THINK Childcare Development

# INTERIM FINANCIAL REPORT

30 JUNE 2020

Think Childcare Development Limited ACN 635 178 166

# CONTENTS

# DIRECTORS' REPORT

**The Directors present their report together with the consolidated interim financial report of Think Childcare Development Limited (TND or the Company) and its controlled entities (together referred to as the Group) for the half-year ended 30 June 2020.**

The Company's shares are stapled to the shares of Think Childcare Limited (TNK) and trade on the Australian Securities Exchange (**ASX**) as one security (ASX code: TNK).

## Directors

The Directors of the Company in office during the half-year and at the date of this report (unless otherwise stated) were as follows:

| | |
|---|---|
| **Mark Kerr** | Chairman and Non-Executive Director |
| **Mathew Edwards** | Non-Executive Director |
| **Joe Dicks** | Non-Executive Director |
| **Michael Doble** | Non-Executive Director |

## Principal activities

The principal activities of the Company comprises the developing of purpose-built leasehold child care Services under the "Nido" brand and operating model for the purpose of achieving pre-agreed trading metrics and then selling the Service to Think Childcare Limited (refer to the Think Childcare Group interim financial report for the half-year ended 30 June 2020).

There were no changes in the principal activities of the Company during the half-year ended 30 June 2020.

## Review and results of operations

The Company's primary objective is to develop leasehold child care Services for Think Childcare Limited (TNK). TND trades up the Services to pre-agreed trading metrics and divest the Services to TNK at 4x earnings before interest, tax, depreciation and amortisation (EBITDA).

As at the date of this report, the Company has 10 child care Services which are in trade-up and an additional 15 sites of which 9 are under construction and 6 are pending development approval.

## Financial overview

The Company recorded a loss for the period (net profit/loss after tax (NPAT)) of $1.0 million. The NPAT includes the impact of AASB 16 Leases of $0.2 million. Adjusting for the impact of AASB 16, the NPAT (underlying) for the period is $0.8 million.

# DIRECTORS' REPORT CONTINUED

The Company's underlying earnings before interest, tax, depreciation and amortisation (EBITDA (underlying)) of ($1.1) million is primarily driven by trading losses incurred in relation to 4 trading child care Services and partially offset by lower employee benefit expenses as a result of $0.3m in JobKeeper grants received during the period.

The Company was incorporated on 29 July 2019 and as a result, comparatives for the condensed consolidated profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flow have not been presented. The first half-year for the Company was the period 29 July 2019 to 31 December 2019.

This report should be read in conjunction with the 31 December 2019 annual report of the Company which discloses the consolidated profit or loss and other comprehensive income, balance sheet, statement of changes in equity and statement of cash flows for the Company's first half-year period.

The following provides a summary of the Company's performance for the half-year ended 30 June 2020.

**Operating results**

| $'000 | 30 June 2020 |
|---|---|
| Service revenue | 1,087 |
| Labour | (871) |
| Occupancy | (538) |
| Service overheads | (180) |
| **Service performance** | **(502)** |
| Management and other fees | (215) |
| Employee expenses | (17) |
| Corporate overheads | (325) |
| **Corporate costs** | **(557)** |
| **EBITDA (underlying)** | **(1,059)** |
| Operating lease costs[1] | 442 |
| **EBITDA** | **(617)** |
| Finance costs | (465) |
| Depreciation and amortisation | (356) |
| Tax | 428 |
| **Loss for the period** | **(1,010)** |
| Interest on lease liabilities | 465 |
| Depreciation on right of use assets | 272 |
| Operating lease costs[1] | (442) |
| Tax impact | (89) |
| **NPAT (underlying)** | **(804)** |

[1] This caption represents cash out flow for leases for the half-year ended 30 June 2020

# DIRECTORS' REPORT CONTINUED

### Balance sheet

| $'000 | 30 June 2020 |
|---|---|
| Cash | 1,767 |
| Receivables and other assets | 1,710 |
| Property, plant and equipment | 2,844 |
| Right-of-use asset | 14,557 |
| **Total assets** | **20,878** |
| Borrowings | - |
| Other liabilities | 2,168 |
| Lease liabilities | 14,913 |
| **Total liabilities** | **17,081** |
| **Equity** | **3,797** |

EBITDA, EBITDA (underlying), and NPAT (underlying) reflect the results of the ongoing business of the Group as determined by the Board and management. They have been calculated in accordance with ASIC's Regulatory Guide 230 – Disclosing non-IFRS financial information. These financial measures have not been audited by the Company's external auditors; however, the adjustments to profit after tax have been extracted from the books and records that have been reviewed. EBITDA (underlying) and NPAT (underlying) are disclosed as a useful guide for investors to gain a better understanding of the Company's financial results from normal operating activities.

## Operations overview

The Company's financial performance in the second quarter, ended 30 June 2020, was negatively impacted by the Australian and State Governments' actions, as well as families' response during the initial wave of the Corona virus (**COVID-19**) in Australia.

In response to COVID-19, the Australian Government announced a series of measures for the Early Childhood Education and Care (**ECEC**) sector with the intent to ensure child care providers remained viable by means of funding estimated to be equivalent to 80% of their pre-COVID-19 trading being, the last two weeks of February.

The measures for which the Company qualified during the half-year ended 30 June 2020 included the following:

1. **Early Childhood Education and Care Relief Package (ECEC Relief Package)**

   Under the ECEC Relief Package funding arrangements introduced on 2 April 2020, the Child Care Subsidy (CCS) was suspended and child care providers received a weekly business continuity payment equivalent to 50% of fees charged (up to the CCS hourly fee cap of $11.98) in the reference fortnight, being 17 February 2020 to 28 February 2020 which were seasonally some of the lowest occupancy weeks in a typical year. The funding arrangements came into effect from 6 April 2020 and operated until 12 July 2020. During this period, child care was deemed to be free for all children.

# DIRECTORS' REPORT CONTINUED

CCS recommenced on 13 July 2020. In recognition that this is a transition period, and to support the viability of child care providers, a Child Care Transition Payment equivalent to 25% of fees charged (up to the CCS hourly fee cap) in the same reference fortnight used for the ECEC Relief Package, is being paid to approved early child care providers in the period 13 July 2020 to 27 September 2020.

2. **JobKeeper**

The JobKeeper payment scheme was announced on 30 March 2020 as a temporary subsidy for businesses with turnover under $1billion and a decline of greater than 30% of turnover relative to the same period in the previous year. By virtue of ECEC, by which revenue was reduced by 50%, the Company qualified for the Jobkeeper payments. The payment was made to eligible registered child care provider employers until the 20 July 2020, with respect to each eligible employee that was employed before 1 March 2020 and continued to be employed by the employer. The Company received a payment of $1,500 per fortnight per eligible employee which was passed on to the eligible employee, before tax.

## Going concern

These financial statements have been prepared on a going concern basis, which contemplates the continuity of normal business activities and realisation of assets and settlement of liabilities in the normal course of business.

During the half-year ended 30 June 2020, the Company was significantly impacted by the COVID-19 pandemic. Child care Services experienced a material decline in attendance from late March through to late April as a result of the general populaces response to the uncertainty around the risk to children in child care contracting COVID-19. This was exacerbated in locations where schools were closed and the commencement of home schooling and many carers working from home.

During May and June the Company's Services experienced a rebound in attendance as the Federal and State Chief Medical Officers and the available data pointed to children being less susceptible to the disease and were indeed not "super spreaders". Attendance was also driven by child care being free with providers not able to charge any fees.

Immediately following the COVID-19 outbreak and as early as the end of March 2020, the Company moved quickly and implemented the following response initiatives:

- Established a COVID-19 response committee which mobilised to implement health, hygiene and safety practices across the Company's Services and corporate office,
- Suspended all capital investment and corporate projects (including suspension of all discretionary spend),
- Deferred the appointment of new roles,
- Reduced rostered hours to align with the drop in attendance and implemented leave management strategies, and

The Federal Government introduced a number of relief packages to support the continued viability of the child care sector and to ensure Services remained open to essential workers. The Company benefited from a number of these relief packages including:

- Early Childhood Education and Care (**ECEC**) Relief Package;
- JobKeeper stimulus package (**JobKeeper**); and
- ECEC transition arrangements.

# DIRECTORS' REPORT CONTINUED

An outline of the application of these relief packages to the Company is detailed on page 15 of the financial report.

As at 30 June 2020, the Company had net current liabilities of $1.0m which includes $1.3m of current lease liabilities arising from AASB 16 Leases which will be settled through operating cashflows earned over the next 12 months. The Company is forecasting positive cashflows based on the scenarios modelled for the next 12 months. The Company recorded a NPAT loss of $1.0m for the half-year period ending 30 June 2020. This was because the cash payment for leases was $0.4m as compared to the accounting cost for leases of $0.7m comprising of depreciation on right-of-use assets of $0.3m and interest on lease liabilities of $0.4m.

The Company recorded an EBITDA loss of $0.6m and EBITDA (underlying) loss of $1.1m for the period. As at 30 June 2020 the Company had closing cash of $1.8m.

On 1 July 2020, the Company secured a debt facility of $11.5m with a two year term. Commercial terms of the facility are in line with market benchmarks. The facility was utilised to fund the acquisition of six (6) Nido Services and one (1) pipeline Service discussed below and to develop the Company's pipeline Services. Financial close in respect of the new facility was achieved on 4 August 2020.

The ongoing impact of COVID-19 remains uncertain as evidenced by the significant rise in the number of cases in Victoria in June and July 2020. Other factors that may impact the outlook of the Company include but are not limited to the:

- Extent of future COVID-19 outbreaks;
- Broader economic outlook; and
- Nature and timing of Government relief packages.

If for any reason the Company is unable to continue as a going concern, it could have an impact on the Company's ability to realise assets at their recognised values and to extinguish liabilities in the normal course of business at the amounts stated in the consolidated financial statements. Based on cash flow forecasts, cash flow management, available financing and government support packages, management are confident that the Company is a going concern.

## Significant changes in the state of affairs

There were no significant changes in the state of affairs of the Company during the half-year except as disclosed in the operations overview above.

## Related party transactions

### Mathew Edwards

#### Management and other services

During the year ended 31 December 2019, Think Childcare Limited provided establishment services to a child care Service incubator entity in which Mathew Edwards (Non-Executive Director of TND and Managing Director of TNK ) is a Director and shareholder, as was disclosed in the 2019 Think Childcare Development Limited Annual Report note 23. The balance outstanding as at 30 June 2020 is $nil.

# DIRECTORS' REPORT CONTINUED

During the period ended 30 June 2020, the Company entered into leases and/or agreement for leases in respect of seven greenfield sites. The Company assumed the obligations in respect of establishment services and fees of $1.1m of which $0.4m was outstanding as at 30 June 2020.

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

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

## Scheme of Arrangement

### Think Childcare Development child care Services

As part of the restructuring of the Think Childcare Group under the Scheme of Arrangement in December 2019, TND and TNK had entered into binding agreements to transfer the change of control of existing TNK subsidiaries (from being subsidiaries of TNK to subsidiaries of TND) under the relevant agreement for lease or lease.

TND had entered into share sale agreements with a subsidiary of TNK to acquire all the issued share capital (effective as at 23 December 2019) in three TNK subsidiaries that were parties to agreements for lease and lease with landlords in relation to three (3) new child care Services. The share sale agreements and, accordingly, the transfer of the issued share capital in the three (3) TNK subsidiaries to TND were subject to each respective landlord's consent to a change of control and the Scheme of Arrangement being effective. The Scheme of Arrangement was effective on 23 December 2019. The transfer was made for $nil consideration.

As at 31 December 2019, landlord consent to a change of control was obtained with respect to two (2) of the TNK subsidiaries. Landlord consent to a change of control in relation to the third TNK subsidiary was obtained in 2020, accordingly, the change of control of the three (3) existing TNK subsidiaries was effected on 23 December 2019.

### Centre Management Deed – removal of put option

As previously noted, TND acts as an incubator of new child care Services and existing child care Services on behalf of, and managed by, TNK in accordance with the Centre Management Deed entered into between TNK and TND.

Once TND has traded-up a child care Service, such that certain operating performance criteria have been satisfied to enable a 'Trigger Event' under the Centre Management Deed, TNK has the right under a call option to purchase the child care Service at a pre-agreed acquisition multiple. Originally TND also had the right under a put option to require TNK to purchase the Service at that acquisition multiple in certain circumstances. By agreement, TNK and TND have agreed to terminate the put option.

### Inter-company loan – termination

At the time of the Scheme of Arrangement creating the TNK stapled group, it was proposed that TND would initially be capitalised with the proceeds of the Special Dividend and an inter-company loan from TNK of up to $7.5 million.

Following completion of a separate standalone external financing facility from an independent third-party financier, the inter-company loan has been terminated as TND now has adequate sources of capital and funding.

# DIRECTORS' REPORT CONTINUED

## Matters subsequent to the end of the financial half-year

On 1 July 2020, the Company entered into binding agreements in relation to the acquisition of six (6) Nido Services and secured finance to support its pipeline of Services. The agreement also included the acquisition of four (4) pipeline Services of which three (3) pipeline Services were acquired exclusively with the view to resell to a third party incubator on back to back contractual terms. The acquisition of six (6) Nido Services and four (4) pipeline Services including the back to back sale of three (3) pipeline Services was completed on 4 August 2020. Refer to Note 17 for further details on acquisitions.

Think Childcare Development also secured a debt facility of $11.5m with a two year term. Commercial terms of the facility are in line with market benchmarks. The facility was utilised to fund the acquisition of six (6) Nido Services and one (1) pipeline Service discussed above and will also be utilised to develop the Company's pipeline Services. Financial close in respect of the new facility was achieved on 4 August 2020.

Apart from the items discussed and the dividend determination as disclosed in note 13, no other matter or circumstance has arisen since 30 June 2020 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 periods.

## 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.

## Lead auditor's independence declaration

The Lead auditor's independence declaration is set out on page 9 and forms part of this Directors' Report for the half-year ended 30 June 2020.

This report is made in accordance with a resolution of Directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the Directors

Mark Kerr

Mark Kerr
Chairman
19 August 2020 | Melbourne

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

## To the Directors of Think Childcare Development Limited

I declare that, to the best of my knowledge and belief, in relation to the review of Think Childcare Development Limited for the half-year ended 30 June 2020 there have been:

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

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

KPMG

KPMG

Paul Thomas
*Partner*

Sydney

19 August 2020

# Condensed consolidated statement of profit or loss and other comprehensive income

For the half-year ended 30 June 2020

| | Note | 30 June 2020<br>$'000 |
|---|---|---|
| **Revenue** | 4 | 1,087 |
| | | |
| **Expenses** | | |
| Employee benefit | 5 | 888 |
| Occupancy | | 96 |
| Direct expenses of providing services | | 85 |
| Marketing | | 30 |
| Corporate | | 243 |
| Information and communication | | 23 |
| Other | | 339 |
| Depreciation and amortisation | | 356 |
| Finance costs | 6 | 465 |
| **Loss before tax** | | (1,438) |
| Income tax benefit | 7 | 428 |
| **Loss for the period** | | **(1,010)** |
| Other comprehensive income for the period, net of tax | | - |
| **Total comprehensive loss for the period** | | **(1,010)** |
| **Loss for the period attributable to:** | | |
| Members of Think Childcare Development Limited | | (1,010) |
| **Total comprehensive loss attributable to:** | | |
| Members of Think Childcare Development Limited | | (1,010) |
| | | |
| Earnings per share | | |
| Basic | 16 | (1.66) |
| Diluted | 16 | (1.66) |

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

# Condensed consolidated statement of financial position

As at 30 June 2020

| | Note | 30 June 2020 $'000 | 31 December 2019 $'000 |
|---|---|---|---|
| **Assets** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | | 1,767 | 3,268 |
| Trade and other receivables | 8 | 326 | 53 |
| Other assets | 8 | 376 | 550 |
| **Total current assets** | | **2,469** | 3,871 |
| | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 9 | 17,401 | 8,733 |
| Deferred tax | | 1,008 | 580 |
| **Total non-current assets** | | **18,409** | 9,313 |
| **Total assets** | | **20,878** | 13,184 |
| | | | |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 10 | 1,997 | 776 |
| Lease liabilities | 11 | 1,306 | 580 |
| Employee benefits | | 171 | 72 |
| **Total current liabilities** | | **3,474** | 1,428 |
| | | | |
| **Non-current liabilities** | | | |
| Lease liabilities | 11 | 13,607 | 7,144 |
| **Total non-current liabilities** | | **13,607** | 7,144 |
| **Total liabilities** | | **17,081** | 8,572 |
| | | | |
| **Net assets** | | **3,797** | 4,612 |
| | | | |
| **Equity** | | | |
| **Think Childcare Development Limited** | | | |
| Issued capital | 12 | 5,993 | 5,971 |
| Reserves | | 173 | - |
| Retained earnings | | (2,369) | (1,359) |
| **Total equity** | | **3,797** | 4,612 |

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

# Condensed consolidated statement of changes in equity

For the half-year ended 30 June 2020

| 2020 | Note | Issued capital $'000 | Reserves $'000 | Retained earnings $'000 | Total equity $'000 |
|---|---|---|---|---|---|
| **Balance at 1 January 2020** | | 5,971 | - | (1,359) | 4,612 |
| Loss for the period | | - | - | (1,010) | (1,010) |
| Other comprehensive income for the period | | - | - | - | - |
| **Total comprehensive income for the period** | | - | - | (1,010) | (1,010) |
| Contributions of equity, net of transaction costs | 12 | 22 | - | - | 22 |
| Transfer of assets in specie from TNK* | | - | 173 | - | 173 |
| Dividends | | - | - | - | - |
| Total contributions and distributions | | **22** | **173** | **-** | **195** |
| **Balance at 30 June 2020** | | **5,993** | **173** | **(2,369)** | **3,797** |

*Refer note 15 Related party transactions

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

# Condensed consolidated statement of cash flow

For the half-year ended 30 June 2020

| | 30 June 2020<br>$'000 |
|---|---|
| **Cash flows from operating activities** | |
| Receipts from parents and government funding | 470 |
| Receipts from Early Childhood Education and Care Relief Package | 344 |
| Receipts from JobKeeper | 141 |
| Payments to suppliers and employees | (178) |
| | 777 |
| Interest on lease liabilities | (442) |
| **Net cash from operating activities** | **335** |
| | |
| **Cash flows from investing activities** | |
| Payments for property, plant and equipment | (1,858) |
| **Net cash used in investing activities** | **(1,858)** |
| | |
| **Cash flows from financing activities** | |
| Proceeds from issue of shares (net of transaction costs) | 22 |
| Repayment of lease principal | - |
| **Net cash from financing activities** | **22** |
| | |
| Net decrease in cash and cash equivalents | (1,501) |
| Cash and cash equivalents at the beginning of the period | 3,268 |
| **Cash and cash equivalents at the end of the period** | **1,767** |

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

# Notes to the condensed consolidated interim financial statements

## Note 1. General information

This condensed consolidated interim financial report covers Think Childcare Development Limited and its controlled entities (together referred to as the Company or TND). The Company was incorporated on 29 July 2019 and as a result, comparatives for the condensed consolidated profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flow have not been presented. The first half-year for the Company was the period 29 July 2019 to 31 December 2019. This report should be read in conjunction with the 31 December 2019 annual report of the Company which discloses the consolidated profit or loss and other comprehensive income, balance sheet, statement of changes in equity and statement of cash flows for the Company's first half-year period. The Company's shares are stapled to the shares of Think Childcare Limited (TNK) and trade on the Australian Securities Exchange (ASX) as one security (ASX code: TNK). For the purposes of preparing the condensed consolidated interim financial report, the Company is a for-profit entity. The condensed interim financial report is presented in Australian dollars, which is the Company's functional and presentation currency.

The Company is a listed public company limited by shares, incorporated and domiciled in Australia. The registered office and principal place of business is:

Suite 3, 1 Park Avenue
Drummoyne, NSW 2047

The interim financial report was authorised for issue, in accordance with a resolution of Directors, on 19 August 2020. The Directors have the power to amend and reissue the interim financial report.

## Note 2. Significant accounting policies

**Statement of compliance**

This half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 Interim Financial Reporting. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 Interim Financial Reporting. This financial report does not include all of the notes normally included within the annual financial report and should be read in conjunction with the 31 December 2019 annual report of the Company.

**Basis of preparation**

This half-year financial report has been prepared on the basis of historical cost. Cost is based on the fair values of the consideration given in exchange for assets.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Company's annual report for the financial year ended 31 December 2019. The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. These accounting policies are consistent with the Australian Accounting Standards and with the International Financial Reporting Standards.

Several amendments and interpretations apply for the first time in 2020, but do not have an impact on the interim condensed consolidated financial statements of the Company.

# **Notes to the condensed consolidated interim financial statements** continued

## **Note 2. Significant accounting policies** (continued)

**Standards on issue but not yet adopted**

**Amendments to AASB 3: Definition of a Business**

The amendment to AASB 3 clarified that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarified that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the consolidated financial statements of the Company but may impact future periods should the Company enter into any business combinations.

**Amendments to AASB 7, AASB 9 and AASB 139: Interest Rate Benchmark Reform**

The amendments to AASB 9 and AASB 139 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments had no impact on the consolidated financial statements of the Company as it does not have any interest rate hedge relationships.

**Conceptual Framework for Financial Reporting issued on 29 March 2018**

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the consolidated financial statements of the Company.

**COVID-19 relief packages**

Early Childhood Education and Care Relief Package (ECEC Relief Package)

Under the ECEC Relief Package funding arrangements introduced on 2 April 2020, the Child Care Subsidy (CCS) was suspended and child care providers received a weekly business continuity payment equivalent to 50% of fees charged (up to the CCS hourly fee cap of $11.98) in the reference fortnight, being 17 February 2020 to 28 February 2020 which were seasonally some of the lowest occupancy weeks in a typical year. The funding arrangements came into effect from 6 April 2020 and operated until 12 July 2020. During this period, child care was deemed to be free for all children.

CCS recommenced on 13 July 2020. In recognition that this is a transition period, and to support the viability of child care providers, a Child Care Transition Payment equivalent to 25% of fees charged (up to the CCS hourly fee cap) in the same reference fortnight used for the ECEC Relief Package, is being paid to approved early child care providers in the period 13 July 2020 to 27 September 2020.

# **Notes to the condensed consolidated interim financial statements** continued

## **Note 2. Significant accounting policies** (continued)

The ECEC Relief Package and transition payments have been recognised as revenue from contracts with customers in accordance with AASB 15. The performance obligation associated with the ECEC Relief Package and transition payments was to operate child care Services and provide care to children of essential workers. As a result, ECEC Relief Package revenue was recognised over time as the services were provided. ECEC Relief Package income received in advance was recognised as contract liabilities and classified as a current liability. Refer to note 4 for ECEC Relief Package income received during the period.

JobKeeper

The JobKeeper payment scheme was announced on 30 March 2020 as a temporary subsidy for businesses with turnover under $1billion and a decline of greater than 30% of turnover relative to the same period in the previous year. By virtue of ECEC, by which revenue was reduced by 50%, the Company qualified for the Jobkeeper payments. The payment was made to eligible registered child care provider employers until the 20 July 2020, with respect to each eligible employee that was employed before 1 March 2020 and continued to be employed by the employer. The Company received a payment of $1,500 per fortnight per eligible employee which was passed on to the eligible employee, before tax.

JobKeeper payments received from the Commonwealth Government have been recorded in accordance with AASB 120 as Government grants. Government grants are recognised at their fair value when there is a reasonable assurance that the grant will be received and the Company will comply with all conditions associated with the grant. The Company has elected to include the JobKeeper grants in employee benefits and off-set against employee benefit expenses. Refer to note 5 for details on the JobKeeper subsidies received during the period.

**Comparatives**

Where necessary, comparative amounts have been reclassified and repositioned for consistency with the current period disclosures.

**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.

**Going Concern**

These financial statements have been prepared on a going concern basis, which contemplates the continuity of normal business activities and realisation of assets and settlement of liabilities in the normal course of business.

During the half-year ended 30 June 2020, the Company was significantly impacted by the COVID-19 pandemic. Child care Services experienced a material decline in attendance from late March through to late April as a result of the general populaces response to the uncertainty around the risk to children in child care contracting COVID-19. This was exacerbated in locations where schools were closed and the commencement of home schooling and many carers working from home.

# **Notes to the condensed consolidated interim financial statements** continued

## **Note 2. Significant accounting policies** (continued)

During May and June the Company's Services experienced a rebound in attendance as the Federal and State Chief Medical Officers and the available data pointed to children being less susceptible to the disease and were indeed not "super spreaders". Attendance was also driven by child care being free with providers not able to charge any fees.

The Federal Government introduced a number of relief packages to support the continued viability of the child care sector and to ensure Services remained open to essential workers. The Company benefited from a number of these relief packages including:

› Early Childhood Education and Care (ECEC) Relief Package;
› JobKeeper stimulus package (JobKeeper); and
› ECEC transition arrangements.

An outline of the application of these relief packages to the Company is detailed in the previous section.

Immediately following the COVID-19 outbreak and as early as the end of March 2020, the Company moved quickly and implemented the following response initiatives:

› Established a COVID-19 response committee which mobilised to implement health, hygiene and safety practices across our Services and corporate office;
› Suspended all capital investment and corporate projects (including suspension of all discretionary spend);
› Deferred appointment of new roles; and
› Reduced rostered hours to align with the drop in attendance and implemented leave management strategies.

As at 30 June 2020, the Company had net current liabilities of $1.0m which includes $1.3m of current lease liabilities arising from AASB 16 Leases which will be settled through operating cashflows earned over the next 12 months. The Company is forecasting positive cashflows based on the scenarios modelled for the next 12 months. The Company recorded a NPAT loss of $1.0m for the half-year period ending 30 June 2020. This was because the cash payment for leases was $0.4m as compared to the accounting cost for leases of $0.7m comprising of depreciation on right-of-use assets of $0.3m and interest on lease liabilities of $0.4m.

The Company recorded an EBITDA loss of $0.6m and EBITDA (underlying) loss of $1.1m for the period. As at 30 June 2020 the Company had closing cash of $1.8m.

On 1 July 2020, the Company secured a debt facility of $11.5m with a two year term. Commercial terms of the facility are in line with market benchmarks. The facility was utilised to fund the acquisition of six (6) Nido Services and one (1) pipeline Service discussed in note 17 and to develop the Company's pipeline Services. Financial close in respect of the new facility was achieved on 4 August 2020.

# **Notes to the condensed consolidated interim financial statements** continued

## **Note 2. Significant accounting policies** (continued)

The ongoing impact of COVID-19 remains uncertain as evidenced by the significant rise in the number of cases in Victoria in June and July 2020. Other factors that may impact the outlook of the Company include but are not limited to the:

› Extent of future COVID-19 outbreaks;
› Broader economic outlook; and
› Nature and timing of Government relief packages.

If for any reason the Company is unable to continue as a going concern, it could have an impact on the Company's ability to realise assets at their recognised values and to extinguish liabilities in the normal course of business at the amounts stated in the consolidated financial statements. Based on cash flow forecasts, cash flow management, available financing and government support packages, management are confident that the Company is a going concern.

## **Note 3. Segment information**

### Identification of reportable operating segments

The Company operates in one segment being child care Service developer. 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 period ended 30 June 2020, none of the Company's external revenue was derived from sales to one specific customer or group of customers that comprised more than 10% of total revenue.

# Notes to the condensed consolidated interim financial statements continued

## Note 4. Revenue

| | 30 June 2020 $'000 |
|---|---|
| Revenue from contracts with customers | 1,087 |
| | **1,087** |

Revenue from contracts with customers

Disaggregation of revenue from contracts with customers

| **30 June 2020** | Child care services | ECEC Relief Package |
|---|---|---|
| Revenue from external customers | 743 | 344 |
| Timing of revenue recognition | | |
| At a point in time | - | - |
| Over time | 743 | 344 |
| | 743 | 344 |

Refer note 2 for accounting policy on ECEC Relief Package.

## Note 5. Employee benefit expense

| | 30 June 2020 $'000 |
|---|---|
| Salaries and wages | 1,090 |
| JobKeeper expense[1] | 44 |
| JobKeeper subsidy | (348) |
| Defined contribution to superannuation plans | 102 |
| | **888** |

1. Refer note 2 for accounting policy on JobKeeper subsidy. JobKeeper expense refers to payments made to employees during a fortnight, over and above their ordinary salaries and wages up to $1500, as required by the JobKeeper payment scheme.

## Note 6. Finance costs

| | 30 June 2020 $'000 |
|---|---|
| Interest on lease liabilities | 465 |
| | **465** |

# Notes to the condensed consolidated interim financial statements continued

## Note 7. Income tax expense

| | 30 June 2020 $'000 |
|---|---|
| **Income tax expense** | |
| Current tax | - |
| Deferred tax - tax losses recognised | 428 |
| Aggregate income tax | 428 |
| | |
| **Deferred tax included in income tax expense comprises:** | |
| Increase in deferred tax assets | 428 |
| Increase in deferred tax liabilities | - |
| | |
| **Numerical reconciliation of income tax expense and tax at the statutory rate** | |
| Loss before tax | (1,438) |
| Tax at the statutory tax rate of 30% | 432 |
| | 432 |
| Other adjustments | (4) |
| Aggregate income tax | 428 |

# Notes to the condensed consolidated interim financial statements continued

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

| | 30 Jun 2020<br>$'000 | 31 Dec 2019<br>$'000 |
|---|---|---|
| Trade receivables | 23 | 29 |
| Less: Provision for impairment of receivables | (13) | (5) |
| JobKeeper subsidy | 207 | - |
| Other receivables | 109 | 29 |
| | 326 | 53 |
| Other assets | 376 | 550 |

## Note 9. Non-current assets - property, plant and equipment

| | 30 Jun 2020<br>$'000 | 31 Dec 2019<br>$'000 |
|---|---|---|
| Plant and equipment - at cost | 1,463 | 100 |
| Less: Accumulated depreciation | (73) | (1) |
| | 1,390 | 99 |
| Leasehold improvements - at cost | 151 | 913 |
| Less: Accumulated depreciation | (6) | (1) |
| | 145 | 912 |
| Computer equipment - at cost | 91 | 38 |
| Less: Accumulated depreciation | (8) | - |
| | 83 | 38 |
| Right of Use Asset (ROU) | 14,917 | 7,751 |
| Accumulated Depreciation | (360) | (88) |
| | 14,557 | 7,663 |
| Construction in progress | 1,226 | 21 |
| | **17,401** | 8,733 |

# Notes to the condensed consolidated interim financial statements continued

## Note 9. Non-current assets - property, plant and equipment (continued)

**Reconciliations**

Reconciliations of the written down values at the beginning and end of the period are set out below:

| | Plant and equip-ment $'000 | Leasehold Improve-ments $'000 | Computer equip-ment $'000 | Right of Use Asset $'000 | Construction in progress $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **Balance at 1 January 2020** | 99 | 912 | 38 | 7,663 | 21 | **8,733** |
| Additions | 122 | 35 | 13 | 7,166 | 1,688 | **9,024** |
| Transfers | 1,240 | (797) | 40 | - | (483) | **-** |
| Depreciation expense | (71) | (5) | (8) | (272) | - | **(356)** |
| **Balance at 30 June 2020** | 1,390 | 145 | 83 | 14,557 | 1,226 | **17,401** |

# Notes to the condensed consolidated interim financial statements continued

## Note 10. Current liabilities - trade and other payables

| | 30 Jun 2020 $'000 | 31 Dec 2019 $'000 |
|---|---|---|
| Trade payables | 820 | 184 |
| Other payables | 1,177 | 592 |
| | **1,997** | 776 |

## Note 11. Borrowings

| | 30 Jun 2020 $'000 | 31 Dec 2019 $'000 |
|---|---|---|
| Current lease liability | 1,306 | 580 |
| Non-current lease liability | 13,607 | 7,144 |
| | **14,913** | 7,724 |

## Note 12. Equity - issued capital

| | 30 Jun 2020 Shares | 31 Dec 2019 Shares | 30 Jun 2020 $'000 | 31 Dec 2019 $'000 |
|---|---|---|---|---|
| Ordinary shares - fully paid | 61,058,636 | 60,862,889 | 5,993 | 5,971 |

**Movements in ordinary share capital**

| **Details** | **Number of Shares** | **Issue Price** | **$'000** |
|---|---|---|---|
| **Opening balance** | 60,862,889 | | 5,971 |
| Issue of shares under Dividend Reinvestment Plan | 195,747 | $0.11 | 22 |
| **Closing balance** | **61,058,636** | | **5,993** |

## Note 13. Equity - dividends

**Dividends**

The Company has not paid any dividends during the period. On 19 August 2020, it was determined that the Company will not pay an interim dividend.

Franking credits

| | 30 June 2020 $'000 |
|---|---|
| Franking credits available for subsequent financial periods based on a tax rate of 30% | - |

## Note 14. Contingent liabilities

The Company has given a corporate guarantee as at 30 June 2020 of $843,064 to lessors in relation to property leases on a number of child care facilities. The amount is based on lease payments for the next 2 years.

# Notes to the condensed consolidated interim financial statements continued

## Note 15. Related party transactions

### Transactions with Key Management Personnel

Mathew Edwards

During the year ended 31 December 2019, Think Childcare Limited provided establishment services to a child care Service incubator entity in which Mathew Edwards (Non-Executive Director of TND and Managing Director of TNK ) is a Director and shareholder, as was disclosed in the 2019 Think Childcare Development Limited Annual Report note 23. The balance outstanding as at 30 June 2020 is $nil.

During the period ended 30 June 2020, the Company entered into leases and/or agreement for leases in respect of seven (7) greenfield sites. The Company assumed the obligations in respect of establishment services and fees of $1.1m of which $0.4m was outstanding as at 30 June 2020.

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

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

### Scheme of arrangement

Think Childcare Development Child Care Services

As part of the restructuring of the Think Childcare Group under the Scheme of Arrangement in December 2019, TND and TNK had entered into binding agreements to transfer the change of control of existing TNK subsidiaries (from being subsidiaries of TNK to subsidiaries of TND) under the relevant agreement for lease or lease.

TND had entered into share sale agreements with a subsidiary of TNK to acquire all the issued share capital (effective as at 23 December 2019) in three (3) TNK subsidiaries that were parties to agreements for lease and lease with landlords in relation to three (3) new child care Services. The share sale agreements and, accordingly, the transfer of the issued share capital in the three (3) TNK subsidiaries to TND were subject to each respective landlord's consent to a change of control and the Scheme of Arrangement being effective. The Scheme of Arrangement was effective on 23 December 2019. The transfer was made for $nil consideration.

As at 31 December 2019, landlord consent to a change of control was obtained with respect to two (2) of the TNK subsidiaries. Landlord consent to a change of control in relation to the third TNK subsidiary was obtained in 2020, accordingly, the change of control of the three (3) existing TNK subsidiaries was effected on 23 December 2019.

Centre Management Deed – removal of put option

As previously noted, TND acts as an incubator of new child care Services and existing child care Services on behalf of, and managed by, TNK in accordance with the Centre Management Deed entered into between TNK and TND.

# **Notes to the condensed consolidated interim financial statements** continued

## **Note 15. Related party transactions** (continued)

Once TND has traded-up a child care Service, such that certain operating performance criteria have been satisfied to enable a 'Trigger Event' under the Centre Management Deed, TNK has the right under a call option to purchase the child care Service at a pre-agreed acquisition multiple. Originally TND also had the right under a put option to require TNK to purchase the Service at that acquisition multiple in certain circumstances. By agreement, TNK and TND have agreed to terminate the put option.

### Inter-company loan – termination

At the time of the scheme of arrangement creating the TNK stapled group, it was proposed that TND would initially be capitalised with the proceeds of the Special Dividend and an inter-company loan from TNK of up to

Following completion of a separate standalone external financing facility from an independent third party financier, the inter-company loan has been terminated as TND now has adequate sources of capital and funding.

## **Note 16. Earnings per share**

| | 30 June 2020 $'000 |
|---|---|
| Total comprehensive income attributable to: | |
| Members of Think Childcare Development Limited | (1,010) |

| | Number |
|---|---|
| Weighted average number of stapled securities used in calculating basic earnings per stapled security | 60,966,140 |
| Adjustments for calculation of diluted earnings per stapled security: | |
| Performance Rights over stapled securities | 15,873 |
| Weighted average number of stapled securities calculating diluted earnings per stapled security | 60,982,013 |

| Earnings per share | Cents |
|---|---|
| Basic | (1.66) |
| Diluted | (1.66) |

# Notes to the condensed consolidated interim financial statements continued

## Note 17. Events after the reporting period

On 1 July 2020, the Company entered into binding agreements in relation to the acquisition of six (6) Nido Services and secured finance to support its pipeline of Services. The agreement also included the acquisition of four (4) pipeline Services of which three (3) pipeline Services were acquired exclusively with the view to resell to a third party incubator on back to back contractual terms. The acquisition of six (6) Nido Services and four (4) pipeline Services including the back to back sale of three (3) pipeline Services was completed on 4 August 2020.

The six (6) Nido Services and one (1) pipeline Service were acquired for a total consideration of $6,007,000 and will contribute an additional 576 licensed places. All the acquired Nido Services are purpose built Nido Services and are located in metropolitan areas of Western Australia, Victoria and South Australia. The goodwill of $4,691,000 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 acquisitions are provisional at 19 August 2020. Due to estimation uncertainty, the Company is unable to disclose revenue and EBITDA if acquisitions were made at the start of the period.

Details of the acquisition are as follows:

| | Fair Value $'000 |
|---|---|
| Other current assets | 155 |
| Property, plant and equipment | 1,266 |
| Deferred tax asset | 26 |
| Right of use asset (ROU) | 17,449 |
| Lease liability | (17,449) |
| Employee benefits | (87) |
| Other liabilities | (44) |
| **Net assets acquired** | **1,316** |
| Goodwill | 4,691 |
| Acquisition-date fair value of the total consideration transferred | 6,007 |
| Representing: | |
| Cash paid to vendors | 5,319 |
| Deferred consideration | 688 |
| | **6,007** |

The Company also secured a debt facility of $11.5m with a two year term. Commercial terms of the facility are in line with market benchmarks. The facility will be utilised to fund the acquisition of six (6) Nido Services and one (1) pipeline Service discussed above and will also be utilised to develop the Company's pipeline Services. Financial close in respect of the new facility was achieved on 4 August 2020.

# **Notes to the condensed consolidated interim financial statements** continued

## **Note 17. Events after the reporting period** (continued)

Apart from the items discussed and the dividend determination as disclosed in note 13, no other matter or circumstance has arisen since 30 June 2020 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 periods.

# DIRECTORS' DECLARATION

**In the Directors' opinion:**

(a) the condensed consolidated financial statements and notes set out on pages 10 to 27, are in accordance with the Corporations Act 2001, including:

- Giving a true and fair view of the Company's financial position as at 30 June 2020 and of its performance, for the six-month period ended on that date;
- Complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors.

Mark Kerr

Mark Kerr
Chairman
19 August 2020 | Melbourne

# Independent Auditor's Review Report

## To the shareholders of Think Childcare Development Limited

## Report on the Half-year Financial Report

### Conclusion

We have reviewed the accompanying ***Half-year Financial Report*** of Think Childcare Development Limited (the Group).

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Half-year Financial Report of Think Childcare Development Limited is not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 30 June 2020 and of its performance for the Half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The ***Half-year Financial Report*** comprises:

- Consolidated statement of financial position as at 30 June 2020
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity and Consolidated statement of cash flows for the Half-year ended on that date
- Notes comprising a summary of significant accounting policies and other explanatory information
- The Directors' Declaration.

The ***Group*** consists of the Company and the entities it controlled at period-end or from time to time during the financial period.

### Responsibilities of the Directors for the Half-year Financial Report

The Directors are responsible for:

- the preparation of the Half-year Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001.*
- such internal control as the Directors determine is necessary to enable the preparation of the Half-year Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

## Auditor's responsibility for the review of the Half-year Financial Report

Our responsibility is to express a conclusion on the Half-year Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Half-year Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Company's financial position as at 30 June 2020 and its performance for the half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Think Childcare Development Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a Half-year Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001.*

KPMG

KPMG

Paul Thomas
*Partner*

Sydney

19 August 2020

THINK Childcare Development

Suite 3, 1 Park Avenue Drummoyne NSW 2047
PO Box 465 Drummoyne NSW 1470

Telephone 02 9712 7444
Investor Relations IR@thinkchildcare.com.au
Public Relations PR@thinkchildcare.com.au