



ANNUAL REPORT

31 DECEMBER, 2016

1. Company details

Name of entity:	Think Childcare Limited
ABN:	81 600 793 388
Reporting period:	For the year ended 31 December 2016
Previous period:	For the year ended 31 December 2015

2. Results for announcement to the market

			\$'000
Revenues from ordinary activities	up	17.3% to	54,543
Earnings Before Interest, Tax, Depreciation and Amortisation ('EBITDA')	up	14.9% to	8,495
Profit from ordinary activities after tax attributable to the owners of Think Childcare Limited	up	11.6% to	5,367
Profit for the year attributable to the owners of Think Childcare Limited	up	11.6% to	5,367

Dividends

	Amount per security Cents	Franked amount per security Cents
Final dividend for the year ended 31 December 2015 paid on 31 March 2016	7.20	2.40
Interim dividend for the year ended 31 December 2016 paid on 13 September 2016	4.00	4.00

On 15 February 2017, a final dividend for the year ended 31 December 2016 of 5 cents per ordinary share, fully franked, was declared, with a record date of 15 March 2017. The dividend will be paid on 24 March 2017 and is estimated to be \$2,081,966.

Comments

The profit for the consolidated entity after providing for income tax amounted to \$5,367,000 (31 December 2015: \$4,809,000).

Underlying earnings before interest, taxation, depreciation and amortisation ('EBITDA') excluding acquisition and integration expenses and adjustments for newly acquired centres for the consolidated entity was \$8,833,000 (2015: \$7,394,000). This is calculated as follows:

	Consolidated 2016 \$'000	2015 \$'000
Revenue	54,543	46,512
Profit after income tax	5,367	4,809
Add: Income tax expense	2,163	1,845
Add: Depreciation and amortisation	604	328
Add: Finance cost	363	420
Less: Interest income	(2)	(10)
EBITDA	8,495	7,392
Add: Acquisition and integration expenses	89	326
Adjustments for newly acquired centres	249	(324)
Underlying EBITDA	<u>8,833</u>	<u>7,394</u>

EBITDA and underlying EBITDA, are financial measures which are not prescribed by Australian Accounting Standards ('AAS') and represents the profit/(loss) under AAS adjusted for non-cash and other items. The directors consider underlying EBITDA to reflect the core earnings of the consolidated entity, consistent with internal reporting.

For further details on the results refer to commentary in the attached Chairman's letter and ASX announcement accompanying this report.

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>(24.37)</u>	<u>(7.37)</u>

4. Control gained over entities

Refer to note 30 and 31 to the financial statements for details of entities over which control has been gained during the year.

5. Loss of control over entities

Not applicable.

6. Dividend reinvestment plans

The following dividend or distribution plans are in operation:

The company has a Dividend Reinvestment Plan ('DRP'), under which shareholder participation is optional. Under the DRP, the Board has determined that new shares may be issued at a discount of 5% of the volume weighted average market price, for the 15 business days immediately preceding 10 March 2017. The DRP will apply to the dividend declared on 15 February 2017.

7. Details of associates and joint venture entities

Not applicable.

8. Foreign entities

Details of origin of accounting standards used in compiling the report:

Not applicable.

9. Audit qualification or review

Details of audit/review dispute or qualification (if any):

The financial statements have been audited and an unqualified opinion has been issued.

10. Attachments

Details of attachments (if any):

The Annual Report of Think Childcare Limited for the year ended 31 December 2016 is attached.

11. Signed



Signed _____

Date: 15 February 2017

Mark Kerr
Chairman
Melbourne

Think Childcare Limited

ABN 81 600 793 388

Annual Report - 31 December 2016

Corporate directory	2
Chairman's and Chief Executive Officer's letter	3
Directors' report	6
Auditor's independence declaration	17
Statement of profit or loss and other comprehensive income	18
Statement of financial position	19
Statement of changes in equity	20
Statement of cash flows	21
Notes to the financial statements	22
Directors' declaration	54
Independent auditor's report to the members of Think Childcare Limited	55
Shareholder information	59

Directors	Mark Kerr - Chairman and Non-Executive Director Mathew Edwards - Managing Director and Chief Executive Officer Paul Gwilym - Executive Director and Chief Financial Officer Andrew Hanson - Non-Executive Director
Company secretaries	Paul Gwilym Mourice Garbutt
Notice of annual general meeting	The details of the annual general meeting of Think Childcare Limited are: Boardroom of Minter Ellison Level 23, Rialto Towers 525 Collins Street Melbourne, VIC 3000 At 10:30 am on Friday, 5th of May 2017
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	Bentleys NSW Audit Pty Ltd Level 10, 10 Spring Street Sydney, NSW 2000
Solicitors	Minter Ellison Level 23, Rialto Towers 525 Collins Street Melbourne, VIC 3000
Stock exchange listing	Think Childcare Limited shares are listed on the Australian Securities Exchange (ASX code: TNK)
Website	www.thinkchildcare.com.au
Corporate Governance Statement	www.thinkchildcare.com.au/about/corporate-governance-and-policies

Dear Shareholders,

The Board of Directors has pleasure in delivering Think Childcare Limited's ('THINK') 2016 calendar year Annual Report.

It has been another rewarding year for THINK, with a shift in our focus from integrating our centres to growth by acquisition in the last quarter of 2016, increasing our number of centres to 38.

It is a testament to our Educators, Centre Directors our Field Operations Team and Centre Support that they have built a community of centres united through our core values and driven to change the lives of the children in our care.

Childcare is a challenging sector, and you need to remain vigilant across all the operational facets that you control whilst mindful in dealing strategically with those facets you don't.

With our centres in diverse demographic markets and geographically spread across four states, it is not possible to effectively manage these operations centrally. Accordingly, our people have taken the empowerment model to heart and embraced the responsibility that comes with this trust. They have faced every challenge head-on with passion, good humour and a diligence. Through increasing children's participation in care, managing costs and the full benefits of acquisitions, we have achieved an increase in EBITDA of 14.9%.

Financial Metrics

	CY16	CY15	Variance
Revenue	\$54,543,000	\$46,512,000	Up 17.3%
NPAT	\$5,367,000	\$4,809,000	Up 11.6%
EBITDA	\$8,495,000	\$7,392,000	Up 14.9%
Underlying EBITDA	\$8,833,000	\$7,394,000	Up 19.5%
Earnings Per Share (EPS)	13.12c	12.14c	Up 8.0%
EPS (Number of shares at start of CY)	13.55c	12.14c	Up 11.6%
Centre Based Turnover ILP*	\$48,898,000	\$44,267,000	Up 10.5%
Centre Based EBITDA ILP	\$10,463,000	\$9,001,000	Up 16.2%
Centres' Base Wages to Turnover**	49.55%	47.54%	Up 4.2%
Dividend declared for period	9.0c	7.2c	Up 25.0%
Acquisition Multiple on ILP	3.09	3.84	
Increase in Head Office Costs from CY2015	\$924,000	N/A	
Total Capital Expenditure	\$1,741,000	\$1,200,000	Up 45.0%

*ILP- Initial Listing Portfolio (30 centres)

**Wages excluding on costs

Dividend

We have pleasure in declaring a final dividend of 5.0c per share fully franked. This brings the full year dividend to 9.0c fully franked and improves on our maiden dividend of 7.2c (33% franked).

	CY16
Final Dividend CY2016	5.0c per share
Total CY2016 Dividend	9.0c per share
Franking	100%
Dividend Announced	16-Feb-17
DRP* pricing	5% discount to the VWAP
VWAP calculation period	17 Feb-17 - 9 Mar-17
Dividend payment & issue under the DRP	24-Mar-17
<i>Previous DRP price \$2.096</i>	<i>Sep-16</i>

**DRP - Dividend Re-Investment Plan*

The Board recommends your consideration of the Dividend Reinvestment Plan ('DRP'). Shareholders that elect to take shares instead of cash under the DRP will receive their shares at a discount of 5% to the weighted average market share price for the 15 business days immediately preceding 10 March 2017.

Please go online at any time to register for the DRP via Computershare at www.computershare.com.au/easyupdate/TNK.

2016 Operations in summary

- Completed the integration of all our technology platforms to manage accounts, payroll, time and attendance, electronic sign in and out of children and online portal for parents to track their child's development.
- Continued our capital improvement program and completed the integration and of our initial listing portfolio (30 centres) and the two centres acquired late in 2015.
- Acquired three trading centres (all settled in late 2016).
- Acquired three greenfield centres (centres yet to trade at the time of acquisition). All centres were trading by 31st December.
- Delivered an 11.6% growth in NPAT and an 8% growth in EPS whilst incurring an additional \$924,000 in Head Office costs over CY2015.
- Extended our support team head count to build a more robust foundation for future growth.
- Invested over \$1.7m in capital improvements, with yard upgrades, painting, and flooring, resources for our Educators and for our children.
- Empowered our Centres to manage their wages using our online platforms with positive results.

2017

THINK expects 2017 will be a big year. It will see us extend our growth in both owned and managed centres. We expect to develop 3 to 4 greenfield centres under THINK and manage the development of 6 to 8 centres for our Incubator partners. We will continue to invest in our team and our existing portfolio of centres to drive growth.

The vision of THINK is to *"change the world one Educator at a time"*, if we have happy Educators, we have happy children and happy families. This leads to a growing and prosperous business that allows us to deliver better financial outcomes to our shareholders. We remain steadfastly focused on delivering our vision and welcome your continued participation on the journey of Think Childcare Limited.

Yours faithfully

A handwritten signature in black ink that reads "Mark Kerr".A handwritten signature in black ink that reads "Mathew Edwards".

Mark Kerr

Mathew Edwards

Chairman

Managing Director and CEO

15 February 2017

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Think Childcare Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 31 December 2016.

Directors

The following persons were directors of Think Childcare Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Mark Kerr - Chairman
 Mathew Edwards
 Paul Gwilym
 Andrew Hanson

Principal activities

The principal activity of the consolidated entity during the financial year continued to consist of operating childcare centres.

Dividends

Dividends paid during the financial year were as follows:

	Consolidated	
	2016	2015
	\$'000	\$'000
Final dividend for the year ended 31 December 2015 (2014: Nil) of 7.2 cents per ordinary share	2,851	-
Interim dividend for the year ended 31 December 2016 (2015: Nil) of 4 cents per ordinary share	1,647	-
	4,498	-
	4,498	-

On 15 February 2017, a final dividend for the year ended 31 December 2016 of 5 cents per ordinary share, fully franked, was declared, with a record date of 15 March 2017. The dividend will be paid on 24 March 2017 and is estimated to be \$2,081,966.

Review of operations

The profit for the consolidated entity after providing for income tax amounted to \$5,367,000 (31 December 2015: \$4,809,000).

For further details on the results refer to commentary in the attached Chairman's letter and ASX announcement accompanying this report.

Underlying earnings before interest, taxation, depreciation and amortisation ('EBITDA') excluding acquisition and integration expenses and adjustments for newly acquired centres for the consolidated entity was a profit of \$8,833,000 (2015: \$7,394,000). This is calculated as follows:

	Consolidated	
	2016	2015
	\$'000	\$'000
Revenue	54,543	46,512
Profit after income tax	5,367	4,809
Add: Income tax expense	2,163	1,845
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EBITDA	8,495	7,392
Add: Acquisition and integration expenses	89	326
Adjustments for newly acquired centres	249	(324)
Underlying EBITDA	<u>8,833</u>	<u>7,394</u>

EBITDA and underlying EBITDA, are financial measures which are not prescribed by Australian Accounting Standards ('AAS') and represents the profit/(loss) under AAS adjusted for non-cash and other items. The directors consider underlying EBITDA to reflect the core earnings of the consolidated entity consistent with internal reporting.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the consolidated entity during the financial year.

Matters subsequent to the end of the financial year

Apart from the dividend declared as discussed above, no other matter or circumstance has arisen since 31 December 2016 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Likely developments and expected results of operations

The consolidated entity is expected to continue to execute its business plan and strategy as outlined in its Initial Public Offering ('IPO') Prospectus dated 2 October 2014, which includes the acquisition of further childcare centres, including the development of green field sites and organic growth within the existing portfolio.

Environmental regulation

The consolidated entity is not subject to any significant environmental regulation under Australian Commonwealth or State law.

Information on directors

Name:	Mark Kerr
Title:	Chairman and Non-Executive Director
Qualifications:	LLB
Experience and expertise:	Mark is an experienced director and advisor to listed and private companies. He was a director of Baker Street Childcare Education Pty Ltd, which was acquired by the consolidated entity. 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.
Other current directorships:	Non-executive chairman of Contango Microcap Limited (ASX: CTN), non-executive director of Contango Income Generator Ltd (ASX: CIE), non-executive chairman of Hawthorn Resources Limited (ASX: HAW) and non-executive director of Alice Queen Ltd (ASX: AQX).
Former directorships (last 3 years):	None
Special responsibilities:	Member of the Audit and Risk Committee
Interests in shares:	1,426,218 ordinary shares (all held indirectly)

Name: Mathew Edwards
Title: Managing Director and Chief Executive Officer ('CEO')
Experience and expertise: Mathew has been involved in childcare since 2001. He was the Managing Director of Learning and Education Australia Pty Ltd ('LEA') from 2008 which previously owned 12 of the consolidated entity's childcare centres. He has overseen the development of that company's business of improving and managing childcare centres. The LEA business centred around developing greenfield sites and the trading up of under-performing centres. 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 was also a director of Baker Street Childcare Education Pty Ltd, which was acquired by the consolidated entity. 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 shares: 13,956,443 ordinary shares (7,625,010 held directly and 6,331,433 held indirectly)

Name: Paul Gwilym
Title: Executive Director and Chief Financial Officer ('CFO')
Qualifications: CA and FINSIA
Experience and expertise: Paul is a Chartered Accountant with over 20 years' experience in accounting, financial management and general business, with a background in insolvency and reconstruction and has operated his own consultancy specialising in strategic planning, restructuring and capital raising. He was the CFO of Learning and Education Australia Pty Ltd from November 2013, until assuming the role of CFO of the consolidated entity. Paul's previous Board experience includes Game R Us Australia Limited, Senacon Limited and Nubax Pty Ltd.

Other current directorships: None
Former directorships (last 3 years): None
Special responsibilities: CFO
Interests in shares: 714,523 ordinary shares (all held indirectly)

Name: Andrew Hanson
Title: Non-Executive Director
Qualifications: B.Ec (Hons), FCA, GAICD
Experience and expertise: Andrew is a Chartered Accountant and retired as an audit and transaction services partner from PricewaterhouseCoopers in 2011 after 27 years' service. Andrew brings deep accounting, commercial and governance experience to the consolidated entity. He is currently an independent adviser to the Board of Beacon Lighting Group (ASX: BLX) and a director or advisory board member of various private companies, including chairman of Guest Group Pty Ltd, and a non-executive director and past chairman of Prestige Inhome Care Pty Ltd.

Other current directorships: None
Former directorships (last 3 years): None
Special responsibilities: Chairman of the Audit and Risk Committee.
Interests in shares: 50,954 ordinary shares (all held indirectly)

'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.

Company secretaries

Joint company secretaries are Paul Gwilym and Mourice Garbutt.

For Paul's experience, refer to 'Information on directors' section above.

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 ('FGIA') and Chartered Institute of Secretaries ('FCIS'). Former professional associations being: Certified Practising Accountant ('CPA'); British Institute of Management and Institute of Directors in Australia; and he was previously an Honorary Justice of the Peace in Victoria.

Meetings of directors

The number of meetings of the company's Board of Directors ('the Board') and of each Board committee held during the year ended 31 December 2016, and the number of meetings attended by each director were:

	Full Board		Audit and Risk Committee	
	Attended	Held	Attended	Held
Mark Kerr	14	14	3	3
Mathew Edwards	14	14	-	-
Paul Gwilym	14	14	-	-
Andrew Hanson	14	14	3	3

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee.

Remuneration report (audited)

The remuneration report, which has been audited, outlines the Key Management Personnel ('KMP') remuneration arrangements for the consolidated entity, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

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

The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation
- Additional disclosures relating to KMP

Principles used to determine the nature and amount of remuneration

The objective of the consolidated entity's KMP reward framework is to ensure reward for performance is competitive and appropriate for the results delivered.

The Board of Directors ('Board') is responsible for determining and reviewing remuneration arrangements for its directors and KMP's. The performance of the consolidated entity depends on the quality of its directors and KMP. The remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

The Board has structured an executive remuneration framework that is market competitive and has established a Long Term Incentive Plan ('LTIP') which was activated in 2016. The executive remuneration framework will also be complementary to the reward strategy of the consolidated entity, as follows:

The reward framework is designed to align executive reward to shareholders' interests. The Board have considered that it should seek to enhance shareholders' interests by:

- having economic profit as a core component of plan design;
- focusing on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant or increasing return on assets as well as focusing the KMP on key non-financial drivers of value; and
- attracting and retaining high calibre executives.

Alignment to KMP interests:

- rewards capability and experience;
- reflects competitive reward for contribution to growth in shareholder wealth; and
- provides a clear structure for earning rewards.

In accordance with best practice corporate governance, the structure of non-executive director and executive director remuneration is separate.

Non-executive directors remuneration

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, these directors. Non-executive directors' fees and payments are reviewed annually by the Board. The Board may, from time to time, receive advice from independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market. The chairman's fees are determined independently to the fees of other non-executive directors based on comparative roles in the external market. The chairman is not present at any discussions relating to determination of his own remuneration.

ASX listing rules require the aggregate non-executive directors' remuneration be determined periodically by a general meeting. Under the company's constitution and as set out in the IPO Prospectus, total aggregate remuneration available to non-executive directors was set at \$750,000 per annum. Annual directors' fees currently agreed to be paid by the company are \$100,000 to the chairman, and \$55,000 to the other non-executive director, in each case exclusive of statutory superannuation. In addition, the Audit and Risk Committee chair receives an additional \$20,000 annually, exclusive of statutory superannuation.

Executive remuneration

The consolidated entity aims to reward executives with a level and mix of remuneration based on their position and responsibility, which has both fixed and variable components.

The executive remuneration and reward framework going forward has three components:

- base pay and non-monetary benefits;
- share-based payments; and
- other remuneration such as superannuation and long service leave.

The combination of these comprises the executive's total remuneration.

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, are reviewed annually by the Board, based on individual performance, the overall performance of the consolidated entity and comparable market remuneration.

Executives may receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the consolidated entity and provides additional benefit for the KMP.

The long-term incentives ('LTI') include long service leave and share-based payments. The consolidated entity has adopted a LTI plan in relation to the share-based payment awards. The Board has the discretion to settle share-based payment awards in cash or shares.

Consolidated entity performance and link to remuneration

Remuneration is not directly linked to the performance of the consolidated entity. Certain individuals may receive bonuses linked to their divisional performance which is ultimately at the discretion of the Board. Refer to section 'Details of remuneration' of the remuneration report for details.

Use of remuneration consultants

During the financial year ended 31 December 2016, the consolidated entity engaged PricewaterhouseCoopers to review its existing remuneration policies and provide an update on current market practices.

The consolidated entity paid \$12,240 for this consulting service. The consultant did not provide any other kind of advice to the consolidated entity. An agreed set of protocols were put in place to ensure that the remuneration recommendations would be free from undue influence from key management personnel. These protocols include requiring that the consultant not communicate with affected key management personnel without a member of the Nomination and Remuneration Committee being present, and that the consultant not provide any information relating to the outcome of the engagement with the affected key management personnel. The Board is also required to make inquiries of the consultant's processes at the conclusion of the engagement to ensure that they are satisfied that any recommendations made have been free from undue influence. The Board is satisfied that these protocols were followed and as such there was no undue influence.

Voting and comments made at the company's 2015 Annual General Meeting ('AGM')

At the 6 May 2016 AGM, less than 1% voted against the adoption of the remuneration report for the period ended 31 December 2015 (12% abstained). The company did not receive any specific feedback at the AGM regarding its remuneration practices.

Details of remuneration

Amounts of remuneration

The KMP of the consolidated entity consisted of the following directors of Think Childcare Limited:

- Mark Kerr - Chairman and Non-Executive Director
- Mathew Edwards - Managing Director and Chief Executive Officer
- Paul Gwilym - Executive Director, Chief Financial Officer and Joint Company Secretary
- Andrew Hanson - Non-Executive Director

And the following person:

- Amanda Mawer - Operations Manager

Details of the remuneration of the KMP of the consolidated entity are set out in the following tables.

	Short-term benefits			Performance based cash bonus	Post-employment benefits	Share-based payments	Total
	Cash salary and fees	Other cash benefits	Non-monetary		Super-annuation	Long term benefits	
2016	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>							
Mark Kerr - Chairman	99,996	-	-	-	9,499	24,400	133,895
Andrew Hanson	75,000	-	-	-	7,125	18,300	100,425
<i>Executive Directors:</i>							
Mathew Edwards	235,000	30,000	-	100,000	22,325	61,000	448,325
Paul Gwilym	215,000	30,000	-	80,000	20,425	48,800	394,225
<i>Other KMP:</i>							
Amanda Mawer	93,000	-	35,000	35,000	8,835	15,108	186,943
	<u>717,996</u>	<u>60,000</u>	<u>35,000</u>	<u>215,000</u>	<u>68,209</u>	<u>167,608</u>	<u>1,263,813</u>

	Short-term benefits			Post-employment benefits	Share-based payments	Total
	Cash salary and fees	Other cash benefits	Non-monetary	Super-annuation	Long term benefits	
2015	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>						
Mark Kerr - Chairman	80,000	-	-	7,600	-	87,600
Andrew Hanson	60,000	-	-	5,700	-	65,700
<i>Executive Directors:</i>						
Mathew Edwards	185,000	30,000	-	17,575	-	232,575
Paul Gwilym	165,000	30,000	-	15,675	-	210,675
<i>Other KMP:</i>						
Amanda Mawer	85,905	-	35,000	8,161	-	129,066
	575,905	60,000	35,000	54,711	-	725,616

The proportion of remuneration linked to performance and the fixed proportion are as follows:

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2016	2015	2016	2015	2016	2015
<i>Non-Executive Directors:</i>						
Mark Kerr	82%	100%	-	-	18%	-
Andrew Hanson	82%	100%	-	-	18%	-
<i>Executive Directors:</i>						
Mathew Edwards	64%	100%	22%	-	14%	-
Paul Gwilym	68%	100%	20%	-	12%	-
<i>Other KMP:</i>						
Amanda Mawer	73%	100%	19%	-	8%	-

Service agreements

Remuneration and other terms of employment for KMP are formalised in service agreements. Details of these agreements are as follows:

Name:	Mathew Edwards
Title:	Managing Director and Chief Executive Officer
Agreement commenced:	17 September 2014
Term of agreement:	5 years
Details:	Pursuant to the base contract, Mathew receives a total fixed remuneration of \$185,000 per annum (increased by \$50,000 in 2016), plus statutory superannuation entitlements and a vehicle allowance. The consolidated entity may terminate his employment agreement by giving six months' notice in writing, or by making a payment in lieu of part or all of the notice period. In the event of serious misconduct, serious breach or non-observance of any term or condition of the terms of the employment contract, the consolidated entity may immediately terminate Mathew's employment without notice or payment in lieu of notice. Mathew can terminate his employment by giving the consolidated entity six months' notice in writing.

Name: Paul Gwilym
 Title: Executive Director and Chief Financial Officer
 Agreement commenced: 17 September 2014
 Term of agreement: 3 years
 Details: Pursuant to the base contract, Paul receives a total fixed remuneration of \$165,000 per annum (increased by \$50,000 in 2016), plus statutory superannuation entitlements and a vehicle allowance. The consolidated entity may terminate his employment agreement by giving six months' notice in writing, or by making a payment in lieu of part or all of the notice period. In the event of serious misconduct, serious breach or non-observance of any term or condition of the terms of the employment contract, the consolidated entity may immediately terminate Paul's employment without notice or payment in lieu of notice. Paul can terminate his employment by giving the consolidated entity six months' notice in writing.

Name: Amanda Mawer
 Title: Operations Manager
 Agreement commenced: 17 September 2014
 Term of agreement: Ongoing contract
 Details: Amanda receives a total fixed remuneration of \$93,000 per annum, plus statutory superannuation entitlements and a car benefit of \$35,000. The consolidated entity may terminate her employment agreement by giving four weeks' notice in writing, or by making a payment in lieu of part or all of the notice period. In the event of serious misconduct, serious breach or non-observance of any term or condition of the terms of the employment contract, the consolidated entity may immediately terminate Amanda's employment without notice or payment in lieu of notice. Amanda can terminate her employment by giving the consolidated entity four weeks' notice in writing.

KMP have no entitlement to termination payments in the event of removal for misconduct.

Share-based compensation

Issue of shares

There were no shares issued to directors and other KMP as part of compensation during or since the year ended 31 December 2016 and up to the date of this report.

There were no options over ordinary shares granted or issued to or vested in directors and other KMP as part of compensation that were outstanding, during or since the year ended 31 December 2016 and up to the date of this report.

Performance rights

The terms and conditions of each grant of performance rights over ordinary shares affecting remuneration of directors and other key management personnel in this financial year or future reporting years are as follows:

Name	Number of rights granted	Grant date	Expiry date	Exercise price	Fair value per right at grant date
Mark Kerr *	40,000	5 May 2016	26 May 2031	-	\$1.00
Mathew Edwards**	100,000	5 May 2016	26 May 2031	-	\$1.00
Paul Gwilym **	80,000	5 May 2016	26 May 2031	-	\$1.00
Andrew Hanson *	30,000	5 May 2016	26 May 2031	-	\$1.00
Amanda Mawer***	36,842	5 May 2016	26 May 2031	-	\$1.00

- * In relation to the Non-executive directors, the performance rights will vest in 3 equal proportions over the 3-year period but will not be subject to any performance hurdles.
- ** In relation to the Managing Director and the CFO, the performance rights will vest in 3 equal proportions subject to performance criteria measured over the performance results between 2016 and 2018, being the satisfaction of the company achieving a 10% annual earnings per share (EPS) increase excluding greenfield trade up losses and acquisition costs.
- *** In relation to Amanda Mawer the performance rights will vest in 3 equal proportions subject to performance criteria measured over the performance results between 2016 and 2018, being the satisfaction of the centres under her control achieving budgeted outcomes

Additional disclosures relating to KMP

Shareholding

The number of shares in the company held during the financial year by each director and other members of KMP of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
<i>Ordinary shares</i>					
Mark Kerr	1,342,529	-	83,689	-	1,426,218
Mathew Edwards	13,545,100	-	1,111,343	(700,000)	13,956,443
Paul Gwilym	660,000	-	54,523	-	714,523
Andrew Hanson	50,000	-	954	-	50,954
	<u>15,597,629</u>	<u>-</u>	<u>1,250,509</u>	<u>(700,000)</u>	<u>16,148,138</u>

Performance rights holding

The number of performance rights over ordinary shares in the company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	Granted	Vested	Expired/ forfeited/ other	Balance at the end of the year
<i>Performance rights over ordinary shares</i>					
Mark Kerr	-	40,000	-	-	40,000
Mathew Edwards	-	100,000	-	-	100,000
Paul Gwilym	-	80,000	-	-	80,000
Andrew Hanson	-	30,000	-	-	30,000
Amanda Mawer	-	36,842	-	-	36,842
	<u>-</u>	<u>286,842</u>	<u>-</u>	<u>-</u>	<u>286,842</u>

This concludes the remuneration report, which has been audited.

Shares under option

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

Shares under performance rights

Unissued ordinary shares of Think Childcare Limited under performance rights at the date of this report are as follows:

Grant date	Expiry date	Number under rights
5 May 2016	26 May 2031	355,261

No person entitled to exercise the performance rights had or has any right by virtue of the performance right to participate in any share issue of the company or of any other body corporate.

Shares issued on the exercise of options

There were no ordinary shares of Think Childcare Limited issued on the exercise of options during the year ended 31 December 2016 and up to the date of this report.

Shares issued on the exercise of performance rights

There were no ordinary shares of Think Childcare Limited issued on the exercise of performance rights during the year ended 31 December 2016 and up to the date of this report.

Indemnity and insurance of officers

The company has indemnified the directors and executives of the company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the company paid a premium in respect of a contract to insure the directors and executives of the company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor

The company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

During the financial year, the company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

Proceedings on behalf of the company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

Non-audit services

There were no non-audit services provided during the financial year by the auditor. Tax services were provided by a network firm as disclosed in note 25 to the financial statements.

Officers of the company who are former partners of Bentleys NSW Audit Pty Ltd

There are no officers of the company who are former partners of Bentleys NSW Audit Pty Ltd.

Rounding of amounts

The company 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.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 follows this directors' report.

Auditor

Bentleys NSW Audit Pty Ltd continues in office in accordance with section 327 of the Corporations Act 2001.

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

On behalf of the directors

A handwritten signature in black ink that reads "Mark Kerr".

Mark Kerr
Chairman

15 February 2017
Melbourne

Think Childcare Limited
ABN: 81 600 793 388

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, during the year ended 31 December 2016, 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.



Bentleys NSW Audit Pty Ltd



Robert Evett
Director

Sydney
15 February 2017

Think Childcare Limited
Statement of profit or loss and other comprehensive income
For the year ended 31 December 2016



	Note	Consolidated	
		2016 \$'000	2015 \$'000
Revenue	5	54,543	46,512
Expenses			
Employee expenses	6	(34,177)	(28,936)
Occupancy expenses		(6,416)	(5,628)
Direct expenses of providing services		(2,145)	(1,842)
Marketing expenses		(796)	(544)
Corporate expenses		(467)	(267)
Share based payment expense		(217)	-
Acquisition and integration expenses	6	(89)	(326)
Other expenses		(1,739)	(1,567)
Depreciation and amortisation expense	6	(604)	(328)
Finance costs	6	(363)	(420)
Profit before income tax expense		7,530	6,654
Income tax expense	7	(2,163)	(1,845)
Profit after income tax expense for the year attributable to the owners of Think Childcare Limited		5,367	4,809
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year attributable to the owners of Think Childcare Limited		<u>5,367</u>	<u>4,809</u>
		Cents	Cents
Basic earnings per share	33	13.12	12.14
Diluted earnings per share	33	13.04	12.14

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

	Note	Consolidated 2016 \$'000	2015 \$'000
Assets			
Current assets			
Cash and cash equivalents		1,795	2,359
Trade and other receivables	8	1,937	1,175
Other	9	1,179	861
Total current assets		<u>4,911</u>	<u>4,395</u>
Non-current assets			
Property, plant and equipment	10	3,323	1,886
Intangibles	11	31,353	20,299
Deferred tax	12	1,538	1,846
Security deposits		2,294	1,775
Total non-current assets		<u>38,508</u>	<u>25,806</u>
Total assets		<u>43,419</u>	<u>30,201</u>
Liabilities			
Current liabilities			
Trade and other payables	13	4,574	3,277
Borrowings	27	56	47
Income tax payable		546	1,778
Employee benefits	14	1,803	1,573
Other	15	2,509	180
Total current liabilities		<u>9,488</u>	<u>6,855</u>
Non-current liabilities			
Borrowings	16	10,281	5,360
Employee benefits	17	545	606
Other	18	1,899	-
Total non-current liabilities		<u>12,725</u>	<u>5,966</u>
Total liabilities		<u>22,213</u>	<u>12,821</u>
Net assets		<u>21,206</u>	<u>17,380</u>
Equity			
Issued capital	19	40,404	37,664
Reserves	20	(18,835)	(19,052)
Accumulated losses		(363)	(1,232)
Total equity		<u>21,206</u>	<u>17,380</u>

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

Think Childcare Limited
Statement of changes in equity
For the year ended 31 December 2016



Consolidated	Issued capital \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 January 2015	37,664	(19,052)	(6,041)	12,571
Profit after income tax expense for the year	-	-	4,809	4,809
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	4,809	4,809
Balance at 31 December 2015	<u>37,664</u>	<u>(19,052)</u>	<u>(1,232)</u>	<u>17,380</u>

Consolidated	Issued capital \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 January 2016	37,664	(19,052)	(1,232)	17,380
Profit after income tax expense for the year	-	-	5,367	5,367
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	5,367	5,367
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 19)	2,740	-	-	2,740
Share-based payments (note 20)	-	217	-	217
Dividends paid (note 21)	-	-	(4,498)	(4,498)
Balance at 31 December 2016	<u>40,404</u>	<u>(18,835)</u>	<u>(363)</u>	<u>21,206</u>

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

	Note	Consolidated	
		2016 \$'000	2015 \$'000
Cash flows from operating activities			
Cash receipts from parents and government funding		51,957	44,938
Payments to suppliers and employees		(44,913)	(39,717)
		7,044	5,221
Government grants received		2,009	2,126
Interest received		2	10
Interest and other finance costs paid		(323)	(420)
Income taxes paid		(3,109)	-
Net cash from operating activities	32	5,623	6,937
Cash flows from investing activities			
Payments for purchase of business, net of cash acquired	30	(6,771)	(4,590)
Prepayments relating to future acquisitions		(63)	(244)
Payments for property, plant and equipment	10	(1,649)	(1,068)
Payments for intangibles	11	(211)	-
Payments for security deposits		(519)	(904)
Proceeds from disposal of property, plant and equipment		10	-
Net cash used in investing activities		(9,203)	(6,806)
Cash flows from financing activities			
Proceeds from issue of shares	19	2,804	-
Payments of share issue costs, net of tax		-	(2,242)
Proceeds from borrowings	16	4,869	2,775
Repayments of borrowings		-	(2,500)
Dividends paid	21	(4,498)	-
Payments of costs relating to bank facility		(128)	(162)
Payment for finance leases		(31)	-
Net cash from/(used in) financing activities		3,016	(2,129)
Net decrease in cash and cash equivalents		(564)	(1,998)
Cash and cash equivalents at the beginning of the financial year		2,359	4,357
Cash and cash equivalents at the end of the financial year		1,795	2,359

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

Note 1. General information

The financial statements cover Think Childcare Limited as a consolidated entity consisting of Think Childcare Limited ('company' or 'parent entity') and the entities it controlled at the end of, or during, the year ('consolidated entity'). The financial statements are presented in Australian dollars, which is Think Childcare Limited's functional and presentation currency.

Think Childcare Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Suite 3, 1 Park Avenue
Drummoyne, NSW 2047

A description of the nature of the consolidated entity'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 15 February 2017. The directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Basis of preparation

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

Historical cost convention

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

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity'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.

Parent entity information

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

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Think Childcare Limited as at 31 December 2016 and the results of all subsidiaries for the period then ended. Think Childcare Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Note 2. Significant accounting policies (continued)

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity 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 to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of common control subsidiaries is accounted for using the 'common control' method of accounting. The acquisition of other subsidiaries is accounted for using the 'acquisition method' of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

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

Revenue is recognised when it is probable that the economic benefit will flow to the consolidated entity and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Provision of childcare services

Fees paid by the Commonwealth, State or Territory Governments or parent fees are recognised as revenue as and when the early learning service is provided.

Revenue received in advance is recognised as deferred income and classified as a liability until earned.

Management fees

Fees paid by externally owned centres are recognised at the beginning of the month in which the service is to be performed.

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 consolidated entity 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 period is the tax payable on that period'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.

Note 2. Significant accounting policies (continued)

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 on 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 have formed an income tax consolidated group under the tax consolidation regime. The head entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognises 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 the 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 the tax consolidated group. The tax funding arrangement ensures that the intercompany 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.

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

Note 2. Significant accounting policies (continued)

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the consolidated entity will not be able to collect all amounts due. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments, or payment arrangements are considered indicators that the trade receivable may be impaired.

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

Property, plant and equipment

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

Depreciation is calculated on a straight-line basis to write off the net cost of each item of plant and equipment over their expected useful lives as follows:

Plant and equipment	3-10 years
Motor vehicles	5 years
Computer equipment	1-3 years

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

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

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

Leases

Leases of property, plant and equipment where the consolidated entity, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included as a liability. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease year so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the consolidated entity are classified as operating leases. Payments made under operating leases, net of any incentives received from the lessor, are recognised in profit or loss on a straight-line basis over the term of the lease, which reflects the pattern in which economic benefits from the leased asset are consumed. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

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.

Note 2. Significant accounting policies (continued)

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 consolidated entity 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 days of recognition.

Deferred consideration

Deferred consideration arises when settlement of all or any part of the cost of a business combination is deferred. It is initially recognised at fair value at the acquisition-date, which is determined by discounting the amount due to present value at that date. The liability is subsequently measured at amortised cost using the effective interest method. Where deferred consideration is in the form of shares and the number of shares to be issued is fixed, the fair value is credited to equity. The value of the deferred consideration is reviewed at each reporting date.

Contingent consideration is detailed on business combination policy. Refer to notes 15 and 18 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.

Provisions

Provisions are recognised when the consolidated entity has a present (legal or constructive) obligation as a result of a past event, it is probable the consolidated entity 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.

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.

Note 2. Significant accounting policies (continued)

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 for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity 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 consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity 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.

Note 2. Significant accounting policies (continued)

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 consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the consolidated entity 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 or loss. 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 consolidated entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from a financier under comparable terms and conditions.

Note 2. Significant accounting policies (continued)

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 consolidated entity 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 share

Basic earnings per share

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

Diluted earnings per share

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

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.

Comparatives

Certain comparative in the statement of profit or loss and other comprehensive income have been reclassified for consistency with the current period presentation.

Rounding of amounts

The company 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 2. Significant accounting policies (continued)

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 31 December 2016. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

AASB 9 Financial Instruments

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The consolidated entity will adopt this standard from 1 January 2018 and the impact of its adoption is expected to be minimal.

AASB 15 Revenue from Contracts with Customers

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgments made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The consolidated entity will adopt this standard from 1 January 2018 but the impact of its adoption is yet to be assessed by the consolidated entity.

Note 2. Significant accounting policies (continued)

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. For lessee accounting, the standard eliminates the 'operating lease' and 'finance lease' classification required by AASB 117 'Leases'. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured as the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) components. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The consolidated entity will adopt this standard from 1 January 2019 but the impact of its adoption is yet to be assessed by the consolidated entity.

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 will seldom equal 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 consolidated entity tests 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.

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences only if the consolidated entity 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. Operating segments

Identification of reportable operating segments

The consolidated entity operates in one segment being a childcare services provider. This is 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.

The consolidated entity operates in one geographical region being Australia.

The operating segment information is the same information as provided throughout these financial statements and therefore not duplicated.

Major customers

During the year ended 31 December 2016, none of the consolidated entity's external revenue was derived from sales to one specific customer or group of customers that derived more than 10% of total revenue (2015: Nil).

Note 5. Revenue

	Consolidated	
	2016	2015
	\$'000	\$'000
<i>Sales revenue</i>		
Provision of childcare services	51,297	43,346
<i>Other revenue</i>		
Government grants	2,009	2,126
Management fees	1,235	1,030
Interest	2	10
	3,246	3,166
Revenue	54,543	46,512

Note 6. Expenses

	Consolidated	
	2016	2015
	\$'000	\$'000
Profit before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Plant and equipment	451	296
Leasehold improvements	63	16
Motor vehicles	45	3
Computer equipment	27	13
	<hr/>	<hr/>
Total depreciation	586	328
<i>Amortisation</i>		
Software	18	-
	<hr/>	<hr/>
Total depreciation and amortisation	604	328
<i>Finance costs</i>		
Interest and finance charges paid/payable	363	420
	<hr/>	<hr/>
<i>Rental expense relating to operating leases</i>		
Minimum lease payments	4,548	3,993
	<hr/>	<hr/>
<i>Superannuation expense</i>		
Defined contribution superannuation expense	2,683	2,365
	<hr/>	<hr/>
Employee benefits expense excluding superannuation	31,494	26,571
	<hr/>	<hr/>
<i>Acquisition and integration expenses</i>		
Acquisition and integration costs	89	326
	<hr/>	<hr/>

Note 7. Income tax expense

	Consolidated	
	2016	2015
	\$'000	\$'000
<i>Income tax expense</i>		
Current tax	1,997	1,778
Deferred tax - origination and reversal of temporary differences	285	67
Adjustment recognised for prior periods	(119)	-
	<u>2,163</u>	<u>1,845</u>
Aggregate income tax expense		
Deferred tax included in income tax expense comprises:		
Decrease in deferred tax assets (note 12)	285	67
	<u>285</u>	<u>67</u>
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Profit before income tax expense	7,530	6,654
Tax at the statutory tax rate of 30%	2,259	1,996
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Non-deductible expenses	16	154
Acquisition and integration expenses	7	86
Black hole expenditure	-	(275)
	<u>2,282</u>	<u>1,961</u>
Adjustment recognised for prior periods	(119)	-
Prior year tax losses not recognised now recouped	-	(116)
	<u>-</u>	<u>(116)</u>
Income tax expense	<u>2,163</u>	<u>1,845</u>

	Consolidated	
	2016	2015
	\$'000	\$'000
<i>Amounts charged directly to equity</i>		
Deferred tax assets (note 12)	64	-
	<u>64</u>	<u>-</u>

The average tax rate for the year ended as at 31 December 2016 is 28.7% (2015: 27.7%).

Note 8. Current assets - trade and other receivables

	Consolidated	
	2016	2015
	\$'000	\$'000
Trade receivables	1,451	970
Less: Provision for impairment of receivables	(120)	(74)
	<u>1,331</u>	<u>896</u>
Other receivables	606	279
	<u>1,937</u>	<u>1,175</u>

Impairment of receivables

The consolidated entity has recognised an expense of \$46,000 (2015: a reversal of \$17,000), within the 'other expenses' category, in profit or loss in respect of a provision for impairment of receivables for the year ended 31 December 2016.

Note 8. Current assets - trade and other receivables (continued)

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

	Consolidated	
	2016	2015
	\$'000	\$'000
Nil to three months overdue	4	8
Three to six months overdue	5	18
Over six months overdue	111	48
	120	74
	120	74

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

	Consolidated	
	2016	2015
	\$'000	\$'000
Opening balance	74	91
Additional provisions recognised	61	-
Unused amounts reversed	(15)	(17)
	120	74
	120	74

Past due but not impaired

Customers with balances past due but without provision for impairment of receivables amount to \$285,000 as at 31 December 2016 (\$395,000 as at 31 December 2015).

The consolidated entity 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 2016, the analysis of trade receivables not impaired are as follows:

	Consolidated	
	2016	2015
	\$'000	\$'000
1 to 30 days past due	181	192
31 to 60 days past due	62	58
over 61 days past due	42	145
	285	395
	285	395

Note 9. Current assets - other

	Consolidated	
	2016	2015
	\$'000	\$'000
Prepayments	1,116	617
Other current assets *	63	244
	1,179	861
	1,179	861

* This represents a deposit paid for a prospective future acquisitions held in a lawyer's trust account.

Note 10. Non-current assets - property, plant and equipment

	Consolidated	
	2016	2015
	\$'000	\$'000
Plant and equipment - at cost	3,406	1,815
Less: Accumulated depreciation	(783)	(331)
	<u>2,623</u>	<u>1,484</u>
Leasehold improvements - at cost	475	169
Less: Accumulated depreciation	(79)	(16)
	<u>396</u>	<u>153</u>
Motor vehicles - at cost	242	161
Less: Accumulated depreciation	(47)	(3)
	<u>195</u>	<u>158</u>
Computer equipment - at cost	150	109
Less: Accumulated depreciation	(41)	(18)
	<u>109</u>	<u>91</u>
	<u><u>3,323</u></u>	<u><u>1,886</u></u>

Reconciliations

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

Consolidated	Plant and equipment \$'000	Leasehold improvements \$'000	Motor vehicles \$'000	Computer equipment \$'000	Total \$'000
Balance at 1 January 2015	941	-	-	27	968
Additions	804	158	161	77	1,200
Additions through business combinations (note 30)	35	11	-	-	46
Depreciation expense	(296)	(16)	(3)	(13)	(328)
Balance at 31 December 2015	1,484	153	158	91	1,886
Additions	1,315	292	92	42	1,741
Additions through business combinations (note 30)	275	14	-	3	292
Disposals	-	-	(10)	-	(10)
Depreciation expense	(451)	(63)	(45)	(27)	(586)
Balance at 31 December 2016	<u><u>2,623</u></u>	<u><u>396</u></u>	<u><u>195</u></u>	<u><u>109</u></u>	<u><u>3,323</u></u>

Property, plant and equipment secured under finance leases

Refer to note 27 for further information on property, plant and equipment secured under finance leases.

Note 11. Non-current assets - intangibles

	Consolidated	
	2016	2015
	\$'000	\$'000
Goodwill - at cost	31,160	20,299
Software - at cost	211	-
Less: Accumulated amortisation	(18)	-
	<u>193</u>	<u>-</u>
	<u><u>31,353</u></u>	<u><u>20,299</u></u>

Reconciliations

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

Consolidated	Goodwill	Software	Total
	\$'000	\$'000	\$'000
Balance at 1 January 2015	17,126	-	17,126
Additions through business combinations (note 30)	<u>3,173</u>	<u>-</u>	<u>3,173</u>
Balance at 31 December 2015	20,299	-	20,299
Additions	-	211	211
Additions through business combinations (note 30)	10,861	-	10,861
Amortisation expense	<u>-</u>	<u>(18)</u>	<u>(18)</u>
Balance at 31 December 2016	<u><u>31,160</u></u>	<u><u>193</u></u>	<u><u>31,353</u></u>

Impairment test for goodwill

Goodwill is allocated to a single cash-generating unit ('CGU'), which is based on the consolidated entity's operating segment. The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use a pre-tax discount rate of 10.5% (2015: 13%) and cash flow projections based on 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 rate. The growth rate does not exceed the long term average growth rate for the business.

Impact of possible changes in assumptions - sensitivity analysis

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

Note 12. Non-current assets - deferred tax

	Consolidated	
	2016	2015
	\$'000	\$'000
<i>Deferred tax asset comprises temporary differences attributable to:</i>		
Amounts recognised in profit or loss:		
Impairment of receivables	36	22
Employee benefits	705	654
Acquisition costs	-	102
Other	123	361
Share based payment	65	-
	<u>929</u>	<u>1,139</u>
Amounts recognised in equity:		
Transaction costs on share issue	609	707
Deferred tax asset	<u>1,538</u>	<u>1,846</u>
<i>Movements:</i>		
Opening balance	1,846	1,887
Charged to profit or loss (note 7)	(285)	(67)
Charged to equity (note 7)	(64)	-
Additions through business combinations (note 30)	41	26
Closing balance	<u>1,538</u>	<u>1,846</u>

Note 13. Current liabilities - trade and other payables

	Consolidated	
	2016	2015
	\$'000	\$'000
Trade payables	1,009	899
Centre enrolment advances	671	475
Employee related payables	2,114	1,586
Other payables	780	317
	<u>4,574</u>	<u>3,277</u>

Refer to note 22 for further information on financial instruments.

Note 14. Current liabilities - employee benefits

	Consolidated	
	2016	2015
	\$'000	\$'000
Annual leave	1,601	1,380
Long service leave	202	52
Personal leave	-	141
	<u>1,803</u>	<u>1,573</u>

Note 15. Current liabilities - other

	Consolidated	
	2016	2015
	\$'000	\$'000
Contingent consideration	1,921	180
Deferred consideration	588	-
	<u>2,509</u>	<u>180</u>

The consolidated entity includes the fair value of deferred 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. 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 taken to the income statement as a credit and the corresponding entry against the liability. The value of the consideration is reviewed at each reporting date.

Deferred consideration is the amount payable to a vendor of an asset over time, when there are no hurdles or impediments, other than time.

Refer to note 18 for non-current portion and note 30 for further details on business combinations.

Note 16. Non-current liabilities - borrowings

	Consolidated	
	2016	2015
	\$'000	\$'000
Bank loans	7,850	3,500
Inter-changeable facility (comprising bank overdraft and bank guarantee facility)	2,294	1,775
Lease liability	137	85
	<u>10,281</u>	<u>5,360</u>

Refer to note 22 for further information on financial instruments.

Total secured liabilities

The total secured liabilities (current and non-current) are as follows:

	Consolidated	
	2016	2015
	\$'000	\$'000
Bank loans	7,850	3,500
Inter-changeable facility (comprising bank overdraft and bank guarantee facility)	2,294	1,775
Lease liability	193	132
	<u>10,337</u>	<u>5,407</u>

Assets pledged as security

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

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.

Note 16. Non-current liabilities - borrowings (continued)

Financing arrangements

	Consolidated	
	2016	2015
	\$'000	\$'000
Total facilities		
Bank loans	25,000	25,000
Inter-changeable facility (comprising bank overdraft and bank guarantee facility)	4,000	4,000
Lease liability	193	132
	<u>29,193</u>	<u>29,132</u>
Used at the reporting date		
Bank loans	7,850	3,500
Inter-changeable facility (comprising bank overdraft and bank guarantee facility)	2,294	1,775
Lease liability	193	132
	<u>10,337</u>	<u>5,407</u>
Unused at the reporting date		
Bank loans	17,150	21,500
Inter-changeable facility (comprising bank overdraft and bank guarantee facility)	1,706	2,225
Lease liability	-	-
	<u>18,856</u>	<u>23,725</u>

The unused portion of the bank loan facility is \$17,150,000 (2015: \$21,500,000) of which \$14,650,000 (2015: \$19,000,000) is only available for future acquisitions. The facility was renegotiated in 2016, for a further five year term. There are no conditions on the drawdown other than general covenants under the facility agreement. The remaining \$2,500,000 is available immediately for working capital requirements. The facility is renewable on 4 October 2021.

As at 31 December 2016, the Australian and New Zealand ('ANZ') Bank facility was in good order and the consolidated entity was not in breach of any covenant. Subject to maintenance of the general covenants of the facility agreement, \$14,650,000 is immediately available for suitable acquisitions and to cover contingent and deferred consideration on previously acquired centres.

The consolidated entity will utilise some of the unused portion of the bank loans to make payment of the contingent and deferred consideration when they fall due. Refer to notes 15 and 18 for further details.

Note 17. Non-current liabilities - employee benefits

	Consolidated	
	2016	2015
	\$'000	\$'000
Annual leave	196	133
Long service leave	349	473
	<u>545</u>	<u>606</u>

Note 18. Non-current liabilities - Other

	Consolidated	
	2016 \$'000	2015 \$'000
Contingent consideration	1,117	-
Deferred consideration	782	-
	1,899	-
	1,899	-

Refer to note 15 for further details.

Note 19. Equity - issued capital

	2016 Shares	Consolidated 2015 Shares	2016 \$'000	2015 \$'000
Ordinary shares - fully paid	41,639,311	39,600,000	40,404	37,664

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$'000
Balance	1 January 2015	39,600,000		37,664
Balance	31 December 2015	39,600,000		37,664
Issue of shares under dividend reinvestment plan	31 March 2016	1,563,087	\$1.15	1,806
Issue of shares under dividend reinvestment plan	13 September 2016	476,224	\$2.09	998
Deferred tax adjustment, transaction cost (net of tax)				(64)
Balance	31 December 2016	41,639,311		40,404

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company 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 consolidated entity'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 consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

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

The consolidated entity 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.

Note 19. Equity - issued capital (continued)

The consolidated entity 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 financial year.

Note 20. Equity - reserves

	Consolidated	
	2016 \$'000	2015 \$'000
Common control reserve	(19,052)	(19,052)
Share-based payments reserve	217	-
	(18,835)	(19,052)
	(18,835)	(19,052)

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 financial year are set out below:

Consolidated	Common control \$'000	Share-based payment \$'000	Total \$'000
Balance at 1 January 2015	(19,052)	-	(19,052)
Balance at 31 December 2015	(19,052)	-	(19,052)
Share-based payment	-	217	217
Balance at 31 December 2016	(19,052)	217	(18,835)
	(19,052)	217	(18,835)

Note 21. Equity - dividends

Dividends

Dividends paid during the financial year were as follows:

	Consolidated	
	2016 \$'000	2015 \$'000
Final dividend for the year ended 31 December 2015 (2014: Nil) of 7.2 cents per ordinary share	2,851	-
Interim dividend for the year ended 31 December 2016 (2015: Nil) of 4 cents per ordinary share	1,647	-
	4,498	-
	4,498	-

On 15 February 2017, a final dividend for the year ended 31 December 2016 of 5 cents per ordinary share, fully franked, was declared, with a record date of 15 March 2017. The dividend will be paid on 24 March 2017 and is estimated to be \$2,081,966.

Note 21. Equity - dividends (continued)

Franking credits

	Consolidated	
	2016	2015
	\$'000	\$'000
Franking credits available for subsequent financial years based on a tax rate of 30%	<u>2,000</u>	<u>-</u>

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 consolidated entity's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The consolidated entity'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 consolidated entity. The consolidated entity 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 consolidated entity 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. The consolidated entity did not employ any kind of derivatives for the year ended 31 December 2016.

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 consolidated entity and appropriate procedures, controls and risk limits. The CFO identifies, evaluates and hedges financial risks within the consolidated entity's operating units. The CFO reports to the Board on a monthly basis.

Market risk

Foreign currency risk

The consolidated entity 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 consolidated entity is not exposed to any significant price risk.

Interest rate risk

The consolidated entity's main interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the consolidated entity to interest rate risk. Borrowings issued at fixed rates expose the consolidated entity to fair value interest rate risk. The policy is to maintain approximately \$10,000,000 of borrowings at variable rate and at least 50% of the balance at fixed rate using interest rate swaps to achieve this when necessary.

Note 22. Financial instruments (continued)

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

Consolidated	2016		2015	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
Bank loans	4.29%	7,850	4.05%	3,500
Inter-changeable facility (comprising bank overdraft and bank guarantee facility)	4.29%	2,294	4.05%	1,775
Net exposure to cash flow interest rate risk		<u>10,144</u>		<u>5,275</u>

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

An increase/decrease in interest rates of 50 (2015: 50) basis points would have an adverse/favourable effect on profit before tax and equity of \$50,720 (2015: \$26,000) per annum.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has a strict policy on the management of credit for trade receivables, which is managed in a three tier approach: at the centre director level; at the area manager level; and then at the executive management level.

In the event that the consolidated entity 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 consolidated entity 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 consolidated entity does not hold any collateral.

Liquidity risk

Vigilant liquidity risk management requires the consolidated entity 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 consolidated entity 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:

	Consolidated	
	2016 \$'000	2015 \$'000
Bank loans	17,150	21,500
Inter-changeable facility (comprising bank overdraft and bank guarantee facility)	1,706	2,225
	<u>18,856</u>	<u>23,725</u>

There is a \$20,000,000 acquisitions bank loans facility for future acquisitions (including deferred and contingent consideration) which need to meet general covenants prior to draw-down of which \$14,650,000 is available. Refer to note 16 for further details.

Note 22. Financial instruments (continued)

Remaining contractual maturities

The following tables detail the consolidated entity'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.

Consolidated - 2016	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						
<i>Non-interest bearing</i>						
Trade payables	-	1,009	-	-	-	1,009
Other payables	-	3,565	-	-	-	3,565
Contingent consideration	-	1,921	1,117	-	-	3,038
<i>Interest-bearing - variable</i>						
Bank loans	4.29%	435	435	10,580	-	11,450
Lease liability	4.95%	65	144	-	-	209
Deferred consideration	4.61%	615	818	-	-	1,433
Total non-derivatives		7,610	2,514	10,580	-	20,704

Consolidated - 2015	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						
<i>Non-interest bearing</i>						
Trade payables	-	899	-	-	-	899
Other payables	-	2,378	-	-	-	2,378
<i>Interest-bearing - variable</i>						
Bank loans	4.05%	214	5,382	-	-	5,596
Lease liability	4.95%	51	93	-	-	144
Total non-derivatives		3,542	5,475	-	-	9,017

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

Note 23. Fair value measurement

The following tables detail the consolidated entity'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

Consolidated - 2016	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Liabilities</i>				
Contingent consideration	-	-	3,038	3,038
Deferred consideration	-	-	1,370	1,370
Total liabilities	-	-	4,408	4,408

Consolidated - 2015	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Liabilities</i>				
Contingent consideration	-	-	180	180
Total liabilities	-	-	180	180

There were no transfers between levels during the financial year.

The contingent consideration arising from business combinations (refer to notes 15 and 18) is based on future profits over and above those allowed for in the purchase consideration calculation. The amount is capped at \$3,038,000 and the full amount has been provided for based on the budgeted estimates of the year ending 31 December 2018. Based on sensitivity analysis the most likely amount payable is \$3,038,000, which could be reduced to Nil if current estimates are not met.

Deferred consideration arising from business combination (refer to notes 15 and 18) is capped at \$1,370,000 which is payable over time and is not dependant on the asset's performance.

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:

Consolidated	Deferred/ contingent consideration \$'000	Total \$'000
Balance at 1 January 2015	-	-
Additions through business combination (note 30)	180	180
Balance at 31 December 2015	180	180
Amount paid / settlement against receivables	(180)	(180)
Additions through business combination (note 30)	4,370	4,370
Interest accrued	38	38
Balance at 31 December 2016	4,408	4,408

Note 24. Key management personnel disclosures

Compensation

The aggregate compensation made to directors and other members of key management personnel of the consolidated entity is set out below:

	Consolidated	
	2016	2015
	\$	\$
Short-term employee benefits	1,027,996	670,905
Post-employment benefits	68,209	54,711
Share-based payments	167,608	-
	<u>1,263,813</u>	<u>725,616</u>

Note 25. Remuneration of auditors

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

	Consolidated	
	2016	2015
	\$	\$
<i>Audit services - Bentleys NSW Audit Pty Ltd</i>		
Audit or review of the financial statements	<u>42,288</u>	<u>47,709</u>
<i>Other services - Bentleys NSW Pty Ltd</i>		
Tax compliance services	<u>41,257</u>	<u>8,215</u>

Note 26. Contingent liabilities

The consolidated entity has given a corporate guarantee as at 31 December 2016 of \$5,395,373 (2015: \$4,644,000) to lessors in relation to property leases on a number of child care facilities.

Note 27. Commitments

	Consolidated	
	2016 \$'000	2015 \$'000
<i>Lease commitments - operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	5,290	3,754
One to five years	19,222	13,829
More than five years	24,829	8,891
	49,341	26,474
<i>Lease commitments - finance</i>		
Committed at the reporting date and recognised as liabilities, payable:		
Within one year	65	51
One to five years	144	93
	209	144
Less: Future finance charges	(16)	(12)
	193	132
Net commitment recognised as liabilities	193	132
Representing:		
Lease liability - current	56	47
Lease liability - non-current (note 16)	137	85
	193	132
	193	132

Operating lease commitments includes contracted amounts for head office and child care centres under non-cancellable operating leases expiring within three to twenty years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

Finance lease commitments includes contracted amounts for motor vehicles with a written down value of \$195,000 (2015: \$158,000) under finance leases expiring within two to three years. Under the terms of the leases, the consolidated entity has the option to acquire the leased assets for predetermined residual values on the expiry of the leases.

Note 28. Related party transactions

Parent entity

Think Childcare Limited is the parent entity.

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, via an indirect interest, has a partial interest in an operating child care centre lease to the company. The lease on the property commenced on 7th November 2016 on an outgoings only basis, until February 2017 when rent payments commence. 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 2016, no payment in the nature of rental had been made, other than outgoings. The rent is secured under a standard and commercial rent bond of \$143,000.

Note 28. Related party transactions (continued)

Receivable from and payable to related parties

There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

Loans to/from related parties

There were no loans to or from related parties at the current and previous reporting date.

Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates.

Note 29. Parent entity information

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

Statement of profit or loss and other comprehensive income

	Parent	
	2016 \$'000	2015 \$'000
Profit after income tax	816	738
Total comprehensive income	816	738

Statement of financial position

	Parent	
	2016 \$'000	2015 \$'000
Total current assets	19,655	17,487
Total assets	42,451	39,843
Total current liabilities	1,317	2,914
Total liabilities	11,654	8,321
Equity		
Issued capital	40,404	37,664
Share-based payments reserve	217	-
Accumulated losses	(9,824)	(6,142)
Total equity	30,797	31,522

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 2016 of \$4,588,773 (2015: \$4,644,000) to lessors in relation to property leases on a number of childcare facilities.

Contingent liabilities

The parent entity had no contingent liabilities as at 31 December 2016 and 31 December 2015.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, 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 consolidated entity acquired six childcare centres during the year for a total consideration of \$11,141,000. The goodwill of \$10,861,000 represents the future positive cash flows from the underlying childcare centres. The revenue from the acquisitions amounted to \$711,955 for the period ended 31 December 2016. The contribution from the acquired centres, without allowing for additional overhead, finance costs, due diligence and management costs, where appropriate, was a trading loss for the period of \$249,150. This is primarily due to the commencement and trade up of brand new centres during the reporting period, as these centres build to break even and profitable occupancy levels. The accounting for acquisitions, detailed below, are provisional at 31 December 2016.

Details of the acquisitions are as follows:

	Fair value \$'000
Other current assets	83
Property, plant and equipment	292
Deferred tax asset	41
Employee benefits	<u>(136)</u>
Net assets acquired	280
Goodwill	<u>10,861</u>
Acquisition-date fair value of the total consideration transferred	<u><u>11,141</u></u>
Representing:	
Cash paid to vendors	6,771
Contingent consideration	3,022
Deferred consideration	<u>1,348</u>
	<u><u>11,141</u></u>

The consolidated entity includes the fair value of deferred and/or 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. 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 taken to the income statement as a credit and the corresponding entry against the liability. The value of the consideration is reviewed at each reporting date.

Deferred consideration is the amount payable to a vendor of an asset over time, when there are no hurdles or impediments, other than time.

Refer to notes 15 and 18 for further details.

Note 30. Business combinations (continued)

Prior year acquisitions

Acquisition of two childcare centres - acquisition method

In 2015, the consolidated entity acquired two childcare centres during the year for the total consideration transferred of \$3,157,000. The acquisitions were completed on 18 September 2015. The goodwill of \$3,173,000 represents the future positive cash flows from the underlying childcare centres. The revenue from the acquisitions amounted to \$1,024,586 for the period ended as at 31 December 2015. The contribution from the acquired centres, without allowing for additional overhead, finance costs, due diligence and management costs, where appropriate, was a trading contribution for the period ended as at 31 December 2015 of \$324,000. The acquisitions are final as at 31 December 2016.

Details of the acquisition are as follows:

	Fair value \$'000
Property, plant and equipment	46
Deferred tax asset	26
Employee benefits	<u>(88)</u>
Net liabilities acquired	(16)
Goodwill	<u>3,173</u>
Acquisition-date fair value of the total consideration transferred	<u><u>3,157</u></u>
Representing:	
Contingent consideration	180
Cash paid to vendors	1,560
Balance offset from loan receivables	<u>1,417</u>
	<u><u>3,157</u></u>

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:

Name	Principal place of business / Country of incorporation	Ownership interest	
		2016 %	2015 %
Baker Street Childcare Education Pty Ltd	Australia	100.00%	100.00%
Childcare Management Services Pty Ltd	Australia	100.00%	100.00%
Edhod Greensborough Pty Ltd	Australia	100.00%	100.00%
Edhod Macleod Pty Ltd	Australia	100.00%	100.00%
Edhod Newcomb Pty Ltd	Australia	100.00%	100.00%
Edhod Settlement Pty Ltd	Australia	100.00%	100.00%
Edhod Trafalgar Pty Ltd	Australia	100.00%	100.00%
Edhod Wilson Pty Ltd	Australia	100.00%	100.00%
LEA Childcare Pty Ltd	Australia	100.00%	100.00%
LEA Childcare Services Pty Ltd	Australia	100.00%	100.00%
LEA Cobbs Pty Ltd	Australia	100.00%	100.00%
LEA Cranbourne Pty Ltd	Australia	100.00%	100.00%
LEA Georges Pty Ltd	Australia	100.00%	100.00%
LEA Landsdale Pty Ltd	Australia	100.00%	100.00%
LEA Lara Pty Ltd	Australia	100.00%	100.00%
LEA Springhill Pty Ltd	Australia	100.00%	100.00%
LEA Superior Pty Ltd	Australia	100.00%	100.00%
LEA Westmeadows Pty Ltd	Australia	100.00%	100.00%
Think 2 Georges Hall Geor Pty Ltd	Australia	100.00%	100.00%
Think 2 Tuggerah Cob Pty Ltd	Australia	100.00%	100.00%
Think 3 Dandenong Can Pty Ltd	Australia	100.00%	100.00%
Think 3 Rowville Lakes Sup Pty Ltd	Australia	100.00%	100.00%
Think Childcare Belmont Pty Ltd	Australia	100.00%	100.00%
Think Childcare Moorabbin Pty Ltd	Australia	100.00%	100.00%
Think Childcare Services Pty Ltd	Australia	100.00%	100.00%
Think Childcare Services No.1 Pty Ltd	Australia	100.00%	100.00%
Think 2 Campbelltown Bro Pty Ltd	Australia	100.00%	100.00%
Think 5 Golden Grove Ten Pty Ltd	Australia	100.00%	100.00%
Think 3 Altona Meadows Poi Pty Ltd	Australia	100.00%	-
Think 2 Amaroo Mor Pty Ltd	Australia	100.00%	-
Think 3 Moonee Ponds Mcp Pty Ltd	Australia	100.00%	-
Think 3 Port Melbourne Ing Pty Ltd	Australia	100.00%	-
Think 3 Prahran Don Pty Ltd	Australia	100.00%	-
Think 3 Truganina Sam Pty Ltd	Australia	100.00%	-
Think 6 Perth Geo Pty Ltd	Australia	100.00%	-
Think 5 Crittenden Smi Pty Ltd	Australia	100.00%	-
Think 5 Wandana Gil Pty Ltd	Australia	100.00%	-
Think 3 Essendon Ral Pty Ltd	Australia	100.00%	-
Think Childcare ESOP Holding Company Pty Ltd	Australia	100.00%	-
Think 2 Brookvale Pit Pty Ltd	Australia	100.00%	-
Think 2 Grays Point Gra Pty Ltd	Australia	100.00%	-

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

	Consolidated	
	2016	2015
	\$'000	\$'000
Profit after income tax expense for the year	5,367	4,809
Adjustments for:		
Depreciation and amortisation	604	328
Share-based payments	217	-
Finance costs - non-cash	40	-
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	(762)	562
Decrease in deferred tax assets	349	67
Increase in other assets	(235)	(455)
Increase/(decrease) in trade and other payables	1,487	(18)
Increase/(decrease) in provision for income tax	(1,295)	1,778
Increase/(decrease) in employee benefits	33	(134)
Decrease in other operating liabilities	(182)	-
Net cash from operating activities	<u>5,623</u>	<u>6,937</u>

Note 33. Earnings per share

	Consolidated	
	2016	2015
	\$'000	\$'000
Profit after income tax attributable to the owners of Think Childcare Limited	<u>5,367</u>	<u>4,809</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	40,921,849	39,600,000
Adjustments for calculation of diluted earnings per share:		
Performance rights over ordinary shares	232,960	-
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>41,154,809</u>	<u>39,600,000</u>
	Cents	Cents
Basic earnings per share	13.12	12.14
Diluted earnings per share	13.04	12.14

Note 34. Events after the reporting period

Apart from the dividend declared as disclosed in note 21, no other matter or circumstance has arisen since 31 December 2016 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached 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 financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the company 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

A handwritten signature in black ink that reads "Mark Kerr".

Mark Kerr
Chairman

15 February 2017
Melbourne

Think Childcare Limited

ABN: 81 600 793 388

Independent Audit Report to the Members of Think Childcare Limited

Report on the Audit of the Financial Report

We have audited the financial report of Think Childcare Limited (the Company), which comprises the statement of financial position as at 31 December 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the Directors' Declaration of the Consolidated Entity comprising of the Company and the entities it controlled at the year's end or from time to time during the year.

In our opinion:

- a) the financial report of the Consolidated Entity is in accordance with the *Corporations Act 2001* including:
 - i. giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2016 and of its performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*.
- b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

Basis of Opinion

We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement. Our responsibilities under those standards are further described in the *Auditor's responsibility* section of our report. We are independent of the Consolidated Entity 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 (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p>Impairment of goodwill and intangible assets The Consolidated Entity has recognised a goodwill balance of \$31.16 million as described in note 11 to the financial statements. Goodwill must be tested annually and requires a comparison between the carrying value of the assets and its recoverable amount. Determination of the recoverable amount is based upon management estimates of future cash flows and the application of appropriate discount rates, and requires management to make significant estimates. Goodwill is allocated to a single cash generating unit ('CGU').</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> • We evaluated management's goodwill impairment assessment process and tested controls such as the review of forecasts by management; • We compared growth rates against those achieved historically as well as to external market data, where available; • We challenged key inputs to the models by corroborating the key market based assumptions to external analysis reports, published industry growth rates and industry reports; • We performed a range of sensitivity analysis on the CGU main area being the discount rate and terminal growth rate assumptions; and • We assessed the consolidated entity's disclosures of both the quantitative and qualitative considerations in relation to the value of the goodwill.
<p>Revenue recognition The Consolidated Entity recognises revenue over the period in which its services are provided to customers and revenue is measured at the fair value of the consideration received or receivable in respect of services rendered. Accounting policies are set out in note 1.</p>	<p>Our procedures included, amongst others;</p> <ul style="list-style-type: none"> • We evaluated management process regarding accounting for the consolidated entity's revenues. We tested controls such as: <ul style="list-style-type: none"> - Procedures for enrolments - Billing rates, child care rebates and child care benefits - Confirmation of attendance - Cash receipts - Termination of enrolments • We undertook analytical review and assessment of the Consolidated Entity's revenue; and • We completed an assessment of the cut off of revenue at year end.
<p>Accounting for acquisitions The Consolidated Entity made six acquisitions during the year as set out in note 30 to the financial statements. This resulted in in the recognition of goodwill of \$10.86 million. Significant judgement is required in respect of the purchase price allocation process which includes the fair valuation of assets and liabilities including separately identifying and valuing acquired intangible assets.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> • We reviewed the sale and purchase agreements for each acquisition to verify the costs of acquisition and assess the accounting impact of any conditions relating to the acquisition; • We challenged management on the key assumptions used in deriving the fair value of assets and liabilities and separately identifying and valuing intangible assets by reviewing key assumptions used and assessing events subsequent to acquisition; and • We assessed the accounting treatment of contingent and deferred consideration and the underlying calculations of these liabilities.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Consolidated Entity's annual report, but does not include the financial report and our auditor's report thereon.

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

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

Directors' responsibility for the financial report

The directors of the Consolidated Entity are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as directors determine is necessary to enable the preparation of the financial report that are free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Australian Accounting Standards AASB 101 Presentation of Financial Statements, that the financial report complies with International Financial Reporting Standards.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

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

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

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

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

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

Report on the Remuneration Report

We have audited the remuneration report included in pages 9 to 14 of the Directors' Report for the year ended 31 December 2016. The directors of the consolidated entity are responsible for the preparation and presentation of the remuneration report in accordance with s300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

In our opinion the remuneration report of Think Childcare Limited for the year ended 31 December 2016 complies with s 300A of the *Corporations Act 2001*.



Bentleys NSW Audit Pty Ltd



Robert Evett
Director
Sydney
15 February 2017

The shareholder information set out below was applicable as at 13 February 2017.

Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

	Number of holders of ordinary shares
1 to 1,000	393
1,001 to 5,000	651
5,001 to 10,000	186
10,001 to 100,000	202
100,001 and over	21
	1,453
	32

Holding less than a marketable parcel

Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest security holders of quoted equity securities are listed below:

	Number held	Ordinary shares % of total shares issued
MR MATHEW EDWARDS	7,625,010	18.31
ISAMAX PTY LTD (THE EDWARDS FAMILY A/C)	6,331,433	15.21
CITICORP NOMINEES PTY LIMITED	4,020,715	9.66
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	3,400,288	8.17
RIVERSDALE ROAD SHAREHOLDING COMPANY (RIVERSDALE ROAD HOLDING A/C)	2,304,597	5.53
J P MORGAN NOMINEES AUSTRALIA LIMITED	1,990,356	4.78
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LTD (VFA A/C)	1,494,946	3.59
MR MARK GREGORY KERR + MRS LINDA MARIE KERR (LINDMARK INV STAFF S/F A/C)	1,125,344	2.70
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LTD (PICREDIT)	999,000	2.40
SEGUE CORP PTY LTD (SEGUE INVESTMENTS A/C)	714,523	1.72
NATIONAL NOMINEES LIMITED	530,683	1.27
AUST EXECUTOR TRUSTEES LTD (DS CAPITAL GROWTH FUND)	407,926	0.98
ANDREW KROGER + MICHAEL KROGER (THE MICHAEL KROGER S/F A/C)	347,518	0.83
PARADYCE PTY LTD	300,874	0.72
J & P CHICK PTY LIMITED (J & P CHICK PTY LTD S/F A/C)	266,500	0.64
CROZET ISLAND PTY LTD (WILLINGS RETIREMENT FUND A/C)	200,000	0.48
JAXLUC PTY LTD (KRISTIE CHAPPLE FAMILY A/C)	181,869	0.44
HGT INVESTMENTS PTY LTD	150,000	0.36
MR MICHAEL NORMAN KROGER + MR ANDREW JOHN KROGER (MICHAEL KROGER S/F A/C)	129,913	0.31
MCKNIGHT NOMINEES PTY LTD	120,000	0.29
	32,641,495	78.39

Unquoted equity securities

There are no unquoted equity securities.

Substantial holders

Substantial holders in the company are set out below:

	Ordinary shares	
	Number held	% of total shares issued
Mathew Edwards	13,956,443	33.52
Citicorp Nominees Pty Limited	4,020,715	9.66
HSBC Custody Nominees (Australia) Limited	3,400,288	8.17
Riversdale Road Shareholding Company Pty Ltd (Riversdale Road Holding A/C)	2,304,597	5.53

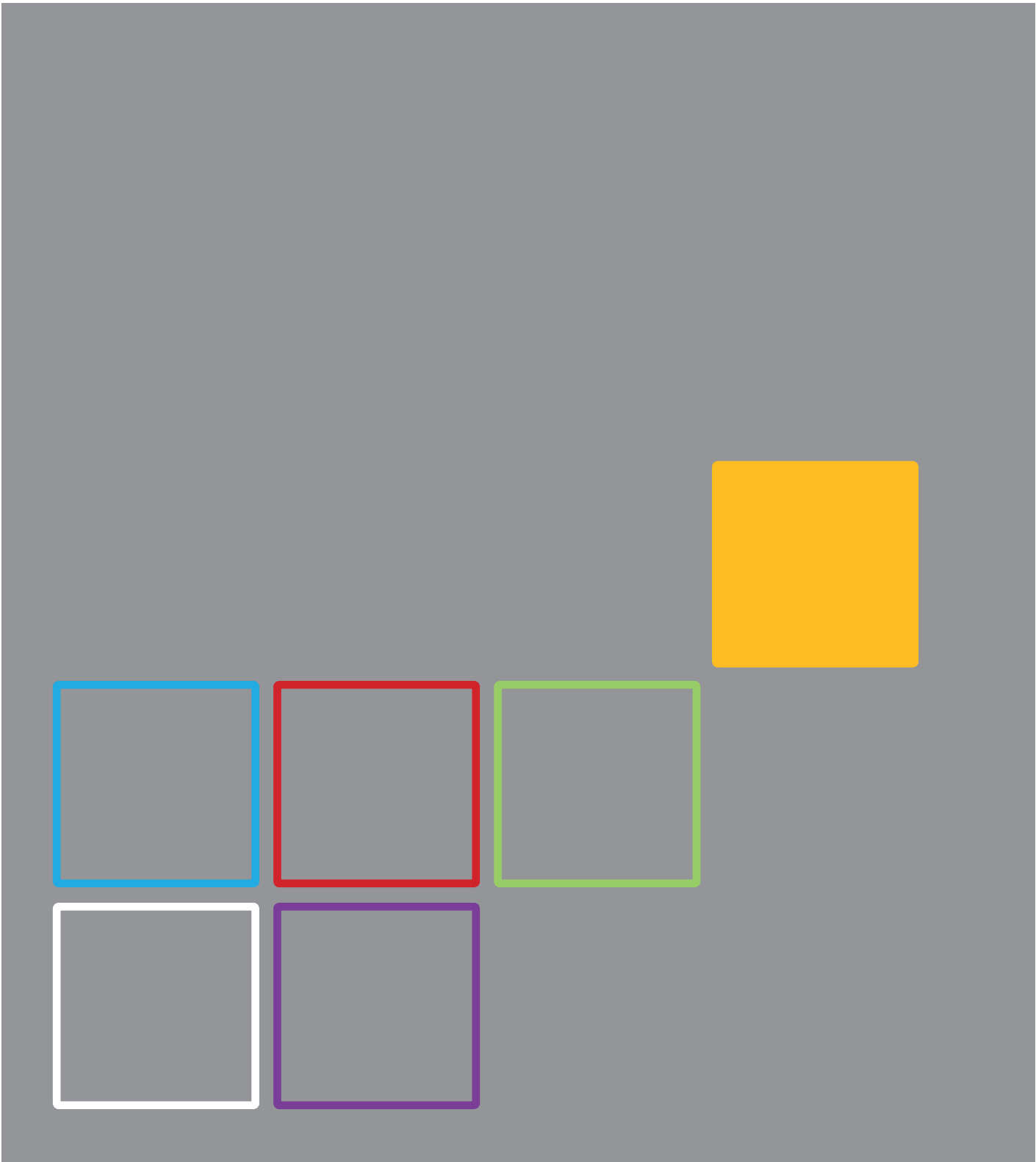
Voting rights

The voting rights attached to ordinary shares are set out below:

Ordinary shares

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.

There are no other classes of equity securities.



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