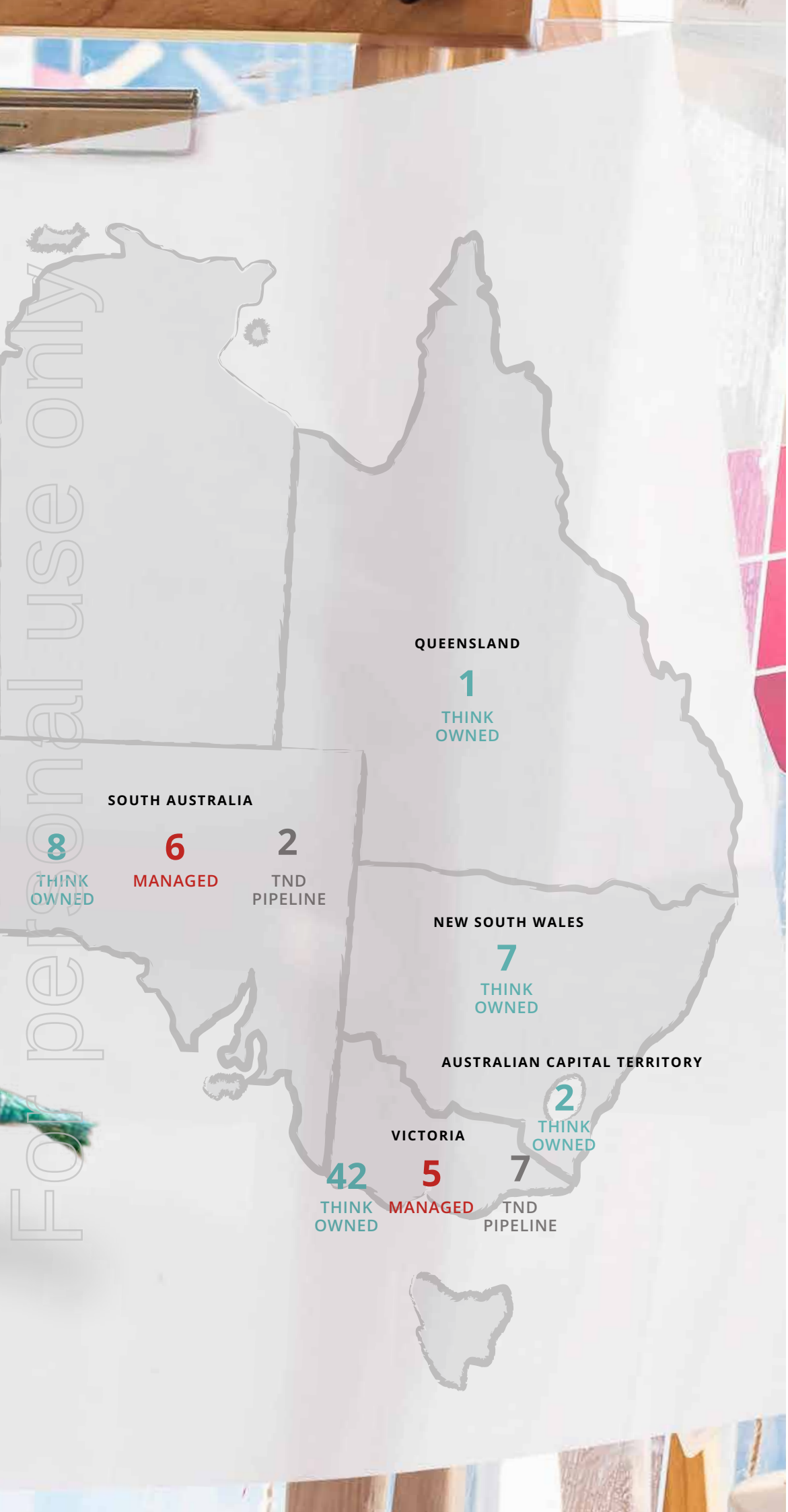
- The Initial TND Pipeline is well diversified across stages of development approval, construction and trade-up; only 6 services awaiting planning approval
- All services are purpose built Nido quality and are expected to be best in their market

OPERATIONS

Nido Early School
Donvale, VIC



Nido Early School
Moonee Ponds, VIC



140%

Growth in number of Services owned since IPO

53

nido EARLY SCHOOL

Services

33

Early Learning & Kinder

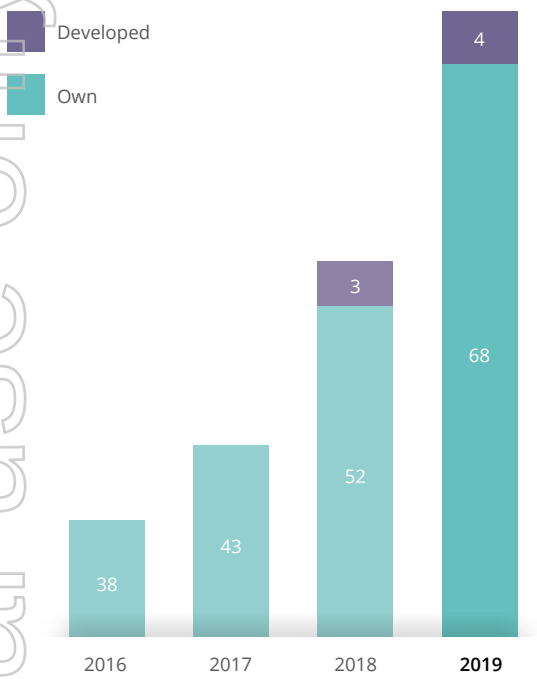
Services

18

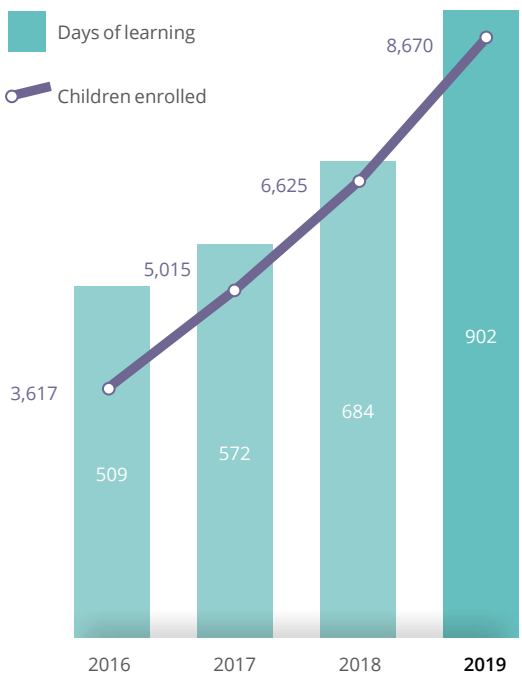
TND pipeline 2020

OPERATIONS

Services portfolio

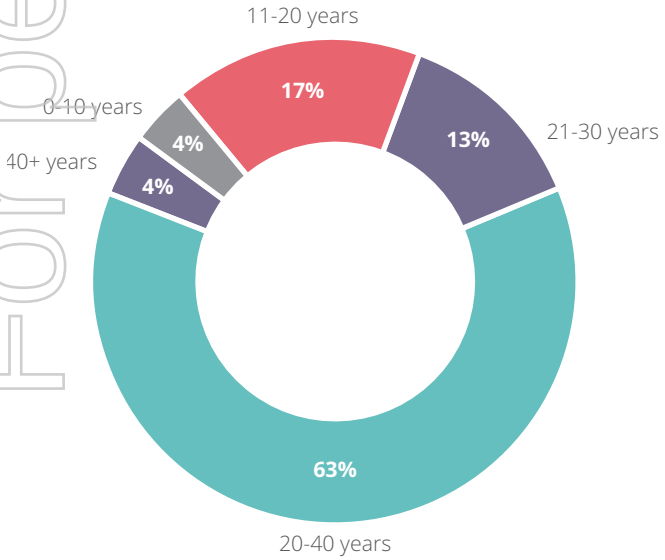


Days of learning ('000)

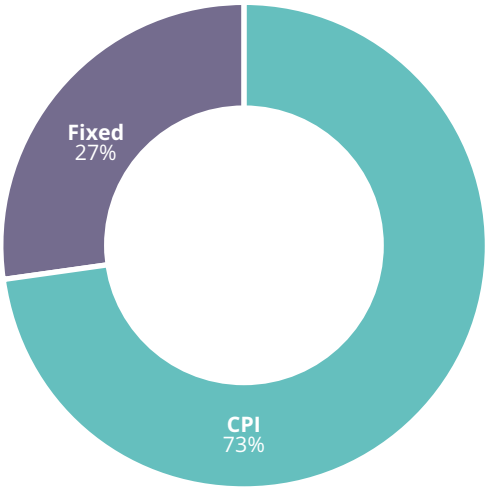


WALE

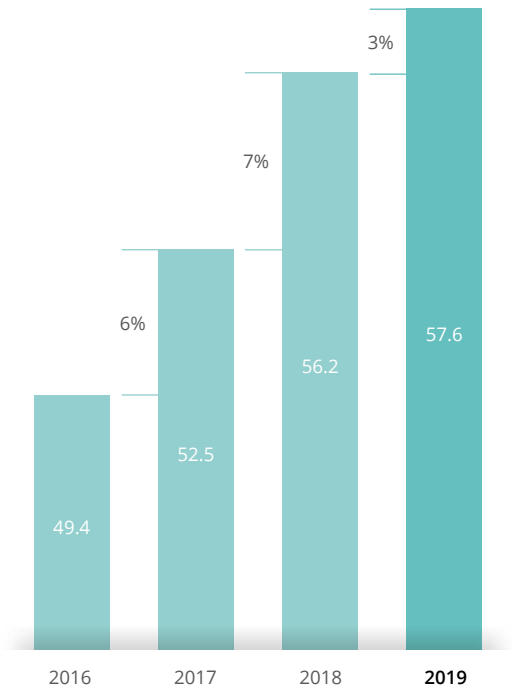
(Weighted average lease expiry)
includes options



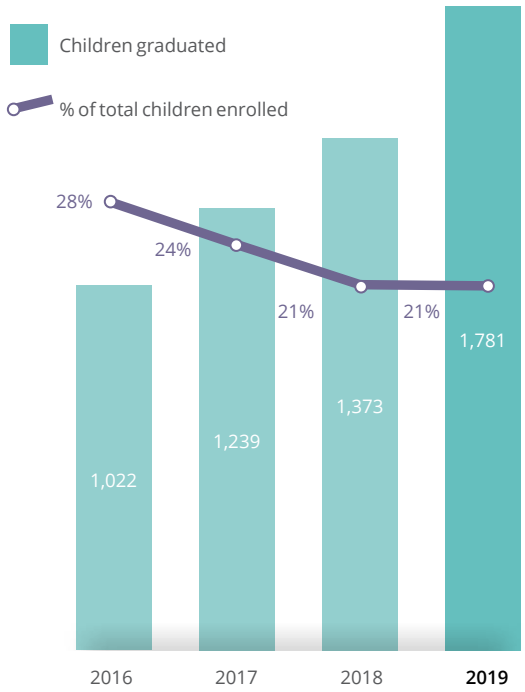
Rent review type



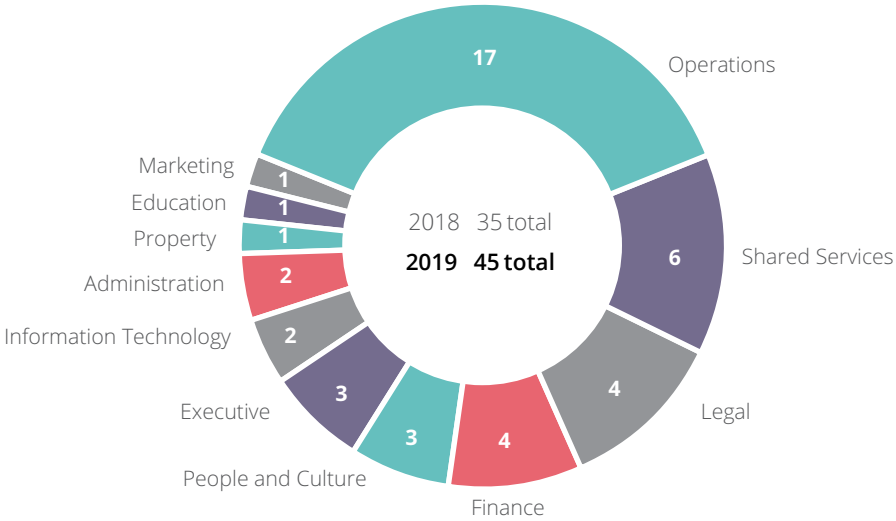
Base wage per child per day



Children graduated and enrolled

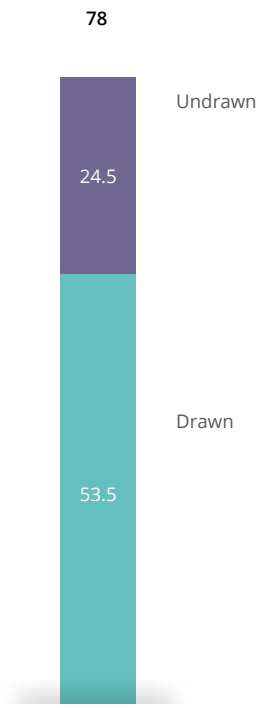


Corporate headcount 2019

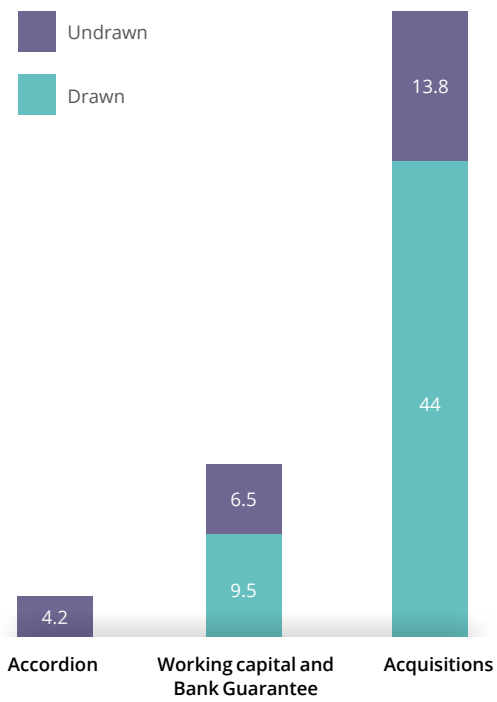


CAPITAL MANAGEMENT

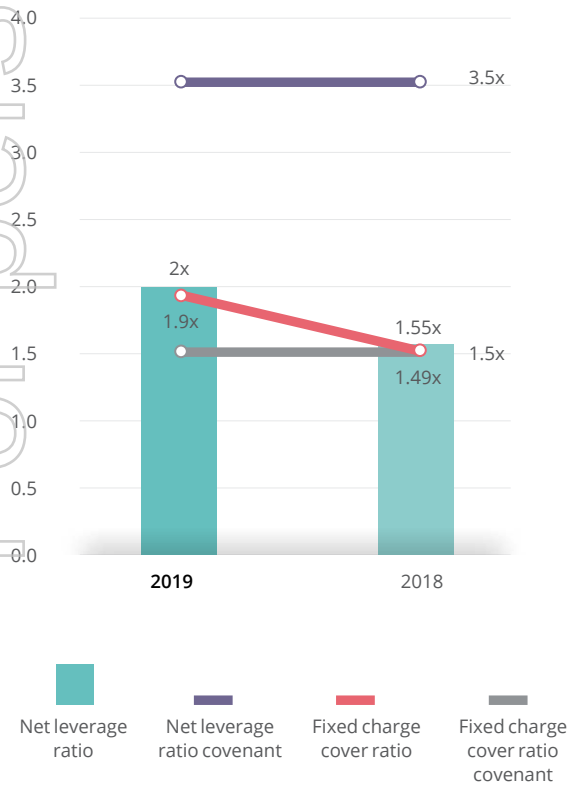
Total debt facility



Facility purpose



Key ratios and covenant



Weighted average cost of debt

6.26%

syndicated facility agreement includes non-cash expense

Interest rates hedge

32%

CORPORATE GOVERNANCE

Nido Early School
Salisbury Downs, SA

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

The Think Childcare Group comprises Think Childcare Limited (TNK) and Think Childcare Development Limited (TND) and is listed on the Australian Securities Exchange (ASX) as a stapled security under the ASX ticker code TNK (Group). Our Boards of Directors are responsible for the overall corporate governance of the Group and are accountable to the security holders for overall strategic direction, management and delivering accountable corporate performance in accordance with the Group's goals and objectives.

BOARD SIZE AND COMPOSITION

The Board of TNK comprises four Directors – three non- executive independent Directors (Mark Kerr, Joe Dicks and Evonne Collier) and one executive Director / Chief Executive Officer (Mathew Edwards).

The Board of TND also comprises four Directors – three non- executive independent Directors (Mark Kerr, Joe Dicks and Michael Doble) and one non-executive Director (Mathew Edwards).

The Board Charter of each Board details the composition, roles and responsibilities, and the structure and process of the Board of Directors. The Board Charters provide there must be a minimum of three Directors and a maximum of seven Directors in each Board and ideally should comprise a majority of independent non-executive Directors.

The constitutions of TNK and TND state, that subject to the Corporations Act 2001 (Cth), the companies may by resolution passed at a general meeting increase or reduce the minimum number of Directors or increase or reduce the maximum number of Directors.

ROLE OF DIRECTORS

The Boards must act in the best interest of the Group as a whole and are responsible for corporate governance matters. The Boards' responsibilities include:

- Overseeing the organisation, including providing leadership and setting its strategic objectives;
- Approving and monitoring systems of risk management, accountability, internal compliance and control and legal compliance to ensure that appropriate compliance frameworks and controls are in place;
- Monitoring and ensuring compliance with all legal and regulatory requirements and ethical standards and monitoring the effectiveness of the Group's governance practices;
- Approving and monitoring corporate, financial and other reporting systems, including external audit and overseeing their integrity;
- Setting the risk appetite within which the Boards expect Management to operate; and
- Overseeing the Group's process for making timely and balanced disclosure of all material information concerning the Group that a reasonable person would expect to have a material effect on the price or value of the Group's stapled securities.

POLICIES AND GOVERNANCE DOCUMENTATION

The Group's policies and governance documentation (including the full Corporate Governance Statement for the 2019 financial year, disclosing the extent in which the Group has followed the 4th edition of the ASX Corporate Governance Principles and Recommendations) are available on the Group's website at www.thinkchildcare.com.au/about/corporate-governance-and-policies.

The Group carries out its business in accordance with the following Charters, codes and corporate policies:

- Board Charters of TNK and TND
- Audit, Risk and Compliance Committee Charter
- Human Resources and Remuneration Committee Charter
- Securities Trading Policy
- Continuous Disclosure Policy
- Code of Conduct
- Diversity Policy
- Anti-Bribery, Fraud and Corruption Policy
- Security holder Communication Policy
- Privacy Policy
- Whistleblower Policy

DIVERSITY

The Group is committed to ensuring a diverse work environment in which everyone is treated fairly and with respect and where everyone feels responsible for the reputation and performance of the Group. The Group's most recent Gender Equality Indicators are available on the Group's website.

BOARD COMMITTEES

The Group has two standing Board Committees with a non- executive, independent Director as the Chair of each committee, to assist the Boards in executing their responsibilities. Each Committee operates under a committee charter, which are available on the Group's website at www.thinkchildcare.com.au/about/corporate-governance-and-policies.

AUDIT, RISK AND COMPLIANCE COMMITTEE (ARC)

The objectives of the ARC is to assist the Boards to achieve their governance objectives in relation to financial reporting; the application of accounting policies; business policies and practices; legal and regulatory compliance; and internal control and risk management systems.

The ARC comprises three non-executive Directors (Joe Dicks as Chair, Evonne Collier and Mark Kerr).

HUMAN RESOURCES AND REMUNERATION COMMITTEE (HRC)

The objective of the HRC is to assist the Boards in fulfilling their corporate governance responsibilities in reviewing and making recommendations to the Boards with regard to human resources and remuneration matters, including the Group's remuneration and incentive policies, practices and performance indicators, and ensuring that they are aligned to the Boards' vision, values and overall business objectives and are appropriately designed to motivate, incentivise and retain employees to drive the long-term growth and success of the Group.

The HRC comprises three non-executive Directors (Evonne Collier as Chair, Joe Dicks and Mark Kerr).

ETHICAL STANDARDS

Recognising the need for the highest standards of behaviour and business ethics, the Group has a Code of Conduct, which sets out the values, commitments, ethical standards and policies of the Group and outlines the standards of conduct expected of the Group's businesses and employees. The Code of Conduct applies to all Directors, officers, employees, contractors and consultants.

DIRECTORS' REPORT

DIRECTORS

MARK KERR

Title

Chairman and Non-Executive Director – TNK
Chairman and Non-Executive Director – TND

Qualifications

LL.B.

Experience and expertise

Mark is an experienced Director and advisor to listed and private companies. He is a Director of Baker Street Childcare Education Pty Ltd, which was acquired by the Group.

Mark is a Director of Berkeley Consultants Pty Ltd which specialises in public relations and reputation management consultancy.

Mark's community involvement currently extends to being a member of the Victorian Committee for the Juvenile Diabetes Research Foundation. He is also a committee member of the St. Vincent's Institute Charity Golf Day Committee and a volunteer Board Member at International Specialised Skills Institute.

Other current directorships

Non-Executive Chairman of Contango Income Generator Ltd (ASX:CIE)

Managing Director of Hawthorn Resources Limited (ASX:HAW)

Former directorships (last 3 years)

Non-Executive Director of Alice Queen Ltd (ASX:AQX), resigned as Director effective 30 June 2019.

Non-Executive Chairman of Contango Microcap Limited (ASX:CTN), now NCS Small Cap Opportunities Company Limited (ASX:NSC), resigned as Director effective 13 October 2017.

Special responsibilities

Chair of Think Childcare Limited and Think Childcare Development Limited.

Interests in stapled securities

1,824,066 stapled securities (all held indirectly).

Interests in rights

None

MATHEW EDWARDS

Title

Managing Director and Chief Executive Officer – TNK.
Non-Executive Director – TND.

Experience and expertise

Mathew has been involved in child care since 2001. He was the Managing Director of Learning and Education Australia Pty Ltd (LEA) from 2008 which previously owned 12 of the Group's child care Services.

He has overseen the development of that Group's business of improving and managing child care Services. The LEA business centred around developing greenfield Services and the trading up of under-performing Services.

Prior to LEA, Mathew was a Director of Australian Daycare Group Pty Ltd, and has extensive management experience in retail and commercial property roles.

He is also a Director of Baker Street Childcare Education Pty Ltd, which was acquired by the Group.

He has extensive experience in business strategy and management of multi-site businesses.

Other current directorships

None

Former directorships (last 3 years)

None

Special responsibilities

CEO

Interests in stapled securities

14,335,198 stapled securities (7,538,405 held directly and 6,796,793 held indirectly).

Interests in rights

14,621 performance rights over stapled securities.

DIRECTORS' REPORT CONTINUED

DIRECTORS

EVONNE COLLIER

Title

Non-Executive Director – TNK

Qualifications

Evonne holds a Bachelor of Arts, Master of Business, Graduate Certificate in Applied Finance and is a Graduate member of the Australian Institute of Company Directors.

Experience and expertise

Evonne is a professional Non-Executive Director and an experienced leader in business scale- up and transformation, branding strategies, new to world and category innovation, digital disruption and B2B and B2C customer experience.

She has 25 years' senior executive experience in bringing high growth strategic direction to organisations including commercialising transformative, new to world products and services and an expert background in driving brand profile, customer experience/journeying and growing market share and sales across channels, including digital strategy and transformation.

She's held governance roles in Finance, Insurance, Health/Wellness, eCommerce, FMCG/Packaged Goods and Government sectors in large ASX, private, mutuals and publicly unlisted companies as: Non-Executive Director, Committee Member and Elected Councillor of small to large balance sheet holding companies, insurance businesses and start-ups including e-commerce ventures.

Other current directorships

1300SMILES Limited (ASX:ONT)

Former directorships (last 3 years)

Vault Intelligence Limited (ASX:VLT), resigned as Director effective 19 March 2019.

Special responsibilities

Chair of the Human Resources and Remuneration Committee.

Interests in stapled securities

None

Interests in rights

None

JOE DICKS

Title

Non–Executive Director – TNK
Non–Executive Director – TND

Qualifications

Joe is a Chartered Accountant and holds a Bachelor of Commerce, Postgraduate Diploma in Accountancy.

He is an Accredited Business Valuations Specialist and member of the Institute of Chartered Accountants in Australia and the Australian Institute of Company Directors.

Experience and expertise

Joe has 19 years' multi-national experience as a Non-Executive Director in a broad range of industries. Joe was one of the founding Partners of PPB Advisory. He also has in-depth experience in government funded and regulated industries, infrastructure and the education and aged care sectors.

Joe currently Chairs Campus Living Funds Management Limited board and is a Director of Melbourne Polytechnic. Joe is also a Director of the PPB Advisory legacy group of companies and is overseeing the wind down of this group.

Prior to these appointments, Joe was Chair of the Audit and Risk Committee and Board member of Retirement Village Group and Wesley Mission Victoria, founding Board member and Finance Committee Chair of Uniting Aged Care Victoria and Tasmania, President of the National Australia Africa Business Council and former Chair of the Victorian Chapter of the Forensic Accounting Special Interest Group.

Other current directorships

None

Former directorships (last 3 years):

None

Special responsibilities

Chair of the Audit, Risk and Compliance Committee

Interests in stapled securities

None

Interests in rights

None

DIRECTORS' REPORT CONTINUED

MICHAEL DOBLE

Title

Non-Executive Director – TND

Qualifications

Michael has a Bachelor of Business (Property) and an Associate Diploma in Valuations from RMIT University, and a Graduate Diploma in Applied Finance and Investment from the Financial Services Institute of Australasia.

He is a Fellow of the Australian Property Institute, a Senior Fellow of the Financial Services Institute of Australia and a Member of the Australian Institute of Company Directors.

Experience and expertise

Michael has enjoyed a long and distinguished career in the Australian property market. With over 32 years' experience, he started as a valuer with Knight Frank, moved into funds management with ANZ Funds Management and for the last 16 years has been at APN Fund Management Ltd (**APN**). Michael has been the Chief Executive Officer (Real Estate Securities) and more recently transitioned to Chief Investment Officer (Real Estate Securities) at APN.

In the last 25 years in funds management, Michael has successfully invested in a range of listed (including stapled structures) and unlisted property entities in Australia across core asset classes and newer sectors in the listed property environment such as healthcare and child care.

His experience dealing with large and small listed property entities has helped him develop a strong focus on strategy, governance, compliance and risk management.

Other current directorships

None

Former directorships (last 3 years)

None

Special responsibilities

None

Interests in stapled securities

None

Interests in rights

None

Other current directorships quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated. 'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

The Directors of Think Childcare Group (hereafter, referred to as Think Childcare Group or the Group) which comprises of Think Childcare Limited and its controlled entities (hereafter, referred to as Think Childcare or TNK) and Think Childcare Development Limited and its controlled entities (hereafter, referred to as Think Childcare Development or TND) present their report for the financial year ended 31 December 2019 (referred to hereafter as the financial year) accompanied by the Financial Report of Think Childcare Group. Pursuant to the requirements of the Corporations Act 2001 (Cth) (Corporations Act).

The shares of Think Childcare are stapled to the shares of Think Childcare Development and trade on the Australian Securities Exchange (ASX) as one security (ASX code TNK).

In accordance with Accounting Standard AASB 3 Business Combinations, the stapling of Think Childcare and Think Childcare Development is regarded as a business combination. Think Childcare has been identified as the parent for the purposes of preparing the consolidated financial report.

DIRECTORS

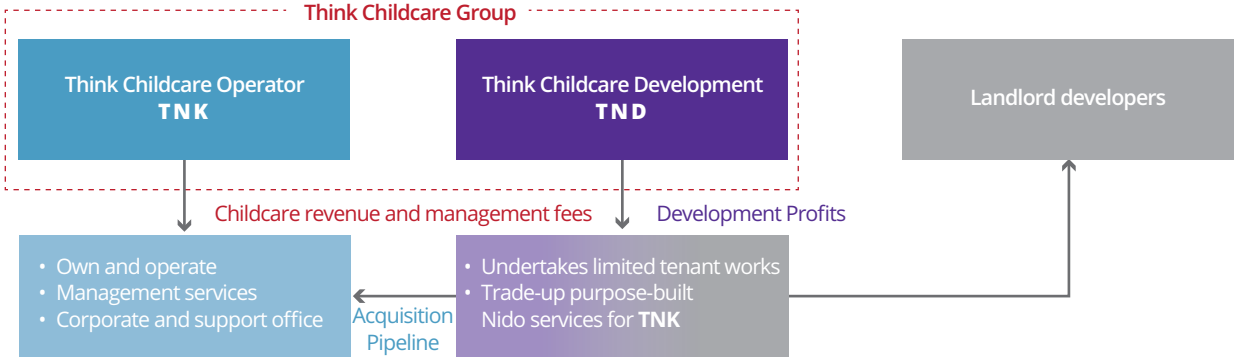
Continuing Directors	
Mark Kerr	Chair and Non-executive Director (TNK and TND)
Mathew Edwards	Chief Executive Officer and Managing Director (TNK) and Non-executive Director (TND)
Evonne Collier	Non-executive Director (TNK only) Chair of Human Resources and Remuneration Committee
Joe Dicks	Non- executive Director (TNK and TND) Chair of Audit, Risk and Compliance Committee
New Directors	
Michael Doble	Non-executive Director (TND only) - appointed 14 October 2019

PRINCIPAL ACTIVITIES

During the financial year, the shareholders of Think Childcare approved, the implementation of a stapling proposal whereby shares in Think Childcare and Think Childcare Development were stapled together on a one for one basis. The implementation of the stapled structure involved Think Childcare shareholders receiving one TND share for each TNK share held. The stapled security listed on the ASX (ASX:TNK) and commenced to trade on 24 December 2019.

Following the implementation of the stapled structure Think Childcare's principal activities will include operating mature child care Services and the provision of management services to clients, third-party incubators and TND. The principal activity of Think Childcare Development is to act as incubator of new child care Services for Think Childcare.

The diagram below illustrates the principal activities of the Think Childcare Group:



Think Childcare

- Owns and operates predominately mature child care Services
- Manages Services on behalf of TND, third-party incubators and clients
- Acquires high-performing developed child care Services from third-party incubators
- Invests in high quality corporate and support services

Think Childcare Development

- Develops purpose-built Services under the "Nido" brand and operating model
- Invests in upgrading facilities at developing child care Services
- Trade-up Services before selling the Service to TNK (at agreed acquisition criteria)

DIRECTORS' REPORT CONTINUED

DIVIDENDS

Dividends paid during the financial year were as follows:

	2019 $'000	2018 $'000	2019 CPS	2018 CPS
Final 2018 – 28 March 2019	3,150		6.5	
Interim 2019 – 20 September 2019	1,209		2.0	
Special 2019 – 23 December 2019	6,000		9.9	
Final 2017 – 16 March 2018		2,564		6.0

On 23 December 2019, in accordance with the scheme of arrangement approved by the Federal Court of Australia on 12 December 2019 (Stapling Proposal), a fully franked special dividend of $0.09858225 cents per share (aggregate of $6 million) (Special Dividend) was paid to Think Childcare Development Limited on behalf Think Childcare Limited shareholders. In lieu of receiving the Special Dividend in cash, Think Childcare Limited shareholders who held TNK shares received one TND share for each TNK share they held on 20 December 2019.

On 26 February 2020, a final dividend for the year ended 31 December 2019 of 5.0 cents per stapled security, fully franked, was determined with a record date of 17 March 2020. The dividend will be paid on 27 March 2020 and is estimated to be a total of $3.04 million.

The Group operates a Dividend Reinvestment Plan (DRP). During the financial year ended 31 December 2019, shares issued pursuant to the DRP were 792,591 (2018: 445,349).

REVIEW AND RESULTS OF OPERATIONS

Think Childcare Group is a stapled group comprising Think Childcare, an operator of predominately mature child care Services and Think Childcare Development, an incubator of new child care Services expected to be sold to Think Childcare once acquisition criteria are met.

Think Childcare operates child care Services with the objective of delivering value to security holders with stable earnings growth prospects over the medium to long-term.

TNK's strategy is to operate high quality child care Services under the Nido brand and in suburban markets supported by long-term leases. Additionally, the company provides child care management services to clients, including TND and third-party incubator partners.

Think Childcare Development's primary objective is to source a pipeline of high quality child care Services located in premium markets. The expectation is that they will trade-up and be sold to Think Childcare. Sales proceeds are expected to be recycled to fund future pipeline.

FINANCIAL OVERVIEW

Think Childcare Group recorded a statutory net profit after tax NPAT(statutory) of $2.0 million (2018: $4.95 million). The current year NPAT(statutory) was impacted by the first-time adoption of AASB 16 Leases of $2.5 million. Adjusting for the impact of AASB 16, the NPAT (underlying) is $4.5 million.

Think Childcare Group underlying earnings before interest, tax, depreciation and amortisation EBITDA (underlying) of $14.2 million (2018: $10.7 million) is primarily driven by higher child care revenue, offset by higher employee benefits expenses, occupancy expenses and finance expenses.

On a like-for-like basis and excluding the impact of the stapling proposal, Think Childcare Limited (Operator) has achieved $14.8 million against our market guidance range of $13.8 million and $14.8 million.

The Group considers development contribution as not forming part of distributable earnings as the development business is in its formative years and development profits are not expected to form part of funds available for distribution to security holders. In the short-term these proceeds will be reinvested into the business as future pipeline.

PROFIT AND LOSS

	2019			2018
$m	TNK	TND	Group	TNK
Service revenue	110.3	0.3	110.6	80.9
Service performance	19.2	(0.6)	18.6	13.0
Management fees	4.9	-	4.9	4.4
Corporate and employee	(9.4)	-	(9.4)	(6.7)
EBITDA (underlying)	14.8	(0.6)	14.2	10.7
Scheme implementation and acquisition	(0.7)	(1.3)	(2.0)	-
Operating lease expenses (AASB 16)	12.9	0.1	13.1	-
EBITDA	27.0	(1.7)	25.2	10.7
Depreciation and amortisation	(11.4)	(0.1)	(11.5)	(1.6)
Finance costs	(10.4)	(0.1)	(10.5)	(2.0)
Profit before tax	5.2	(1.9)	3.2	7.0
Tax	(1.8)	0.6	(1.2)	(2.1)
NPAT	3.4	(1.4)	2.0	5.0
Impact of AASB16 Leases (net of tax)	2.5	0.0	2.5	-
NPAT (underlying)	5.8	(1.3)	4.5	5.0

BALANCE SHEET

	2019			
$m	TNK	TND	AASB 16	Group
Cash	8.4	3.3	-	11.7
Receivables and other assets	10.2	1.2	-	11.4
Property, plant and equipment (excluding Right-of-use asset)	17.7	1.1	-	18.7
Intangible assets	78.1	-	-	78.1
Right-of-use asset	-	-	174.5	174.5
Total assets	114.4	5.5	174.5	294.4
Borrowings (excluding Lease liability)	42.5	-	-	42.5
Other liabilities	17.8	0.9	-	18.7
Lease liability	-	-	178.1	178.1
Total liabilities	60.3	0.9	178.1	239.3
Equity	54.1	4.7	(3.6)	55.2

DIRECTORS' REPORT CONTINUED

OPERATIONS OVERVIEW

As at 31 December 2019, Think Childcare owned and operated 72 child care Services nationally. The portfolio's geographic diversification was 42 in Victoria, 12 in Western Australia, 8 in South Australia, 7 in New South Wales, 2 in the Australian Capital Territory and 1 in Queensland. The total number of licensed places increased to 6,080, up 35% on pcp.

Think Childcare provides management and other services to clients (including incubator partners). During the financial year, the company managed 14 Services on behalf of 5 clients and generated $4.9 million (2018: $4.4 million) in management and other fees.

Think Childcare completed 15 acquisitions of child care Services all from incubator partners. These acquisitions contributed 1,347 (2018: 996) licenced places, an increase of 30% on pcp.

Think Childcare has an established track record in the development of new child care Services. During the financial year, the company developed two child care services on balance sheet. The Services are geographically located in Victoria (opened June 2019), and in Australian Capital Territory (opened September 2019). Following the implementation of the stapled structure Think Childcare will no longer develop new child care Services on its balance sheet but rather, all future developments will be undertaken by TND and third-party incubators on TNK's behalf.

During the financial year, Think Childcare launched a capital investment program to transition the portfolio of child care services to a premium offering. As at 31 December 2019, the company had completed $5.0 million in capital investments including programs to transition Early Learning & Kinder brand to Nido.

During the financial year Think Childcare Development entered into two long-term leases relating to new child care Services. These new services are located in South Australia and Western Australia opened in October 2019.

STRATEGY AND TRANSITION TO NIDO

Think Childcare's strategic objective is to be the sector leader in the innovation of early childhood education through the development of a national curriculum which is benchmarked against global standards.

The Group is well positioned to deliver a premium service to suburban markets. During the financial year, Think Childcare undertook $5.0 million in capital to upgrade and transition ELK Services to Nido quality. This investment is designed to create environments which foster creativity for the children and Educators.

In October 2017, Think Childcare acquired three Nido Early School Services along with the Nido brand as a platform to execute on its strategy. During the financial year, Think Childcare embarked on a program of works which will continue into 2020 to transition Think Childcare's existing child care Services to the Nido brand.

CAPITAL MANAGEMENT

On 29 March 2019, Think Childcare issued 11,479,114 ordinary shares at $1.58 issue price and raised $18,137,000 in equity. This capital raise substantially funded $22.4 million in acquisitions and a $5.0 million capital investment program.

Think Childcare maintains a strong balance sheet by virtue of:

- Strong closing cash of $11.7 million, and
- Healthy bank facility headroom of $24.5 million (3.5 years remaining term due June 2023) along with banking covenants well below the facility requirements.

Think Childcare entered into a five year syndicated facility agreement with Macquarie Bank Limited on 27 June 2018. The facility amount was $78 million including an Accordion of $20 million.

The drawn amount under the facility is $53.5 million with $24.5 million undrawn at the end of the financial year. The Accordion of $4.2 million is available for drawdown until 10 July 2021. Below is a table summarising the facility amounts.

	As at 31 December 2019		
$m	**Drawn**	**Undrawn**	**Total**
Term Loan	37.8	-	**37.8**
Acquisition facility	6.2	13.8	**20.0**
Working capital facility	9.5	6.5	**16.0**
Accordion	–	4.2	**4.2**
Total	53.5	24.5	**78.0**

RISK MANAGEMENT

Think Childcare is exposed to interest rate risk due to the floating nature of the borrowing facility and little ability to pass on increases in interest expense through its normal business operations. Think Childcare's interest rate risk management approach involves establishing and maintaining a base level of interest rate hedging using a combination of limiting and/or non-limiting cover. The interest rate exposure will be managed on a gross basis (i.e. the interest rate positions on deposits and debt are not netted for risk management purposes). As at the end of the financial year the hedged amount was 32%.

OUTLOOK FOR 2020

Think Childcare Group is well positioned to continue to deliver on its strategic objective of delivering quality child care services to suburban markets in the next financial year. This strategy is supported by Think Childcare capital investment program including the transition to the Nido brand.

The Group has access to a pipeline of child care Services and a national footprint in key suburban markets within Australia.

Priorities for the 2020 financial year include:

- Continue to drive enrolments in the core portfolio of child care Services;
- Delivery on Think Childcare's capital investment program and transition the remainder of the child care Services to Nido Early School;
- Trade-up child care Services acquired in 2019 financial year to achieve target enrolments and performance objectives;
- Delivery of new child care Services in addition to identifying and consulting for third-parties and incubator partners; and
- Continuous improvement of margins through efficient workforce planning and management of overheads.

COMPANY SECRETARIES

Think Childcare Limited:

Joint Company secretaries are Trinh Bui and Mourice Garbutt.

Think Childcare Development Limited:

Company secretary is Trinh Bui.

Trinh is a member of the Law Society of New South Wales and a Fellow member of the Governance Institute of Australia with over 4 years company secretarial experience and 10 years' experience in governance and risk management. Trinh holds an LL.B. and Bachelor of Management. Trinh was admitted to practice as a solicitor and barrister in NSW in June 2001 and as a solicitor in the Supreme Court of England and Wales in 2005.

Mourice is the principal of K R Corporate Compliance Pty Ltd, a company specialising in the provision of corporate and secretarial services to listed companies in Australia. He is a Fellow of the Governance Institute of Australia and Chartered Institute of Secretaries. His former professional associations are: Certified Practising Accountant and British Institute of Management and Institute of Directors in Australia; and he was previously an Honorary Justice of the Peace in Victoria.

DIRECTORS' REPORT CONTINUED

MEETINGS OF DIRECTORS

The number of meetings of the Group's Board of Directors (the Board) and of each Board committee held during the year ended 31 December 2019, and the number of meetings attended by each Director were:

	TND Board++		TNK Board		Audit, Risk and Compliance Committee		Human Resources and Remuneration Committee	
	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible
Evonne Collier	1**	-	15	15	10	12	8	8
Joe Dicks	2	2	15	15	12	12	8	8
Mark Kerr	2	2	15	15	12	12	8	8
Mathew Edwards	2	2	15	15	12	12	8	8
Michael Doble*	1	1	2**	-	-	-	-	-

**Michael Doble was appointed non-executive Director of Think Childcare Development on 14 October 2019.*
***Attendance as an invitee.* ++ *TND was incorporated on 29 July 2019*

INDEMNITY AND INSURANCE OF OFFICERS AND AUDITORS

Subject to the following, no insurance premium was paid during or since the end of the 2019 financial year for a person who is or has been an officer or auditor of the Think Childcare Group.

During the year, Think Childcare paid a premium in respect of a contract insuring the Directors and Executive Officers of the company, against liability incurred that is permitted to be covered by section 199B of the Corporations Act. It is a condition of the insurance contract that its limits of indemnity, the nature of the liability indemnified and the amount of the premium not be disclosed.

The constitutions of each Group entity provides that each officer of the Group must be indemnified by the relevant company against any liability incurred by that person in that capacity. However, the company must not indemnify that person if to do so would be prohibited by section 199A of the Corporations Act, any other statutory provision, or judge-made law. Pursuant to this requirement, each Director of the Group is party to Deeds of Indemnity, Access and Insurance, which provide for indemnity against liability as a Director, except to the extent of indemnity under an insurance policy or where prohibited by statute.

The Group has not otherwise, during or since the end of the 2019 financial year, indemnified or agreed to indemnify an officer or auditor of the Group against a liability as such an officer or auditor.

PROCEEDINGS ON BEHALF OF THE COMPANY

There are no proceedings brought or intervened in, or applications to bring or intervene in proceedings, on behalf of the Think Childcare or Think Childcare Development by a member or other person entitled to do so under section 237 of the Corporations Act.

NON-AUDIT SERVICES

During the year, KPMG (auditors) have performed accounting, tax and risk advisory services in addition to their statutory duties as auditor.

The Audit, Risk and Compliance Committee reviews the non-audit services performed by the auditor on a case-by-case basis. In accordance with advice received from the Audit, Risk and Compliance Committee, the Directors are satisfied that the provision of these non-audit services by the auditor (or by another person or firm on the auditor's behalf) is compatible with, and did

not compromise, the auditor independence requirements of the Corporations Act. The Directors are so satisfied because the Audit, Risk and Compliance Committee or its delegate has assessed each service, having regard to auditor independence requirements of applicable laws, rules and regulations, and concluded in respect of each non-audit service or type of non-audit service that the provision of that service or type of service would not impair the auditor's independence.

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act is included in this report. Details of amounts paid or payable to the auditor of the Group for audit and non-audit services provided during the year are given in note 25 of this report.

OFFICERS OF THE COMPANY WHO ARE FORMER DIRECTORS OF KPMG (AUDITORS)

There are no officers of Think Childcare or Think Childcare Development who are former Directors of KPMG.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Group during the financial year apart from the creation of the stapled structure disclosed in note 2.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

There has not been any other matter or circumstance that has arisen since the end of the financial year which, in the opinion of the Directors, has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

The Group is expected to continue to execute its business plan and strategy as outlined in its Initial Public Offering Prospectus dated 2 October 2014 and market updates from time to time, which includes the acquisition of further child care Services, including the development of new child care Services and organic growth of its portfolio.

ENVIRONMENTAL REGULATION

The Group is subject to and complies with environmental regulations under State Legislation in the management of its operations. The Group does not engage in activities that have potential for environmental harm. No incidents have been recorded and the Directors are not aware of any environmental issues which have had, or are likely to have, a material impact on the Group's businesses.

ROUNDING OF AMOUNTS

The Group is of a kind referred to in the Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

This report is made in accordance with a resolution of Directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the Directors

Mark Kerr
Chairman

26 February 2020 | Melbourne

REMUNERATION REPORT - AUDITED

CONTENTS

1. INTRODUCTION

Think Childcare Group (Group) believes that attracting, developing, engaging and retaining capable team members will provide the Group with a sustainable advantage over the long term. Building and maintaining a culture and implementing people systems to support such a belief and culture are strategic priorities for Think Childcare Group.

Key principles of the Think Childcare Group's policies are attraction, learning and development, engagement, workplace health and safety, talent and succession management, and appropriate but competitive remuneration and benefits. The Boards' philosophy and approach to executive remuneration is to balance fair remuneration for skills and expertise with a risk and reward framework that supports longer-term growth and sustainability of Think Childcare Group as an educational, caring, customer focused business.

Board and executive KMP issues of note arising in financial year ended 31 December 2019 (CY19), include:

- There were no increases to the NED remuneration in respect of the financial year commencing 1 January 2019;
- The Chairman has a portion of remuneration awarded in performance rights. These were granted in financial year ended 31 December 2016 and have now fully vested. No further grants are under consideration;
- The CEO, CFO and COO received a short-term incentive in CY19 of $120,000, $150,000 and $11,050 respectively. These payments were assessed by the Think Childcare Board as appropriate for the reasons set out in the Report;
- Other benefits received by the CEO included a motor vehicle allowance; and
- The appointment of the Chief Operating Officer.

The following key initiatives in relation to Board and executive KMP have been undertaken during CY19. Changes arising will be effective from 1 January 2020:

- A comprehensive Board and executive KMP remuneration and reward framework has been adopted. This framework is consistent with the ASX Corporate Governance Guidelines and market expectations;
- An independent remuneration benchmark review and analysis of all Board and executive KMP positions was undertaken;
- Fixed Annual Remuneration (FAR) changes effective from 1 January 2020 for executive KMP have been approved;
- Changes to the remuneration mix (strategic intention) for selected executive KMP and senior executives in line with the revised remuneration framework have been approved;
- The Board has introduced a Short-term Incentive ("STI") scheme for the CEO and other executive KMP that provides cash rewards linked to the achievement of performance targets that are consistent with the Group's approved business plan and that are aligned to delivering sustainable value to security holders;
- Underpinning the STI scheme is the introduction of a new Key Performance Indicator ("KPI") framework. The CEO and other executive KMP have KPI targets that cover achievement of financial and operational performance metrics and strategic plan implementation milestones across four (4) areas, being financial, culture, quality/risk and compliance and systems/business processes. The level of reward available under the STI scheme is dependent on the achievement of KPI targets under a tiered measurement structure. All non-financial KPI are subject to a minimum financial performance gateway;
- The Long-term Incentive (LTI) scheme has been reviewed independently and the revised terms to be adopted are in line with guidelines and market expectations. The participation base has been reduced;
- An STI deferral scheme for selected executives will be implemented;
- Minimum security holding guidelines have been adopted for the Board to ensure alignment with security holder interests;

REMUNERATION REPORT CONTINUED

- A claw-back policy for executive KMP has been adopted; and
- Employment contracts for executive KMP and selected other senior executives have been updated.

The changes to be adopted in financial year ending 31 December 2020 are under constant review. Any further material Board or executive KMP remuneration strategy changes will be advised annually.

The Board believes, Think Childcare Group's approach to Board and executive KMP remuneration is a balanced, fair and equitable approach designed to reward and motivate a successful and experienced executive team to deliver ongoing business growth which is designed to meet the expectations of all security holders.

Scope

This Remuneration Report sets out, in accordance with the relevant Corporations Act 2001 (Corporations Act) and accounting standard requirements, the remuneration arrangements in place for key management personnel (KMP) during 2019.

Key management personnel (KMP)

KMP have authority and responsibility for planning, directing and controlling the activities of Think Childcare Group and comprises the non-executive directors, and executive KMP (being the executive directors and other senior executives named in this report). Details of the KMP as at year end are set out in the table below:

		Title / Committees (at year end)	**Change in 2019**
Non-executive directors	**Mark Kerr**	Chair and Non-executive Director (TNK and TND) Member of Audit, Risk and Compliance Committee Member of Human Resources and Remuneration Committee	Appointed as Chair & Non-executive Director of TND * on 29 July 2019
	Joe Dicks	Non- executive Director (TNK and TND) Chair of Audit, Risk and Compliance Committee	Appointed as Non-executive Director of TND* on 29 July 2019
	Evonne Collier	Non-executive Director (TNK only) Chair of Human Resources and Remuneration Committee	No change
	Michael Doble	Non-executive Director (TND only)	Appointed as Non-executive Director of TND* on 14 October 2019
Executive directors	**Mathew Edwards**	CEO and Managing Director (TNK) and Non-executive Director (TND)	Appointed as Non-executive Director of TND* on 29 July 2019
Other executive KMP	**Jennifer Saliba**	Chief Financial Officer	No change
	Georgina Gaussen	Chief Operating Officer	Appointed on 29 October 2019

2. REMUNERATION GOVERNANCE

This section of the Remuneration Report describes the role of the Human Resources and Remuneration Committee, and the use of remuneration consultants when making remuneration decisions affecting KMP.

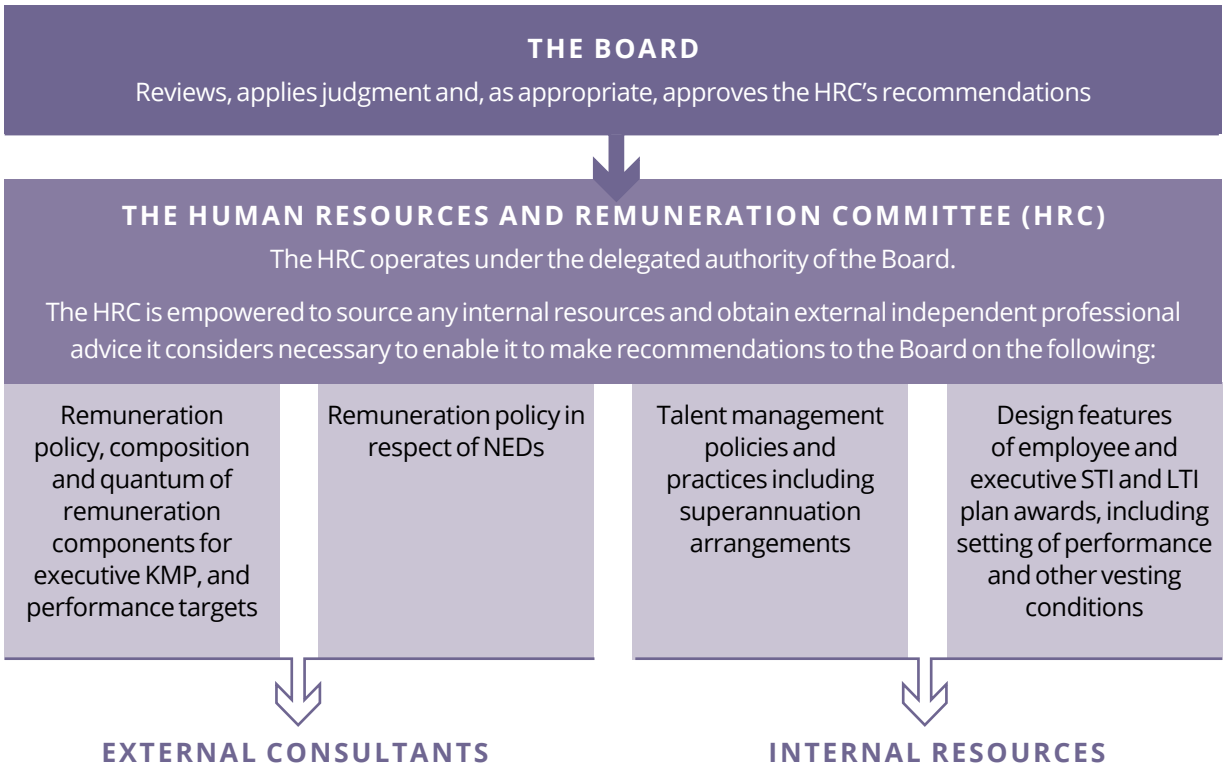
Role of the Board and the Human Resources and Remuneration Committee

The Boards are responsible for Think Childcare Group's remuneration strategy and policies. Consistent with this responsibility, the Group has established the Human Resources and Remuneration Committee (HRC) which is comprised of solely independent non-executive directors (NEDs).

The role of the HRC is set out in its Charter, which is reviewed annually and was last revised and approved by the Board on 19 December 2019. In summary, the HRC's role is to:

- ensure that the appropriate procedures exist to assess the remuneration levels of the Chairman, other NEDs, executive directors, direct reports to the CEO, Board Committees and the Board as a whole;
- ensure that Think Childcare Group meets the requirements of the Australian Securities Exchange (ASX) governance, diversity and other relevant Guidelines;
- ensure that Think Childcare Group adopts, monitors and applies appropriate remuneration policies and procedures;
- ensure that reporting disclosures related to remuneration meet the Boards' disclosure objectives and all relevant legal and accounting standard requirements;
- develop, maintain and monitor appropriate key management programs including succession planning, recruitment, development;
- retention and termination policies and procedures; and
- develop, maintain and monitor appropriate superannuation arrangements for the Think Childcare Group.

The HRC's role and interaction with the Boards, internal and external advisors, are further illustrated below:



REMUNERATION REPORT CONTINUED

Further information on the HRC's role, responsibilities and membership is contained in the Corporate Governance Report of this Annual Report. The HRC terms of reference can also be viewed in the Investor Centre, Corporate Governance and Policies section of the Think Childcare Group website.

Use of remuneration consultants

All proposed remuneration consultancy contracts (within the meaning of section 206K of the Corporations Act) are subject to prior approval by the Board or the HRC in accordance with the Corporations Act.

During the 2019 financial year, Think Childcare engaged PriceWaterhouseCoopers (PwC) who were appointed by the HRC in December 2018 to assist in benchmarking Board and executive remuneration including advice in respect of STI and LTI.

The remuneration advice was provided in accordance with the Corporations Act. Fees paid to PwC during CY19 amounted to $37, 200 (remuneration advice in respect of KMP).

The Board was satisfied that there were no undue influences of the KMP.

3. NON-EXECUTIVE DIRECTOR (NED) REMUNERATION

NED remuneration

Principle	Comment
Fees are set by reference to key considerations	Fees for NEDs are based on the nature of the NEDs' work and their responsibilities. The remuneration rates reflect the complexity of Think Childcare Group's business and the extent of the number of geographical locations in which the Group operates. In determining the level of fees, survey data on comparable companies is considered. NEDs' fees are recommended by the HRC and determined by the Board of each Group entity. The aggregate maximum amount available for the remuneration of NEDs is set out in the constitution of each Group entity.
Remuneration is structured to preserve independence whilst creating alignment	To preserve independence and impartiality, NEDs are not entitled to any form of incentive payments including options and the level of their fees is not set with reference to any measure of he Group performance. However, to create alignment between directors and security holders, the Board has adopted guidelines that request NEDs to hold (or have a benefit in) securities in Think Childcare Group equivalent in value to at least 100% of one year's base fees to be achieved progressively over a period of four years. Think Childcare Group does not offer loans to NEDs to fund share ownership.
Aggregate Board and committee fees are approved by shareholders	The total amount of fees paid to NEDs in 2019 is within the aggregate maximum amount approved by security holders (as per the IPO prospectus) of $750,000 per annum including superannuation and as set out in the constitution of each Group entity.

NED fees and other benefits explained

Elements	Details	2019	2018
Board fee per annum	Board Chairman TNK Fee	109,500[1]	113,663[1]
	Board NED TNK Base fee	60,000	60,000
	Board NED TND Base Fee – 14 October 2019	7,300[2]	NA

	Committee Fees	Committee Chair	Committee member
Committee fees 2019	Audit, Risk and Compliance – Chair fee	15,000	Nil
	Human Resources and Remuneration – Chair fee	15,000	Nil

1 *Excludes LTI performance vested in 2019 of $22,399 ($17,066 vested in 2018)*
2 *Fees are part period and not annualised*

Post-employment benefits

Superannuation	Superannuation contributions have been made at a rate of 9.5% of the board fee (but only up to the Australian Government's prescribed maximum contributions limit) which satisfies the Company's statutory superannuation contributions. The contribution rate will increase in future years in line with mandated legislative increases. Contributions are included in the base fee.
Retirement schemes	There are no retirement schemes in place for NED other than Statutory Superannuation.

Other benefits

Equity instruments	NEDs do not receive any performance related remuneration, options, performance rights or shares.
Other fees/ benefits	NEDs receive reimbursement for costs directly related to Think Childcare business. No payments were made to NEDs during 2019 for travel allowances, extra services or special exertions.

REMUNERATION REPORT CONTINUED

NED total remuneration paid

		Short-term benefits	Equity Based Payments	Post-employment benefits		
	Year	Fees ($)	Performance Rights ($)	Termination benefits ($)	Superannuation benefits ($)	Total ($)
Mark Kerr (Chairman)	2019	100,000	22,399	-	9,500	131,899
	2018	104,163	17,066	-	9,500	130,729
Joe Dicks	2019	68,493	-	-	6,507	76,000
	2018	51,370	-	-	4,880	56,250
Evonne Collier	2019	68,493	-	-	6,507	75,000
	2018	51,370	-	-	4,880	56,250
Michael Doble	2019	6,667	-	-	633	7,300
Total	**2019**	**243,653**	**22,399**	**-**	**23,147**	**290,199**
Total	2018	206,903	17,066	-	19,260	243,229

Minimum security holding guidelines

The Board has approved minimum security holdings guidelines for NEDs. Under these guidelines, all NEDs are requested to accumulate a minimum security holding in Think Childcare Group securities equivalent in value to 100% of one year's base fees.

The guidelines were implemented in January 2020, with NEDs required to accumulate the required holding over the next 4 years or from appointment.

4. EXECUTIVE REMUNERATION

Executive KMP remuneration

The Group's executive remuneration policies are designed to attract, motivate and retain a qualified and experienced group of executives with complimentary skills. Fixed remuneration components are determined having regard to the specific skills and competencies of the executive KMP with reference to both internal and external relativities, particularly local market and industry conditions.

The 'at risk' components of remuneration are strategically directed to encourage management to strive for superior (risk balanced) performance by rewarding the achievement of targets that are challenging, clearly defined, understood and communicated within the ambit of accountability of the relevant executive KMP.

Executive KMP remuneration objectives are exemplified through three categories of remuneration, as illustrated below:

EXECUTIVE KMP REMUNERATION OBJECTIVES

- Attract, motivate and retain competent executives across Think Childcare Group's business
- The creation of reward differentiation to drive performance values and behaviours
- A balance between 'fixed' and 'at risk' components
- Security holder value alignment through equity components

Total target remuneration (TTR) is set by reference to the relevant geographic market

FIXED	AT RISK	
Total fixed remuneration (TFR)	**Short-term incentives (STI)**	**Long-term incentives (LTI)**
TFR is set based on relevant market relativities, reflecting responsibilities, performance, qualifications, experience and geographic location	STI performance criteria are set by reference to Think Childcare Group performance targets comprising both financial and non-financial	LTI targets are linked to Think Childcare Group Total Shareholder Return (TSR) growth
Remuneration will be delivered as:		
Base salary plus any fixed elements related to local markets, including superannuation or equivalents	For selected senior executives part cash and part equity (performance rights). The equity will be subject to service and deferred for at least 1 year.	Equity in performance rights. All equity is held subject to service and performance for 3 years from grant date. The equity is at risk until vesting. Performance is tested once at the vesting date
Strategic intent and market positioning		
TFR will generally be positioned at the median compared to relevant market based data considering expertise and performance in the role	Performance incentive is directed to achieving Board approved targets, reflective of market circumstances. TFR + STI is intended to be positioned in the 3rd quartile of the relevant benchmark comparisons	LTI is intended to reward executives KMP for sustainable long-term growth aligned to security holders' interests. LTI allocation values are intended to be positioned in the 3rd quartile of the relevant benchmark comparisons

Total targeted remuneration (TTR)

TTR is intended to be positioned in the 3rd quartile compared to relevant market benchmark comparisons. 4th quartile TTR may result if outperformance is achieved. The remuneration structure is designed to ensure top quartile executive KMP remuneration is only achieved if Think Childcare Group outperforms.

REMUNERATION REPORT CONTINUED

Remuneration composition mix and timing of receipt

Think Childcare Group intends to provide an appropriate and competitive mix of remuneration balanced between fixed and at risk components and paid in both cash and deferred equity. The broad remuneration composition mix for executive KMP can be illustrated as follows:

Remuneration mix - CY19

The mix of remuneration for the CEO and executive KMP for 2019 resulted in the following remuneration mix:

Position	FAR (%)	STI (%)	LTI (%)
Chief Executive Officer	60%	23%	17%
Chief Financial Officer	55%	41%	4%
Chief Operating Officer	85%	15%	0%

Following a review of executive remuneration undertaken in FY2019, as noted in our 2018 Remuneration Report the following strategic remuneration decisions have been implemented to be effective from 1 January 2020.

Remuneration mix - CY20 proposed

The mix of remuneration for the CEO and executive KMP proposed for 2020 is as follows:

Position	FAR (%)	STI (%)	LTI (%)
Chief Executive Officer	50%	25%	25%
Chief Financial Officer	50%	25%	25%
Chief Operating Officer	60%	20%	20%

The 'at risk' component (STI and LTI) of this mix represents the intended remuneration opportunity for these executives assuming the performance requirements set for each component is satisfied.

Fixed Annual Remuneration (FAR) or Total Fixed Remuneration (TFR) – CY20

Think Childcare Group positions all executives at between the median and 62.5th percentile of the market, but at the lower end of this range where possible to control fixed costs. This positioning is confirmed regularly by reference to remuneration surveys and independent benchmark assessments from time to time.

A description of the 2019 short-term and long-term incentive schemes are set out below.

Total Target Remuneration (TTR)

In the opinion of the Boards, the TTR under the remuneration mix adopted by the Group delivers an overall risk adjusted reward opportunity which is intended to ensure both fair and market competitive remuneration is awarded.

FAR or TFR remuneration explained

FAR or TFR includes all remuneration and benefits paid to an executive KMP calculated on a total employment cost basis. In addition to base salary, superannuation and other allowances are included.

Executive KMP FAR is tested regularly for market competitiveness by reference to appropriate independent and externally sourced comparable benchmark information, including for comparable ASX listed companies, and based on a range of size criteria including market capitalisation, taking into account an executive's responsibilities, performance, qualifications, experience and location.

FAR adjustments, if any, are made with reference to individual performance, an increase in job role or responsibility, changing market circumstances as reflected through independent benchmark assessments or through promotion.

Any adjustments to executive KMP remuneration are approved by the relevant Board, on recommendation of the HRC and CEO. The CEO executive KMP remuneration effective from 1 January 2020 increased to $430,000 ($313,232 in CY19) to bring the FAR in-line with market, based on data indicating significantly under market FAR.

Variable (at risk) remuneration explained

Variable remuneration is intended to form a material portion of the CEO and other executive KMP remuneration opportunity. Apart from being market competitive, the purpose of variable remuneration is to direct executives' behaviour towards optimising the Group's short and medium-term performance, risk adjusted and having regard to customer and community expectations.

The key aspects are summarised below:

Short-term incentives (STI) – CY19 and CY20

Purpose	The STI arrangements at Think Childcare are designed to reward executives for the achievement against annual performance targets set by the Board at the beginning of the performance period. The STI program is reviewed annually by the HRC and approved by the Boards. Any STI award in excess of the 100% budget opportunity is individually approved by the HRC. All STI awards to the CEO and other executive KMP are approved by the HRC and Board.
Performance targets - FY19	The key performance objectives of the Group are directed to achieving Board approved targets, including EBITDA (underlying) and NPAT (underlying) and key organisational milestones set by the Board.
Performance targets – FY20	Effective from 1 January 2020, the Board has introduced a revised Short-term Incentive (STI) scheme for the CEO and other executive KMP linked to the achievement of performance targets that are consistent with the Group's approved business plan. Underpinning the STI scheme is the introduction of a new Key Performance Indicator (KPI) framework. The CEO and other executive KMP have KPI targets that cover achievement of financial and operational performance metrics and strategic plan implementation milestones across four (4) areas, being financial, culture, quality/risk and compliance, systems/business processes. The level of reward available under the STI scheme is dependent on the achievement of KPI targets under a tiered measurement structure. All non-financial KPI are subject to a minimum financial performance gateway.
Rewarding performance	The STI performance ratings are determined under a predetermined matrix with the Board determination as final.
Deferral of STI	Effective from 1 January 2020 a deferral of a portion of STI (for selected executives) was introduced to reinforce alignment with security holder interests. Grants will be determined at the end of each year and then held for one year until vesting. This achieves additional retention and alignment of executives with security holder interests. The deferred STI component for 2020 will be calculated based on a predetermined % of the STI amount, above a minimum threshold, depending on the relevant position. The equity component will be calculated at the time. Once the STI awarded as performance (service only) rights has been granted, there are no further performance measures attached to the performance rights other than continued tenure for the vesting period (one year minimum).

REMUNERATION REPORT CONTINUED

Long-term incentives (LTI) – CY19

Only the CFO received an LTI in CY19. Details of performance rights award to the CFO were as follows:

Rights Granted	Opening Balance	Rights Vested	Rights Lapsed	Closing Balance
47,619	nil	15,873	nil	31,746

Long-term incentives (LTI) – CY20

Effective from CY20 the LTI provides an annual opportunity for executive KMP and other selected executives (based on their ability to influence and execute strategy) to receive an equity award deferred for three years, that is intended to align a significant portion of executives' overall remuneration to security holder value over the longer term. All LTI awards remain at risk and subject to 'claw back' (forfeiture or lapse) until vesting and must meet or exceed performance targets set over the vesting period.

Long-term incentives (LTI) – CY20

Purpose	To align executive KMP remuneration opportunity with security holder value and provide retention stimulus.
Types of equity awarded	LTI is provided under the Think Childcare Employee Share Option Plan (ESOP). Under the ESOP, selected senior executives are offered performance rights (being a nil exercise price right to fully paid ordinary securities of Think Childcare Group), subject to satisfying the relevant requirements.
Time of grant	All equity grants will be made after the AGM each year but based on values determined at the date of the release of TNK's annual results.
Time restrictions	Equity grants awarded to the CEO and other executive KMP are tested against the performance hurdles set, at the end of three years. If the performance hurdles are not met at the vesting date, performance rights lapse.
Performance hurdles and vesting schedule	The CY20 equity grants to the CEO and other executive KMP are subject to one performance condition, as follows:

Compound annual growth in Total Shareholder Return (TSR) (3 years)	
Performance	% of equity to vest
< 10%	0%
10% to 15%	50% to 100% pro-rata
> 15%	100%

	Performance rights vest if the time restrictions and relevant performance hurdles are met. The Board must approve any special provisions, in accordance with group policies, in the event of termination of employment or a change of control.
Dividends	No dividends are attached to performance rights.
Voting rights	There are no voting rights attached to performance rights.
Retesting	There will be no retesting of performance hurdles.
LTI allocation	The size of individual LTI grants for the CEO and other executive KMP is determined in accordance with the Board approved remuneration strategy mix. The allocation methodology for performance rights is to determine the target LTI dollar value for each executive and divide it by the gross contract value.

Other remuneration elements and disclosures relevant to executive KMP

Claw back

The Group has a Claw Back Policy and discretion to claw back incentive payments where material misconduct is evident.

Hedging and margin lending prohibition

Under the Think Childcare Securities Trading Policy and in accordance with the Corporations Act, equity granted under Think Childcare Group equity incentive schemes must remain at risk until vested, or until exercised if they are performance rights. It is a specific condition of grant that no schemes are entered into, by an individual or their associates that specifically protect the unvested value of performance rights allocated.

Think Childcare Group also prohibits the CEO or other 'Designated Persons' (including executive KMP) providing Think Childcare Group securities in connection with any margin loan or similar financing arrangement unless that person has received a specific clearance notice of compliance with the Group's Securities Trading Policy.

Think Childcare Group, in line with good corporate governance, has a formal policy setting down how and when employees of Think Childcare Group may deal in Think Childcare Group securities.

Think Childcare Group's Securities Trading Policy is available on the Group website under Investor Centre, Corporate Governance.

Relationship between Think Childcare performance and executive KMP remuneration

The performance of the Group over the last 5 years is summarised in the table below.

	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000
Total revenue	54,543	46,512	66,886	85,808	115,544
EBITDA	7,392	8,495	10,447	10,678	25,226
Net Profit After Tax	4,809	5,367	5,773	4,950	2,005
Like-for-like Net Profit After Tax (excluding AASB 16)	4,809	5,367	5,773	4,950	5,834
Like-for-like EBITDA (underlying) (unaudited, non AASB)	7,394	8,833	9,645	10,662	14,756
EPS (cents)	12.14	13.12	13.68	10.46	3.47
Share price as at 31 December ($)	0.98	2.23	2.28	1.39	1.42

REMUNERATION REPORT CONTINUED

CY19 will, hopefully, be seen as a transformative year in the Group's growth. Key milestones achieved, included:

- Service revenues increased 37% through the expansion of licence places;
- Like-for-like underlying EBITDA increased 33%;
- Underlying NPAT increased 16%;
- Completion of a $5.0m capital investment program; and
- Dividend was maintained at 7 cents per stapled security.

Our small senior executive team largely consisting of the CEO and CFO (and COO who joined the Group on 29 October 2019) achieved these results while undertaking the following initiatives:

- Completion of a capital raise to fund acquisitions, capital investment program;
- An upgrade to Think Childcare's core financial and information systems;
- Developed and completed the stapled security and the renegotiation of debt facilitates to support and enhance the effectiveness of the stapled structure;
- Successfully navigated a series of complex negotiations with suppliers and customers to ensure business stability; and
- Generated several non-traditional revenue streams for the future benefit of Think Childcare Group.

While TNK's security price has effectively remained unchanged over the year, we are confident all of these changes and initiatives will benefit security holders in the near to long term.

Accordingly, the Board after carefully evaluation approved the payment of a short-term incentive to both the CEO and CFO to reflect their contributions.

No LTI grant was awarded to the CEO in CY19 because the LTI scheme was under review. An LTI allocation for the CEO will be presented to security holders for the approval at the upcoming AGM. The new LTI grant will meet ASX corporate governance guidelines.

A grant of performance rights (47,619) was made to the CFO to meet contractual commitments in CY19. A CY20 LTI allocation will made in line with the CEO LTI allocation to be approved by security holders.

Executive remuneration table – audited statutory disclosure

		Short Term Benefits				Other			
$		Salary/ fees	Cash STI	Other Cash Benefits	Deferred STI Rights	LTI Performance Rights	Long Service Leave	Superannuation	Total
Mathew Edwards	CY19	235,904	120,000	56,798	-	80,559	7,900	20,530	521,691
	CY18	235,000	-	56,798	-	-	3,916	22,325	318,039
Jennifer Saliba	CY19	301,154	150,000	-	100,000	26,667	793	36,210	614,824
	CY18	213,462	80,000	-	-		3,558	20,279	317,299
Georgina Gaussen	CY19	56,615	11,050	-	-	-	-	5,378	73,043

5. KMP EQUITY INTERESTS

The tables below set out the equity interests held by NEDs and executive KMP as at 31 December 2019.

Staple Securities	1 January 2019	Acquired*	Sold	Received as remuneration	31 December 2019
Mark Kerr	1,527,317	283,416	–	13,333	1,824,066
Joe Dicks	–	–	–	–	–
Evonne Collier	–	–	–	–	–
Michael Doble	–	–	–	–	–
Mathew Edwards	14,287,246	–	–	47,952	14,335,198
Jennifer Saliba	24,283	408	–	15,873	40,564
Georgina Gaussen	–	–	–	–	–

Performance Rights	1 January 2019	Acquired	Sold	Received as remuneration	31 December 2019
Mark Kerr	13,333	-	-	13,333	-
Joe Dicks	-	-	-	-	-
Evonne Collier	-	-	-	-	-
Michael Doble	-	-	-	-	-
Mathew Edwards	62,573	-	-	47,952	14,621
Jennifer Saliba	-	47,619	-	15,873	31,746
Georgina Gaussen	-	-	-	-	-

** Includes acquisition under the DRP*

REMUNERATION REPORT CONTINUED

6. EQUITY GRANTED AS REMUNERATION

The table below presents the number of performance rights granted to executive KMP as well as the number of instruments that vested or were forefeited during the year

Director/Executive KMP		Plan	Grant Date	Performance Rights Granted		Vesting date	Vested	Forefeited
				Number	Maximum value to be expensed ($)			
Mathew Edwards	Performance Rights	CY17	28 August 2017	-	-	05 May 2019	33.3%	0%
	Performance Rights	CY16	8 August 2016	-	-	26 May 2019	33.3%	0%
	TOTAL							
Jennifer Saliba	Performance Rights (Deferred STI)	CY19	31 December 2019	-	100,000	-	0%	0%
	Performance Rights	CY19	24 June 2019	47,619	80,000	29 May 2019	33.3%	0%
	TOTAL			47,619	180,000			
Mark Kerr	Performance Rights	CY16	8 August 2016	-	-	26 May 2019	33.3%	0%

7. PERFORMANCE RIGHTS

Performance rights granted to executives during the financial year ended 31 December 2019 under the Group's ESOP up to the date of this report are details in the table below.

Director/ Executive KMP		Grant Year	Rights Granted	1 January 2019	Rights Vested during the year	Rights Lapsed during the year	31 December 2019
Mathew Edwards	Performance Rights	CY19	-	-	-	-	-
		CY17	43,859	29,240	14,619	-	14,621
		CY16	100,000	33,333	33,333	-	-
	TOTAL		143,859	62,573	47,952	-	14,621
Jennifer Saliba	Performance Rights	CY19	47,619	-	15,873	-	31,746
	TOTAL		47,619	-	15,873	-	31,746
Georgina Gaussen	Performance Rights	CY19	-	-	-	-	-
	TOTAL		-	-	-	-	-
Mark Kerr	Performance Rights	CY19	-	-	-	-	-
		CY16	40,000	13,333	13,333	-	-
	TOTAL		40,000	13,333	13,333	-	-
Joe Dicks	Performance Rights	CY19	-	-	-	-	-
	TOTAL		-	-	-	-	-
Evonne Collier	Performance Rights	CY19	-	-	-	-	-
	TOTAL		-	-	-	-	-
Michael Doble	Performance Rights	CY19	-	-	-	-	-
	TOTAL		-	-	-	-	-

REMUNERATION REPORT CONTINUED

8. EMPLOYMENT AGREEMENTS

The CEO and other executive KMP operate under employment agreements.

The following sets out details of the employment agreements relating to the CEO and other executive KMP. The terms for the CEO and all other executive KMP are similar but do, on occasion, vary to suit different needs.

Length of contract	The CEO is currently on a fixed employment contract that expires 1 March 2020. Other executive KMP are on permanent contracts, which is an ongoing employment contract until notice is given by either party.
Notice periods	In order to terminate the employment arrangements, the CEO is required to provide Think Childcare with six months' written notice. Other executive KMP are required to provide Think Childcare with between 3 months' and six months' written notice.
Resignation	On resignation, unless the Board determines otherwise, all unvested STI or LTI benefits are forfeited.
Termination on notice by Think Childcare	Think Childcare may terminate employment of the CEO by providing six months' written notice. For other executive KMP, the notice period varies from three to six months' written notice. The Company may make payment in lieu of the notice period based on FAR. On termination on notice by the relevant Group entity, unless the relevant Board determines otherwise unvested STI or LTI benefits may be exercised or paid within 30 days of notice being given.
Death or total and permanent disability	On death or total and permanent disability, the Board of the relevant Group entity has discretion to allow all unvested STI and LTI benefits to vest.
Termination for serious misconduct	A Group entity may immediately terminate employment at any time in the case of serious misconduct, and other executive KMP will only be entitled to payment of TFR up to the date of termination. On termination without notice by a Group entity in the event of serious misconduct all unvested STI or LTI benefits will be forfeited, and any ESOP instruments provided to the employee on vesting of STI or LTI awards that are held in trust, will be forfeited.
Statutory entitlements	Payment of statutory entitlements of long service leave and annual leave applies in all events of separation.
Post-employment restraints	The CEO is subject to post-employment restraints of up to 12 months. All other executive KMP are subject to post-employment restraints for up to 12 months.

9. LOANS GIVEN TO KMPS

No loans were made to any of the KMP or their related parties during the financial year.

10. OTHER TRANSACTIONS WITH KMPS

Mark Kerr (Non-Executive Director), via an indirect interest, has a partial interest in an operating child care service leased to the Group. The lease on the property commenced on 7 November 2016 on an outgoings only basis, until February 2017 when rent payments commenced. The lease has a gross commencing rent of $260,000 per annum. The quantum and terms of the lease are commercial and reasonable for the property.

As at 31 December 2019, the Group paid rent of $274,952. The rent is secured under a standard and commercial rent bond of $143,000.

Think Childcare provides management and establishment services to a child care service incubator partner entity of which the siblings (brother and sister) of Mathew Edwards (managing director) are shareholders. In consideration for the services provided by the Company to the incubator partner entity, the Company is paid fees in accordance with the agreed terms of engagement and management services.

During the 2019 financial year, the incubator partner entity has established two child care services (Service Approval dates: 9 September 2019 and 9 January 2020) which the Company currently manages. The Company expects the entity to open another child care service in late 2020.

During the year ended 31 December 2019, Think Childcare received from the incubator partner entity $430,000 in establishment fees and $35,000 in management fees.

Think Childcare provided establishment services to a child care service incubator partner entity in which Mathew Edwards (Managing Director) is a Director and shareholder.

In consideration for the services provided by Think Childcare to the incubator partner entity, Think Childcare is paid fees in accordance with the agreed terms of the engagement and management services. During the year ended 31 December 2019, Think Childcare has recognised from the incubator partner entity $1.1 million in establishment fees (Establishment Fees). The balance outstanding as at 31 December 2019 is $0.6 million.

These child care services were referred to as part of the Think Childcare Development initial pipeline in Think Childcare's announcement to the market on 14 August 2019 and 22 August 2019 with respect to the recent stapling.

As stated in Think Childcare's announcement to the market on 22 August 2019, the incubator Partner will surrender 7 leases. Once the leases are surrendered, a Think Childcare Development subsidiary will potentially enter into new leases directly with landlords.

It has been agreed between the incubator partner entity and Think Childcare Development that Think Childcare Development would be responsible for the payment of the Establishment Fees at the point the Think Childcare Development subsidiary enters each new lease.

Further details of the above transactions (including the perceived risks/conflicts and how they are managed) are set out in note 28 Related Party Transactions in the notes to the Financial Statements in the Annual Report.

DIRECTORS' DECLARATION

In the Directors' opinion:

- the attached consolidated financial statements and notes that are set out on pages 55 to 101 and the Remuneration report on pages 36 to 53 in the Directors' report, comply with the Corporations Act 2001, Australian Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached consolidated financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached consolidated financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of Directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the Directors

Mark Kerr
Chairman

26 February 2020 | Melbourne

FINANCIAL REPORT

Nido Early School Salisbury Downs, SA

FINANCIAL REPORT

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December 2019

	Note	2019 $'000	2018* $'000
Revenue	5	113,547	83,637
Other income		1,997	2,171
Expenses			
Employee benefit	6	72,725	53,927
Occupancy		4,992	12,553
Direct expense of providing services		4,413	3,024
Marketing		882	1,280
Corporate		2,014	500
Information and communication		1,341	870
Share-based payment		70	144
Acquisition and integration		758	503
Other		3,123	2,329
Depreciation and amortisation	11,12	11,522	1,643
Finance costs	7	10,469	2,035
Profit before tax		3,235	7,001
Income tax expense	8	1,230	2,051
Profit for the year		2,005	4,950
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year		**2,005**	4,950
Profit for the year attributable to:			
Members of Think Childcare Limited		3,364	4,950
Members of Think Childcare Development Limited		(1,359)	-
Stapled security holders of Think Childcare Group		2,005	4,950
Total comprehensive income attributable to:			
Members of Think Childcare Limited		3,364	4,950
Members of Think Childcare Development Limited		(1,359)	-
Stapled security holders of Think Childcare Group		2,005	4,950
Earnings per share		Cents	Cents
Earnings per share - Think Childcare Limited			
Basic	34	5.83	10.46
Diluted	34	5.82	10.46
Earnings per share - Think Childcare Development Limited			
Basic	34	(2.35)	-
Diluted	34	(2.35)	-
Earnings per stapled security - Think Childcare Group			
Basic	34	3.47	10.46
Diluted	34	3.47	10.46

The above statement of consolidated profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.
** The Group has initially applied AASB16 at 1 January 2019 using modified retrospective approach. Under this approach, comparative information is not restated. See note 2.*

Consolidated statement of financial position

As at 31 December 2019

	Note	2019 $'000	2018* $'000
Assets			
Current Assets			
Cash and cash equivalents		11,685	3,560
Trade and other receivables	9	5,754	2,991
Current tax asset		76	-
Other assets	10	1,527	1,303
Total current assets		**19,042**	7,854
Non-current assets			
Property, plant and equipment	11	193,263	10,961
Intangible assets	12	78,103	57,276
Deferred tax	13	4,040	1,898
Other assets	10	-	26
Total non-current assets		**275,406**	70,161
Total assets		**294,448**	78,015
Liabilities			
Current liabilities			
Trade and other payables	14	12,327	6,913
Borrowings	17	17,687	182
Current tax liabilities		-	386
Employee benefits	15	4,894	3,257
Other liabilities	16	141	169
Provisions	18	-	1,069
Total current liabilities		35,049	11,976
Non-current liabilities			
Borrowings	17	202,887	26,151
Derivative financial instruments	23	744	300
Employee benefits	15	593	919
Other liabilities	16	-	39
Total non-current liabilities		**204,224**	27,409
Total liabilities		**239,273**	39,385
Net assets		**55,175**	38,630
Equity			
Think Childcare Limited			
Issued capital	19	72,846	53,779
Reserves	20	(19,109)	(18,971)
Retained earnings		(3,173)	3,822
Equity attributable to members of Think Childcare Limited		**50,563**	38,630
Think Childcare Development Limited			
Issued capital		5,971	-
Retained earnings		(1,359)	-
Equity attributable to members of Think Childcare Development Limited		4,612	-
Total equity		**55,175**	38,630

The above statement of consolidated financial position should be read in conjunction with the accompanying notes.
** The Group has initially applied AASB16 at 1 January 2019 using modified retrospective approach. Under this approach, comparative information is not restated. See note 2.*

FINANCIAL REPORT CONTINUED

Consolidated statement of changes in equity

For the year ended 31 December 2019

		Think Childcare Limited				Think Childcare Development Limited			Total Equity
2018	**Note**	**Issued capital** $'000	**Reserves** $'000	**Retained earnings** $'000	**Total equity** $'000	**Issued capital** $'000	**Retained earnings** $'000	**Total equity** $'000	$'000
Balance at 1 January 2018		42,532	(18,946)	1,469	25,055	-	-	-	25,055
Adjustment for AASB 15 and AASB 9[1]		-	-	(33)	(33)	-	-	-	(33)
Restated balance at 1 January 2018		42,532	(18,946)	1,436	25,022	-	-	-	25,022
Profit for the year		-	-	4,950	4,950	-	-	-	4,950
Other comprehensive income for the year		-	-	-	-	-	-	-	-
Total comprehensive income for the year		-	-	4,950	4,950	-	-	-	4,950
Contributions of equity, net of transaction costs	19	11,230	-	-	11,230	-	-	-	11,230
Share-based payments	20	-	144	-	144	-	-	-	144
Share options exercised	19, 20	17	(169)	-	(152)	-	-	-	(152)
Dividends	21	-	-	(2,564)	(2,564)	-	-	-	(2,564)
Total contributions and distributions		11,247	(25)	(2,564)	8,658	-	-	-	8,658
Balance at 31 December 2018		53,779	(18,971)	3,822	38,630	-	-	-	38,630

		Think Childcare Limited				Think Childcare Development Limited			Total Equity
2019	**Note**	**Issued capital** $'000	**Reserves** $'000	**Retained earnings** $'000	**Total Equity** $'000	**Issued capital** $'000	**Retained earnings** $'000	**Total Equity** $'000	$'000
Balance at 1 January 2019		53,779	(18,971)	3,822	38,630	-	-	-	38,630
Profit/(loss) for the year		-	-	3,364	3,364	-	(1,359)	(1,359)	2,005
Other comprehensive income for the year		-	-	-	-	-	-	-	-
Total comprehensive income for the year		-	-	3,364	3,364	-	(1,359)	(1,359)	2,005
Contributions of equity, net of transaction costs	19	18,858	-	-	18,858	5,971	-	5,971	24,829
Share-based payments	20	-	70	-	70	-	-	-	70
Share options exercised	19, 20	208	(208)	-	-	-	-	-	-
Dividends	21	-	-	(10,359)	(10,359)	-	-	-	(10,359)
Total contributions and distributions		19,066	(138)	(10,359)	8,569	5,971	-	5,971	14,540
Balance at 31 December 2019		72,845	(19,109)	(3,173)	50,563	5,971	(1,359)	4,612	55,175

1 *Think Childcare Group adopted AASB 15 Revenue from Contracts with Customers on a modified retrospective basis. This resulted in a charge of $33,000 to retained earnings as at 1 January 2018, being the cumulative effect of initial application of the standard.*

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

Consolidated statement of cash flow

For the year ended 31 December 2019

	Note	2019 $'000	2018* $'000
Cash flows from operating activities			
Receipts from parents and government funding		111,197	84,009
Payments to suppliers and employees		(85,660)	(72,428)
		25,537	11,581
Government grants		1,722	1,652
Interest and other finance cost		(1,426)	(2,035)
Income tax		(3,702)	(2,250)
Net cash from operating activities	32	22,131	8,948
Cash flows from investing activities			
Payments for acquisition of business	12,18, 30	(24,291)	(15,340)
Payments for property, plant and equipment	11	(7,213)	(5,996)
Payments for intangibles	12	(269)	(5)
Receipt / (payments) for security deposits		26	(8)
Net cash used in investing activities		(31,747)	(21,349)
Cash flows from financing activities			
Proceeds from issue of shares (net of transaction costs)	19	19,066	11,226
Proceeds from capitalisation of Think Childcare Development (net of transaction costs)	19	5,971	-
Proceeds from borrowings	17	16,125	6,912
Repayment of lease liabilities		(13,062)	(64)
Special dividend to capitalise Think Childcare Development	21	(6,000)	-
Dividends paid to shareholders of Think Childcare Limited	21	(4,359)	(2,564)
Net cash from financing activities		17,740	15,510
Net increase in cash and cash equivalents		8,125	3,109
Cash and cash equivalents at the beginning of the year		3,560	451
Cash and cash equivalents at the end of the year		**11,685**	3,560

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified within operating cash flows.

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

** The Group has initially applied AASB16 at 1 January 2019 using modified retrospective approach. Under this approach, comparative information is not restated. See note 2.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1. General information

The financial statements cover Think Childcare Group (hereafter, referred to as Think Childcare Group or the Group) which comprises Think Childcare Limited and its controlled entities (hereafter, referred to as Think Childcare or TNK) and Think Childcare Development Limited and its controlled entities (hereafter, referred to as Think Childcare Development or TND). TNK shares are "stapled" to TND shares on a one-to one basis to form a single stapled security which trades on the Australian Securities Exchange (ASX) under the name of "Think Childcare Group".

On 14 August 2019, TNK and TND announced the proposed creation of a stapled structure to be known as the 'Think Childcare Group'. On 23 December 2019 following the formal legal process to implement the Stapling Proposal, which required the Scheme to be approved and the Supporting Resolutions to be passed by TNK Shareholders, fully paid ordinary shares in Think Childcare (TNK Shares) and fully paid ordinary shares in Think Childcare Development (TND Shares) were stapled together (on a1:1 basis) and were quoted on ASX as a single security such that they cannot be traded or transferred separately (stapled securities).

TND was capitalised by:

- a fully franked Special Dividend of $6 million declared by TNK to Scheme Shareholders (paid on 23 December 2019); and
- an Inter-Company Loan of up to $7.5 million from TNK.

Under the terms of the Scheme, the Special Dividend was applied by TNK on behalf of Scheme Shareholders as consideration for new TND Shares on the basis of one (1) new TND Share for each TNK Share held by each Scheme Shareholder (except for Foreign Scheme Shareholders) as at the Record Date for the Scheme. As per the terms of the Scheme, trading in unstapled TNK Shares was suspended on the Business day after the Effective Date, registration of transfers of unstapled TNK Shares ceased on and from the Special Dividend Record Date. TNK and TND formed a Stapled Group (Stapled Group) that was admitted to the official list of the ASX under the name 'Think Childcare Group'.

Following implementation of the Stapling Proposal, capital will be allocated between TNK and TND in the ratio of 90:10, which TNK and TND agree reflects a fair value based on the expected capital requirements associated with the operation of Mature Child Care Services in TNK and Trade-up Operations in TND on the Implementation Date of the Scheme. Following implementation of the Stapling Proposal, capital from new issues of Stapled Securities will be allocated to reflect the market value split between TNK and TND as provided in the Stapling Deed.

Australian Accounting Standards require one of the stapled entities of a stapled structure to be identified as the parent entity for the purposes of preparing a consolidated financial report. In accordance with this requirement, TNK is deemed to be the parent entity for accounting purposes and therefore TND is consolidated into the Group's financial statements. The issued shares and retained earnings of TND, however, are not owned by TNK and are therefore presented separately in the Group's statement of financial position within equity, notwithstanding that the shareholders of TND are also the shareholders of TNK. For the purposes of preparing the consolidated financial statements, Think Childcare Group is a for-profit entity. The financial statements are presented in Australian dollars, which is Think Childcare Group's functional and presentation currency.

Think Childcare and Think Childcare Development are listed public companies limited by shares, incorporated and domiciled in Australia. Their registered office and principal place of business is:

Suite 3, 1 Park Avenue
Drummoyne, NSW 2047

A description of the nature of the Group's operations and its principal activities are included in the Directors' report, which is not part of the financial statements. The financial statements were authorised for issue, in accordance with a resolution of Directors, on 26 February 2020. The Directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

STATEMENT OF COMPLIANCE

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001, as appropriate for for-profit entities. These financial statements also comply with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Boards (ASB).

STANDARDS ISSUED BUT NOT YET EFFECTIVE

A number of new standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted, however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The following amended standards and interpretations are not expected to have significant impact on the Group's consolidated financial statements.

- Amendments to References to Conceptual Framework in AASB standards.
- Definition of a Business (Amendments to AASB 3)
- Definition of Material (Amendments to AASB 101 and AASB 108)
- AASB 17 Insurance Contracts.

BASIS OF PREPARATION

The financial statements have been prepared under the historical cost convention, except for, where applicable, the fair value of certain financial instruments and contingent consideration payable for acquisitions. Cost is based on the fair values of the consideration given in exchange for assets.

This is the first set of the Group's annual financial statements in which AASB 16 Leases has been applied. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

These accounting policies are consistent with the Australian Accounting Standards and with the International Financial Reporting Standards.

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 Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

Leases

The Group has adopted AASB 16 Leases from 1 January 2019. A number of other new standards are effective from 1 January 2019 but do not have a material effect on the Group's financial statements.

AASB 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments.

The Group has applied AASB 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under AASB 117 and related interpretations. The details of the changes in accounting policies are disclosed below.

Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 determining whether an arrangement contains a Lease. The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under AASB 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

On transition to AASB 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied AASB 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under AASB 117 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under AASB 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. For leases of properties in which it is a lessee, the Group has elected to separate non-lease components and will separately account for the lease and non- lease components of a lease. Relied on the assessment of whether leases are onerous immediately before applications of ABSB16 as an alternative to performing an impairment review.

As a lessee

The Group mainly leases properties for child care services. As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under AASB 16, the Group recognises right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.

The Group presents right-of-use assets in 'property, plant and equipment', the same line item as it presents underlying assets of the same nature that it owns.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the incremental borrowing rate for the portfolio of leases. Lease liabilities are presented in note 17 Borrowings.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

Previously, the Group classified property leases for child care services as operating leases under AASB 117. The leases typically run for a period of 10-20 years. Some leases include options to renew the lease for an additional period of 5-15 years after the end of the non-cancellable period. Some leases provide for additional rent payments that are based on changes in local price indices.

At transition, for leases classified as operating leases under AASB 117, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Group used the following practical expedients when applying AASB 16 to leases previously classified as operating leases under AASB 117.

- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term.

The Group leases a number of motor vehicles. These leases were classified as finance leases under AASB 117. For these finance leases, the carrying amount of the right-of-use asset and the lease liability at 1 January 2019 were determined at the carrying amount of the lease asset and lease liability under AASB 117 immediately before that date. Refer to note 27 for further details.

Impact on financial statements

Impact on transition

On transition to AASB 16, the Group recognised right-of-use assets and lease liabilities. The impact on transition is summarised below.

	1 January 2019 $'000
Right-of-use assets	115,954
Lease Liability	115,954

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted average discount rate applied was 5.74%.

Operating lease commitment as at 31 December 2018 as disclosed in annual report	141,700
Discount using the incremental borrowing rate at 1 January 2019	(56,356)
Finance lease liabilities recognised as at 31 December 2018	170
Recognition exemption for leases with less than 12 months of lease term at transition	(406)
Extension options reasonably certain to be exercised	30,846
Lease liabilities recognised at 1 January 2019	115,954

Impact for the year

Please refer note 27

NET CURRENT LIABILITY POSITION

These financial statements have been prepared on a going concern basis, which contemplates the continuity of normal business activities and realisation of assets and settlement of liabilities in the ordinary course of business. Net current liabilities include $17,215,000 of current lease liabilities arising from adoption of AASB 16 Leases which will be settled through operating cashflows earned in the next 12 months.

The Group has recognised net profit after tax of $2,005,000 and is in a net current liability position of $16,007,000. The Directors of the Group consider that preparation of the financial statements on a going concern basis is appropriate as the Group has cash on hand at 31 December 2019 of $11,685,000, is forecasting positive cashflows and additionally has access to unused financing facilities of $24.5m ($13.8m restricted for acquisitions, $4.2m Accordion facility and $6.5m for working capital and bank guarantee) at the end of the reporting period.

PARENT ENTITY INFORMATION

In accordance with the Corporations Act 2001, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 29.

BASIS OF CONSOLIDATION

Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit and loss or goodwill depending whether facts and circumstances existed at acquisition date.

Subsidiaries

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. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, any related non-controlling interest and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

OPERATING SEGMENTS

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers (CODM). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

REVENUE RECOGNITION

The accounting policies for the Group's revenue from contracts with customers are explained below:

Provision of child care services

The Group provides child care services, namely the provision of full or part-time care for babies, toddlers, and young children based on fixed-price schedules.

Fees paid by families and/or the Australian Government (Child Care Subsidy) are recognised as and when a child attends a child care service. Billing for services occurs on a weekly basis, in advance for parent fees and in arrears for Australian Government payments, based on attendance records.

Revenue is recognised at the fixed amount for each child care service provided (permanent or casual, full day or half day). Revenue received in advance from families and/or the Australian Government is recognised as deferred income and classified as a current liability.

Management fees

Fees paid by third parties and incubator partners for management of externally owned services are recognised over the period in which the services are performed.

Establishment fees

Fees paid by third parties and incubator partners for consultancy services to identify and develop greenfield services are recognised point in time upon completion of service.

Licence fees

Fees paid by third parties and incubator partners for using the Group's brand are recognised over the estimated Licence period.

Commonwealth, State and Territory Government grants

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

Interest

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

INCOME TAX

The income tax expense or benefit for the year is the tax payable on that year's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment 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; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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 amount 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 amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority or either the same taxable entity or different taxable entities which intend to settle simultaneously.

Think Childcare Limited (the 'head entity') and its wholly-owned Australian subsidiaries and Think Childcare Development Limited (the 'head entity') and its wholly-owned Australian subsidiaries have formed separate income tax consolidated groups under the tax consolidation regime. The head entity and each subsidiary in each of the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated groups have each applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of each tax consolidated group.

In addition to their own current and deferred tax amounts, the head entities also recognise the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in each tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in each tax consolidated group. The tax funding arrangement ensures that the intergroup charge equals the current tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is current when it is expected to be realised or intended to be sold or consumed in the entity's normal operating cycle, it is held primarily for the purpose of trading and it is expected to be realised within 12 months after the reporting period, or the asset is cash or a cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is current when it is expected to be settled in the entity's normal operating cycle, it is held primarily for the purpose of trading, it is due to be settled within 12 months after the reporting period, or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non- current.

Deferred tax assets and liabilities are always classified as non-current.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand.

Provisions

Provisions are recognised when the Group has a present (legal or constructive) obligation as a result of a past event, it is probable the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred, including interest on short-term and long-term borrowings.

Trade and other receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. They are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method, as the Group holds the trade receivables with the objective to collect the contractual cash flows.

The Group applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables. A provision for impairment is determined using a provision matrix based on historically observed default rates that are adjusted for forward looking estimates.

Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are measured at cost, which includes capitalised borrowing costs, less accumulated depreciation and any accumulated impairment losses. If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment.

Subsequent expenditure

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

Depreciation

Depreciation is calculated to write off the cost of items of property, plant and equipment less estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss.

The estimated useful lives of property, plant and equipment for current and comparative periods are as follows:

- Plant and equipment 5-12 years
- Leasehold improvements 5-12 years
- Motor vehicles 5-7 years
- Computer equipment 3-7 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Intangible assets

Goodwill

Where an entity or operation is acquired in a business combination that is not a common control transaction, the identifiable net assets acquired are measured at fair value. The excess of the fair value of the cost of the acquisition over the fair value of the identifiable net assets acquired is brought to account as goodwill. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, 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.

Software

Significant costs associated with software acquisition and implementation are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of five years.

Impairment of non-financial assets

Goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. Due to their short- term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30-60 days of recognition.

Contingent consideration is detailed in the business combination policy. Refer to note 30 for further details.

Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities are capitalised, offset against the liability and amortised over the period of the facility to which it relates. Borrowings are extinguished when its contractual obligations are discharged or cancelled, or expire.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Employee benefits

Short-term employee benefits

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

Other long-term employee benefits

The liability for employee benefits not expected to be settled within 12 months of the reporting date is 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 periods 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.

Defined contribution superannuation expense

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

Share-based payments

Equity-settled and cash-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of Shares, Options or Performance Rights over shares, that are provided to employees. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate or the term of the option, together with non-vesting conditions that do not determine whether the Group receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

The cost of cash-settled transactions is initially, and at each reporting date until vested, determined by applying either the Binomial or Black Scholes option pricing model, taking into consideration the terms and conditions on which the award was granted. The cumulative charge to profit or loss until settlement of the liability is calculated as follows:

- during the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period.
- from the end of the vesting period until settlement of the award, the liability is the full fair value of the liability at the reporting date.

All changes in the liability are recognised in profit or loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the Group or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Group or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and assumes that the transaction will take place either in the principal market or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use.

Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Issued capital

Ordinary shares are classified as equity.

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.

Dividends

Dividends are recognised when declared during the financial year.

Business combinations

The acquisition method of accounting is used to account for business combinations, other than those deemed to be common control transactions, 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 and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the Group assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

conditions in existence at the acquisition date.

Where the business combination is achieved in stages, the Group remeasures its previously held equity interest in the acquiree at the acquisition date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition date's fair value. Subsequent changes in the fair value of the contingent consideration, classified as an asset or liability, is recognised in profit and loss or goodwill depending whether facts and circumstances existed at acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

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 the Group's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from a financier under comparable terms and conditions.

The difference between the acquisition date's fair value of assets acquired, liabilities assumed and any non- controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities 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 either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

Common control transactions

The assets and liabilities of entities acquired via common control transactions have been recognised using their historical values rather than fair values used in other business combinations (see above). The continuation of existing accounting values is consistent with the accounting that would have occurred if the assets and liabilities had already been within the Group and most appropriately reflects the substance of the internal restructure. The difference between shares issued and cash exchanged as part of the common control transaction and the historical values of asset and liabilities acquired is recorded in equity, as a common control reserve.

Earnings per stapled security

Basic earnings per stapled security

Basic earnings per stapled security is calculated by dividing the profit attributable to Stapled security holders of Think Childcare Group, excluding any costs of servicing equity other than ordinary securities, by the weighted average number of ordinary stapled security outstanding during the financial year, adjusted for bonus elements in ordinary stapled security issued during the financial year.

Diluted earnings per stapled security

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

Goods and Services Tax (GST) and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the 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 tax authority is included in other receivables or other payables in the statement of financial position.

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 tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

Rounding of amounts

The Group is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses.

Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates may differ from the related actual results.

The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

GOODWILL

The Group tests goodwill annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2.

The recoverable amounts of cash-generating units have been determined based on value-in-use calculations.

These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

RECOVERY OF DEFERRED TAX ASSETS

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

EMPLOYEE BENEFITS PROVISION

As discussed in note 2, the liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

BUSINESS COMBINATIONS

As discussed in note 2, business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the consolidated entity taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

Note 4. Segment information

Think Childcare Group operates in one geographical segment, being Australia and the revenue from key services is shown by reportable segments.

IDENTIFICATION OF REPORTABLE OPERATING SEGMENTS

Think Childcare Group comprises the following reportable segments:

- Child Care Operations
- Child Care Development

These segments are distinct based on their nature of operations and as a result are managed separately. This is also based on the Internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Maker (CODM)) in assessing performance and in determining the allocation of resources.

MAJOR CUSTOMERS

During the year ended 31 December 2019, none of the Group's external revenue was derived from sales to one specific customer or group of customers that comprised more than 10% of total revenue (2018: Nil).

Reportable segments

2019	Operations $'000	Development $'000	Total $'000
Segment revenue			
Revenue from contracts with customers	108,582	301	108,883
Government grants	1,722	-	1,722
Service revenue	110,304	301	110,605
Service EBITDA	19,201	(555)	18,646
Management and other fees	4,939	-	4,939
Corporate costs	(9,394)	-	(9,394)
Scheme implementation and acquisition	(718)	(1,309)	(2,027)
Operating lease expenses (AASB 16)	12,928	134	13,062
Segment EBITDA	26,956	(1,730)	25,226
Depreciation and amortisation	(11,432)	(90)	(11,522)
Finance cost	(10,362)	(107)	(10,469)
Profit before tax	5,162	(1,927)	3,235
Income tax expense	(1,798)	568	(1,230)
Profit for the year	3,364	(1,359)	2,005

2019	Operations $'000	Development $'000	Total $'000
Segment assets and liabilities			
Segment assets	281,264	13,184	294,448
Unallocated assets	-	-	-
Total assets	281,264	13,184	294,448
Segment liabilities	230,701	8,572	239,273
Unallocated liabilities	-	-	-
Total liabilities	230,701	8,572	239,273

2018	Operations $'000	Development $'000	Total $'000
Segment revenue			
Revenue from contracts with customers	78,996	-	78,996
Government grants	1,934	-	1,934
Service revenue	80,930	-	80,930
Service EBITDA	13,002	-	13,002
Management and other fees	4,359	-	4,359
Corporate costs	(6,698)	-	(6,698)
Scheme implementation and acquisition costs	16	-	16
Segment EBITDA	10,679	-	10,679
Depreciation and amortisation	(1,643)	-	(1,643)
Finance cost	(2,035)	-	(2,035)
Profit before tax	7,001	-	7,001
Income tax expense	(2,051)	-	(2,051)
Profit for the year	4,950	-	4,950

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2018	Operations $'000	Development $'000	Total $'000
Segment assets and liabilities			
Segment assets	78,015	-	78,015
Unallocated assets	-	-	-
Total assets	78,015	-	78,015
Segment liabilities	39,385	-	39,385
Unallocated liabilities	-	-	-
Total liabilities	39,385	-	39,385

Note 5. Revenue

	2019 $'000	2018 $'000
Revenue from contracts with customers	113,547	83,637
	113,547	83,637

Revenue from contracts with customers

Disaggregation of revenue from contracts with customers

The Group derives revenue from the transfer of services over time and at a point in time across the following revenue streams:

2019	Child care services	Management fees	Establishment fees	Licence fees	Total
Revenue from external customers	108,582	1,611	2,989	365	**113,547**
Timing of revenue recognition					
At a point in time	-	-	2,989	-	**2,989**
Over time	108,582	1,611	-	365	**110,558**
	108,582	1,611	2,989	365	**113,547**

2018	Child care services	Management fees	Establishment fees	Licence fees	Total
Revenue from external customers	78,996	1,768	2,100	773	**83,637**
Timing of revenue recognition					
At a point in time	-	-	2,100	-	**2,100**
Over time	78,996	1,768	-	773	**81,537**
	78,996	1,768	2,100	773	**83,637**

Assets and liabilities related to contract with customers

The Group has recognised the following assets and liabilities related to contracts with customers:

	Note	2019 $'000	2018 $'000
Capitalised setup costs relating to Licence fees		15	174
Total contract assets	14	15	174
Child care advances	16	1,121	726
Unearned revenue relating to Licence fees		18	208
Total contract liabilities		**1,139**	934

Note 6. Employee Benefit Expense

	2019 $'000	2018 $'000
Defined contribution to superannuation plans	5,554	4,167
Salaries and wages	67,171	49,760
	72,725	53,927

Note 7. Finance Costs

	2019 $'000	2018 $'000
Interest on borrowings	2,731	2,035
Interest on lease liabilities	7,738	-
	10,469	2,035

Note 8. Income Tax Expense

	2019 $'000	2018 $'000
Income tax expense		
Current tax	2,962	2,423
Deferred tax - origination and reversal of temporary differences	(1,820)	(467)
Adjustment recognised for prior periods	88	95
Aggregate income tax expense	1,230	2,051
Deferred tax included in income tax expense comprises:		
Increase in deferred tax assets (note 13)	2,080	467
(Decrease)/ Increase in deferred tax liabilities (note 13)	(260)	467
Numerical reconciliation of income tax expense and tax at the statutory rate		
Profit before tax	3,235	7,001
Tax at the statutory tax rate of 30%	970	2,100
Tax effect amounts which are not deductible/(taxable) in calculating taxable income		
Other income not included in assessable income	(60)	-
Non-deductible expenses	-	(7)
Acquisition and integration expenses	232	139
	1,142	2,232
Other adjustments	88	(181)
Income tax expense	1,230	2,051

	2019 $'000	2018 $'000
Amounts charged directly to equity		
Deferred tax assets (note 13)	235	134

The effective tax rate for the year ended as at 31 December 2019 is 38.0% (2018: 29.0%)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Note 9. Trade and other receivables

	2019 $'000	2018 $'000
Trade receivables	5,997	1,814
Less: Provision for impairment of receivables	(296)	(307)
	5,701	1,507
Other receivables	53	1,484
	5,754	2,991

The ageing of the impaired receivables provided for above are as follows:

	2019 $'000	2018 $'000
1 to 30 days past due	33	29
31 to 60 days past due	24	76
over 61 days past due	239	202
	296	307

Movements in the provision for impairment of receivables are as follows:

	2019 $'000	2018 $'000
Opening balance	307	191
Additional provisions recognised	112	202
Unused amounts reversed	(123)	(86)
Closing balance	**296**	307

Past due but not impaired

Customers with balances past due but without provision for impairment of receivables amount to $858,000 as at 31 December 2019 ($491,000 as at 31 December 2018).

The Group did not consider a credit risk on the aggregate balances after reviewing the credit terms of customers based on recent collection practices.

At 31 December, the analysis of trade receivables not impaired are as follows:

	2019 $'000	2018 $'000
1 to 30 days past due	651	154
31 to 60 days past due	64	54
over 61 days past due	143	283
	858	491

Note 10. Other assets

	2019 $'000	2018 $'000
Current		
Prepayments	1,265	1,303
Contingent consideration	262	-
	1,527	1,303
Non-current		
Other assets	-	26
	-	26

Refer note 18 for movement in Contingent consideration

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Note 11. Property, plant and equipment

	2019 $'000	2018 $'000
Plant and equipment - at cost	16,637	9,733
Less: Accumulated depreciation	(3,568)	(2,689)
	13,069	7,044
Leasehold improvements - at cost	5,070	2,440
Less: Accumulated depreciation	(872)	(530)
	4,198	1,910
Motor vehicles - at cost	320	336
Less: Accumulated depreciation	(222)	(151)
	98	185
Computer equipment - at cost	1,088	590
Less: Accumulated depreciation	(322)	(176)
	766	414
Right of use asset (ROU)	183,441	-
Less: Accumulated depreciation	(8,900)	-
	174,541	-
Construction in progress	591	1,408
	193,263	10,961

RECONCILIATIONS

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Plant and equipment $'000	Leasehold Improvements $'000	Motor Vehicles $'000	Computer equipment $'000	Right of use asset $'000	Construction in progress $'000	Total $'000
Balance at 1 January 2018	3,662	641	234	147	-	-	**4,684**
Additions	3,000	1,316	14	258	-	1,408	**5,996**
Additions through business combination (note 30)	1,491	289	-	99	-	-	**1,879**
Disposals	-	-	-	-	-	-	**-**
Depreciation Expense	(1,109)	(336)	(63)	(90)	-	-	**(1,598)**
Balance at 31 December 2018	7,044	1,910	185	414	-	1,408	**10,961**
Additions	1,105	918	-	387	183,441	5,245	**190,738**
Additions through business combination (note 30)	2,514	458	-	153	-	-	**3,125**
Transfer	4,776	1,286	-	-	-	(6,062)	**-**
Disposals	(383)	(28)	(16)	(15)	-	-	**(397)**
Depreciation Expense	(1,987)	(346)	(71)	(173)	(8,900)	-	**(11,164)**
Balance at 31 December 2019	13,069	4,198	98	766	174,541	591	**193,263**

Note 12. Intangibles

	2019 $'000	2018 $'000
Goodwill - at cost	77,764	57,161
Software - at cost	490	222
Less: Accumulated amortisation	(151)	(107)
	339	115
	78,103	57,276

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Goodwill $'000	Software $'000	Total $'000
Balance at 1 January 2018	43,345	155	43,500
Additions	-	5	5
Additions through business combination (note 30)	13,816	-	13,816
Amortisation expense	-	(45)	(45)
Balance at 31 December 2018	57,161	115	57,276
Additions	-	269	269
Additions through business combination (note 30)	21,655	-	21,655
Adjustments relating to prior year acquisitions	(1,052)	-	(1,052)
Amortisation expense	-	(45)	(45)
Balance at 31 December 2019	77,764	339	78,103

Impairment test for goodwill

For impairment testing, the goodwill acquired through business combinations are allocated to individual cash-generating units (CGUs) which are also the Group's operating segments. As at 31 December 2019, Goodwill amount allocated to Child Care Operations CGU was $77,764,000 and to Child Care Development was $nil.

The Group performed its annual impairment test in December 2019. The Group considers the relationship between its market capitalisation and its book value, among other factors, when reviewing for indicators of impairment. As at 31 December 2019, the Group has not identified any indicators of impairment.

The recoverable amount of a CGU is determined based on a value in use calculation using cash flow projections from financial budgets approved by management covering a one year period. Cash flows beyond the one year period are extrapolated using the estimated growth rates of occupancy and daily fee. The growth rate does not exceed the long term average growth rate for the business. The pre-tax discount rate applied to the cash flow projections is 13.5% (2018: 13.5%). The growth rate used to extrapolate the cash flows of the unit beyond the five-year period is 2.5% (2018: 2.5%).

As a result of the analysis, there is sufficient headroom and management did not identify an impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

KEY ASSUMPTIONS USED IN VALUE IN USE CALCULATIONS AND SENSITIVITY TO CHANGES IN ASSUMPTIONS

The calculation of value in use is most sensitive to the following assumptions:

- Discount rate
- Terminal growth rate
- Service occupancy rates based on recent acquistions and underlying growth from implemented Board strategies
- Service wages and occupancy expenses based on industry employee awards, current operating leases forcast to increase by future occupancy growth

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

Note 13. Deferred tax

2019 $'000	Balance at 1 January 2019	Credited / (charged) to profit and loss	Credited / (Charged) to equity	Acquisitions	Balance at 31 December 2019
Receivables	92	(3)	-	-	**89**
Prepayments	-	(86)	-	-	**(86)**
Employee benefits	1,464	565	-	132	**2,161**
AASB 16 (Leases)	-	1,073	-	-	**1,073**
Property, plant and equipment	-	(153)	-	(141)	**(294)**
Capitalised costs	229	150	235	11	**625**
Payables	83	(83)	-	-	**-**
Provisions	-	-	-	-	**-**
Share based payment reserve	24	(41)	-	-	**(17)**
Other	6	165	-	90	**261**
Net temporary differences	1,898	1,587	235	92	**3,812**
Tax losses - revenue	-	228	-	-	**228**
Deferred tax asset	1,898	1,815	235	92	**4,040**

2018 $'000	Balance at 1 January 2018	Credited / (charged) to profit and loss	Credited / (Charged) to equity	Acquisitions	Balance at 31 December 2018
Receivables	57	35	-	-	92
Prepayments	(29)	29	-	-	-
Employee benefits	928	499	-	37	1,464
AASB 16 (Leases)	-	-	-	-	-
Property, plant and equipment	-	-	-	-	-
Capitalised costs	373	(278)	134	-	229
Payables	70	13	-	-	83
Provisions	-	-	-	-	-
Share based payment reserve	32	(8)	-	-	24
Other	-	5	-	-	6
Net temporary differences	1,431	295	134	37	1,898
Tax losses - revenue	-	-	-	-	-
Deferred tax asset	1,431	295	134	37	1,898

Note 14. Trade and other payables

	2019 $'000	2018 $'000
Current		
Trade payables	3,380	2,432
Service enrolment advances	258	298
Employee related payables	5,691	3,361
Child care advances	1,121	726
Other payables	1,877	96
	12,327	6,913

All of the opening contract liabilities were recognised as revenue during the year.
Refer to note 22 for further information on financial instruments.

Note 15. Employee benefits

	2019 $'000	2018 $'000
Current		
Annual leave	3,546	2,369
Long service leave	1,348	888
	4,894	3,257
Non-current		
Annual leave	-	339
Long service leave	593	580
	593	919

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Note 16. Other liabilities

	2019 $'000	2018 $'000
Current		
Unearned revenue relating to Licence fees	18	169
Deferred revenue	123	-
	141	169
Non-current		
Unearned revenue relating to Licence fees	-	39
	-	39

All of the opening unearned revenue relating to licence fees was recognised as revenue during the year.

Refer note 23 for fair value and movement information in relation to such liabilities, and note 30 for further details on business combinations.

Note 17. Borrowings

	2019 $'000	2018 $'000
Current		
Secured bank loans	428	41
Lease liability	17,259	141
	17,687	182
Non-current		
Secured bank loans	41,986	26,122
Lease liability	160,901	29
	202,887	26,151

Refer to note 22 for further information about the Group's exposure to interest rate and liquidity risks

Assets pledged as security

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

The lease liabilities are effectively secured as the rights to the leased assets, recognised in the statement of financial position, which revert to the lessor in the event of default.

Financing arrangements

	2019 $'000	2018 $'000
Total facilities		
Secured bank loans	57,800	48,000
Inter-changeable facility (comprising working facility and bank guarantee facility)	16,000	10,000
Lease liability	178,160	170
	251,960	58,170
Used at the reporting date		
Secured bank loans	44,000	28,000
Inter-changeable facility (comprising working facility and bank guarantee facility)	9,453	6,628
Lease liability	178,160	170
	231,613	34,798
Unused at the reporting date		
Secured bank loans	13,800	20,000
Inter-changeable facility (comprising working facility and bank guarantee facility)	6,547	3,372
Lease liability	-	-
	20,347	23,372

The unused portion of the bank loan facility is $20.3m (2018: $23.4m) plus an Accordion of $4.2m. As at 31 December 2019, the Macquarie Bank Limited facility was in good order and the Group was not in breach of any covenants.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Note 18. Provisions

	2019 $'000	2018 $'000
Current		
Contingent Consideration	-	1,069
	-	1,069
Opening balance	**1,069**	800
Acquisitions during the year	1,618	1,069
Paid during the year	(2,949)	(800)
Closing balance	**(262)**	1,069

Contingent consideration is receiveable as at 31 December 2019 and disclosed in note 10 Other Assets.

Note 19. Equity - issued capital

	2019 Shares	2018 Shares	2019 $'000	2018 $'000
Ordinary shares - fully paid	60,862,889	48,467,659	78,816	53,779

Movements in ordinary share capital

Details	Date	Shares	Issue Price	$'000
Think Childcare balance	1 January 2018	42,737,620		42,532
Issue of shares through capital raising	15 March 2018	5,271,357	$1.99	10,490
Issue of shares under Dividend Reinvestment Plan	16 March 2018	445,349	$2.02	901
Transaction Cost				(311)
Issue of Performance Rights	6 September 2017	-	-	150
Issue of Performance Rights	22 November 2018	13,333	$1.28	17
Balance	31 December 2018	48,467,659		53,779
Issue of shares under Dividend Reinvestment Plan	28 March 2019	527,990	$1.76	926
Issue of shares through capital raising	29 March 2019	11,479,114	$1.58	18,137
Transaction Cost				(520)
Issue of Performance Rights	31 July 2019	123,525	$1.68	208
Issue of shares under Dividend Reinvestment Plan	20 September 2019	264,601	$1.19	315
Think Childcare balance	**31 December 2019**	**60,862,889**		**72,845**
Special Dividend applied to capitalise Think Childcare Development	23 December 2019	60,862,889	$0.10	6,000
Transaction Cost				(29)
Think Childcare Development balance	**31 December 2019**	**60,862,889**		**5,971**

STAPLING SCHEME IMPLEMENTATION

On the 23 December 2019 the Stapling Proposal was implemented. Think Childcare declared and paid a Special Dividend of $6 million to Scheme Shareholders which was applied on behalf of the TNK Shareholders to subscribe for new Shares in Think Childcare Development on a one for on basis. Refer note 1 for further details on stapling scheme implementation.

ORDINARY SHARES

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Group in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Group does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group may look to raise capital in addition to its borrowing facility with the Macquarie Bank Limited for acquisitions when an opportunity to invest in a business or Group is seen as value adding relative to the current Group's share price at the time of the investment.

The Group is actively pursuing additional investments at this time in line with its prospectus business plan, and intends to utilise its borrowing capacity in the first instance.

The Group is subject to certain financing arrangement covenants and meeting these is given priority in all capital risk management decisions. There have been no events of default on the financing arrangements during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Note 20. Equity - reserves

	2019 $'000	2018 $'000
Common control reserve	(19,052)	(19,052)
Share-based payments reserve	(57)	81
	(19,109)	(18,971)

COMMON CONTROL RESERVE

The common control reserve is used to recognise the difference between (i) the shares issued and cash exchanged and (ii) the historical values of assets and liabilities acquired, between entities under common control.

SHARE-BASED PAYMENTS RESERVE

The reserve is used to recognise the value of equity benefits provided to employees and Directors as part of their remuneration, and other parties as part of their compensation for services.

MOVEMENTS IN RESERVES

Movements in each class of reserve during the current and previous year are set out below:

	Common Control $'000	Share-based payments $'000	Total $'000
Balance at 1 January 2018	(19,052)	106	(18,946)
Share-based payment	-	144	144
Performance rights share options exercised	-	(169)	(169)
Balance at 31 December 2018	(19,052)	81	(18,971)
Share-based payment	-	70	70
Performance rights share options exercised	-	(208)	(208)
Balance at 31 December 2019	(19,052)	(57)	(19,109)

DESCRIPTION OF SHARE-BASED PAYMENT ARRANGEMENTS

As at 31 December 2019, the Group has an equity-based Long term incentive scheme designed to align the interest of KMP and security holders over the long-term and retain high performing individuals. Participation in the scheme is at the discretion of the Board and may include employees outside the KMP. The scheme is delivered as Performance Rights with each right representing a right to one fully paid ordinary security. The Board determines each participant's target quantum and the performance hurdles attaching to each grant. This incentive scheme has been revised and will be effective from 2020. Please refer to remuneration report for details on the revised scheme.

Performance Rights granted to Key management personnel and employees:

Year / employee entitled	Number of instruments
Performance Rights granted to key management personnel	
2016	286,842
2017	78,946
2018	-
2019	**47,619**
Performance Rights granted to Group executives	
2016	68,419
Total performance Rights	**481,826**

RECONCILIATION OF OUTSTANDING PERFORMANCE RIGHTS

	Numbers		Fair Value	
	2019	2018	**2019**	2018
Outstanding at 1 January	75,906	260,696	1.39	2.28
Granted during the year	47,619	-	1.68	-
Forfeited during the year	-	(88,420)	-	2.02
Exercised during the year	(77,158)	(13,333)	1.68	1.28
Lapsed during the year	-	(83,037)	-	1.28
Outstanding at 31 December	46,367	75,906	1.42	1.39

EXPENSE RECOGNISED IN STATEMENT OF PROFIT AND LOSS

The Group has recognised share based payment expense of $70,000 (2018: $144,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Note 21. Equity - dividends

DIVIDENDS

Dividends paid during the financial year were as follows:

	2019 $'000	2018 $'000
Final dividend for the year ended 31 December 2018 of 6.5 cents (2018: for 31 December 2017 of 6 cents) per ordinary share	3,150	2,564
Interim dividend for the year ended 31 December 2019 of 2 cents (2018: 31 December 2018 of nil cents) per ordinary share	1,209	-
Special dividend for the year ended 31 December 2019 of 9.9 cents (2018: 31 December 2018 of nil cents) per ordinary share	6,000	-
	10,359	2,564

On 26 February 2020, a final dividend for the year ended 31 December 2019 of 5.0 cents per ordinary share, fully franked, was determined, with a record date of 17 March 2020. The dividend will be paid on 27 March 2020 and is estimated to be a total of $3.04m. The dividend was not provided in the accounts.

FRANKING CREDITS

	2019 $'000	2018 $'000
Franking credits available for subsequent financial years based on a tax rate of 30%	3,246	3,909

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date

Note 22. Financial instruments

FINANCIAL RISK MANAGEMENT OBJECTIVES

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group may use derivative financial instruments such as interest rate swaps to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and ageing analysis for credit risk.

Risk management is carried out by the CFO under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the Group and appropriate procedures, controls and risk limits. The CFO identifies, evaluates and hedges financial risks within the Group's operating units. The CFO reports to the Board on a monthly basis.

MARKET RISK

Foreign currency risk

The Group does not undertake material transactions denominated in foreign currency and hence is not exposed to foreign currency risk through foreign exchange rate fluctuations.

Price risk

The Group is not exposed to any significant price risk.

Interest rate risk

The Group's main interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The policy is to maintain approximately 50-75% of borrowings at fixed rate using interest rate swaps and the balance at variable interest rate to achieve more certainty over cashflows.

As at the reporting date, the Group had the following variable rate borrowings outstanding:

	2019		2018	
	Weighted average interest rate %	Balance $'000	Weighted average interest rate %	Balance $'000
Secured bank loans	4.63%	42,414	4.71%	26,163
Net exposure to cash flow interest rate risk		42,414		26,163

An analysis by remaining contractual maturities is disclosed in 'liquidity and interest rate risk management' below.

An increase/decrease in interest rates of 50 (2018: 50) basis points would have an adverse/favourable effect on profit before tax and equity of $212,000 (2018: $130,815) per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

CREDIT RISK

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has a strict policy on the management of credit for trade receivables, which is managed in a three tier approach with regard to child care fees: at the executive service manager level; at the people and quality leader level; and then at the executive management level.

In the event that the Group is exposed to credit risk outside of trade receivable, depending on the quantum, it may obtain agency credit information, confirm references and will establish an appropriate credit limit for that debtor. The Group may obtain guarantees where appropriate to mitigate credit risk.

The maximum exposure to credit risk at the reporting date to 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 Group does not hold any collateral.

LIQUIDITY RISK

Liquidity risk management requires the Group to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The Group manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Financing arrangements

Unused borrowing facilities at the reporting date:

	2019 $'000	2018 $'000
Secured bank loans	13,800	20,000
Inter-changeable facility (comprising working capital and bank guarantee facility)	6,547	3,372
	20,347	23,372

The unused portion of the bank loan facility is $20.3m plus an Accordion for $4.2m.

Refer to note 17 for further details.

REMAINING CONTRACTUAL MATURITIES

The following tables detail the Group's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

2019	Weighted average interest rate %	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Non-derivatives						
Non-interest bearing						
Trade payables	-	3,380	-	-	-	3,380
Other payables	-	8,947	-	-	-	8,947
Interest-bearing - variable						
Secured bank loans	4.63%	428	-	41,986	-	42,414
Lease liability	5.74%	17,259	17,222	52,184	91,495	178,160
Total non-derivatives		30,014	17,222	94,170	91,495	232,901
Derivatives						
Interest rate swaps inflow	2.36%	-	-	744	-	744
Total derivatives		-	-	744	-	744
2018						
Non-derivatives						
Non-interest bearing						
Trade payables	-	2,432	-	-	-	2,432
Other payables	-	4,481	-	-	-	4,481
Interest-bearing - variable						
Bank loans	4.71%	41	-	26,122	-	26,163
Lease liability	4.95%	141	29	-	-	170
Contingent consideration	-	1,069	-	-	-	1,069
Total non-derivatives		8,164	29	26,122	-	34,315
Derivatives						
Interest rate swaps inflow	2.36%	-	-	300	-	300
Total derivatives		-	-	300	-	300

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Note 23. Fair value measurement

The following tables detail the Group's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 Unobservable inputs for the asset or liability

2019	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Liabilities				
Derivative financial instruments	-	744	-	744
Total liabilities	**-**	**744**	**-**	**744**
2018				
Liabilities				
Contingent consideration payable/(receivable)	-	-	1,069	1,069
Derivative financial instruments	-	300	-	300
Total liabilities	-	300	1,069	1,369

There were no transfers between levels during the financial year.

The contingent consideration arising from business combinations (refer to notes 18 and 30) is based on future profits over and above those allowed for in the purchase consideration calculation up to a capped amount representing 25% of the purchase consideration. The capped amount is $1,618,000. The amount provided of $1,356,000 as at 31 December 2019 is based on the budgeted estimates for the acquired services.

The carrying amounts of financial instruments reflect their fair value. The carrying amounts of trade receivables and trade payables approximate their fair values due to their short-term nature. The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial instruments. The fair values of financial assets and financial liabilities are classified as level 3 fair values due to the significant unobservable inputs used in their valuation, including counter-party and own credit risk.

LEVEL 3 ASSETS AND LIABILITIES

Movements in level 3 assets and liabilities during the current and previous financial year are set out below:

	Contingent consideration $'000	Total $'000
Balance at 1 January 2018	800	800
Amount paid / settlement against receivables	(800)	(800)
Additions through business combination (note 30)	1,069	1,069
Interest accrued	-	-
Balance at 31 December 2018	1,069	1,069
Amount paid	(2,949)	(2,949)
Additions through business combination (note 30)	1,618	1,618
Interest accrued	-	-
Balance at 31 December 2019	**(262)**	**(262)**

The Group includes the fair value of deferred contingent consideration as a liability for the acquisition of a business where it expects the earn-out

targets to be met, or as an asset where it expects to claw-back part of the acquisition price where earn-out targets are not met. Contingent consideration is receivable as at 31 December 2019.

Note 24. Key management personnel disclosures

COMPENSATION

The aggregate compensation made to Directors and other members of key management personnel of the Group is set out below:

	2019 $'000	2018 $'000
Short-term employee benefits	1,275	1,009
Post-employment benefits	94	89
Share -based payments	130	17
	1,499	1,115

Note 25. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by KPMG (2018: Bentleys NSW Audit Pty Ltd), the auditor of the Group, and its network firms:

	2019 $	2018 $
Audit services		
Audit or review of the financial statements	232,500	89,221
Other services		
Accounting advisory	40,000	-
Tax advisory	16,000	57,650
Risk compliance services	167,000	-
	223,000	57,650
Other services		
Tax advisory	16,000	57,650
Risk compliance services	167,000	-
	183,000	57,650

Note 26. Contingent liabilities

The Group has given a corporate guarantee as at 31 December 2019 of $44,380,286* (2018: $35,899,011) to lessors in relation to property leases on a number of child care facilities.

**Includes $ 9,453,021 in rental bonds*

Note 27. Leases

LEASES AS LESSEE (AASB 16)

The Group leases properties for child care services. Leases typically run for a period of 10-15 years, with an option to renew the lease after that date for another 5-15 years. Lease payments are renegotiated on a regular basis to reflect market rentals. Some leases provide for additional rent payments that are based on changes in CPI. For certain leases, the Group is restricted from entering into any sub-lease arrangements. Most of the property leases were entered into in previous years and these leases were classified as operating leases under AASB 117.

During 2019, one of the leased properties has been sub-leased by the Group. The lease and sub-lease expire in 2023.

Information about leases for which the Group is a lessee is presented below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

	2019 $'000
Right-of-use assets	
Balance at 1 January 2019	115,954
Additions	67,399
Derecognition	-
Depreciation expense	(8,812)
Balance at 31 December 2019	174,541
Lease Liability	
Balance at 1 January 2019	115,954
Additions	67,399
Derecognition	-
Interest expense	7,738
Lease payments	(13,062)
Balance at 31 December 2019	178,029
Amounts recognised in profit or loss	
2019 - Leases under AASB 16	
Interest on lease liabilities	7,738
Depreciation on right of use assets	8,900
Income from sub-leasing right-of-use assets presented in 'other revenue'	(20)
Expenses relating to short-term leases	211
2018 - Operating leases under AASB 117	
Lease expense	9,296
Amounts recognised in statement of cashflows	
Total cash outflow for leases	13,273

Extension options

Property leases contain extension options exercisable by the Group before the end of the non-cancellable period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Group and not by the lessors. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

LEASES AS LESSOR

The Group has sub-let one of its property leases. The Group has classified this lease as an operating lease, because they do not transfer substantially all of the risk and rewards incidental to the lease.

Rental income recognised by the Group during 2019 was $20,000 (2018: Nil). As at 31 December 2019, amount receivable for lease income was $Nil (2018: Nil)

Note 28. Related party transactions

PARENT ENTITY

Think Childcare Limited is the parent entity. Transactions with Think Childcare Development Limited are disclosed in Note 1.

SUBSIDIARIES

Interests in subsidiaries are set out in note 31.

KEY MANAGEMENT PERSONNEL

Disclosures relating to key management personnel are set out in note 24 and the remuneration report included in the Directors' report.

TRANSACTIONS WITH RELATED PARTIES

Mark Kerr

Mark Kerr (Non-Executive Director), via an indirect interest, has a partial interest in an operating child care service leased to the Group. The lease on the property commenced on 7 November 2016 on an outgoings only basis, until February 2017 when rent payments commenced. The lease has a gross commencing rent of $260,000 per annum. The quantum and terms of the lease are commercial and reasonable for the property.

As at 31 December 2019, the Group paid rent of $274,952. The rent is secured under a standard and commercial rent bond of $143,000.

Below is the Company's assessment of the perceived risks and conflicts associated with the transaction (from a related party perspective) and how it considers such risks/conflicts are managed.

- Risk of the commercial terms of the lease being less favourable terms (to the Company) than those in similar arm's length transactions between unrelated third parties.

The terms of the existing lease were in place prior to Mark Kerr having a partial interest. The Company had negotiated the terms of the lease with an incubator partner and the Head Landlord at arm's length. The lease clearly sets out the mechanics for the review of rent which is to be applied at the appropriate time and which does not involve the exercise of any discretion by Mark Kerr or the Company. Any amendments to the lease will require the Head Landlord's consent.

- Perceived conflict with regard to the Board's decisions relating to issues arising from the transaction.

If and when the Board of Directors or any Board committee meets to discuss any issues relating to this transaction, Mark Kerr recuses himself from attending the relevant Board or committee meeting, and a stand-in Chair is nominated to chair the meeting. Mark would also abstain from voting on any question relating to the transaction.

Mathew Edwards

Management and other services

Think Childcare provides management and establishment services to a child care service incubator partner entity of which the siblings (brother and sister) of Mathew Edwards (managing director) are shareholders. In consideration for the services provided by the Company to the incubator partner entity, the Company is paid fees in accordance with the agreed terms of engagement and management services.

During the 2019 financial year, the incubator partner entity has established two child care services (Service Approval dates: 9 September 2019 and 9 January 2020) which the Company currently manages. The Company expects the entity to open another child care service in late 2020.

During the year ended 31 December 2019, Think Childcare received from the incubator partner entity $430,000 in establishment fees and $35,000 in management fees.

Below is the Company's assessment of the perceived risks and conflicts associated with the transaction (from a related-party perspective) and how it considers such risk/conflicts are being managed.

- Risk of commercial terms of the services being less favourable terms (to the Company) than those in similar arm's length transactions between unrelated third parties.

The terms of engagement and management services meet the Company's base line requirements and are in line with the terms agreed at arms' length with other incubator partners. There is no obligation on the Company to acquire the child care services even when certain metrics are met.

- Perceived conflict with regards to the Board's decisions relating to issues arising from the transaction.

If and when the Board of Directors or any Board committee meets to discuss any issues relating to this transaction, Mathew Edwards recuses himself from attending the relevant Board or committee meeting and abstain from voting on any question relating to the transaction.

Think Childcare also provided establishment services to a child care service incubator partner entity in which Mathew Edwards (Managing Director) is a Director and shareholder.

In consideration for the services provided by Think Childcare to the incubator partner entity, Think Childcare is paid fees in accordance with the agreed terms of the engagement and management services. During the year ended 31 December 2019, Think Childcare has recognised from the incubator partner entity $1.1 million in establishment fees (Establishment Fees). The balance outstanding as at 31 December 2019 is $0.6 million.

These child care services were referred to as part of the Think Childcare Development initial pipeline in Think Childcare's announcement to the market on 14 August 2019 and 22 August 2019 with respect to the recent stapling.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

As stated in Think Childcare's announcement to the market on 22 August 2019, the incubator Partner will surrender 7 leases. Once the leases are surrendered, a Think Childcare Development subsidiary will potentially enter into new leases directly with landlords.

It has been agreed between the incubator partner entity and Think Childcare Development that Think Childcare Development would be responsible for the payment of the Establishment Fees at the point the Think Childcare Development subsidiary enters each new lease.

Should a landlord not agree to termination with the Incubator partner or not enter a lease with Think Childcare Development, no payment or establishment fees would arise.

Below is the Group's assessment of the perceived risks and conflicts associated with the transaction (from a related-party perspective) and how it considers such risk/conflicts are being managed.

- Risk of commercial terms of the services being less favourable terms (to the Group) than those in similar arm's length transactions between unrelated third parties.

The terms of engagement and management services with the incubator partner entity meets the Think Childcare's base line requirements and are in line with the terms agreed at arm's length with other incubator partners. There is no obligation on Think Childcare to acquire the child care services even when certain metrics are met.

Following the Surrender, Think Childcare Development will potentially enter into new leases and commence operating the 7 child care services. There is no obligation on Think Childcare Development to pay any additional costs incurred by the incubator partner entity in addition to the Establishment Fees.

- Perceived conflict with regards to the Board's decisions relating to issues arising from the transaction.

If and when the Board of Directors or any Board committee meets to discuss any issues relating to this transaction, Mathew Edwards recuses himself from attending the relevant Board or committee meeting and abstains from voting on any question relating to the transaction.

Note 29. Parent entity information

Set out below is the supplementary information about the parent entity.

	Parent	
	2019 $'000	**2018** $'000
Statement of profit or loss and other comprehensive income		
Loss for the year	(8,833)	(6,188)
Total comprehensive income	(8,833)	(6,188)
Statement of financial position		
Total current assets	41,866	40,792
Total assets	57,522	61,706
Total current liabilities	2,210	2,531
Total liabilities	37,845	29,282
Equity		
Issued capital	72,845	53,779
Share-based payments reserve	(56)	81
Accumulated losses	(53,112)	(21,436)
Total equity	19,677	32,424

GUARANTEES ENTERED INTO BY THE PARENT ENTITY IN RELATION TO THE DEBTS OF ITS SUBSIDIARIES.

The parent entity has given a corporate guarantee as at 31 December 2019 of $9,543,021 (2018: $5,358,048) to lessors in relation to property leases on a number of child care facilities.

CONTINGENT LIABILITIES

Other than Guarantees disclosed above the Parent entity had no contingent liabilities as at 31 December 2019.

SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 2, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.

- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

Note 30. Business combinations

CURRENT YEAR ACQUISITIONS

The Group acquired fifteen child care Services during the year for a total consideration of $24,010,944. The goodwill of $21,655,408 represents the value attributed to assembled workforces and management teams within the acquirees, expected synergies from combining the operations, and other non-recognisable intangible assets. The revenue from the acquisitions amounted to $4,883,006 and the contribution to the EBITDA is $1,042,420 for the year ended 31 December 2019. The acquisitions are provisional at 31 December 2019. Due to estimation uncertainty, the Group is unable to disclose revenue and EBITDA if acquisitions were made at the start of the year.

Details of the acquisitions are as follows:

	Fair Value $'000
Other current assets	284
Property, plant and equipment	3,125
Deferred tax asset	132
Right of use asset (ROU)	49,230
Lease liability	(49,230)
Employee benefits	(936)
Other liabilities	(249)
Net assets acquired	2,356
Goodwill	21,655
Acquisition-date fair value of the total consideration transferred	24,011
Representing	
Cash paid to vendors	22,393
Contingent consideration	1,618
	24,011

PRIOR YEAR ACQUISITIONS

The Group acquired nine child care services during the previous year for a total consideration of $15,608,658. The goodwill of $13,816,008 represents the value attributed to assembled workforces and management teams within the acquirees, expected synergies from combining the operations, and other non-recognisable intangible assets. The revenue from the acquisitions amounted to $6,717,081 and the contribution to EBITDA is $1,350,068 for the year ended 31 December 2018. The acquisitions were provisional at 31 December 2018. Due to estimation uncertainty, the Group is unable to disclose revenue and EBITDA if acquisitions were made at the start of the year.

Details of the acquisitions are as follows:

	Fair Value $'000
Other current assets	213
Property, plant and equipment	1,879
Deferred tax asset	123
Employee benefits	(423)
Net assets acquired	1,793
Goodwill	13,816
Acquisition-date fair value of the total consideration transferred	15,609
Representing	
Cash paid to vendors	14,540
Contingent consideration	1,069
	15,609

The Group includes the fair value of contingent consideration as a liability for the acquisition of a business where it expects the earn-out target to be met during the measurement period of 12 months. This judgement is based on operational due diligence and knowledge of the business trading conditions including location, occupancy and profitability at the time of settlement. If the earn out target is not met then the amount not paid of the contingent consideration is adjusted against Goodwill as a credit and the corresponding entry

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

against the liability. The value of the contingent consideration is reviewed at each reporting date.

Refer to note 18 for further details.

The redemption of TNK's preference share resulted in TNK losing ownership of TND while simultaneously gaining control by virtue of the business combination (stapling).

This transactions resulted in a change in TNK's ownership interests in TND while retaining control and has been treated as a transactions with equity holders in their capacity as equity holders. No gain or loss and no change in the carrying value of assets or liabilities was recognised as a result of this transaction.

With TNK losing ownership of the net assets of TND on redemption of the preference share, a non-controlling interest is recognised in the consolidated group accounts, representing the stapled security holder interest in TND.

Note 31. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2.

The subsidiaries are incorporated in Australia and their principal place of business is also in Australia.

	Ownership interest	
Name	2019 %	2018 %
Baker Street Childcare Education Pty Ltd	100%	100%
Childcare Management Services Pty Ltd	100%	100%
Edhod Greensborough Pty Ltd	100%	100%
Edhod Macleod Pty Ltd	100%	100%
Edhod Newcomb Pty Ltd	100%	100%
Edhod Settlement Pty Ltd	100%	100%
Edhod Trafalgar Pty Ltd	100%	100%
Edhod Wilson Pty Ltd	100%	100%
LEA Childcare Pty Ltd	100%	100%
LEA Childcare Services Pty Ltd	100%	100%
LEA Cobbs Pty Ltd	100%	100%
LEA Cranbourne Pty Ltd	100%	100%
LEA Georges Pty Ltd	100%	100%
LEA Landsdale Pty Ltd	100%	100%
LEA Lara Pty Ltd	100%	100%
LEA Springhill Pty Ltd	100%	100%
LEA Superior Pty Ltd	100%	100%
LEA Westmeadows Pty Ltd	100%	100%
Think 2 Georges Hall Geor Pty Ltd	100%	100%
Think 2 Tuggerah Cob Pty Ltd	100%	100%
Think 3 Dandenong Can Pty Ltd	100%	100%
Think 3 Rowville Lakes Sup Pty Ltd	100%	100%
Think Childcare Belmont Pty Ltd	100%	100%
Think Childcare Moorabbin Pty Ltd	100%	100%
Think Childcare Services Pty Ltd	100%	100%
Think Childcare Services No.1 Pty Ltd	100%	100%
Think 2 Campbelltown Bro Pty Ltd	100%	100%
Think 5 Golden Grove Ten Pty Ltd	100%	100%
Think 3 Altona Meadows Poi Pty Ltd	100%	100%

Name	Ownership interest 2019 %	Ownership interest 2018 %
Think 2 Amaroo Mor Pty Ltd	100%	100%
Think 3 Moonee Ponds Mcp Pty Ltd	100%	100%
Think 3 Port Melbourne Ing P y Ltd	100%	100%
Think 3 Prahran Don Pty Ltd	100%	100%
Think 3 Truganina Sam Pty Ltd	100%	100%
Think 6 Perth Geo Pty Ltd	100%	100%
Think 5 Crittenden Smi Pty Ltd	100%	100%
Think 5 Wandana Gil Pty Ltd	100%	100%
Think 3 Essendon Ral Pty Ltd	100%	100%
Think Childcare ESOP Holding Company Pty Ltd	100%	100%
Think 2 Brookvale Pit Pty Ltd	100%	100%
Think 2 Grays Point Gra Pty Ltd	100%	100%
Think 4 Woolloongabba May Pty Ltd	100%	100%
Think 6 Beeliar Dur Pty Ltd	100%	100%
Think 3 Bentleigh East Che Pty Ltd	100%	100%
Think 3 Sunshine West Ral Pty Ltd	100%	100%
Think 6 Coogee Pin Pty Ltd	100%	100%
Think 2 Franklin Nul Pty Ltd	100%	100%
Think 6 Kensington Fou Pty Ltd	100%	100%
Think 3 Hartington Gle Pty Ltd	100%	100%
Think 3 Cheltenham ber Pty Ltd	100%	100%
Think 3 Coburg North Eli Pty Ltd	100%	100%
Think 3 Donvale Spr Pty Ltd	100%	100%
Think 3 Grovedale Bai Pty Ltd	100%	100%
Think 6 Hocking Nic Pty Ltd	100%	100%
Think 6 Willetton Cam Pty Ltd	100%	100%
Think 3 Lalor Hig Pty Ltd	100%	100%
Think 3 Montrose Lei Pty Ltd	100%	100%
Think 6 Baldivis Bor Pty Ltd	100%	100%
Think 6 Caversham Bod Pty Ltd	100%	100%
Think 6 Grove Joo Pty Ltd	100%	100%
Think 6 Padbury For Pty Ltd	100%	100%
Think 2 Holborn Gle Pty Ltd	100%	100%
Think 2 Tamworth Wir Pty Ltd	100%	100%
Think 3 Sandringham Bay Pty Ltd	100%	100%
Think 3 Byford Cov Pty Ltd	100%	100%

Name	Ownership interest 2019 %	Ownership interest 2018 %
Think 5 Kensington Park Mag Pty Ltd	100%	100%
Airport West 3042 Think Pty Ltd	100%	-
Bayswater North 3153 Think Pty Ltd	100%	-
Craigieburn 3064 Think Pty Ltd	100%	-
Kilburn 5084 Think Pty Ltd	100%	-
Maitland 2320 Think Pty Ltd	100%	-
Narre Warren South 3805 Think Pty Ltd	100%	-
Noarlunga Downs 5168 Think Pty Ltd	100%	-
Salisbury Downs 5108 Think Pty Ltd	100%	-
Seven Hills 2147 Think Pty Ltd	100%	-
Shepparton 3630 Think Pty Ltd	100%	-
Think 3 Ormond Kat Pty Ltd	100%	-
Think 6 Carlisle Wes Pty Ltd	100%	-
Think 6 Lakelands Bar Pty Ltd	100%	-
Yanchep 6035 Think Pty Ltd	100%	-
Think Childcare Development Limited	100%	-
Think Childcare Operations Pty Ltd	100%	-
Think Development Employee Services Pty Ltd	100%	-
Think Childcare 3006 Pty Ltd	100%	-
Think Childcare 3040 Pty Ltd	100%	-
Think Childcare 3058 Pty Ltd	100%	-
Think Childcare 3083 Pty Ltd	100%	-
Think Childcare 3085 Pty Ltd	100%	-
Think Childcare 3204 Pty Ltd	100%	-
Think Childcare 3930 Pty Ltd	100%	-
Think Childcare 5044 Pty Ltd	100%	-
Think Childcare 5112 Pty Ltd	100%	-
Think Childcare 6016 Pty Ltd	100%	-
Think Childcare 6025 Pty Ltd	100%	-
Think Childcare 6028 Pty Ltd	100%	-
Think Childcare 6069 Pty Ltd	100%	-
Think Childcare 6110 Pty Ltd	100%	-
Think Childcare 6164 Pty Ltd	100%	-
Think Childcare 6166 Pty Ltd	100%	-
Think Childcare 6173 Pty Ltd	100%	-
Think Childcare 6308 Pty Ltd	100%	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Note 32. Reconciliation of profit after income tax to net cash from operating activities

	2019 $'000	2018 $'000
Profit for the year	2,005	4,950
Adjustments for:		
Depreciation and amortisation	11,522	1,643
Share-based payments	70	144
Interest on lease liabilities	7,738	64
Performance Rights paid	(208)	(151)
Change in operating assets and liabilities:		
Increase in trade and other receivable	(2,513)	(147)
(Increase)/decrease in deferred tax assets	(2,010)	(467)
(Increase)/decrease in other assets	72	941
Increase in trade and other payables	5,165	755
Increase in derivative liabilities	444	228
Increase/(decrease) in provision for income tax	(462)	33
Increase in employee benefits	375	1,066
Increase/(decrease) in other operating liabilities	(67)	(110)
Net cash from operating activities	**22,131**	8,948

Note 33. Non-cash investing and financing activities

	2019 $'000	2018 $'000
Shares issued under employee share plan	208	17
Earn-out consideration liability reversal	-	2,171
	208	2,188

Note 34. Earnings per stapled security

	2019 $'000	2018 $'000
Total comprehensive income attributable to:		
Members of Think Childcare Limited	3,364	4,950
Members of Think Childcare Development Limited	(1,359)	-
Stapled security holders of Think Childcare Group	**2,005**	4,950

	Number	Number
Weighted average number of stapled securities used in calculating basic earnings per stapled security	57,741,028	47,311,226
Adjustments for calculation of diluted earnings per stapled security:		
Performance rights over stapled securities	46,367	75,906
Weighted average number of stapled securities calculating basic earnings per stapled security	57,787,395	47,387,132

Earnings per share - Think Childcare Limited	Cents	Cents
Basic	5.83	10.46
Diluted	5.82	10.46
Earnings per share - Think Childcare Development Limited	Cents	Cents
Basic	(2.35)	-
Diluted	(2.35)	-
Earnings per Earnings per Stapled Security	Cents	Cents
Basic	3.47	10.46
Diluted	3.47	10.46

Note 35. Events after the reporting period

Apart from dividend determination as disclosed in note 21, no other matter or circumstance has arisen since 31 December 2019 and up to the date of this report that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

INDEPENDENT AUDITORS DECLARATION

KPMG

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Think Childcare Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Think Childcare Limited for the financial year ended 31 December 2019 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Paul Thomas

Partner

Sydney

26 February 2020

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Independent Auditor's Report

To the stapled security holders of Think Childcare Group

Report on the audit of the Financial Report

Opinion

We have audited the ***Financial Report*** of Think Childcare Group (the Stapled Group Financial Report).

In our opinion, the accompanying Stapled Group Financial Report is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Stapled Group***'s financial position as at 31 December 2019 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** of the Stapled Group comprises:

- Consolidated Statement of financial position as at 31 December 2019
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The ***Stapled Group*** consists of Think Childcare Limited and the entities it controlled at the year-end or from time to time during the financial year and Think Childcare Development Limited and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 Stapled Group and Think Childcare Limited in accordance with 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 (including Independence Standards)* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

INDEPENDENT AUDITORS DECLARATION CONTINUED

KPMG

Key Audit Matters

The ***Key Audit Matters*** we identified for the Stapled Group are:

- AASB 16 *Leases*
- Recoverability of goodwill
- Accounting for acquired businesses
- Formation of stapled group

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 period.

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.

AASB 16 *Leases* (Right-of-use asset – $174,541k, lease liability – $178,160k, deferred tax asset – $1,073k and depreciation and interest expense – $16,550k

Refer to Note 7 'Finance costs', Note 11 'Property, Plant and Equipment', Note 13 'Deferred tax', Note 17 'Borrowings' and Note 27 'Leases' to the Financial Report

The key audit matter	How the matter was addressed in our audit

Accounting for leases using AASB 16 *Leases* ("AASB 16") is inherently complex, where specific and individualised lease-features drive different accounting outcomes, increasing the need for interpretation and judgement. This is a key audit matter for us, focusing on the judgements, along with other factors driving additional audit effort, such as:
• First time adoption – the Stapled Group were required to determine interpretations for these new and complex accounting requirements for the first time in the year, including new accounting policies. Interpreting a new standard, to existing businesses and practices, is more challenging with an untested standard and little precedent. They also had to build new processes and IT systems to apply the requirements, which we had not tested before.
• High volume of leases – the Stapled Group has a high volume of individualised lease agreements used to estimate the lease liability, right-of-use asset, deferred tax asset and depreciation and interest expense. A focus for us was the completeness of the lease population and the accuracy of multiple and varied inputs which may drive different accounting outcomes, including key terms of the lease agreements, such as key dates, fixed and
	Our procedures included:
	• We considered the appropriateness of the Stapled Group's new accounting policies against the requirements of the accounting standard and our understanding of the business and industry practice.
	• We obtained an understanding of the Stapled Group's new processes and IT systems used to calculate the lease liability, right-of-use asset, deferred tax asset and depreciation and interest expense.
	• We assessed the completeness of the Stapled Group's leases taking into consideration the transition approach and practical expedients adopted by the Stapled Group by:
	  • Inquiring with the Stapled Group;
	  • Inspecting a sample of lease agreements entered into by the Stapled Group and comparing these to the Stapled Group's listing of leases;
	  • Checking the Group's listing of leases to the items included in the operating lease commitments disclosure in the prior year's financial report; and
	  • Inspecting relevant expense accounts for routine payments during the year to identify the existence of leases not included in the Stapled Group's listing of

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variable rent payments, renewal options, incentives and make good obligations; • Relative magnitude – the size of balances has a significant financial impact on the Stapled Group's financial position and performance. The most significant areas of judgement we focus on was in assessing the Stapled Group's: • Incremental borrowing rates used – these are meant to reflect the Stapled Group's entity specific credit risk and vary based on each lease term. The Stapled Group engaged an external expert to assist with determining each of the Stapled Group's incremental borrowing rates. The Stapled Group's AASB 16 lease calculation model is sensitive to small changes in the incremental borrowing rates. • Lease terms where leases have renewal options – assessing the probability of exercising the renewal options to determine each lease term impacts the measurement of the lease, therefore is critical to the accuracy of the accounting; We involved our senior audit team members in assessing these, along with our debt advisory specialists.	leases. • We compared the Stapled Group's inputs in the AASB 16 lease calculation model, such as, key dates, fixed and variable rent payments, renewal options, incentives, and make good obligations, for consistency to the relevant terms of a sample of underlying signed lease agreements. We also compared the rate used by the Group in computing the variable rent payments to the Australian consumer price index. • We assessed the Group's determination of a sample of lease terms based on the probability of the Stapled Group exercising the lease renewal options. We evaluated the Stapled Group's assessment of the financial viability to exercise the lease renewal options and compared to board approved plans and strategies for these samples. • Working together with our debt advisory specialists, we independently analysed the incremental borrowing rates applied to a sample of the leases using the relevant corporate yield curve and forward swap rate adjusted by risk factors specific to the Stapled Group, the industry it operates in, and the lease term. We compared it to the incremental borrowing rates used by the Stapled Group. • We assessed the scope, competency and objectivity of the external expert engaged by the Stapled Group to assist determining the Stapled Group's incremental borrowing rates. • We assessed the integrity of the Stapled Group's AASB 16 lease calculation model used, including the accuracy of the underlying calculation formulas. For a sample of leases, we recalculated the amount of lease liability, right-of-use asset, deferred tax asset and depreciation and interest expense relevant to this financial year and compared our recalculated amounts against the amounts recorded by the Stapled Group. • We assessed the disclosures in the financial report using our understanding obtained from our testing and against the requirements of the accounting standard.

INDEPENDENT AUDITORS DECLARATION CONTINUED

KPMG

Recoverability of goodwill ($77.8m)	
Refer to Note 12 'Intangible assets' to the Financial Report	
The key audit matter	**How the matter was addressed in our audit**
A key audit matter for us was the Stapled Group's annual testing of goodwill for impairment, given the size of the balance (being 26% of total assets). Certain conditions impacting the Stapled Group increased the judgement applied by us when evaluating the evidence available. We focussed on the significant forward-looking assumptions the Stapled Group applied in their value in use model for the Child Care Operations group of Cash Generating Units (CGUs), including: • Forecast operating cash flows, growth rates and terminal growth rate – the Stapled Group acquired a number of businesses in the current year which increase the risk of inaccurate forecasts or a wider range of possible outcomes for us to consider. We focused on forecast service occupancy rates which drive the forecast operating cash flows and growth rates, which are highly sensitive to small changes, reducing available headroom. This drives additional audit effort specific to their feasibility and consistency of application to the Stapled Group's strategy. • Discount rate - these are complicated in nature and vary according to the conditions and environment the specific Child Care Operations group of CGUs is subject to from time to time, and the modelling approach to incorporating risks into the cash flows or discount rate. The Stapled Group's modelling is highly sensitive to small changes in the discount rate. • Forecast capital expenditure – given the impact of acquisitions on the Group's business, the forecast capital expenditure plan was revised. Our testing focused on the implications of this decision for consistent application and reasonableness given our industry experience. The Stapled Group uses a complex model to perform their annual testing of goodwill for impairment. The models are largely manually	Working with our valuation specialists, our procedures included: • We considered the appropriateness of the value in use method applied by the Stapled Group to perform the annual test of goodwill for impairment against the requirements of the accounting standards. • We assessed the integrity of the value in use model used, including the accuracy of the underlying calculation formulas. • We compared the forecast cash flows and capital expenditure contained in the value in use model to Board approved forecasts. • We assessed the accuracy of previous forecasts to inform our evaluation of forecasts incorporated in the model. • We considered the sensitivity of the model by varying key assumptions, such as forecast growth rates, terminal growth rate and discount rate, within a reasonably possible range. We did this to identify those assumptions at higher risk of bias or inconsistency in application and to focus our further procedures. • We assessed forecast service occupancy rates against publicly available industry predictions for comparable locations. • We assessed forecast occupancy rates against publicly available industry studies of industry average achievable occupancy by location, which the Stapled Group adjusted for their specific locations. • We challenged the Stapled Group's significant forecast cash flow and growth assumptions. We compared key events to the Board approved plan and strategy. We compared forecast growth rates and terminal growth rate to published studies of industry trends and

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developed, use adjusted historical performance, and a range of internal and external sources as inputs to the assumptions. Complex modelling, using forward-looking assumptions tend to be prone to greater risk for potential bias, error and inconsistent application. These conditions necessitate additional scrutiny by us, in particular to address the objectivity of sources used for assumptions, and their consistent application. The Stapled Group restructured and acquired a number of businesses in the current year, necessitating our consideration of the Stapled Group's: • determination of CGUs, based on the smallest group of assets to generate largely independent cash inflows; and • allocation of goodwill to the group of CGUs to which they belong based on the management and monitoring of the business. We involved valuation specialists to supplement our senior audit team members in assessing this key audit matter.	expectations, and considered differences for the Stapled Group's operations. We used our knowledge of the Stapled Group, their past performance, business and customers, and our industry experience. • We independently developed a discount rate range considered comparable using publicly available market data for comparable entities, adjusted by risk factors specific to the Stapled Group and the industry it operates in. • We considered the Stapled Group's determination of their CGUs based on our understanding of the operations of the Stapled Group's business, impact of the restructure and acquisitions, and, how independent cash inflows were generated, against the requirements of the accounting standards. • We analysed the impact of the restructure and acquisitions, and the Stapled Group's internal reporting to assess the Stapled Group's monitoring and management of activities, and the consistency of the allocation of goodwill to the Child Care Operations group of CGUs. • We assessed the disclosures in the financial report using our understanding obtained from our testing and against the requirements of the accounting standards.
Accounting for acquired businesses	
Refer to Note 30 'Business combinations' to the Financial Report	
The key audit matter	**How the matter was addressed in our audit**

The Stapled Group's acquisition of fifteen child care centres in the current year for consideration of $24.0 million represents a significant series of acquisitions.
 	
This was a key audit matter due to the combined size of the acquisitions. The acquisitions had a pervasive impact on the financial statements and consequently required significant audit effort and senior team involvement.
 	
Significant judgement was required by us in
	Our procedures included:
	• We read the Business Acquisition Contracts and related key acquisition transactions documents to:
	  • Understand the key terms and conditions of the acquisitions; and
	  • Assess the acquisitions against the criteria of a business combination in the accounting standards.
	• We assessed the fair value of employee benefits liability to underlying contractual

INDEPENDENT AUDITORS DECLARATION CONTINUED

KPMG

assessing the Stapled Group's: • Determination of the fair value of acquired assets and liabilities, in particular employee benefits and property, plant and equipment; and • Estimate of the fair value of the contingent consideration. We focused on the forecast cash flows assumptions, which is forward-looking and tends to be prone to greater risk for potential bias.	arrangements such as employee contracts. • We assessed the fair value of property, plant and equipment to underlying accounting records. • We challenged the forecast cash flows assumptions for each child care centre acquired, as it enters into the contingent consideration fair value. We assessed the feasibility of these assumptions and consistency of application to industry trends and expectations, and considered differences for the Stapled Group's operations. We used our knowledge of the Stapled Group, past performance, business and customers, and our industry experience. • Assessing the Stapled Group's disclosures in respect of business combinations with reference to the requirements of the accounting standards.
Formation of stapled group	
Refer to Note 1'General information' to the Financial Report	
The key audit matter	**How the matter was addressed in our audit**

The formation of the Stapled Group was a key audit matter as significant judgement and audit effort was required by us when evaluating the Stapled Group's determination of the accounting treatment related to the formation of the Stapled Group including :
- Deemed acquirer and deemed subsidiary upon stapling for consolidation purposes;
- Implications on consolidation and non-controlling interest between the entities in the Stapled Group; and
- Capitalising of scheme transaction costs.
These items involve significant interpretation of legal documentation including the Scheme Booklet and related key transaction documents, and the accounting and financial reporting standards, which are complex when applied to stapling transactions.
We involved our accounting specialists to supplement our senior team members in assessing this key audit matter.
	Our procedures included:
	• We read the Scheme Booklet and related key transaction documents to:
	  • Understand the key terms and conditions of the stapling;
	  • Assess the implementation of the stapling against the criteria of a business combination and consolidation in the accounting standards;
	• Using the evidence that we have obtained in the procedure above, focusing on particular clauses in the documents, we evaluated the Stapled Group's identification of the deemed acquirer and deemed subsidiary;
	• Working with our accounting specialists, we assessed a sample of scheme transaction costs to underlying source documents, such as engagement contracts and scope of works. We assessed the features of these costs against the criteria in the accounting standards

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	for capitalisation; • Assessing the Stapled Group's disclosures in respect of the implications of the formation of the Stapled Group with reference to the requirements of the accounting standards.

Other Information

Other Information is financial and non-financial information in Think Childcare Group's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors of Think Childcare Limited are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we 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.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors of Think Childcare Limited are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Stapled Group's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Stapled Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- 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. They are considered material if, individually or in the

INDEPENDENT AUDITORS DECLARATION CONTINUED

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aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Think Childcare Limited for the year ended 31 December 2019, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

The Directors of Think Childcare Limited are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

Our responsibilities

We have audited the Remuneration Report included in pages 36 -53 of the Directors' report for the year ended 31 December 2019.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

KPMG

Paul Thomas

Partner

Sydney

26 February 2020

SECURITY HOLDER INFORMATION

The security holder information set out below was applicable as at 12 February 2020.

EQUITY SECURITY HOLDERS

Twenty largest quoted equity security holders

The names of the twenty largest security holders/beneficiary or nominee of quoted equity securities are listed below:

	Stapled Securities Held Number held	Stapled Securities % Issued
J P Morgan Nominees Australia Pty Limited	13,457,031	22.11
HSBC Custody Nominees (Australia) Limited	9,480,001	15.58
Mr Mathew Edwards	7,483,219	12.30
Isamax Pty Ltd (The Edwards Family A/C)	6,646,806	10.92
Citicorp Nominees Pty Limited	2,664,702	4.38
National Nominees Limited	2,423,968	3.98
Mr Mark Gregory Kerr + Mrs Linda Marie Kerr (Lindmark Inv Staff S/F A/C)	1,824,066	3.00
CS Third Nominees Pty Limited (HSBC Cust Nom Au Ltd 13 A/C)	1,522,805	2.50
Riversdale Road Shareholding Company (Riversdale Road Holding A/C)	1,354,828	2.23
Citicorp Nominees Pty Limited (Colonial First State Inv A/C)	1,245,000	2.05
UBS Nominees Pty Ltd	854,092	1.40
J & P Chick Pty Limited (J & P Chick Pty Ltd S/F A/C)	565,000	0.93
Mr Michael Norman Kroger (Michael Kroger S/F A/C)	403,342	0.66
BNP Paribas Nominees Pty Ltd Hub24 Custodial Serv Ltd Drp	300,577	0.49
CS Fourth Nominees Pty Limited (HSBC Cust Nom Au Ltd 11 A/C)	250,368	0.41
Dr Jeffrey Eric Dale Chick + Dr Pamela Hazel Chick	250,000	0.41
Mr Richard Ewan Bromley Mews + Mrs Wee Khoon Mews (Mews Superannuation Fund A/C)	207,000	0.34
Crozet Island Pty Ltd (Willings Retirement Fund A/C)	200,000	0.33
Westor Asset Management Pty Ltd (Value Partnership A/C)	191,416	0.31
Seuss Tpywg Pty Ltd (Edsuper A/C)	175,543	0.29
Total Holding - 20 Largest Security holders	**51,499,764**	**84.62**
Total Holding - Other Security holders	**9,363,125**	**15.38**
TOTAL HOLDING - ALL SECURITY HOLDERS	**60,862,889**	**100.00**

SECURITY HOLDER INFORMATION CONTINUED

DISTRIBUTION OF EQUITY SECURITIES

Analysis of number of equity security holders by size of holding as at 12 February 2020:

	Number of holders of securities
1 to 1,000	293
1,001 to 5,000	454
5,001 to 10,000	152
10,001 to 100,000	187
100,001 and over	29
	1,115
Holding less than a marketable parcel	**99**

UNQUOTED EQUITY SECURITIES

	Number on issue	Number of holders
Performance rights over unissued ordinary securities	46,367	2

SUBSTANTIAL HOLDERS

As at 12 February 2020 the following substantial security holdings have been declared to the Company

	Securities	
Declared entitled party:	Number held	% of total securities issued
Mathew Edwards/ Isamax Pty Ltd <ATF Edwards Family Trust> / Seuss Tpywg Pty Ltd <ATF ED SUP>	14,335,198	23.55%
FIL Limited	6,100,335	10.02%
Australian Super Pty Ltd	5,132,213	8.43%
Microequities Asset Management Pty Ltd	3,513,616	5.77%
Celeste Funds Management Limited/ Pacific Current Group Limited	3,447,000	5.66%

VOTING RIGHTS

The voting rights attached to the stapled securities are set out below:

STAPLED SECURITIES

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each security shall have one vote.

There are no other classes of voting securities.

INVESTOR SERVICES

Directors of **Think Childcare Limited**	**Mark Kerr** Chairman and Non-Executive Director **Mathew Edwards** Managing Director and Chief Executive Officer **Evonne Collier** Non-Executive Director **Joe Dicks** Non-Executive Director
Directors of **Think Childcare Development Limited**	**Mark Kerr** Chairman and Non-Executive Director **Mathew Edwards** Non-Executive Director **Michael Doble** Non-Executive Director **Joe Dicks** Non-Executive Director
Company Secretaries of **Think Childcare Limited**	**Trinh Bui** **Mourice Garbutt**
Company Secretary of **Think Childcare Development Limited**	**Trinh Bui**
Notice of Annual General Meeting	The details of the annual general meeting of Think Childcare Group are: **The Boardroom of Minter Ellison** Level 23, Rialto Towers 525 Collins Street Melbourne VIC 3000 At **10:30 am on Tuesday, 14 May 2020** (registrations at 10:00am)
Registered Office	Suite 3, 1 Park Avenue Drummoyne NSW 2047 Tel: 02 9712 7444
Share Register	**Computershare Investor Services Pty Limited** Yarra Falls, 452 Johnson Street Abbotsford VIC 3067 Tel: 1300 787 272
Auditor	**KPMG** Tower Three, International Towers Sydney 300 Barangaroo Avenue Sydney NSW 2000
Solicitors	**Minter Ellison** Level 23, Rialto Towers 525 Collins Street Melbourne VIC 3000
Stock Exchange Listing	Think Childcare Group stapled securities are listed on the Australian Securities Exchange (ASX: TNK)
ASX Code	**TNK**
Website	www.thinkchildcare.com.au

THINK
Childcare Group

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