THINK Childcare Limited

Annual Report **2018**

BUILDING CONFIDENT, CONNECTED AND ENGAGED LITTLE LEARNERS

ABOUT THIS REPORT

Think Childcare Limited is proud to present this annual report for the financial year ended 31 December 2018.

This report is intended to provide shareholders information about the Company's activities and financial performance.

Name	Think Childcare Limited
ABN	81 600 793 388
Reporting period	1 January 2018 to 31 December 2018
ASX code	TNK
Cover photo	Nido Early School QV1, WA
This photo	Nido Early School Willetton, WA

CONTENTS

STRATEGIC HIGHLIGHTS

1 Bringing learning to life

SERVICES OWNED

55 ↑

83% since IPO

SERVICES MANAGED

19

KINDER GRADUATIONS

1,373

2 Delivering premium service to suburban markets

CAPITAL INVESTED

$3.1m

EDUCATORS

1,444

GREENFIELD SERVICES OPENED

3 Owned

4 Managed

3 Disciplined capital management

TOTAL ASSETS

$78m ↑

167% since IPO

DEBT HEADROOM

$43m

LEVERAGE RATIO*

2.3x

*as defined in Macquarie Bank facility

Delivering on Growth Expectations

2009

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

2014

JUN Core Values developed with Educators nationally

OCT LEA acquires Baker Street Education Group

Public listing

NOV Support office relocated to Drummoyne location

2015

AUG Accounts payable automation – Invoice Smash

First SA services with Bubble and Squeak acquisition in conjunction with EDHOD

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

DEC Implemented Preceda and EmpLive time attendance and payroll systems

FINANCIAL HIGHLIGHTS

UNDERLYING EBITDA

$10.7m

NPAT

$5m

EPS

10.5¢

DPS

6.5¢

3 YEAR TOTAL SHAREHOLDER RETURN
INCLUDING FRANKED DIVIDENDS

26.4%

ASX300 Accumulation Index 11.9%

WEIGHTED AVERAGE LEASE PROFILE

32.1 Years

OPERATING CASHFLOW

$8.9m

2016

AUG First greenfield site open

First service in ACT

SEP Transition from MYOB to Sage X3

2017

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

OCT Nido Early School brand and group of services acquired

People and Culture team created

2018

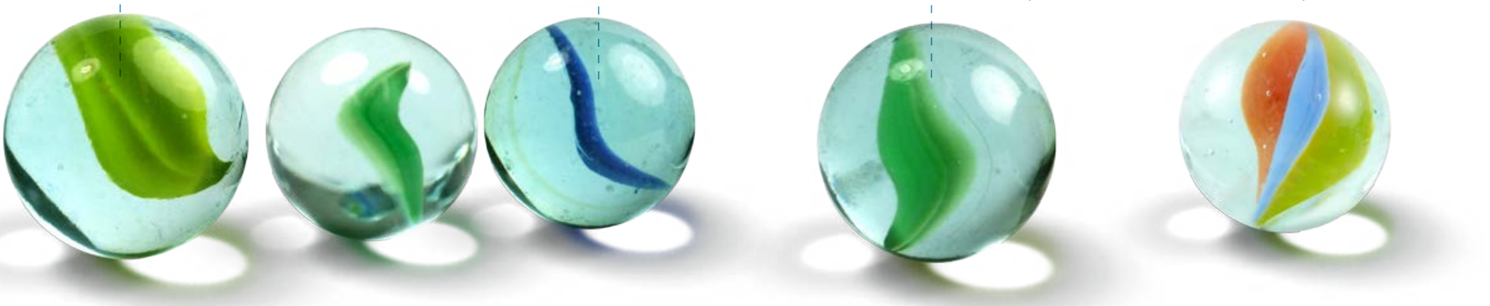
JAN First Nido Early School greenfield service opens

MAR Early Learning & Kinder websites merge into one central website

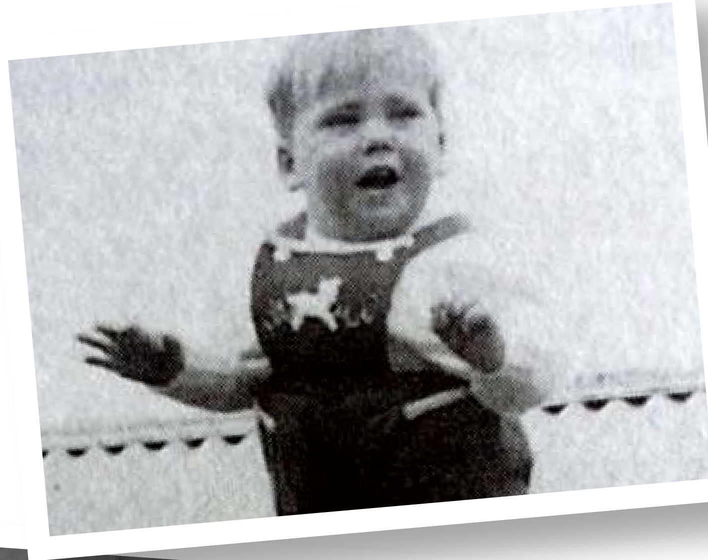
People and Culture satellite office opens in Perth WA

JUL First service opening in QLD

NOV Acquired 5 services from incubator partners



CHAIRMAN AND MANAGING DIRECTOR'S LETTER



Mark Kerr
Chairman

Mathew Edwards
Managing Director

The board and executive leadership team are proud to present the Think Childcare Limited Annual Report for 2018

We are pleased to report that we have achieved the upper end of our market guidance published on 22 August 2018 of earnings before income tax, amortisation and depreciation (underlying EBITDA) of $10.7 million and earnings per share (EPS) of 10.5 cents. Consequently, on 27 February 2019 the Board determined a final fully franked dividend of $3.15 million or 6.5 cents per share (DPS).

Highlights for the year

Delivered a solid financial performance during a period of significant regulatory reform and strong sector headwinds:

- Acquired and developed 12 child care services, a 28% increase on prior year;
- Completed $3.1 million capital investments, to improve our quality of care offerings;
- Invested in our service model which positioned us to deliver a solid second half;
- Raised $10.2 million equity (net of costs) to fund 2018 acquisitions and capital investments; and
- Refinanced our debt facility; increased the headroom to $43 million to support future growth.

Tale of two halves

We experienced a challenging first half of the year, as families facing fee stress reduced their demand for child care services. Coupled with an over-supply of child care services in select markets, this created significant headwinds across the sector.

We chose to invest heavily in our operations platform, building capacity and employing a quality, highly motivated professional team to facilitate growth and to maximise service performance. We continued our capital investment program, moving our services closer to the best in market position.

The second half of the year saw Think Childcare lead the sector in its engagement with families and realignment of operations to accommodate the transition to the new Child Care Subsidy. With our funding secured, the finance team provided operations with data and analysis and in a true partnership, our child care services clawed back some of the first half impact.

Shareholder returns

2018 marked four years since we listed on the Australian Securities Exchange (ASX). We are proud to have delivered a total shareholder return of 20.5%* and 26.4%* including franked dividends, compared with the ASX300 Accumulation Index of 11.9%*. This represents an 72.3% outperformance against the index. *3 year return

Dividend

We have the pleasure of determining a final dividend of 6.5 cents per share fully franked.

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 10 business days from (and including) 28 February 2019 to 13 March 2019.

Earnings per share

During the financial year, the Board made the strategic decision to strengthen the Company's capital structure by raising equity and increasing its debt funding capacity. This strategy enabled Think Childcare to execute on its acquisition pipeline and invest in operations to support future growth and sustainability of earnings. The short-term outcome of this strategy is a lower 2018 EPS of 10.5 cents, compared with 13.6 cents for the prior year.

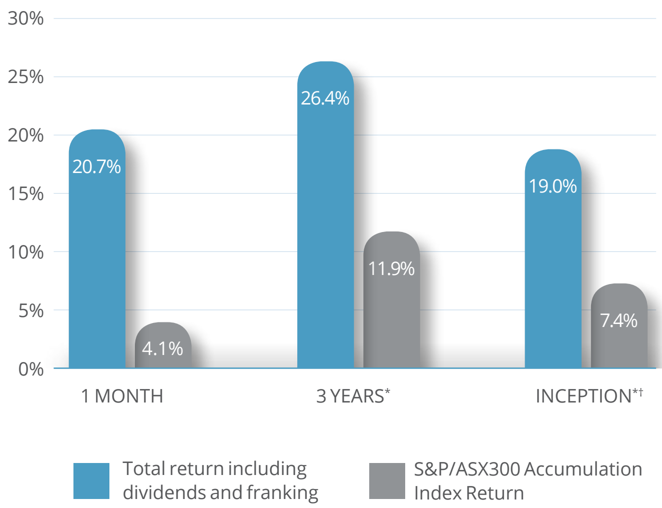
Disciplined strategy and execution

During the financial year we continued to deliver on our stated organic strategy:

- Acquired 9 child care services at four times EBITDA multiples of which 8 are on an earn-out and clawback arrangement;
- Developed and opened 3 best in market greenfield child care services located in Victoria, Western Australia and Queensland; and
- Managed 19 child care services on behalf of incubator partners including opening 4 new services.

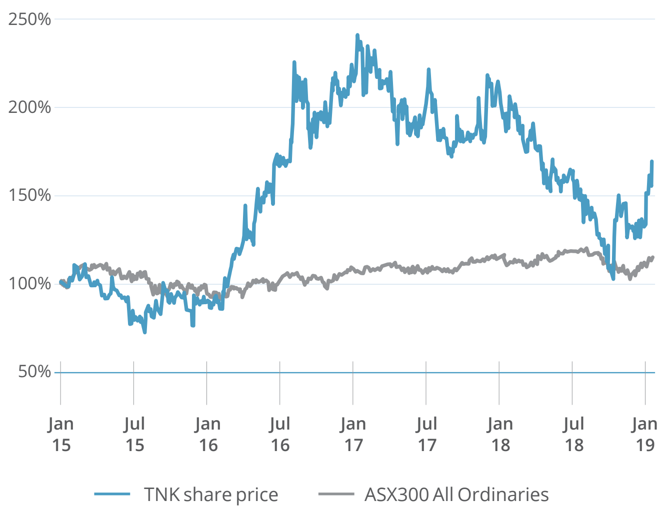
At the time of listing, Think Childcare provided child care services across 30 sites, predominately located in Victoria. Today our Company provides child care services spanning 55 locations and has a national footprint, resulting in 31% of the portfolio located outside of Victoria.

Total shareholder return



Source: Canaccord Genuity (Australia) Limited. * Annualised.
† Inception date 24 October 2014. Closing prices as of 20 February 2019

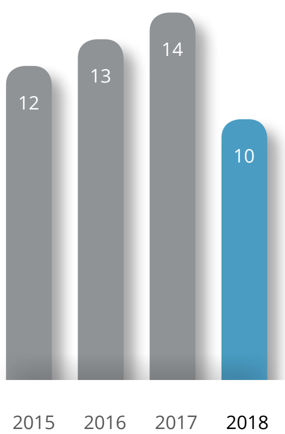
Think Childcare vs ASX300



Source: Canaccord Genuity (Australia) Limited

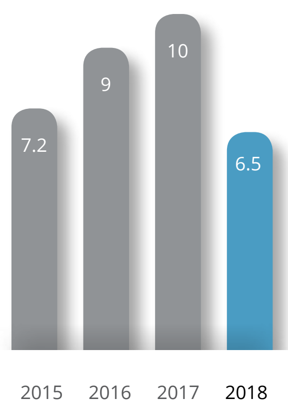
Earnings per share

(cents)



Dividend per share

(cents)



Chairman and Managing Director's Letter continued

This diversification strategy, along with Think Childcare's commitment to delivering best in market child care services, has improved the overall quality and performance of Think Childcare's brand and businesses in those local communities.

Transition to Nido well-underway

Think Childcare's strategic objective is to build a best in sector care offering through an exceeding level national curriculum, state of the art environments and a highly motivated and engaged team. Think Childcare is well positioned to deliver a premium service to suburban markets. Our capital investment program creates environments which foster creativity for our children and Educators.

In October 2017, we acquired three Nido Early School (Nido) services along with the Nido brand as a platform to execute on our strategy. During the financial year, Think Childcare embarked on a program of works which will continue into 2019 to transition our existing child care services to the Nido brand.

Project Elevate

Over the four-year period since Think Childcare listed on the ASX, we have increased the number of child care services we operate (owned and managed) from 44 to 74; a 68% increase. Understandably, the communities we service will have a heightened expectation of our service model.

During the financial year we launched Project Elevate which, amongst other things, relaunched our capability across core disciplines in people and performance, education curriculum, service delivery and finance. Project Elevate comprises a number of phases and our investment is expected to continue beyond the 2019 financial year.

Capital management

The 2018 financial year saw us undertake a review of our capital requirements and we made the strategic decision to refinance our debt facility and raise capital. Although the outcome would be dilutive to EPS (10.5 cents in 2018 compared with 13.6 cents in 2017), the Board took a long-term view to support future growth.

On 10 July 2018 we completed a refinance of a $28 million term ANZ debt facility with a five year syndicated facility with Macquarie Bank Limited for an amount of $58 million plus an additional Accordion of $20 million.

Our Company raised $10.2 million in equity (net of costs) by issuing 5,271,357 million shares on 15 March 2018, at $1.99 per share, to fund strategic initiatives including the 2018 acquisition pipeline and capital investment program.

Outlook

We remain positive about the outlook for the child care services sector and the benefits of the new Child Care Subsidy to our families and the communities we serve. We remain confident in our ability to deliver organic growth from our existing portfolio and the execution of our pipeline.

2019 will see Think Childcare continue to focus on elevating the service model required to support our Educators in the delivery of learning outcomes.

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

Mathew Edwards
Managing Director

27 February 2019 | Sydney

Mark Kerr

Mark Kerr
Chairman

27 February 2019 | Melbourne

Nido Early School Bayswater North, VIC

OPERATIONS

NATIONAL PORTFOLIO

83% Growth in number of services owned since IPO

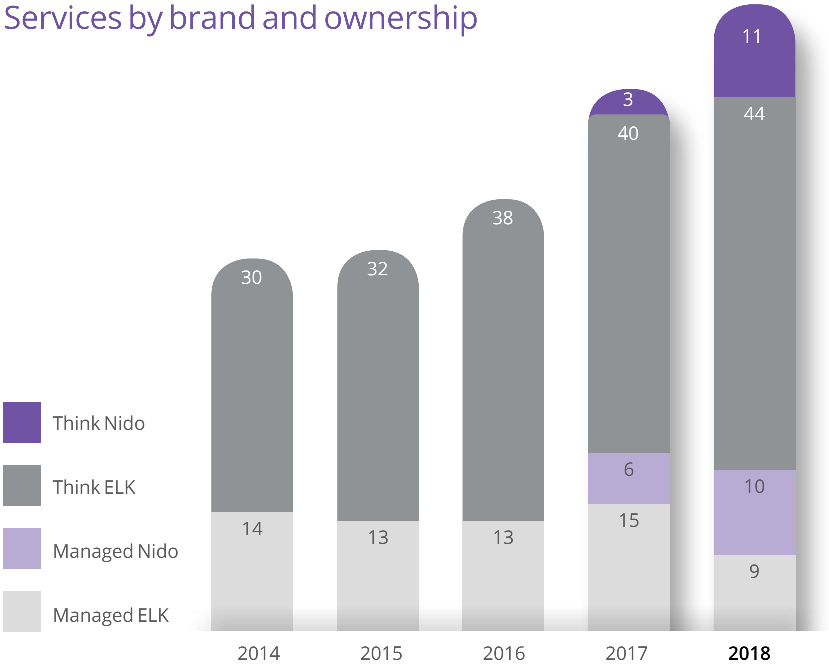
21 nido EARLY SCHOOL Services

53 Early Learning & Kinder Services

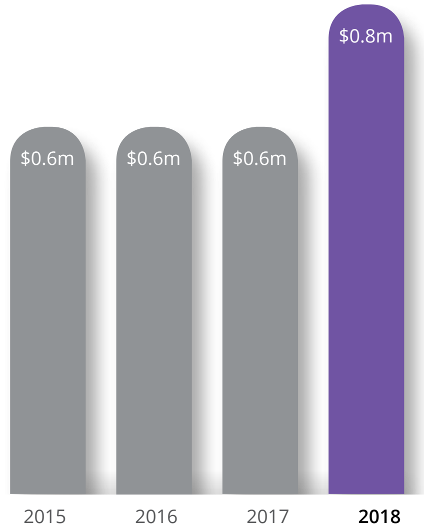
11 Pipeline 2019

OPERATIONS

Services by brand and ownership

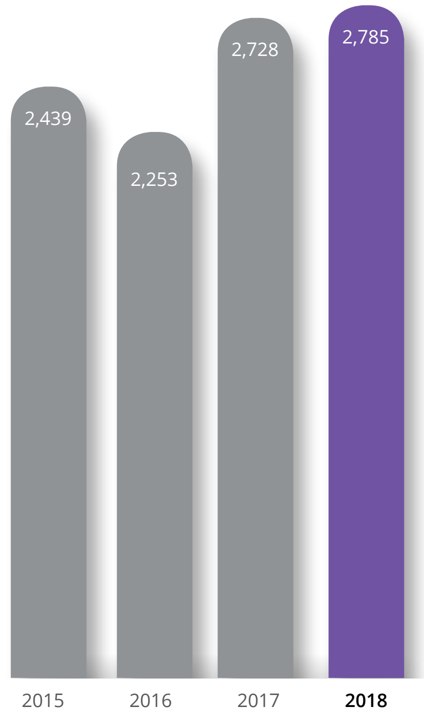


Spend on learning resources

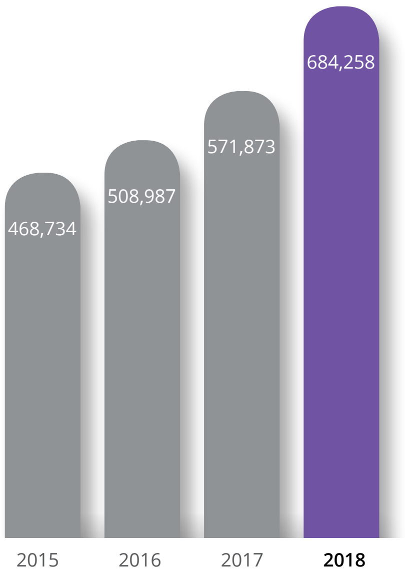


Wages as a % of revenue

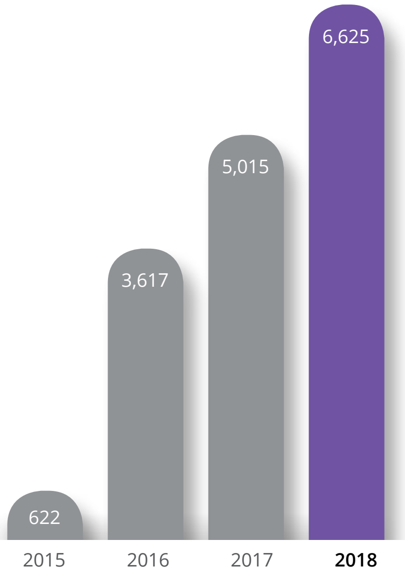
Occupancy costs per licensed place



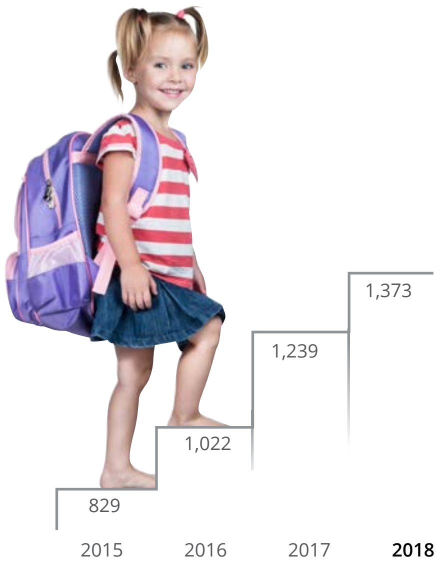
Days sold



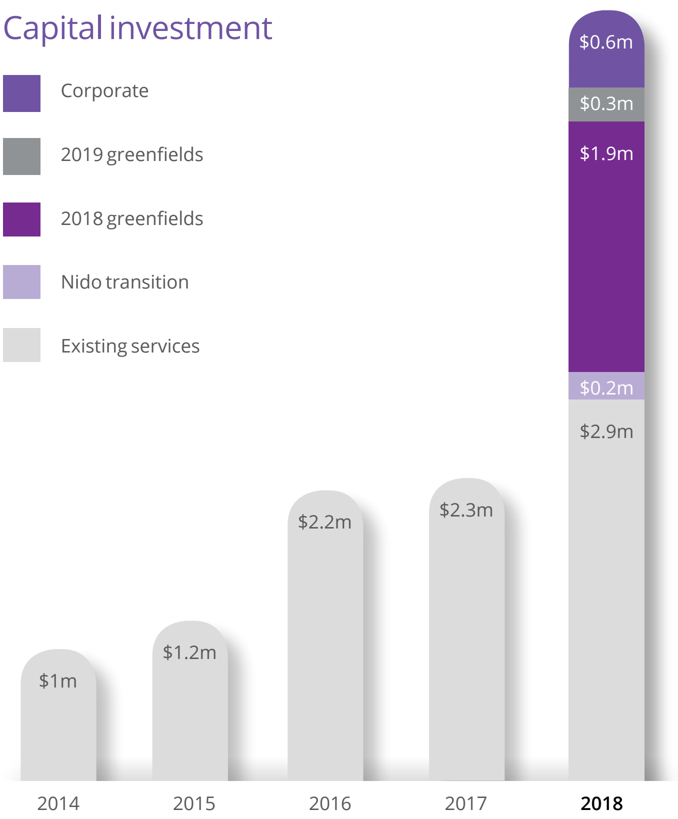
Number of children in care



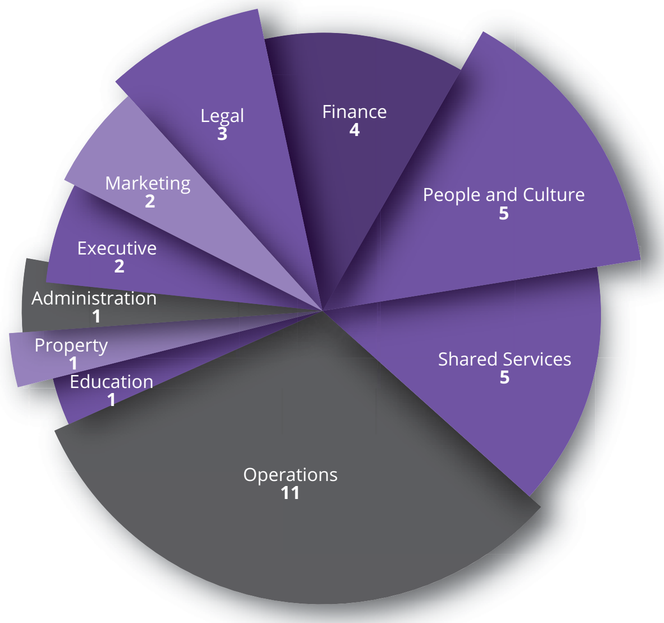
Number of children graduated



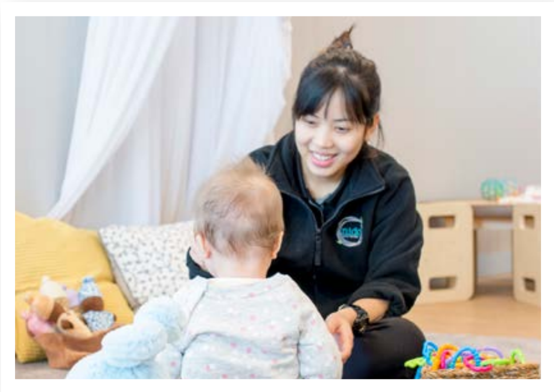
Capital investment

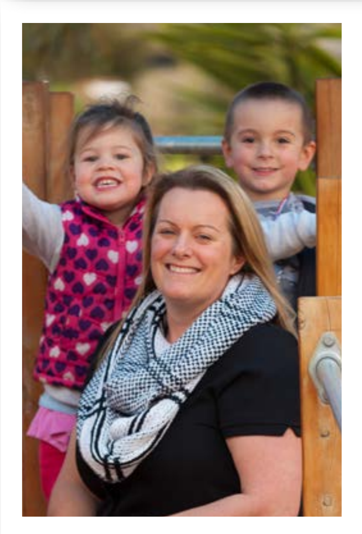


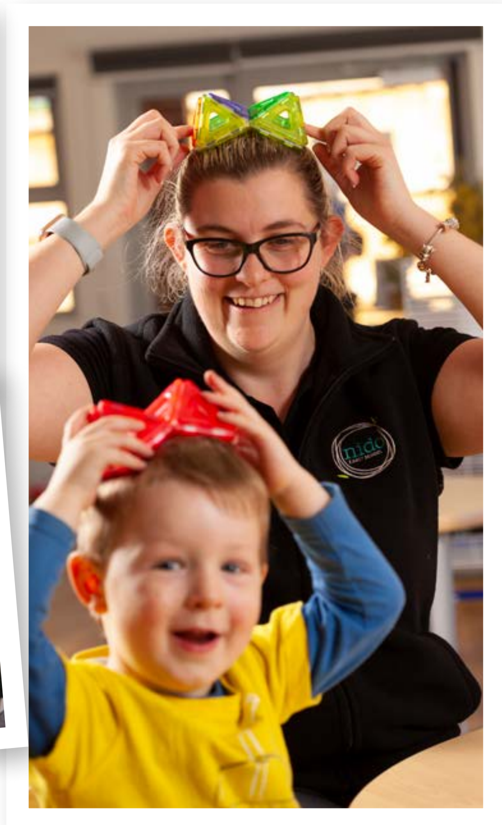
Corporate headcount 2018

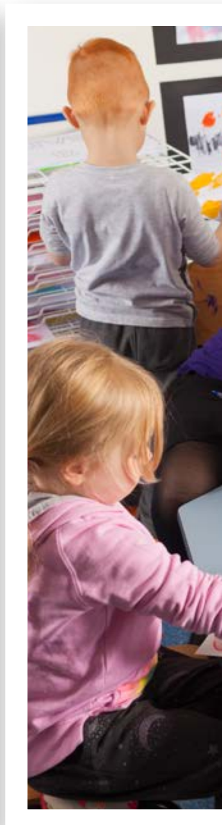


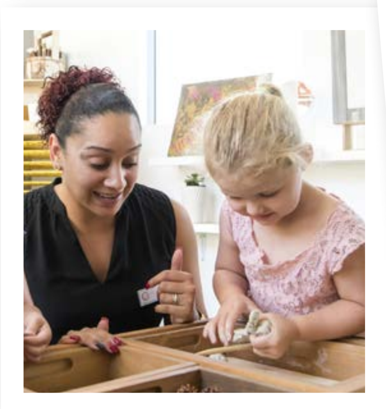
OUR PEOPLE







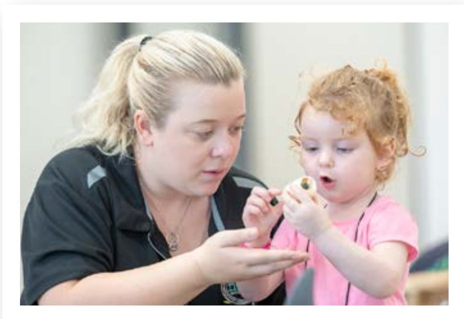




WE ARE ALL EDUCATORS
WE ARE ALL TEACHERS AND
WE ARE ALL CHILDREN

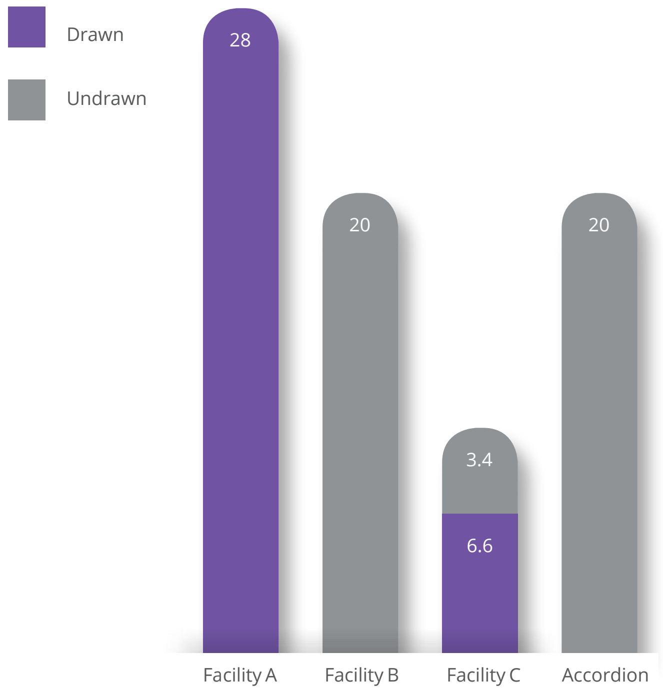
We are passionate about enabling our Educators and our children to sustain their growth and development.

Children taught	New Educators	Languages spoken	Songs sung	Learning experiences
8,600+	888	59	42,678	29,000+

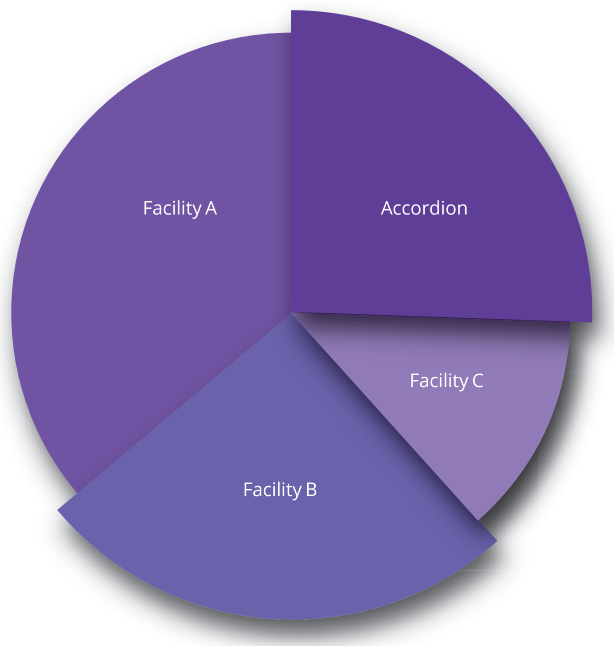


CAPITAL MANAGEMENT

Debt facility headroom



Total debt facility



Weighted average cost of debt

4.7% Macquarie Bank, July 2018 onwards

Interest rates hedge

50%

- Syndicated facility offers the ability to diversify and access a broader group of lenders over time
- Total facility increased to $58m plus an Accordion of $20m with $43m headroom
- Accordion is an acquisition facility available for draw-down prior to 10 July 2021
- Facility offers flexibility in pricing, at different covenant levels
- Aligned to the strategy of acquiring child care services from incubator partners, on market and developing selected greenfield services
- Supports investment initiatives intended to drive synergies and scale benefits by permitting an adjustment to covenant calculations

Nido Early School Woolloongabba, QLD

STRATEGY

STRATEGY

1 Bringing learning to life

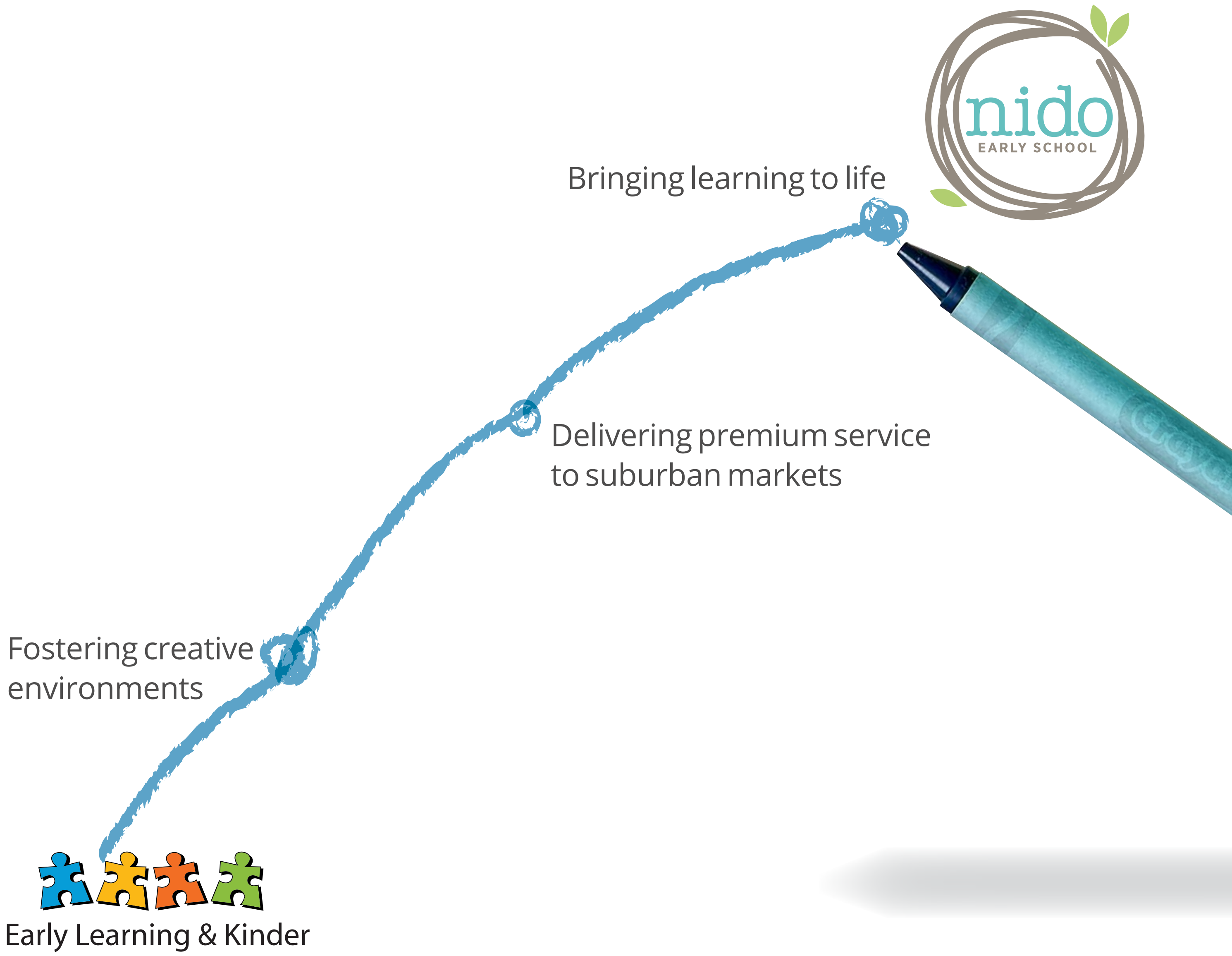
2 Delivering premium service to suburban markets

3 Fostering creative environments

Think Childcare's strategy is to build a best in sector care offering through an exceeding level national curriculum, state of the art environments and a highly motivated and engaged team.

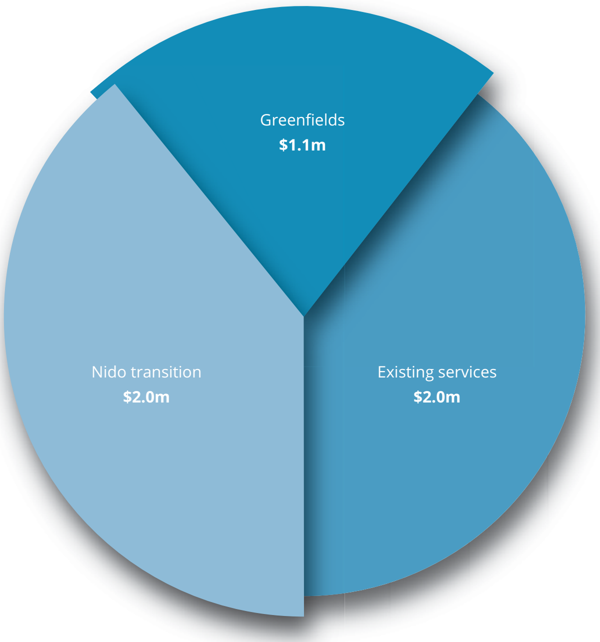
- In October 2017, Think Childcare acquired three Nido Early School (Nido) services along with the Nido brand as a platform to execute on its strategy
- "Nido" means nest in Italian and is underpinned by the Reggio Emilia approach to early education
- Nido is an aspirational brand, combining quality of care, innovation in service management, and architecturally designed spaces which foster creativity
- Think Childcare is positioned to deliver a premium service to suburban markets

- Education is child-led supported by the Educator as the facilitator; the curriculum fosters creativity, experiential learning and interactions.
- Innovative service delivery model which draws on expertise across people, education, service delivery and business disciplines. The Executive Service Manager role is elevated to focus on quality of care, curriculum delivery and family and community engagement.
- Environment as the third teacher features:
  - Architecturally designed spaces, ateliers and purposeful structures;
  - Interiors feature natural materials, natural light, uplifting colours uncluttered with diverse experiential activity areas; and
  - A safe and secure home away from home, the “nest”.

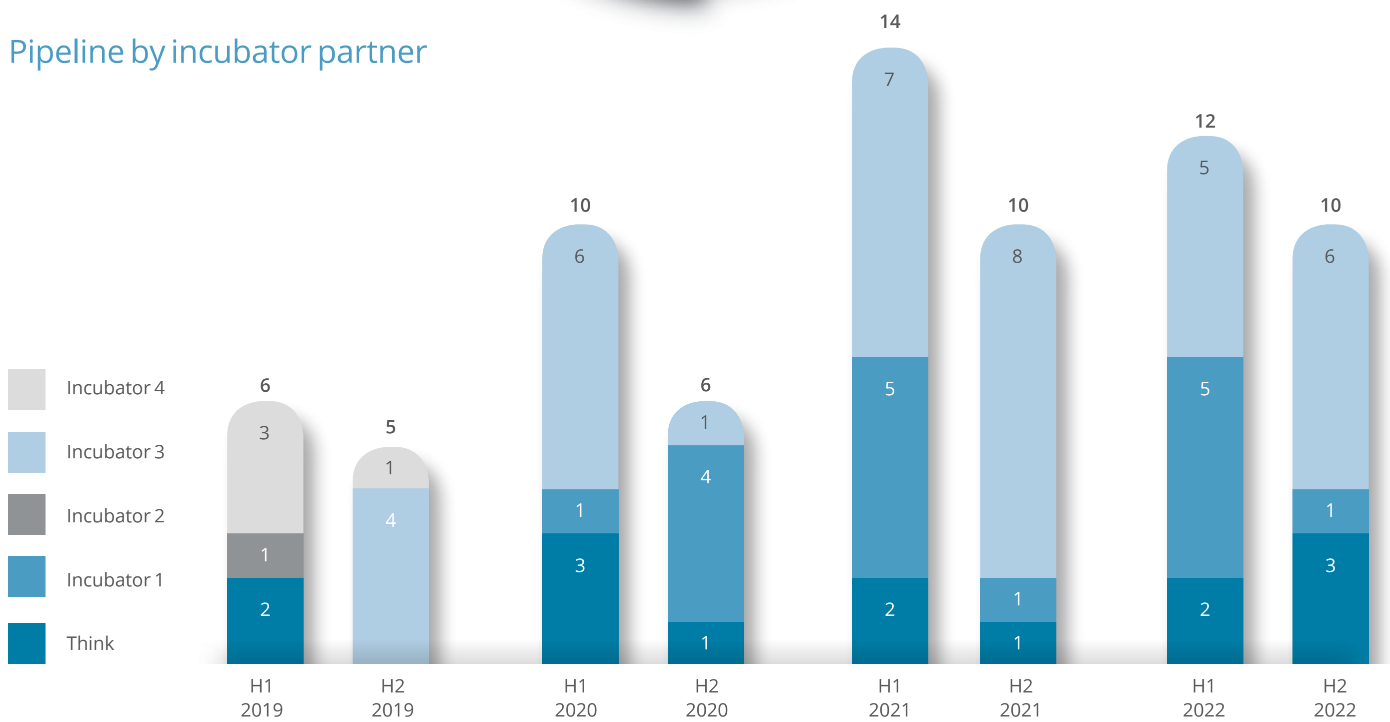


RESPONSIBLE MANAGEMENT

2019 capital investment ($5.1m)



Pipeline by incubator partner



- Think Childcare advocates responsible investment in order to promote shareholder value
- A capital investment program to transition our child care services from Early Learning & Kinder to Nido, along with acquisition of greenfield services, is core to our investment strategy
- Additionally, acquisitions through our diversified incubator partners are subject to investment criteria
- Think Childcare has a mix of greenfield developments and acquisitions in its pipeline and will acquire child care services on-market where deemed strategically aligned

CORPORATE GOVERNANCE AND DIRECTORS REPORT

Nido Early School Willetton, WA

CORPORATE GOVERNANCE

The Board of Directors is responsible for the overall corporate governance of the Company and is accountable to the shareholders for overall strategic direction, management and delivering accountable corporate performance in accordance with the Company's goals and objectives.

Board size and composition

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

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

The Company's constitution states, that subject to the *Corporations Act 2001 (Cth)*, the Company may by resolution passed at a general meeting increase or reduce the minimum number of Directors or increase or reduce the maximum number of Directors.

Role of Directors

The Board must act in the best interest of the Company as a whole and is responsible for corporate governance matters. The Board's responsibilities include:

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

Policies and governance documentation

The Company's policies and governance documentation (including the full Corporate Governance Statement for the 2018 financial year, disclosing the extent in which the Company has followed the 3rd edition of the ASX Corporate Governance Principles and Recommendations) are available on the Company's website at www.thinkchildcare.com.au/about/corporate-governence-and-policies.

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

- Board Charter
- Audit, Risk and Compliance Committee Charter
- Human Resources and Remuneration Committee Charter
- Code of Conduct
- Continuous Disclosure Policy
- Diversity Policy
- Shareholder Communication Policy
- Fraud and Corruption Policy
- Securities Trading Policy
- Privacy Policy

Diversity

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

Board committees

The Board has established two committees with a non-executive, independent Director as the Chair of each committee, to assist in executing its responsibilities.

Audit, Risk and Compliance Committee (ARC)

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

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

Human Resources and Remuneration Committee (HRC)

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

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

Ethical standards

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

DIRECTORS' REPORT

Name	**Mark Kerr**
Title	Chairman and Non-Executive Director
Qualifications	LL.B
Experience and expertise	Mark is an experienced Director and advisor to listed and private companies. He is a Director of Baker Street Childcare Education Pty Ltd, which was acquired by the Company. Mark is a Director of Berkeley Consultants Pty Ltd which specialises in public relations and reputation management consultancy. Mark's community involvement currently extends to being a member of the Victorian Committee for the Juvenile Diabetes Research Foundation. He is also a committee member of the St. Vincent's Institute Charity Golf Day Committee and a volunteer Board Member at International Specialised Skills Institute.
Other current directorships	Non-Executive Director of Contango Income Generator Ltd (ASX:CIE) Chairman and Managing Director of Hawthorn Resources Limited (ASX:HAW) Non-Executive Director of Alice Queen Ltd (ASX:AQX)
Former directorships (last 3 years)	Non-Executive Chairman of Contango Microcap Limited (ASX:CTN), now Naos Small Cap Opportunities Company Limited (ASX:NSC) , resigned as Director effective 13 October 2017
Special responsibilities	Chair
Interests in shares	1,527,317 ordinary shares (all held indirectly)
Interests in rights	13,333 performance rights over ordinary shares

WE BELIEVE EVERY CHILD HAS THE RIGHT TO MAKE CHOICES IN REGARDS TO THEIR LEARNING

Name	**Mathew Edwards**
Title	Managing Director and Chief Executive Officer (CEO)
Experience and expertise	Mathew has been involved in child care since 2001. He was the Managing Director of Learning and Education Australia Pty Ltd (LEA) from 2008 which previously owned 12 of the Company's child care services. He has overseen the development of that Company's business of improving and managing child care services. The LEA business centred around developing greenfield services and the trading up of under-performing services. Prior to LEA, Mathew was a Director of Australian Daycare Group Pty Ltd, and has extensive management experience in retail and commercial property roles. He is also a Director of Baker Street Childcare Education Pty Ltd, which was acquired by the Company. He has extensive experience in business strategy and management of multi-site businesses.
Other current directorships	–
Former directorships (last 3 years)	–
Special responsibilities	CEO
Interests in shares	14,287,246 ordinary shares (7,538,405 held directly and 6,748,841 held indirectly)
Interests in rights	62,573 performance rights over ordinary shares

WE BELIEVE THAT THE ENVIRONMENT SHOULD REFLECT OUR LOVE OF NATURE AND OUR VIEWS ON SUSTAINABILITY

Directors' Report continued

Name	Evonne Collier
Title	Non-Executive Director
Qualifications	Evonne holds a Bachelor of Arts, Master of Business, Graduate Certificate in Applied Finance and is a Graduate member of the Australian Institute of Company Directors.
Experience and expertise	Evonne is a professional Non-Executive Director and an experienced leader in business scale-up and transformation, branding strategies, new to world and category innovation, digital disruption and B2B and B2C customer experience. She has 25 years' senior executive experience working within blue-chip multinational companies and brands in the FMCG, packaged goods, pharmaceutical and entertainment/technology sectors. Evonne is the Chair of Vault Intelligence (ASX VLT) and Chair of Digital, Human Resources and Remuneration and Legal and Compliance committees within a number of large private and publicly listed companies, including 1300SMILES (ASX:ONT), Catch Group and Motorama Automotive Group. Her previous executive roles include C-suite marketing, innovation and digital roles with blue-chip multi-nationals including Goodman Fielder, PepsiCo Foods, Kimberly Clark and Fox Entertainment.
Other current directorships	1300SMILES Limited (ASX:ONT) Vault Intelligence Limited (ASX:VLT)
Former directorships (last 3 years)	–
Special responsibilities	Chair of the Human Resources and Remuneration Committee
Interests in shares	None
Interests in rights	None

WE BELIEVE THE EARLY YEARS ARE THE FOUNDATION YEARS AND BY PROVIDING MEANINGFUL LEARNING EXPERIENCES WE CAN CULTIVATE A LOVE OF LEARNING

Name	**Joe Dicks**
Title	Non–Executive Director
Qualifications	Joe is a Chartered Accountant and holds a Bachelor of Commerce, Postgraduate Diploma in Accountancy. He is an Accredited Business Valuations Specialist and member of the Institute of Chartered Accountants in Australia and the Australian Institute of Company Directors.
Experience and expertise	Joe has 18 years' multi-national experience as a Non-Executive Director in a broad range of industries. Joe was one of the founding Partners of PPB Advisory. He also has in-depth experience in government funded and regulated industries, infrastructure and the education and aged care sectors. Joe currently serves on the boards of Campus Living Funds Management Limited and Melbourne Polytechnic. Joe is also a Director of the old PPB Advisory legacy companies and is overseeing the windown of this group. Prior to these appointments, Joe was Chair of the Audit and Risk Committee and Board member of Retirement Village Group and Wesley Mission Victoria, founding Board member and Finance Committee Chair of Uniting Aged Care Victoria and Tasmania, President of the National Australia Africa Business Council and former Chair of the Victorian Chapter of the Forensic Accounting Special Interest Group.
Other current directorships	–
Former directorships (last 3 years):	–
Special responsibilities	Chair of the Audit, Risk and Compliance Committee
Interests in shares	None
Interests in rights	None

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

WE BELIEVE EVERY CHILD SHOULD FEEL
A STRONG SENSE OF WELL-BEING

Directors' Report continued

The Directors of Think Childcare Limited (referred to hereafter as the Parent Company or Think Childcare) present their report for the financial year ended 31 December 2018 (referred to hereafter as the financial year) accompanied by the Financial Report of Think Childcare and the entities it controlled (together, being the 'consolidated entity', referred to hereafter, as the Company) during the year. Pursuant to the requirements of the *Corporations Act 2001 (Cth)* (Corporations Act).

Directors

Continuing Directors	**Mark Kerr**	Chairman and Non-Executive Director	
	Mathew Edwards	Managing Director and Chief Executive Officer	
Directors who ceased	**Paul Gwilym**	Executive Director and Company Secretary	Resigned effective 4 May 2018
		Chief Financial Officer	Resigned effective 13 April 2018
New Directors	**Evonne Collier**	Non-Executive Director and Chair of Human Resources and Remuneration Committee	Appointed effective 6 April 2018
	Joe Dicks	Non-Executive Director and Chair of Audit, Risk and Compliance Committee	Appointed effective 6 April 2018

Principal activities

The principal activities of the Company during the financial year comprised the following:

- Owning and providing child care services
- Managing child care services on behalf of clients including incubator partners
- Identifying greenfield services and developing these as child care services on balance sheet and on behalf of third-party clients, including incubator partners
- Providing consultancy services to third parties and incubator partners to identify and develop greenfield services with a view of acquiring once target metrics are met

There were no changes in the principal activities of the Company during the financial year.

Dividends

Dividends paid during the financial year were as follows:

	2018 $'000	2017 $'000	**2018 CPS**	2017 CPS
Final 2017 – 16 March 2018	**2,564**		**6**	
Interim 2018	**-**		**-**	
Final 2016 – 24 March 2017		2,082		5
Interim 2017 – 20 September 2017		1,692		4
Total dividends to shareholders	**2,564**	**3,774**	**6**	**9**

On 27 February 2019, a final dividend for the year ended 31 December 2018 of 6.5 cents per ordinary share, fully franked, was determined with a record date of 19 March 2019. The dividend will be paid on 28 March 2019 and is estimated to be a total of $3.15 million.

The final dividend for the financial year ended 31 December 2017 of 6 cents per ordinary share was declared on 16 February 2018, with a record date of 8 March 2018. The dividend was paid on 16 March and was $2,564,257.

The Company operates a Dividend Reinvestment Plan (DRP). During the financial year ended 31 December 2018, shares issued pursuant to the DRP were 445,349 (2017: 944,798).

Review and results of operations

Think Childcare operates child care services with the objective of delivering value to shareholders with earnings growth prospects over the medium to long-term.

The Company's strategy is to operate quality child care services under long-term leases in suburban markets. Additionally, the Company provides child care development and management services to clients, including incubator partners.

During the financial year, the Company embarked on a strategy of selectively acquiring and developing child care services in markets that are under-represented. The identification and development of greenfield child care services is a natural evolution of the Company's strategy.

Directors Report continued

Financial overview

Think Childcare recorded a net profit after tax of $4.95 million (2017: $5.94 million) and underlying earnings before interest, tax, depreciation and amortisation (underlying EBITDA) of $10.7 million (2017: $9.4 million). Higher child care revenue was offset by higher employee benefits expenses, occupancy expenses and finance expenses.

	CONSOLIDATED	
	2018 $'000	2017 $'000
Revenue	85,289	65,504
Profit after income tax	4,950	5,773
Add: Income tax expense	2,051	2,648
Add: Depreciation and amortisation	1,643	1,017
Add: Finance cost	2,035	764
EBITDA	10,679	10,202
Non-operating items:		
Less: Earn-out consideration liability reversal	(519)	(1,382)
Add: Acquisition and integration expenses	503	580
Underlying EBITDA	10,663	9,400

Operations overview

As at 31 December 2018, Think Childcare owned and operated 55 child care services nationally. The portfolio's geographic diversification was 38 in Victoria, 6 in Western Australia, 4 South Australia, 5 New South Wales, 1 in the Australian Capital Territory and 1 in Queensland. The total number of licensed places increased by 40% from 3,228 in 2017 to 4,509 in 2018.

Think Childcare provides management and other services to clients (including incubator partners). During the financial year, the Company managed 19 services on behalf of 4 clients and generated $4.6 million (2017; $2.4 million) in management and other fees.

The Company completed 9 acquisitions of child care services including 8 from incubator partners and 1 on market. These acquisitions contributed 996 licensed places; an increase of 31% on prior comparison period.

Think Childcare has an established track record in the development of greenfield services. During the financial year, the Company developed three child care services on balance sheet. The services are geographically located in Victoria (opened January 2018), in Western Australia (opened May 2018) and in Queensland (opened July 2018). The latter represented the Company's foray into the Queensland market.

During the financial year, the Company launched a capital investment program to transition the portfolio of child care services to a premium offering. As at 31 December 2018, the Company had completed $3.1 million in capital upgrades.

The child care sector underwent significant regulatory reform during the financial year with the introduction of the Child Care Subsidy (CCS) effective 1 July 2018. Whilst it is too early to assess the long-term impact of this change, only 3% of the families with high household income were not eligible for CCS following the implementation of the reforms.

Management successfully executed performance improvement initiatives in the fourth quarter of the financial year which primarily focused on transitioning families to the new subsidy and workforce planning.

Strategy and transition to Nido

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

The Company is well positioned to deliver a premium service to suburban markets. During the financial year, Think Childcare undertook $3.1 million in capital investment designed to create environments which foster creativity for the children and Educators.

In October 2017, the Company acquired three Nido Early School (Nido) services along with the Nido brand as a platform to execute on its strategy. During the financial year, the Company embarked on a program of works which will continue into 2019 to transition the Company's existing child care services to the Nido brand.

Project Elevate

The Company's strategy and operational plans were crystallised during its inaugural two-day strategy workshop held in October 2018. This resulted in the launch of Project Elevate which will be delivered over the next 2 to 3 years.

The objectives of Project Elevate is to support the delivery of the Company's strategy and manage risk by promoting:

- Excellence in governance, financial control and quality;
- Strong capital structure to ensure sustainability; and
- Insights which drive strategic decisions.

Capital management

On 27 June 2018, Think Childcare refinanced its ANZ debt facility of $28 million with a five year syndicated facility with Macquarie Bank Limited for an amount of $58 million including an additional Accordion for $20 million. The Company achieved financial close in respect of the new facility on 10 July 2018.

The balance drawn under the syndicated facility agreement at end of the financial year includes:

- Tranche A $28 million; and
- Tranche C $6.6 million in the form of letter of credit.

Tranche B of $20 million remains undrawn at the end of the financial year. The Accordion is available for drawdown by 10 July 2021.

On 15 March 2018, Think Childcare issued 5,271,357 ordinary shares at $1.99 issue price and raised $10,490,000 in equity to fund its acquisition pipeline and capital investment program.

Risk management

The Company is exposed to interest rate risk due to the floating nature of the borrowing facility and little ability to pass on increases in interest expense through its normal business operations. The Company's interest rate risk management approach involves establishing and maintaining a base level of interest rate hedging using a combination of limiting and/or non-limiting cover. The interest rate exposure will be managed on a gross basis (i.e. the interest rate positions on deposits and debt are not netted for risk management purposes). The maximum amount hedged is maintained in the range of maximum 75% of the face value of the debt to minimum 50%.

Directors Report continued

Outlook for 2019

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

The Company has an extensive pipeline of child care services and a national footprint in key suburban markets within Australia.

Priorities for the 2019 financial year include:

- Continue to drive enrolments in the core portfolio of child care services;
- Delivery on the Company's capital investment program and transition the remainder of the child care services to Nido Early School;
- Trade-up child care services opened in 2018 financial year to achieve target enrolments and performance objectives;
- Develop greenfield sites in-house in addition to identifying and consulting for third parties and incubator partners; and
- Continuous improvement of margins through efficient workforce planning and management of overheads.

Company secretaries

Joint Company secretaries are Trinh Bui and Mourice Garbutt.

Trinh is the Company's General Counsel and was appointed as the Company's joint company secretary on 31 May 2018. She is a member of the Law Society of New South Wales and a Fellow member of the Governance Institute of Australia with over 3 years company secretarial experience and 10 years' experience in governance and risk management. Trinh holds an LL.B and Bachelor of Management. Trinh was admitted to practice as a solicitor and barrister in NSW in June 2001 and as a solicitor in the Supreme Court of England and Wales in 2005.

Mourice is the principal of K R Corporate Compliance Pty Ltd, a company specialising in the provision of corporate and secretarial services to listed companies in Australia. He is a Fellow of the Governance Institute of Australia and Chartered Institute of Secretaries. His former professional associations are: Certified Practicing Accountant and 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 2018, and the number of meetings attended by each Director were:

	Board		Audit, Risk and Compliance Committee		Human Resources and Remuneration Committee††	
	Attended	Eligible	Attended	Eligible	Attended	Eligible
Evonne Collier**	13	13	4†	4	2	2
Joe Dicks**	11	13	4	4	2†	2
Mark Kerr	13	14	4	4	2	2
Mathew Edwards	14	14	4†	4	2†	2
Paul Gwilym*	2	2	-	-	-	-

* *Paul Gwilym retired as Director and joint Company secretary on 4 May 2018*

** *Evonne and Joe were appointed non-executive Directors on 6 April 2018*

† *Attendance as an invitee*

†† *The Human Resources and Remuneration Committee (HRC) was established on 26 July 2018*

Indemnity and insurance of officers and auditors

Subject to the following, no insurance premium was paid during or since the end of the 2018 financial year for a person who is or has been an officer or auditor of the Company.

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

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

The Company has not otherwise, during or since the end of the 2018 financial year, indemnified or agreed to indemnify an officer or auditor of the Company against a liability as such an officer or auditor.

Directors Report continued

Proceedings on behalf of the Company

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

Non-audit services

During the year, Bentleys NSW Audit Pty Ltd (auditors) have performed tax services in addition to their statutory duties as auditor.

The Audit, Risk and Compliance Committee reviews the non-audit services performed by the auditor on a case-by-case basis. In accordance with advice received from the Audit, Risk and Compliance Committee, the Directors are satisfied that the provision of these non-audit services by the auditor (or by another person or firm on the auditor's behalf) is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act. The Directors are so satisfied because the Audit, Risk and Compliance Committee or its delegate has assessed each service, having regard to auditor independence requirements of applicable laws, rules and regulations, and concluded in respect of each non-audit service or type of non-audit service that the provision of that service or type of service would not impair the auditor's independence.

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act is included in this report. Details of amounts paid or payable to the auditor of the Group for audit and non-audit services provided during the year are given in note 25 on page 89 of this report.

Officers of the Company who are former Directors of Bentleys NSW Audit Pty Ltd (Auditors)

There are no officers of the Company who are former Directors of Bentleys NSW Audit Pty Ltd.

Significant changes in the state of affairs

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

Matters subsequent to the end of the financial year

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

Likely developments and expected results of operations

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

Environmental regulation

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

Rounding of amounts

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

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

On behalf of the Directors

Mark Kerr

Mark Kerr
Chairman

27 February 2019 | Melbourne

REMUNERATION REPORT

Dear Shareholders

Message from the Human Resources and Remuneration Committee Chair

This Remuneration Report is designed to provide shareholders with information on key remuneration activities undertaken during the year, details of remuneration paid to Key Management Personnel (KMP) and demonstrating the link between the reward outcomes and the Company's performance. The Board would also like to use this as an opportunity to provide shareholders with information on planned changes for the coming financial year.

As a result of shareholder and proxy advisor feedback, the Board recognised the need to improve the level of disclosure in relation to KMP remuneration and review the existing remuneration framework within the Company. Consequently, to assist the Board with its review and overall governance obligations in accordance with the Company's constitution, the Board established a Human Resources and Remuneration Committee (HRC) effective 26 July 2018.

The purpose of the HRC is to ensure that remuneration principles are aligned to the Company's strategic objectives and remuneration levels are set appropriately to attract and retain key executives. The Board has linked remuneration outcomes to the corporate strategy for the medium to long-term.

The HRC and the Board are currently in the process of reviewing the existing remuneration framework for KMP including a detailed review of the incentive arrangements to identify potential areas for change. It is the intention of the Board that a new framework will be in place for the 2019 financial year going forward with details of the changes to be disclosed in the 2019 Remuneration Report. Another outcome of the review will be continued improvement in the level of transparency and disclosure of the Company's remuneration and reward framework and alignment of financial and non-financial measures to the Company's strategic and operational objectives.

Company performance

The 2018 financial year was characterised by significant regulatory reforms which resulted in underperformance in the first half. The second half saw the Company clawback some of the first half impact. Having regard to these challenges, the Company's 2018 result, as measured by underlying earnings before income tax, depreciation and amortisation, showed a solid performance compared with the prior year.

The 2018 short-term incentive outcomes for key management personnel reflected the Company's performance having regard to these conditions, the achievement of capital management initiatives and progress made with respect to Project Elevate. The Board recommends the Company's Remuneration Report to investors and seeks your support for the resolution to adopt the Remuneration Report at the Company's Annual General Meeting to be held on Thursday, 9 May 2019.

Evonne Collier
Chair – Human Resources and Remuneration Committee

27 February 2019 | Sydney

Overview

The Board presents the Remuneration Report for Think Childcare Limited (the Company) for the year ended 31 December 2018 (2018), which forms part of the Directors' Report and has been prepared in accordance with section 300A of the *Corporations Act 2001 (Cth)* (Corporations Act). The data provided in the Remuneration Report was audited as required under section 308(3C) of the Corporations Act.

Governance

The directors appointed a Human Resources and Remuneration Committee (HRC or Committee) on 26 July 2018 to advise the Board on remuneration policy and practices. The Committee comprises the independent Directors and is chaired by Evonne Collier.

The HRC comprises the following Non-Executive Directors who have held their positions since 26 July 2018 (unless otherwise stated):

- Evonne Collier, Chair
- Mark Kerr
- Joe Dicks (appointed 29 January 2019)

Use of remuneration consultants

From time to time, the HRC will engage external advisors to provide advice. There were no external remuneration consultants engaged in 2018. Accordingly, there were no remuneration recommendations received in 2018. The Board has engaged PwC on 24 January 2019 to provide independent advice on the following:

- Enhanced disclosure and reporting in respect of 2018; and
- Review of the reward framework to promote continued alignment to the Company's strategy and operational objectives with effect for the financial year ended 2019.

PwC have been commissioned by, engaged with, and addressed reports directly to the Chair of the HRC.

Performance and variable remuneration outcomes

The Company's remuneration policy assesses variable remuneration outcomes in the context of the overall performance the Company against both financial and non-financial objectives.

The HRC, which was established on 26 July 2018, is responsible for implementing a key performance indicators (KPI) framework which assesses performance against the following metrics with a variable weighting reflecting the position's authority and responsibility for planning, directing and controlling the relevant activities:

- Financial performance including capital management;
- Operational outcomes including quality, systems, risk management and compliance; and
- Culture and values.

Independent remuneration advisors, PwC will work with the HRC to conduct a review with effect for the 2019 financial year. The outcome of this review will be to ensure continued alignment of the Company's remuneration framework with the Company's long-term strategic and operational objectives as well as formalise the documentation and appropriate disclosure.

Remuneration Report continued

Key management personnel

Key Management Personnel (KMP) at 31 December 2018 are persons identified as having direct or indirect authority and responsibility for planning, directing and controlling the activities of the Company, and include Non-Executive Directors, Executive Directors and the Chief Financial Officer.

KMP of the Company for the year ended 31 December 2018 have been determined by the Board as follows:

		Position	Dates
Non-Executive Directors	Mark Kerr	Non-Executive Chairman	21 July 2014
		Chair - Audit, Risk and Compliance Committee	29 September 2017 *to* 06 April 2018
	Joe Dicks	Non-Executive Director	06 April 2018
		Chair - Audit, Risk and Compliance Committee	
	Evonne Collier	Non-Executive Director	06 April 2018
		Chair - Human Resources and Remuneration Committee	
Executive Directors	Mathew Edwards	Managing Director	21 July 2014
	Paul Gwilym	Executive Director	21 July 2014 *to* 04 May 2018
Key Management Personnel	Mathew Edwards	Chief Executive Officer	17 September 2014
	Paul Gwilym	Chief Financial Officer	17 September 2014 *to* 13 April 2018
	Jennifer Saliba	Chief Financial Officer	16 April 2018
	Amanda Mawer	National Operations Manager	17 September 2014 *to* 21 October 2018

Remuneration of executive key management personnel

The Company's remuneration principles aim to ensure that remuneration packages appropriately reflect the executive's duties and responsibilities and that the remuneration is competitive in attracting, retaining and motivating professionals of suitable quality.

The structure of remuneration, as explained below, is designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of long-term value creation for shareholders.

The remuneration structures consider a range of factors, including the following:

- Capability, skills and experience;
- Ability to impact achievement of the strategic objectives of the Company;
- Performance of each individual KMP;
- The Company's overall performance;
- Remuneration levels being paid by competitors for similar positions; and
- The need to ensure executive continuity and succession.

The HRC's objectives in determining the remuneration and incentive framework, policies and practices are to:

a) Motivate relevant executives to pursue the growth and success of the Company in both the short-term and over the longer term, without taking undue risks;

b) Demonstrate a clear relationship between performance and remuneration;

c) Involve an appropriate balance between fixed and incentive remuneration, reflecting short and long-term performance objectives of the Company; and

d) Comply with relevant laws and regulations and have regard to shareholder expectations.

The Board understands the importance of the relationship between the executive KMP remuneration and the Company's performance. Executive KMP remuneration packages are structured to align outcomes with the interests of shareholders.

Framework for remuneration of KMP

In 2018, KMP remuneration comprised:

- Total fixed remuneration
- Short-term incentive
- Long-term incentive

Remuneration Report continued

Remuneration Element	Description	Potential Opportunity for 2018	Changes for 2019
Total Fixed Remuneration (TFR)	Consists of base pay, employer superannuation contributions, salary-sacrifice benefits and other non-monetary benefits	TFR is set with reference to market data of comparable organisations and is generally reviewed on an annual basis	N/A
Short-Term Incentive (STI)	A discretionary cash bonus awarded on an assessment of operational and strategic Company performance over the year	Fixed amount determined by the Board	The operation of the STI is currently being reviewed and will be updated as required to ensure the plan is aligned to the strategic goals of the Company
Long-Term Incentive (LTI)	Performance Rights	Fixed amount determined by the Board	The existing LTI plan is currently under review with a new plan to be implemented and will apply from the 2019 financial year. Details regarding the new plan will be included in the 2019 Remuneration Report. There were no grants under the existing LTI to any KMP for the 2018 financial year

Total fixed remuneration (TFR)

TFR consists of base salary, employer superannuation contributions, salary sacrifice benefits and other non-monetary benefits. TFR is set based on the role, responsibilities, experience and qualifications of the individual, and with reference to market data of comparable organisations. TFR will generally be reviewed on an annual basis.

Short-term incentive plan (STI)

Key Features	Description
Eligibility	KMP
Instrument	Cash payment
Quantum	Fixed amount determined by the Board
Stretch	As determined by the Board
Performance measures	Determined by the Board having regard for the Company's financial performance as measured by underlying EBITDA, achievement of capital management initiatives and progress made with respect to Project Elevate

The short-term incentive is a performance-based component of remuneration and is designed to reward annual performance and focus KMP on meeting strategic and operational objectives. For the 2018 financial year, KMP participation in the STI was at the discretion of the Board. The STI opportunity for KMP is set by the Board as an agreed amount forming part of the KPM's Total Maximum Remuneration (TMR). Following the current project to review the existing incentive arrangements, the structure and performance metrics associated with the STI will be updated and communicated with shareholders in the 2019 Remuneration Report.

STI objectives for each KMP consider their respective role and the objectives of the organisation to which they are expected to contribute. The link between the organisation's objectives and the KMPs' short-term incentive KPIs is designed to align KMP to the Company's objectives. Taking into consideration circumstances over the course of the financial year, the Board has discretion to reduce, cancel or increase STI payments.

Long-term incentive plan (LTI)

The LTI Plan is an equity-based incentive scheme designed to align the interests of KMP and shareholders over the long-term and retain high performing individuals. Participation in the LTI plan is at the discretion of the Board and may include employees outside the KMP.

The LTI is delivered as Performance Rights with each Right representing a right to one fully paid ordinary share. The Board determines each participant's target quantum and the performance hurdles attaching to each LTI grant.

There were no LTI incentives awarded during the financial year.

As mentioned earlier, the LTI plan is undergoing a review process which may result in material changes to be made to the operation of the plan for 2019 going forward. The intention of the Board is to ensure that the LTI plan is aligned to market and further aligned to the Company's strategic objectives.

Remuneration Report continued

Link between remuneration and performance of executive KMP

Remuneration Component	Link to Company Performance
Total Fixed Remuneration (TFR)	TFR is determined with reference to the executive KMP's role, responsibilities and performance and remuneration levels for similar positions in the market
Short-Term Incentive (STI)	STI is awarded to executive KMP whose achievements, behaviours and focus meet the Company's values, strategic and operational priorities and Key Performance Indicators (KPIs) measured over the financial year The Board maintains the sole discretion over the granting of STIs to employees
Long-Term Incentive (LTI)	LTIs are granted to executive KMP to align their focus with the Company's medium to longer term strategy. The Company has an Employee Share Option Plan LTIs are granted in the form of Performance Rights (Rights) to acquire shares in the Company. The Rights vest a third annually over a three-year period, where certain performance, service or other vesting conditions determined by the Board are satisfied The Board maintains sole discretion over the granting of LTIs

There was no change to the at-risk component of TMR of the Managing Director and Chief Executive Officer in 2018.

Paul Gwilym resigned from his position as an Executive Director and Chief Financial Officer during the year. He was succeeded by Jennifer Saliba who commenced her employment as Chief Financial Officer on 16 April 2018.

Amanda Mawer's role as Operations Manager was restructured effective 22 October 2018. In Amanda's new role as National Service Delivery Manager, the Board has determined that she no longer qualifies as a KMP.

The 2018 Total Maximum Remuneration (TMR) mix for the KMP is set out in the table below.

				At Risk Performance Based Remuneration					
		TFR		Cash STI		Equity Deferred STI		Equity LTI*	
Executive KMP	**Position**	2017	2018	2017	2018	2017	2018	2017	2018
Mathew Edwards	Managing Director and Chief Executive Officer	235,000	291,229	93,278	Nil	–	–	33,334	Nil
Paul Gwilym	Executive Director and Chief Financial Officer	215,000	94,461	74,622	Nil	–	–	26,667	Nil
Jennifer Saliba	Chief Financial Officer	Nil	237,298	Nil	80,000	–	–	Nil	Nil
Amanda Mawer	Operations Manager	114,216	N/A	35,000	N/A	–	–	24,562	N/A

* *Number of shares issued with respect to Performance Rights that have vested during that year*

Remuneration of Non-Executive Directors

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, seek 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 the total aggregate remuneration available to Non-Executive Directors was set at $750,000 per annum (including statutory superannuation contributions).

Annual fees in respect of 2018 (inclusive of superannuation) were:

	Board Fees		**Audit, Risk and Compliance Committee Fees**		**Human Resources and Remuneration Committee Fees**	
	Chairman	Member	Chairman	Member	Chairman	Member
Mark Kerr	109,496	-	-	-	-	-
Joe Dicks	-	60,000	15,000	-	-	-
Evonne Collier	-	60,000	-	-	15,000	-

2018 STI awards

Having regard to market conditions, the Company's performance in 2018 was solid. As a result of the performance assessment, the Board awarded STIs in respect of 2018 as set out below.

KMP	**STI Cash Bonus Awarded $**	**Consideration in determining Award**
Mathew Edwards	-	N/A
Paul Gwilym	-	N/A
Jennifer Saliba	80,000	Achievement of capital management initiatives and progress made with respect to Project Elevate

In assessing performance for the 2018 STI Awards, the Board considered the Chief Financial Officers' (CFO) contribution since joining, in particular:

- The CFO's contribution to the successful refinance of the Company's debt facility;
- The review and update to the budgeting and investor communication process; and
- Driving Project Elevate and meeting milestones associated with Phase 1 of the finance transformation.

Based on the achievements, the Board determined that the CFO would be awarded an STI payment.

Remuneration Report continued

LTI Grants

As the Conditions for the LTI Grants have not been met in the current financial year there were no Grants made under the LTI plan in 2018. Refer to the Performance Rights section of this report for further details on the conditions. There were no LTI Grants made in the 2018 financial year.

Remuneration summary

The table below is a voluntary disclosure of the remuneration actually received by KMP . The table below shows the actual remuneration received by KMP for the 2018 year.

		Short-Term Benefits				Equity Based Payments		Other		
		Salary / Fees	Cash STI	Other Cash Benefits	Deferred STI Rights	LTI Performance Rights*	LTI Recognition Rights	Long Service Leave	Superan-nuation	Total
Non-Exectutive Director										
Mark Kerr	2018	104,163	–	–	–	17,066	–	–	9,500	130,729
	2017	99,996	–	–	–	26,135	–	–	9,500	135,631
Joe Dicks	2018	56,250	–	–	–	–	–	–	–	56,250
	2017	–	–	–	–	–	–	–	–	–
Evonne Collier	2018	56,250	–	–	–	–	–	–	–	56,250
	2017	–	–	–	–	–	–	–	–	–
Andrew Hanson	2018	–	–	–	–	–	–	–	–	–
	2017	56,485	–	–	–	–	–	–	25,612	82,097
Executive KMP										
Mathew Edwards	2018	235,000	–	29,988	–	–	–	3,916	22,325	291,229
	2017	235,000	93,278	29,988	–	65,335	–	3,916	31,186	458,703
Paul Gwilym	2018	79,919	–	8,650	–	–	–	–	5,892	94,461
	2017	215,000	74,622	29,988		52,267	–	–	27,514	399,391
Jennifer Saliba	2018	213,462	80,000	–	–	–	–	3,558	20,279	317,299
	2017	–	–	–	–	–	–	–	–	–
Amanda Mawer	2018	120,000	–	35,000	–	–	–	2,000	11,400	168,400
	2017	115,255	35,000	35,000	–	48,142	–	2,000	14,274	249,671

** Value of the shares issued with respect to Performance Rights that have vested during that year*

KMP remuneration mix

The following table summarises the relative proportions of total remuneration based on the 2018 Remuneration Summary (Statutory).

KMP	TFR	STI	LTI
Mathew Edwards	100%	0%	0%
Paul Gwilym	100%	0%	0%
Jennifer Saliba	75%	25%	0%

Interests in shares

Interests in Company shares held by Directors and KMP is set out below.

	Balance 31 Dec 2017	Acquired during 2018^	Disposed	Received as Remuneration†	Balance 31 Dec 2018
Independent Directors					
Mark Kerr*	1,470,397	43,587	Nil	13,333	**1,527,317**
Joe Dicks	Nil	Nil	Nil	Nil	**Nil**
Evonne Collier	Nil	Nil	Nil	Nil	**Nil**
Key Management Personnel					
Mathew Edwards*	14,391,511	195,735	300,000	Nil	**14,287,246**
Paul Gwilym*	772,979	Nil	Nil	Nil	**772,979**
Jennifer Saliba*	Nil	24,283††	Nil	Nil	**24,283**

** Include shares indirectly held by Directors and KMP as disclosed in each Directors' Appendix 3Y*

^ Include shares acquired under the Company's Dividend Reinvestment Plan

† Include shares acquired under the Company's ESOP

†† Shares personally acquired prior to appointment as CFO

Remuneration Report continued

Performance Rights

Performance Rights granted to executives during the year ended 31 December 2018 under the Company's employee share option plan (ESOP) up to the date of this report are detailed in the below table. There were no Performance Rights granted in the 2018 financial year. There were no Performance Rights granted between 31 December 2018 and the date of this report.

Director/ Executive KMP	Grant date	Expiry date	Fair value per right at grant date	Rights granted	Opening balance	Rights vested†	Rights lapsed	Closing balance
Mathew Edwards	-	-	-	Nil	Nil	Nil	Nil	Nil
	28 August 2017***	27 August 2032	$2.28	43,859	43,859	Nil	(14,619)	29,240
	8 August 2016**	7 August 2031	$1.00	100,000	66,666	Nil	(33,333)	33,333
	Total							**62,573**
Paul Gwilym	-	-	-	Nil	Nil	Nil	Nil	Nil
	28 August 2017***	27 August 2032	$2.28	35,087	35,087	Nil	(35,087)	Nil
	8 August 2016**	7 August 2031	$1.00	80,000	80,000	Nil	(53,333)	Nil
	Total							**Nil**
Mark Kerr	-	-	-	Nil	Nil	Nil	Nil	Nil
	-	-	-	Nil	Nil	Nil	Nil	Nil
	8 August 2016*	7 August 2031	$1.00	40,000	26,666	(13,333)	Nil	13,333
	Total							**13,333**
Jennifer Saliba	-	-	-	Nil	Nil	Nil	Nil	Nil
Evonne Collier	-	-	-	Nil	Nil	Nil	Nil	Nil
Joe Dicks	-	-	-	Nil	Nil	Nil	Nil	Nil

** In relation to Non-Executive Directors, the Performance Rights will vest in 3 equal portions subject to any performance hurdles.*

*** In relation to the Performance Rights issued to the Managing Director and the CFO in 2016 (CY2016 Grant), the Performance Rights will vest in 3 equal portions over a 3-year period from the date of grant, subject to the Company achieving 10% annual earnings per share (EPS) increase excluding greenfield trade up losses and acquisition costs. The CY2016 Grant will be performance tested from 1 January 2016 through to 31 December 2018. One-third of the grant will be tested each year, over the three year period.*

On 5 May 2017, the conditions to the CY2016 Grant was amended (as approved by shareholders at the 2017 annual general meeting) as follows:

a) In relation to the proportion of the CY 2016 Grant vesting on the first anniversary of the grant date, an amendment to the EPS portion of the CY 2016 Grant such that EPS is calculated by dividing the adjusted NPAT (adding back the net acquisition costs) of the Company for CY 2016 by the total Shares on issue at the commencement of CY2016; and

b) In relation to the proportions of the CY 2016 Grant vesting on the second and third anniversaries of the grant date, the Performance Rights will be subject to the Company achieving budgeted targets set by the non-executive members of the Board from time to time that relates to the overall Shareholder returns over the mid to longer term.

Paul Gwilym's Performance Rights were cancelled on resignation date.

****In relation to Performance Rights issued to the Managing Director and the CFO in 2017 (CY2017 Grant) (as approved by shareholders at the 2017 annual general meeting), the Performance Rights will vest in 3 equal portions over a 3 year period from the date of grant, subject to the Company achieving budgeted targets set by the non-executive members of the Board from time to time that relate to the overall shareholder returns over mid to longer term. The CY2017 Grant will be performance tested from 1 January 2017 through to 31 December 2019. One-third of the grant will be tested each year, over the three year period.*

Paul Gwilym's Performance Rights were cancelled on resignation date.

† Ordinary fully paid shares issued to settle the vested Performance Rights issued under the terms of the Company's Employee Share Option Plan (ESOP).

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 2018 and up to the date of this report.

Service agreements for KMP

Executive KMP Service Agreements detail the individual terms and conditions applying to the employment of the executive KMP. Key employment terms in addition to the remuneration arrangements set out in this report are set out below:

Title	**Mathew Edwards** Managing Director and Chief Executive Officer	**Jennifer Saliba** Chief Financial Officer
Contract Term	17 September 2014 Ongoing	16 April 2018 Ongoing
Termination by the Executive KMP	6 months' notice Unvested STI and LTI entitlements lapse unless the Board determines otherwise	6 months' notice Unvested STI and LTI entitlements lapse unless the Board determines otherwise
Termination by Company without cause or mutually agreed resignation	6 months' notice Unvested STI and LTI entitlements lapse unless the Board determines otherwise	6 months' notice Unvested STI and LTI entitlements lapse unless the Board determines otherwise
Termination by Company for serious misconduct	No notice period or termination payment unless the Board determines otherwise	No notice period or termination payment unless the Board determines otherwise
Post-employment restraints	Restrained from soliciting suppliers, customers and employees for 12 month period post-employment	Restrained from soliciting suppliers, customers and employees for 6 month period post-employment

Loans given to KMP

No loans were made to any of the KMP or their related parties during 2018 financial year.

Other transactions with KMP

- Mark Kerr (Non-Executive Director), via an indirect interest, has a partial interest in an operating child care service leased to the Company.
- The Company engages on a non-exclusive basis, the services of a property maintenance/ management contracting entity, a trust managed and operated by the spouse of KMP, Amanda Mawer (Operations Manager)* who has an indirect interest as beneficiary of the operating trust.
- The Company provides management and establishment services to a child care service incubator partner entity of which the siblings (brother and sister) of Mathew Edwards (Managing Director) are shareholders. In consideration for the services provided by the Company to the incubator partner entity, the Company is paid fees in accordance with the agreed terms of engagement and management services.

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

* Following an internal restructuring, as at 22 October 2018 Amanda Mawer no longer qualified as a KMP

DIRECTORS' DECLARATION

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 Company's financial position as at 31 December 2018 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

Mark Kerr

Mark Kerr
Chairman

27 February 2019 | Melbourne

Nido Early School Belmont, WA

FINANCIAL REPORT

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December 2018

	Note	2018 $'000	2017 $'000
Revenue	5	85,289	65,504
Other income	15	519	1,382
Expenses			
Employee benefit expenses	6	53,927	41,243
Occupancy expenses	6	12,553	8,805
Direct expenses of providing services		3,024	2,428
Marketing expenses		1,280	914
Corporate expenses		500	592
Information and communication expenses		870	618
Share-based payment expense		144	39
Acquisition and integration expenses	6	503	580
Other expenses		2,329	1,465
Depreciation and amortisation expense	6	1,643	1,017
Finance costs	6	2,035	764
Profit before tax		7,001	8,421
Income tax expense	7	2,051	2,648
Profit for the year attributable to equity holders of Think Childcare Limited		4,950	5,773
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year attributable to equity holders of Think Childcare Limited		4,950	5,773

		Cents	Cents
Basic earnings per share	34	10.46	13.68
Diluted earnings per share	34	10.45	13.57

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

Consolidated statement of financial position

As at 31 December 2018

	Note	2018 $'000	2017 $'000
Assets			
Current Assets			
Cash and cash equivalents		3,560	451
Trade and other receivables	8	3,165	3,018
Other	9	1,129	2,070
Total current assets		7,854	5,539
Non-current assets			
Property, plant and equipment	10	10,961	4,683
Intangible assets	11	57,276	43,500
Deferred tax	12	1,898	1,431
Security deposits		26	18
Total non-current assets		**70,161**	49,632
Total assets		**78,015**	55,171
Liabilities			
Current liabilities			
Trade and other payables	13	6,913	6,158
Borrowings	16	182	113
Income tax payable		386	353
Employee benefits	14	3,257	2,581
Other	15	1,238	800
Total current liabilities		11,976	10,005
Non-current liabilities			
Borrowings	16	26,151	19,421
Derivative financial instruments	23	300	72
Employee benefits	17	919	618
Other	18	39	-
Total non-current liabilities		**27,409**	20,111
Total liabilities		**39,385**	30,116
Net assets		38,630	25,055
Equity			
Issued capital	19	53,779	42,532
Reserves	20	(18,971)	(18,946)
Retained earnings		3,822	1,469
Total equity		**38,630**	25,055

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

Consolidated statement of changes in equity

For the year ended 31 December 2018

	Note	Issued capital $'000	Reserves $'000	Retained earnings $'000	Total equity $'000
Balance at 1 January 2017		40,404	(18,835)	(363)	21,206
Restatement – prior period error	38	–	–	(167)	(167)
		40,404	(18,835)	(530)	21,039
Profit for the year		-	-	5,773	5,773
Other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		-	-	5,773	5,773
Contributions of equity, net of transaction costs	19	1,978	-	-	1,978
Share-based payments	20	-	40	-	40
Share options exercised	19, 20	151	(151)	-	–
Dividends paid	21	-	-	(3,774)	(3,774)
		2,128	(111)	(3,774)	(1,757)
Balance at 31 December 2017		42,532	(18,946)	1,469	25,055

	Note	Issued capital $'000	Reserves $'000	Retained earnings $'000	Total equity $'000
Balance at 1 January 2018		42,532	(18,946)	1,469	25,055
Adjustment for AASB 15 & AASB 9	36	-	-	(33)	(33)
Balance at 1 January 2018 (restated)		42,532	(18,946)	1,436	25,022
Profit for the year		-	-	4,950	4,950
Other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		-	-	4,950	4,950
Contributions of equity, net of transaction costs	19	11,229	-	-	11,229
Share-based payments	20	-	144	-	144
Share options exercised	19, 20	17	(169)	-	(152)
Dividends paid	21	-	-	(2,564)	(2,564)
		11,246	(25)	(2,564)	8,657
Balance at 31 December 2018		**53,779**	**(18,971)**	**3,822**	**38,630**

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

Consolidated statement of cash flow

For the year ended 31 December 2018

	Note	2018 $'000	2017 $'000
Cash flows from operating activities			
Receipts from parents and government funding		84,009	62,961
Payments to suppliers and employees		(72,492)	(55,551)
		11,517	7,410
Government grants received		1,652	1,691
Interest and other finance costs paid		(2,035)	(764)
Income taxes paid		(2,250)	(2,954)
Net cash from operating activities	32	8,884	5,383
Cash flows from investing activities			
Payments for acquisition of business	30	(14,540)	(10,605)
Payments for property,plant and equipment	10	(5,996)	(2,113)
Payments for intangibles	11	(5)	(6)
Payments for security deposits		(8)	(13)
Payments for contingent and deferred consideration		(800)	(2,250)
Proceeds from sale of property,plant and equipment		–	4
Net cash used in investing activities		(21,349)	(14,957)
Cash flows from financing activities			
Proceeds from issue of shares (net of transaction costs)	19	11,226	1,977
Proceeds from borrowings	16	6,912	10,027
Dividends paid	21	(2,564)	(3,774)
Net cash from financing activities		15,574	8,230
Net decrease in cash and cash equivalents		3,109	(1,344)
Cash and cash equivalents at the beginning of the year		451	1,795
Cash and cash equivalents at the end of the year		3,560	451

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

Notes to the financial statements

Note 1. General information

The financial statements cover Think Childcare Limited as a consolidated entity consisting of Think Childcare Limited and the entities it controlled at the end of, or during, the year (together, hereafter referred to as the Company). 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 Company'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 27 February 2019. 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 Company has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:

- AASB 9 Financial Instruments
- AASB 15 Revenue from Contracts with Customers
- AASB 2016-5 Amendments to Australian Accounting Standards - Classification and Measurement of Share-based Payment Transactions

The Company had to change its accounting policies and make certain retrospective adjustments following the adoption of AASB 9 and AASB 15. This is disclosed in note 36. Most of the other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

New or amended Accounting Standards and Interpretations not yet mandatory or early adopted

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

The following Accounting Standards and Interpretations are most relevant to the Company:

AASB 16 LEASES

Nature of change

AASB 16 was issued in February 2016.

This standard requires certain lease arrangements to be recognised on the balance sheet. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised.

The standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Company does not intend to adopt the standard before its effective date.

Status of work plan

The Company has developed a work plan to assess the impact of the new standard. The project is significantly underway and is expected to be finalised within the next two months.

Impact

The standard will affect primarily the accounting for operating leases. At the reporting date the Company has a number of non-cancellable operating lease commitments which are accounted for as operating expenses.

To accommodate the new standard, the Company will likely need to undertake system developments to both its financial and internal workflow systems. These changes may include:

- Creating asset registers to record 'right-of-use' assets and calculate amortisation charges
- Determining interest amortisation on lease liabilities

It is expected that AASB 16 will have a material impact on both the balance sheet and the financial results of the Company. Following the implementation of the new standard, the Company expects to report:

- Higher EBITDA (earnings before interest, depreciation, amortisation and tax) due to 'operating' lease costs being allocated to depreciation and interest, rather than to an 'above the line' expense
- Lower net profit in the early years of a lease due to front-end loaded expenses for interest and higher net profit in the latter years of a lease
- Higher net debt
- Increased reported assets

Areas of judgement and complexity currently being reviewed and their status are summarised below:

Scope of standard

The Company has reviewed its lease portfolio and determined all child care services and head office lease are within the scope of the standard.

Short-term and low value lease exceptions

Some of the Company's commitments may be covered by an exception for short-term and low-value leases which are not expected to be material to the Company's results. Management have the option over whether to apply these exceptions and are in the process of reviewing.

Discount rate

Determining the interest rate implicit in the lease requires significant judgement due to the nature of the assets which the Company leases. The Company expects its discount rate to approximate its incremental borrowing rate.

Lease Term

The lease term is the non-cancellable period of the lease together with optional renewable periods if there is reasonable certainty of extension after a termination date. The Company considers the likelihood of an option being exercised as high and will incorporate the option period in the lease term where it is at the Company's option and within the Company's control.

Notes to the financial statements continued

Transitional approach

The Company has made the policy choice to apply the modified retrospective approach. The modified retrospective approach does not require restatement of comparative periods. Instead the cumulative impact of applying AASB 16 is accounted for as an adjustment to equity at the date of initial application of the standard (1 January 2019). Comparative figures will not be restated. The financial impact is disclosed in note 37.

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-profit oriented entities. These financial statements also comply with the International Financial Reporting Standards as issued by the International Accounting Standards Boards ('IASB').

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, where applicable, the contingent acquired from business combination and derivative financial instruments.

Critical accounting estimates

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

Net current liability position

The Company has a net current asset deficiency of $4.1m (30 June 2017: $4.5m). The Company generates significant operating cash flows and as per note 16, had access to $43.4m of unused financing facilities at the end of the reporting period.

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the Company 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 2018 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 'Company'.

Subsidiaries are all those entities over which the Company has control. The Company controls an entity when the Company 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 Company. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Company 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 Company.

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

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

Provision of child care services

The Company provides child care services, namely the provision of full or part-time care for babies, toddlers, and young children based on fixed-price schedules. Fees paid by families and/or the Australian Government (Child Care Benefit, Child Care Tax Rebate and Child Care Subsidy) are recognised as and when a child attends a child care service. Billing for services occurs on a weekly basis, in advance for parent fees and in arrears for Australian Government payments, based on attendance records.

Revenue is recognised at the fixed amount for each child care service provided (permanent or casual, full day or half day) and that there are no discounts granted for longer periods of service. Revenue received in advance from parents and guardians and/or the Australian Government is recognised as deferred income and classified as a current liability.

Management fees

Fees paid by externally owned services are recognised over the period in which the services are performed.

Establishment fees

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

Licence fees

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

Commonwealth, State and Territory Government grants

Grants from the Commonwealth, State or Territory Governments are recognised at their fair value when there is reasonable assurance that the grant will be received and the Company 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.

Notes to the financial statements continued

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.

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.

Provisions

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

Finance costs

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

Trade and other receivables

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

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

In the prior year, the impairment of trade receivables was assessed based on the incurred loss model, whereby a provision for impairment was raised when there was objective evidence that the Company would not be able to collect all amounts due.

Notes to the financial statements continued

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
- Motor vehicles
- Computer equipment

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 Company. 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 Company, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included as a liability. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease 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 Company 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.

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 Company 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.

Employee benefits

Short-term employee benefits

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

Other long-term employee benefits

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

Defined contribution superannuation expense

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

Share-based payments

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

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

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate or the term of the option, together with non-vesting

Notes to the financial statements continued

conditions that do not determine whether the Company 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 Company or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Company or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

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

Fair value measurement

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

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

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

Issued capital

Ordinary shares are classified as equity.

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

Dividends

Dividends are recognised when declared during the financial year.

Business combinations

The acquisition method of accounting is used to account for business combinations, other than those deemed to be common control transactions, regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

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

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

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

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

Notes to the financial statements continued

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 Company 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 information 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 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 Company 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 Company considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Employee benefits provision

As discussed in note 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.

Notes to the financial statements continued

Note 4. Operating segments

Identification of reportable operating segments

The Company operates in one segment being a child care 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 Company 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 2018, none of the Company's external revenue was derived from sales to one specific customer or group of customers that derived more than 10% of total revenue (2017: Nil).

Nido Early School Bayswater North, VIC

Note 5. Revenue

	Notes	2018 $'000	2017 $'000
Sales revenue			
Revenue from contracts with customers	a	83,637	63,813
Other revenue			
Government grants		1,652	1,691
Revenue		85,289	65,504

Revenue from contracts with customers

a Disaggregation of revenue from contracts with customers

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

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

2017	Provision of child care services	Management fees	Establishment fees	Licence fees	Total
Revenue from external customers	61,403	1,590	420	400	**63,813**
Timing of revenue recognition					
At a point in time	-	-	420	-	**420**
Over time	61,403	1,590	-	400	**63,393**
	61,403	**1,590**	**420**	**400**	**63,813**

Notes to the financial statements continued

b Assets and liabilities related to contract with customers

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

	Notes	2018 $'000	2017 $'000
Capitalised setup costs relating to Licence fees	9	174	-
Total capitalised costs		**174**	-
Unearned revenue relating to Licence fees	15, 18	207	-
Total uneared revenue		**207**	-

In accordance with the transition provisions in AASB15, the Company has adopted the standard using the modified retrospective approach, hence the comparatives have not been restated.

Note 6. Expenses

	2018 $'000	2017 $'000
Profit before income tax includes the following specific expenses		
Depreciation		
Plant and equipment	1,126	755
Leasehold improvements	319	118
Motor vehicles	63	56
Computer equipment	90	44
Total depreciation	1,598	973
Amortisation		
Software	45	44
Total depreciation and amortisation	1,643	1,017
Finance costs		
Interest and finance charges paid/payable	2,035	764
Rental expense relating to operating leases		
Minimum lease payments	12,553	8,805
Employee benefits expense		
Defined contribution superannuation expense	4,167	3,237
Employee benefits expense excluding superannuation	49,760	38,006
Total expenses employee benefits expense	**53,927**	41,243
Acquisition and integration expenses		
Acquisition and integration costs	503	580

Note 7. Income tax expense

	2018 $'000	2017 $'000
Income tax expense		
Current tax	2,423	2,056
Deferred tax - origination and reversal of temporary differences	(467)	276
Adjustment recognised for prior periods	95	316
Aggregate income tax expense	2,051	2,648
Deferred tax included in income tax expense comprises:		
(Increase) / decrease in deferred tax assets (note 12)	467	276
Numerical reconciliation of income tax expense and tax at the statutory rate		
Profit before income tax expense	7,001	8,421
Tax at the statutory tax rate of 30%	2,100	2,526
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Other income not included in assessable income	-	(415)
Non-deductible expenses	(7)	29
Acquisition and integration expenses	139	118
	2,232	2,258
Other adjustments	(181)	390
Income tax expense	2,051	2,648

	2018 $'000	2017 $'000
Amounts charged directly to equity		
Deferred tax assets (note 12)	134	-

The average tax rate for the year ended as at 31 December 2018 is 29% (2017: 31.4%)

Notes to the financial statements continued

Note 8. Current assets – trade and other receivables

	2018 $'000	2017 $'000
Trade receivables	1,814	1,733
Less: Provision for impairment of receivables	(307)	(191)
	1,507	1,542
Other receivables	1,658	1,476
	3,165	3,018

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

	2018 $'000	2017 $'000
1 to 30 days past due	29	17
31 to 60 days past due	76	46
over 61 days past due	202	128
	307	191

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

	2018 $'000	2017 $'000
Opening balance	191	120
Additional provisions recognised	202	118
Unused amounts reversed	(86)	(47)
Closing balance	**307**	191

Past due but not impaired

Customers with balances past due but without provision for impairment of receivables amount to $491,000 as at 31 December 2018 ($368,000 as at 31 December 2017).

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

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

	2018 $'000	2017 $'000
1 to 30 days past due	154	123
31 to 60 days past due	54	43
over 61 days past due	283	202
	491	368

Note 9. Current assets – other

	2018 $'000	2017 $'000
Prepayments	1,129	1,455
Other current assets	–	615
	1,129	2,070

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

	2018 $'000	2017 $'000
Plant and equipment - at cost	9,733	5,199
Less: Accumulated depreciation	(2,689)	(1,586)
	7,044	3,613
Leasehold improvements - at cost	2,440	837
Less: Accumulated depreciation	(530)	(174)
	1,910	663
Motor vehicles - at cost	336	336
Less: Accumulated depreciation	(151)	(102)
	185	234
Computer equipment - at cost	590	232
Less: Accumulated depreciation	(176)	(59)
	414	173
Construction in progress	1,408	-
	10,961	4,683

Notes to the financial statements continued

Reconciliations

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

	Plant and equipment $'000	Leasehold improve-ments $'000	Motor vehicles $'000	Computer equipment $'000	Construction in progress $'000	Total $'000
Balance at 1 January 2017	2,623	396	195	109	-	3,323
Additions	1,675	361	98	77	-	2,211
Additions through business combination (note 30)	119	2	-	5	-	126
Disposals	-	-	(3)	-	-	(3)
Depreciation expense	(755)	(118)	(56)	(44)	-	(973)
Balance at 31 December 2017	3,662	641	234	147	-	4,684
Additions	3,000	1,316	14	258	1,408	5,996
Additions through business combination (note 30)	1,491	289	-	99	-	1,879
Disposals	-	-	-	-	-	-
Depreciation expense	(1,109)	(336)	(63)	(90)	-	(1,598)
Balance at 31 December 2018	7,044	1,910	185	414	1,408	**10,961**

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

	2018 $'000	2017 $'000
Goodwill - at cost	57,161	43,345
Software - at cost	222	217
Less: Accumulated amortisation	(107)	(62)
	115	155
	57,276	43,500

Reconciliations

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

	Goodwill $'000	Software $'000	Total $'000
Balance at 1 January 2017	31,257	193	31,450
Additions	-	6	6
Additions through business combination (note 30)	12,088	-	12,088
Amortisation expense	-	(44)	(44)
Balance at 31 December 2017	43,345	155	43,500
Additions	-	5	5
Additions through business combination (note 30)	13,816	-	13,816
Amortisation expense	-	(45)	(45)
Balance at 31 December 2018	**57,161**	**115**	**57,276**

Impairment test for goodwill

For impairment testing, goodwill acquired through business combinations are allocated to a single cash-generating unit (CGU) which is also Company's operating segment.

The Company performed its annual impairment test in December 2018 and 2017. The Company considers the relationship between its market capitalisation and its book value, among other factors, when reviewing for indicators of impairment. As at 31 December 2018, the Company has not identified any indicators of impairment.

The recoverable amount of CGU is determined based on a value in use calculation using cash flow projections from financial budgets approved by management covering a one year period. Cash flows beyond the one year period are extrapolated using the estimated growth rates of occupancy and daily fee rate. The growth rate does not exceed the long-term average growth rate for the business. The pre-tax discount rate applied to the cash flow projections is 13.5% (2017: 10%). The growth rate used to extrapolate the cash flows of the unit beyond the five year period is 2.5% (2017: 2.5%).

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

Notes to the financial statements continued

Key assumptions used in value in use calculations and sensitivity to changes in assumptions

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

- Discount rate
- Terminal growth rate
- Centre occupancy rates
- Centre wages and occupancy expenses

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

	2018 $'000	2017 $'000
Deferred tax asset comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Impairment of receivables	92	57
Employee benefits	1,464	929
Other	171	43
Share based payment	24	32
	1,751	1,061
Amounts recognised in equity:		
Transaction costs on share issue	147	370
Deferred tax asset	1,898	1,431
Movements:		
Opening balance	1,431	1,610
Charged to profit or loss (note 7)	296	(276)
Charged to equity (note 7)	134	-
Other Adjustments	37	97
Closing balance	1,898	1,431

Note 13. Current liabilities – trade and other payables

	2018 $'000	2017 $'000
Trade payables	2,432	1,284
Centre enrolment advances	298	533
Employee related payables	3,361	3,004
Other payables	822	1,337
	6,913	6,158

Refer to note 22 for further information on financial instruments.

Note 14. Current liabilities – employee benefits

	2018 $'000	2017 $'000
Annual leave	2,369	1,754
Long service leave	888	827
	3,257	2,581

Notes to the financial statements continued

Note 15. Current liabilities – other

	2018 $'000	2017 $'000
Unearned revenue relating to Licence fees	169	-
Contingent consideration	1,069	800
	1,238	800

The Company includes the fair value of contingent consideration as a liability for the acquisition of a business where it expects the earn-out target to be met during the measurement period. 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.

During the current year, the Company settled the final instalment of $800,000 on the 30 January 2018.
The contingent consideration of $519,000 was reversed and recognized as other income.

Refer to note 18 for non-current portion of these liabilities, note 23 for fair value and movement information in relation to such liabilities, and note 30 for further details on business combinations.

Note 16. Borrowings

	2018 $'000	2017 $'000
Bank loans	26,163	19,300
Lease liability	170	234
	26,333	19,534

Refer to note 22 for further information on financial instruments.

Total secured liabilities

Current secured liabilities

	2018 $'000	2017 $'000
Bank loans	41	-
Lease liability	141	113
	182	113

Non-current secured liabilities

	2018 $'000	2017 $'000
Bank loans	26,122	19,300
Lease liability	29	121
	26,151	19,421

Assets pledged as security

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

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.

Notes to the financial statements continued

Financing arrangements

	2018 $'000	2017 $'000
Total facilities		
Bank loans	48,000	25,000
Inter-changeable facility (comprising bank overdraft and bank guarantee facility)	10,000	4,000
Lease liability	170	234
	58,170	29,234
Used at the reporting date		
Bank loans	28,000	19,300
Inter-changeable facility (comprising bank overdraft and bank guarantee facility)	6,628	3,629
Lease liability	170	234
	34,798	23,163
Unused at the reporting date		
Bank loans	20,000	5,700
Inter-changeable facility (comprising bank overdraft and bank guarantee facility)	3,372	371
Lease liability	-	-
	23,372	6,071

On 27 June 2018, Think Childcare refinanced its ANZ debt facility of $28m with a five year syndicated facility with Macquarie Bank Limited (MBL) of $58m plus an additional Accordion for $20m. The Company achieved financial close in respect of the new facility on 10 July 2018.

The unused portion of the bank loan facility is $23,372,000 (2017: $5,700,000) plus an Accordion for $20m. As at 31 December 2018, the Macquarie Bank Limited facility was in good order and the Company was not in breach of any covenants.

The Company will utilise some of the unused portion of the bank loans to make payment of the contingent consideration when they fall due. Refer to note 15 for further details.

Note 17. Non-current liabilities – employee benefits

	2018 $'000	2017 $'000
Annual leave	339	251
Long service leave	580	367
	919	618

Note 18. Non-current liabilities – other

	2018 $'000	2017 $'000
Unearned revenue relating to Licence fees	39	-
	39	-

Note 19. Equity – issued capital

	2018 Shares	2017 Shares	2018 $'000	2017 $'000
Ordinary shares - fully paid	48,467,659	42,737,620	53,779	42,532

Movements in ordinary share capital

Details	Date	Shares	Issue Price	$'000
Balance	1 January 2017	41,639,311		40,404
Issue of shares under dividend reinvestment plan	24 March 2017	501,000	$2.29	1,150
Issue of shares under employee share option plan (Performance Rights exercised)	6 September 2017	83,333	$1.00	84
Issue of shares under employee share option plan (Performance Rights exercised)	6 September 2017	70,178	$0.96	67
Issue of shares under dividend reinvestment plan	20 September 2017	443,798	$1.87	827
Balance	31 December 2017	42,737,620		42,532
Issue of shares through capital raising	15 March 2018	5,271,357	$1.99	10,490
Issue of shares under Dividend Reinvestment Plan	16 March 2018	445,349	$2.02	901
Transaction Cost				(311)
Issue of Performance Rights	6 September 2017	–	–	150
Issue of Performance Rights	22 November 2018	13,333	$1.28	17
Balance	31 December 2018	48,467,659		53,779

Notes to the financial statements continued

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 Company'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 Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

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

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

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

Note 20. Equity – reserves

	2018 $'000	2017 $'000
Common control reserve	(19,052)	(19,052)
Share-based payments reserve	81	106
	(18,971)	(18,946)

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:

	Common control $'000	Share-based payments $'000	Total $'000
Balance at 1 January 2017	(19,052)	217	(18,835)
Share-based payment	-	40	40
Performance rights share options exercised	-	(151)	(151)
Balance at 31 December 2017	(19,052)	106	(18,946)
Share-based payment	-	144	144
Performance rights share options exercised	-	(169)	(169)
Balance at 31 December 2018	(19,052)	81	(18,971)

Notes to the financial statements continued

Note 21. Equity – dividends

Dividends

Dividends paid during the financial year were as follows:

	2018 $'000	2017 $'000
Final dividend for the year ended 31 December 2017 of 6 cents (2017: for 31 December 2016 of 5 cents) per ordinary share	2,564	2,082
Interim dividend for the year ended 31 December 2018 of nil cents (2017: for 31 December 2017 of 4 cents) per ordinary share	-	1,692
	2,564	3,774

On 27 February 2019, a final dividend for the year ended 31 December 2018 of 6.5 cents per ordinary share, fully franked, was determined with a record date of 19 March 2019. The dividend will be paid on 28 March 2019 and is estimated to be a total of $3.15m.

Franking credits

	2018 $'000	2017 $'000
Franking credits available for subsequent financial years based on a tax rate of 30%	3,909	3,022

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 a 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 Company's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Company'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 Company. The Company 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 Company uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and ageing analysis for credit risk.

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

Market risk

Foreign currency risk

The Company 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 Company is not exposed to any significant price risk.

Interest rate risk

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

Notes to the financial statements continued

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

	2018		2017	
	Weighted average interest rate %	Balance $'000	Weighted average interest rate %	Balance $'000
Bank loans	4.71%	26,163	3.60%	19,300
Net exposure to cash flow interest rate risk		26,163		19,300

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

An increase/decrease in interest rates of 50 (2017: 50) basis points would have an adverse/favourable effect on profit before tax and equity of $130,815 (2017: 96,500) 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 Company. The Company has a strict policy on the management of credit for trade receivables, which is managed in a three tier approach with regard to child care fees: at the centre Director level; at the area manager level; and then at the executive management level.

In the event that the Company 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 Company may obtain guarantees where appropriate to mitigate credit risk.

Credit risk in relation to establishment and management fees are managed by Management and the Board; closely monitoring the activities and financial position of the incubator partners on a regular basis.

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 Company does not hold any collateral.

Liquidity risk

Vigilant liquidity risk management requires the Company 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 Company 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:

	2018 $'000	2017 $'000
Bank loans	20,000	5,700
Inter-changeable facility (comprising bank overdraft and bank guarantee facility)	3,372	371
	23,372	6,071

The unused portion of the bank loan facility is $23,372,000 plus an Accordion for $20m.

Refer to note 16 for further details.

Remaining contractual maturities

The following tables detail the Company'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.

Notes to the financial statements continued

2018	Weighted average interest rate %	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Non-derivatives						
Non-interest bearing						
Trade payables	-	2,432	-	-	-	-
Other payables	-	4,481	-	-	-	-
Interest-bearing - variable						
Bank loans	4.71%	-	-	26,163	-	-
Lease liability	4.95%	170	-	-	-	-
Contingent consideration	-	1,069	-	-	-	-
Total non-derivatives						
Derivatives						
Interest rate swaps inflow	2.36%	-	-	300	-	-
Total derivatives		-	-	300	-	-

2017	Weighted average interest rate %	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Non-derivatives						
Non-interest bearing						
Trade payables	–	1,745	–	–	–	–
Other payables	–	4,887	–	–	–	–
Interest-bearing - variable						
Bank loans	3.60%	1,477	1,477	24,406	–	–
Lease liability	4.95%	122	125	–	–	–
Contingent consideration		800	–	–	–	–
Total non-derivatives		9,031	1,602	24,406	–	–
Derivatives						
Interest rate swaps inflow	2.32%	–	72	–	–	–
Total derivatives		–	**72**	**–**	**–**	**–**

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 Company'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

		Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2018 Liabilities	Contingent consideration	-	-	1,069	**1,069**
	Derivative financial instruments	-	300	-	**300**
	Total liabilities	-	300	1,069	**1,369**
2017 Liabilities	Contingent consideration	-	-	800	**800**
	Derivative financial instruments	-	72	-	**72**
	Total liabilities	-	72	800	**872**

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 $3,441,000 and the full amount has been provided for based on the budgeted estimates as at 31 December 2018.

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.

Notes to the financial statements continued

Level 3 assets and liabilities

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

	Contingent consideration $'000	Total $'000
Balance at 1 January 2017	4,408	4,408
Amount paid / settlement against receivables	(2,250)	(2,250)
Additions through business combination (note 30)	(1,382)	(1,382)
Interest accrued	24	24
Balance at 31 December 2017	800	800
Amount paid	(800)	(800)
Additions through business combination (note 30)	1,069	1,069
Interest accrued	–	–
Balance at 31 December 2018	1,069	1,069

On 30 January 2019, the Company settled the final instalment of $800,000

Note 24. Key management personnel disclosures

Compensation

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

	2018 $'000	2017 $'000
Short-term employee benefits	1,018,682	1,014,959
Post-employment benefits	78,870	92,301
Share -based payments	17,066	37,425
	1,114,618	1,144,685

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:

	2018 $'000	2017 $'000
Audit services - Bentleys NSW Audit Pty Ltd		
Audit or review of the financial statements	89,221	62,327
Other services - Bentleys NSW Audit Pty Ltd		
Due diligence	–	11,000
Non audit services	–	7,200
	–	18,200
	89,221	80,527
Other services - Bentleys NSW Pty Ltd		
Tax compliance services	57,650	–

Note 26. Contingent liabilities

The Company has given a corporate guarantee as at 31 December 2018 of $35,899,011* (2017: $6,178,442) to lessors in relation to property leases on a number of child care facilities.

The Company has put options in place as at 31 December 2018 that obligates the Company to acquire child care services from its incubator partner, the EDHOD group, subject to those services meeting stringent financial and non-financial conditions.

* *Includes $6,627,533 in rental bonds*

Notes to the financial statements continued

Note 27. Commitments

	2018 $'000	2017 $'000
Lease commitments - operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	11,255	6,278
One to five years	46,371	28,330
More than five years	84,074	34,656
	141,700	69,264
Lease commitments - finance		
Committed at the reporting date and recognised as liabilities, payable:		
Within one year	144	122
One to five years	30	125
Total commitment	174	247
Less: Future finance charges	(4)	(13)
Net commitment recognised as liabilities	170	234
Representing:		
Lease liability - current	141	113
Lease liability - non-current (note 16)	29	121
	170	234

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 $185,000 (2017: $233,000) under finance leases expiring within two to three years. Under the terms of the leases, the Company 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

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

As at 31 December 2018, the Company paid rent of $267,019. The rent is secured under a standard and commercial rent bond of $143,000.

Below is the Company's assessment of the perceived risks and conflicts associated with the transaction and how such risks/conflicts are managed.

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

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

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

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

Amanda Mawer

The Company engages on a non-exclusive basis, the services of a property maintenance/ management contracting entity, a trust managed and operated by the spouse of KMP, Amanda Mawer (operations manager)* who has an indirect interest as beneficiary of the operating trust.

Notes to the financial statements continued

The key services provided to the Company comprises:

- General maintenance at the Company's services;
- Project management of capital investment programs at the Company's services; and
- General property management of the service premises.

During the year ended 31 December 2018, the Company paid the property maintenance management contracting entity $144,000 for facility management services and $461,914 for capital works.

* Following an internal restructuring, as at 22 October 2018 Amanda Mawer no longer qualified as a KMP.

Below is the Company's assessment of the perceived risks and conflicts associated with the transaction and how such risk/conflicts are managed.

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

  The negotiation of the terms of engagement was managed and approved by the Company's CEO and not the related party KMP. The Company will assess alternative providers to ensure that the engagement of the property maintenance/ management contracting entity and the commercial terms continue to be in line with (or better, from the Company's perspective, than) market standard and are in the best interest of the Company.

Mathew Edwards

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

During the 2018 financial year, the incubator partner entity has established one child care service (opened on 13 August 2018) which the Company currently manages. The Company expects the entity to open another child care service in late 2019.

During the year ended 31 December 2018, the Company received from the incubator partner entity $95,000 in establishment fees and $25,000 in management fees.

Below is the Company's assessment of the perceived risks and conflicts associated with the transaction and how such risk/conflicts are managed.

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

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

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

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

Note 29. Parent entity information

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

Statement of profit or loss and other comprehensive income	PARENT 2018 $'000	PARENT 2017 $'000
Profit after income tax	6,188	1,018
Total comprehensive income	6,188	1,018

Statement of financial position	PARENT 2018 $'000	PARENT 2017 $'000
Total current assets	40,792	30,619
Total assets	61,706	54,465
Total current liabilities	2,531	1,159
Total liabilities	29,282	24,394
Equity		
Issued capital	53,779	42,532
Share-based payments reserve	81	106
Accumulated losses	(21,436)	(12,567)
Total equity	**32,424**	30,071

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 2018 of $5,358,048 (2017: $5,221,843) to lessors in relation to property leases on a number of child care facilities.

Contingent liabilities

Other than Guarantees disclosed above the Parent entity had no contingent liabilities as at 31 December 2018.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Company, 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.

Notes to the financial statements continued

Note 30. Business combinations

Current year acquisitions

The Company acquired nine child care services during the year for a total consideration of $15,608,658.
The goodwill of $13,804,508 represents the value attributed to assembled workforces and management teams within the acquirees, expected synergies from combining the operations, and other non-recognisable intangible assets.
The revenue from the acquisitions amounted to $6,717,081 and the contribution to performance is $1,350,068 for the period ended 31 December 2018. The acquisitions are provisional at 31 December 2018.

Details of the acquisitions are as follows:

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

Prior year acquisitions

The Company acquired five child care services during the year for a total consideration of $12,213,000. The goodwill of $12,088,000 represents the value attributed to assembled workforces and management teams within the acquirees, expected synergies from combining the operations, and other non-recognisable intangible assets. The revenue from the acquisitions amounted to $1,666,000 and the contribution to the performance is $372,000 for the period ended 31 December 2017. The acquisitions are provisional at 31 December 2017.

Details of the acquisitions are as follows:

	Fair Value $'000
Other current assets	63
Property, plant and equipment	126
Deferred tax asset	24
Employee benefits	(87)
Net assets acquired	125
Goodwill	12,088
Acquisition date fair value of the total consideration transferred	12,213
Representing:	
Cash paid to vendors	10,605
Balance offset from loan receivables	1,608
	12,213

The Company 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 received 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.

Notes to the financial statements continued

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	
		2018 %	2017 %
Baker Street Childcare Education Pty Ltd	Australia	100%	100%
Childcare Management Services Pty Ltd	Australia	100%	100%
Edhod Greensborough Pty Ltd	Australia	100%	100%
Edhod Macleod Pty Ltd	Australia	100%	100%
Edhod Newcomb Pty Ltd	Australia	100%	100%
Edhod Settlement Pty Ltd	Australia	100%	100%
Edhod Trafalgar Pty Ltd	Australia	100%	100%
Edhod Wilson Pty Ltd	Australia	100%	100%
LEA Childcare Pty Ltd	Australia	100%	100%
LEA Childcare Services Pty Ltd	Australia	100%	100%
LEA Cobbs Pty Ltd	Australia	100%	100%
LEA Cranbourne Pty Ltd	Australia	100%	100%
LEA Georges Pty Ltd	Australia	100%	100%
LEA Landsdale Pty Ltd	Australia	100%	100%
LEA Lara Pty Ltd	Australia	100%	100%
LEA Springhill Pty Ltd	Australia	100%	100%
LEA Superior Pty Ltd	Australia	100%	100%
LEA Westmeadows Pty Ltd	Australia	100%	100%
Think 2 Georges Hall Geor Pty Ltd	Australia	100%	100%
Think 2 Tuggerah Cob Pty Ltd	Australia	100%	100%
Think 3 Dandenong Can Pty Ltd	Australia	100%	100%
Think 3 Rowville Lakes Sup Pty Ltd	Australia	100%	100%
Think Childcare Belmont Pty Ltd	Australia	100%	100%
Think Childcare Moorabbin Pty Ltd	Australia	100%	100%
Think Childcare Services Pty Ltd	Australia	100%	100%
Think Childcare Services No.1 Pty Ltd	Australia	100%	100%
Think 2 Campbelltown Bro Pty Ltd	Australia	100%	100%
Think 5 Golden Grove Ten Pty Ltd	Australia	100%	100%
Think 3 Altona Meadows Poi Pty Ltd	Australia	100%	100%
Think 2 Amaroo Mor Pty Ltd	Australia	100%	100%
Think 3 Moonee Ponds Mcp Pty Ltd	Australia	100%	100%
Think 3 Port Melbourne Ing P y Ltd	Australia	100%	100%
Think 3 Prahran Don Pty Ltd	Australia	100%	100%
Think 3 Truganina Sam Pty Ltd	Australia	100%	100%
Think 6 Perth Geo Pty Ltd	Australia	100%	100%

Name	Principal place of business / country of incorporation	Ownership interest	
		2018 %	2017 %
Think 5 Crittenden Smi Pty Ltd	Australia	100%	100%
Think 5 Wandana Gil Pty Ltd	Australia	100%	100%
Think 3 Essendon Ral Pty Ltd	Australia	100%	100%
Think Childcare ESOP Holding Company Pty Ltd	Australia	100%	100%
Think 2 Brookvale Pit Pty Ltd	Australia	100%	100%
Think 2 Grays Point Gra Pty Ltd	Australia	100%	100%
Think 4 Woolloongabba May Pty Ltd	Australia	100%	100%
Think 6 Beeliar Dur Pty Ltd	Australia	100%	100%
Think 6 Hocking Nic Pty Ltd	Australia	100%	100%
Think 6 Willetton Cam Pty Ltd	Australia	100%	100%
Think 3 Bentleigh East Che Pty Ltd	Australia	100%	100%
Think 3 Sunshine West Ral P y Ltd	Australia	100%	100%
Think 6 Coogee Pin Pty Ltd	Australia	100%	100%
Think 2 Franklin Nul Pty Ltd	Australia	100%	100%
Think 6 Kensington Fou Pty Ltd	Australia	100%	100%
Think 3 Hartington Gle Pty Ltd	Australia	100%	100%
Think 3 Cheltenham ber Pty Ltd	Australia	100%	–
Think 3 Coburg North Eli Pty Ltd	Australia	100%	–
Think 3 Donvale Spr Pty Ltd	Australia	100%	–
Think 3 Grovedale Bai Pty Ltd	Australia	100%	–
Think 3 Lalor Hig Pty Ltd	Australia	100%	–
Think 3 Montrose Lei Pty Ltd	Australia	100%	–
Think 6 Baldivis Bor Pty Ltd	Australia	100%	–
Think 6 Caversham Bod Pty Ltd	Australia	100%	–
Think 6 Grove Joo Pty Ltd	Australia	100%	–
Think 6 Padbury For Pty Ltd	Australia	100%	–
Think 2 Holborn Gle Pty Ltd	Australia	100%	–
Think 2 Tamworth Wir Pty Ltd	Australia	100%	–
Think 3 Sandringham Bay Pty Ltd	Australia	100%	–
Think 3 Byford Cov Pty Ltd	Australia	100%	–
Think 5 Kensington Park Mag Pty Ltd	Australia	100%	–

Notes to the financial statements continued

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

	2018 $'000	2017 $'000
Profit after income tax expense for the year	4,950	5,773
Adjustments for:		
Depreciation and amortisation	1,643	1,017
Share-based payments	144	39
Performance Rights Paid	(151)	–
Change in operating assets and liabilities:		
Increase in trade and other receivable	(147)	(2,638)
(Increase)/decrease in deferred tax assets	(467)	276
(Increase)/decrease in other assets	941	(891)
Increase in trade and other payables	755	1,348
Increase in derivative liabilities	228	72
Increase/(decrease) in provision for income tax	33	(508)
Increase in employee benefits	1,066	302
Increase/(decrease) in other operating liabilities	(110)	593
Net cash from operating activities	8,884	5,383

Note 33. Non-cash investing and financing activities

	2018 $'000	2017 $'000
Shares issued under employee share plan	17	301
Earn-out consideration liability reversal	519	1,382
	536	1,683

Note 34. Earnings per share

	2018 $'000	2017 $'000
Profit for the year attributable to equity holders of Think Childcare Limited	4,950	5,773

	NUMBER	NUMBER
Weighted average number of ordinary shares used in calculating basic earnings per share	47,311,226	42,202,202
Adjustments for calculation of diluted earnings per share:		
Performance rights over ordinary shares	75,906	327,507
Weighted average number of ordinary shares used in calculating diluted earnings per share	47,387,132	42,529,709

	CENTS	CENTS
Basic earnings per share	10.46	13.68
Diluted earnings per share	10.45	13.57

Notes to the financial statements continued

Note 35. Events after the reporting period

Apart from dividend determination as disclosed in note 21, no other matter or circumstance has arisen since 31 December 2018 and up to the date of this report that has significantly affected, or may significantly affect the Company's operations, the results of those operations, or the Company's state of affairs in future financial years.

Note 36. Changes in accounting policies

This note explains the impact of the adoption of AASB 9 Financial Instruments and AASB 15 Revenue from Contracts with Customers on the Company's financial statements.

AASB 15 Revenue from contracts with customers

The Company has adopted AASB 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions in AASB 15, the Company has adopted the standard using the modified retrospective approach which means that the cumulative impact of adoption has been recognised in retained earnings as of 1 January 2018 and that comparatives have not been restated.

AASB 9 Financial instruments - Impairment of trade receivables

The Company has adopted AASB 9 Financial instruments from 1 January 2018. However, the adoption of the expected loss model for impairment of trade receivables under AASB 9 did not result in a material change to the way the provision for impairment has been determined in the prior year and as a result no adjustments have been recognised in retained earnings as of 1 January 2018.

The impact on the Company's retained earnings as at 1 January 2018 is as follows:

	2018 $'000
Retained earnings 1 January after AASB 15 and AASB 9 restatement	1,436
Adjustment to retained earnings from adoption of AASB 9	-
Adjustment to retained earnings from adoption of AASB 15	(33)
Opening retained earnings 1 January – AASB 9 and AASB 15	1,469

Note 37. Impact on account of adoption of AASB16 Leases

An estimate of the impacts of adopting AASB 16 on the Company's financial position and results for the year ended 31 December 2019, is as follows. This estimate was computed based on the Company's existing portfolio of property leases, taking into account renewal options occurring within 10 years from the date of initial application of the standard and assuming a 5% discount rate and 2% CPI increase (for those leases indexed on CPI).

Statement of profit or loss for the year ended 31 December 2018

	December 2018 reported	AASB 117 Operating lease expense	AASB 16 Depreciation and interest	Illustrative FY2018
Revenue	85,808	-	-	85,808
Employees expenses	53,927	-	-	53,927
Occupany expenses	12,553	(9,300)	-	3,253
Other expenses	8,650	-	-	8,650
Depreciation and amortisation expenses	1,642	-	7,200	8,842
Finance costs	2,035	-	7,000	9,035
Profit before tax	7,001	9,300	(14,200)	2,101
Income tax expense	2,051	-	-	2,051
Profit after tax	**4,950**	9,300	(14,200)	**50**

Statement of financial position as at 31 December 2018

	December 2018 reported	AASB 16 Initial recognition	Current rent, depreciation and interest	Net position
Total assets	78,015	–	–	78,015
Right-of-use asset	–	127,100	(7,200)	119,900
Total assets (after adoption of AASB16)	78,015	127,100	(7,200)	197,915
Total liabilities	(39,385)	-	-	(39,385)
Lease liability	–	(141,700)	2,300	(139,400)
Total liability (after adoption of AASB16)	(39,385)	(141,700)	2,300	(178,785)
Net assets	**38,630**	(14,600)	(4,900)	**19,130**

Notes to the financial statements continued

Note 38. Correction of error in accounting for long service leave provision

During the 31 December 2018 financial year end reporting process, management identified a revision to the methodology used for the calculation of the long service leave provision and discovered that the minimum service requirement for entitlement to long service leave per legislations for States had been misinterpreted in the past. As a consequence, the long service leave entitlement had been insufficiently provided. The error has been corrected by restating each of the affected financial statement line items for the prior periods as follows:

Balance sheet (extract)	2017 $000	Increase/ (decrease) $000	2017 (restated) $000	2016 $000	Increase/ (decrease)	2016 (restated)
Goodwill	43,238	107	43,345	31,160	97	31,257
Deferred tax	1,285	146	1,431	1,538	72	1,610
Employee benefits (long service leave)	(603)	(591)	(1,194)	(551)	(336)	(887)
Net assets	25,392	(338)	25,055	21,206	(167)	21,039
Retained earnings	(1,807)	338	(1,469)	(363)	167	(530)
Total equity	25,392	338	25,055	21,206	167	21,039

Statement of profit or less (extract)	2017 $000	Profit increase / (decrease) $000	2017 (restated) $000
Employee benefit expenses	40,998	245	41,243
Profit before tax	8,666	(245)	8,421
Income tax expense	2,722	(74)	2,648
Profit for the year attributable to equity holders of Think Childcare Limited	5,944	(171)	5,773
	CENTS		CENTS
Basic earnings per share	14.08		13.68
Diluted earnings per share	13.98		13.57

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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 2018, 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

Bentleys NSW Audit Pty Ltd

Robert Evett
Director

Sydney
27 February 2019

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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) and its Controlled Entities ("the Consolidated Entity"), which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the Directors' Declaration.

In our opinion:

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 2018 and of its financial performance for the year then ended; and

  ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis of Opinion

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

We confirm that the independence declaration required by the *Corporations Act 2001,* which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Key Audit Matters

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

Key audit matter	How our audit addressed the key audit matter
Impairment of goodwill and intangible assets The Consolidated Entity has recognised a goodwill balance of $57.276 million as described in note 11 to the financial report. 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").	Our procedures included, amongst others: • 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 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.

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 2.
	Our procedures included, amongst others;
	• We evaluated management process regarding accounting for the consolidated entity's revenues. We tested controls such as:
	  - 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.

Accounting for acquisitions The Consolidated Entity made nine acquisitions during the year as set out in note 30 to the financial report. This resulted in in the recognition of goodwill of $13.816 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.	Our procedures included, amongst others: • 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; • We assessed the accounting treatment of contingent and deferred consideration and the underlying calculations of these liabilities; and • We reviewed put/call option over centres to determine if any were exercisable at year end.

Key audit matter	How our audit addressed the key audit matter
Long Service Leave Provision The Consolidated Entity has recognised a Long Service Leave provision as at 31 December 2018 of $1.468 million. This is an increase in the provision from the prior year of $865,000. Of this increase approximately $591,000 is due to a misinterpretation by management in the past of the Long Service Leave Act (1992) in Victoria which resulted in an understatement of probability percentages in calculating the provision. A prior period adjustment has been recorded to reflect the misinterpretation of the law. The calculation of a Long Service Leave provision involves a number of assumptions which require judgement. One of these assumptions is the probability of an employee achieving their entitlement threshold.	Our procedures included, amongst others: • We reviewed the long service leave calculation for the current financial year and the revised calculation for the prior year; • We evaluated management's misinterpretation of the law and the impact on the assumptions in the prior year, including testing the data used to reassess the long service leave provision; and • We assessed the accounting treatment of the prior period error in the financial report.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Consolidated Entity's annual report for the year ended 31 December 2018, but does not include the financial report and our auditor's report thereon.

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

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

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

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Auditor's Responsibilities for the Audit of the Financial Report

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 the 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 this financial report.

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Consolidated Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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.

- 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.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the 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, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore 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.

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Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 36 to 47 of the Annual Report for the year ended 31 December 2018.

In our opinion, the Remuneration Report of Think Childcare Limited for the year ended 31 December 2018 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

Bentleys NSW Audit Pty Ltd

Bentleys NSW Audit Pty Ltd

Robert Evett
Director

Sydney, 27 February 2019

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 12th February 2019.

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	294
1,001 to 5,000	467
5,001 to 10,000	136
10,001 to 100,000	159
100,001 and over	29
	1,085
Holding less than a marketable parcel	**63**

Equity security holders

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

Twenty largest quoted equity security holders	Ordinary shares	
	Number held	% of total shares issued
J P Morgan Nominees Australia Pty Limited	8,329,953	17.19
Mr Mathew Edwards	7,538,405	15.55
Isamax Pty Ltd (The Edwards Family A/C)	6,598,854	13.61
HSBC Custody Nominees (Australia) Limited	5,482,508	11.31
Citicorp Nominees Pty Limited	2,498,916	5.16
National Nominees Limited	2,027,045	4.18
Riversdale Road Shareholding Company (Riversdale Road Holding A/C)	1,354,828	2.80
Mr Mark Gregory Kerr + Mrs Linda Marie Kerr (Lindmark Inv Staff S/F A/C)	1,183,530	2.44
Citicorp Nominees Pty Limited (Colonial First State Inv A/C)	1,082,000	2.23
Segue Corp Pty Ltd (Segue Investments A/C)	772,979	1.59
HSBC Custody Nominees (Australia) Limited - A/C 2	765,161	1.58
Mr Michael Norman Kroger (Michael Kroger S/F A/C)	403,342	0.83
Paradyce Pty Ltd	330,454	0.68
Merrill Lynch (Australia) Nominees Pty Limited	306,285	0.63
Aust Executor Trustees Ltd (Gffd)	300,000	0.62
J & P Chick Pty Limited (J & P Chick Pty Ltd S/F A/C)	280,000	0.58
BNP Paribus Noms Pty Ltd LTD (DRP)	275,000	0.57
Cs Fourth Nominees Pty Limited (HSBC Cust Nom Au Ltd 11 A/C)	252,642	0.52
BNP Paribas Nominees Pty Ltd Hub 24 Custodial Serv Ltd Drp	240,998	0.50
Crozet Island Pty Ltd (Willings Retirement Fund A/C)	200,000	0.41
Mr Victor John Plummer	200,000	0.41
	40,422,900	**83.40**

Unquoted equity securities	Number on issue	Number of holders
Performance rights over unissued ordinary shares	75,906	2

Substantial holders

Substantial holders in the company are set out below:

	Ordinary shares	
	Number held	% of total shares issued
J P Morgan Nominees Australia Pty Limited	8,290,889	17.11
Mr Mathew Edwards	7,538,405	15.55
Isamax Pty Ltd (The Edwards Family A/C)	6,598,854	13.61
HSBC Custody Nominees (Australia) Limited	4,987,942	10.29
Citicorp Nominees Pty Limited	2,859,033	5.90

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 voting securities.

INVESTOR SERVICES

Directors	**Mark Kerr** Chairman and Non-Executive Director **Mathew Edwards** Managing Director and Chief Executive Officer **Evonne Collier** Non-Executive Director **Joe Dicks** Non-Executive Director
Company Secretaries	**Trinh Bui** **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 Thursday, 9 May 2019 (Registrations at 10:00 am)
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 14 60 Margaret 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

THINK Childcare Limited

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