24 February 2021

ASX Limited
Market Announcement

Think Childcare Group (ASX Code: TNK)
Think Childcare Development Limited – Financial Statements (compiled)

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Think Childcare Group (ASX: TNK) advises that the '*2020 Think Childcare Development Ltd Financial Statements*' provided to the market this morning should be accompanied by the '*TNK 2020 Group Annual Report to security holders*' (which was also provided to the market this morning).

The compiled 2020 Think Childcare Development Ltd Financial Statements accompanied by the TNK 2020 Group Annual Report to security holders is now ***attached***.

All details remain the same as in the original report lodged.

*END*

For further information:

Mathew Edwards
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Director, Think Childcare Development Limited
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*This announcement has been authorised for release by the Board of Think Childcare Development Limited*

# THINK Childcare Development

## ANNUAL REPORT **2020**

BUILDING QUALITY EARLY EDUCATION SERVICES

Think Childcare Development Limited is proud to present this annual report for the financial year ended 31 December 2020.

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

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| | |
|---|---|
| Name | Think Childcare Development Limited |
| ABN | 81 600 793 388 |
| Reporting period | 1 January 2020 to 31 December 2020 |
| ASX code | TNK |

Cover photo Nido Early School Seven Hills, NSW
This photo Nido Early School Aveley, WA

# DIRECTORS' REPORT

The Directors of Think Childcare Development Limited (hereafter, referred to as Think Childcare Development, TND or the Company) and its controlled entities present their report for the financial year ended 31 December 2020 (referred to hereafter as the financial year) accompanied by the Financial Report of the Company pursuant to the requirements of the Corporations Act 2001 (Cth) (Corporations Act).

The Company's shares are stapled to the shares of Think Childcare Limited (hereafter, referred to as Think Childcare or TNK) and traded on the Australian Securities Exchange (ASX) as one security (ASX code TNK).

## DIRECTORS AND EXECUTIVE KEY MANAGEMENT PERSONNEL

| | | Title[1] / Committees | Change in 2020 |
|---|---|---|---|
| Non-executive directors | Mark Kerr | Independent Non-Executive Chairman (TNK and TND)<br>Member of Audit, Risk and Compliance Committee<br>Member of Human Resources and Remuneration Committee<br>Chair of Independent Board Committee (IBC)* | IBC established on 22 July 2020 |
| | Joe Dicks | Independent Non-Executive Director (TNK and TND)<br>Chair of Audit, Risk and Compliance Committee<br>Member of Human Resources and Remuneration Committee | No change |
| | Michael Doble | Independent Non-Executive Director (TND only)<br>Deputy Chair of Independent Board Committee (IBC) | IBC established on 22 July 2020 |
| | Nick Anagnostou | Independent Non-Executive Director (TND only) | Appointed 1 October 2020 |
| Executive directors | Mathew Edwards | Managing Director and Chief Executive Officer (TNK)<br>Executive Director (TND) | No change |
| Other executive KMP | Jennifer Saliba | Chief Financial Officer (TNK) | No change |
| | Georgina Gaussen | Chief Operating Officer (TNK) | No change |

**1** Title at year end

* The IBC was established, based on independent advice, to specifically manage acquisition, takeover and merger activities impacting the current period. IBC may be suspended once these issues are no longer an intensive and time consuming activity requiring careful management of conflicts of interest.

## MEETINGS OF DIRECTORS

The number of meetings of the Company's Board of Directors (the Board) during the year ended 31 December 2020, and the number of meetings attended by each Director were:

| | Attended[3] / Held[4] | |
|---|---|---|
| Meetings[1] | Board Meetings | Independent Board Committee[1] |
| Joe Dicks | 25 / 26 | N/A |
| Mark Kerr | 26 / 26 | 5 / 5 |
| Mathew Edwards | 26 / 26 | N/A |
| Michael Doble | 26 / 26 | 5 / 5 |
| Nick Anagnostou[2] | 8 / 8 | N/A |

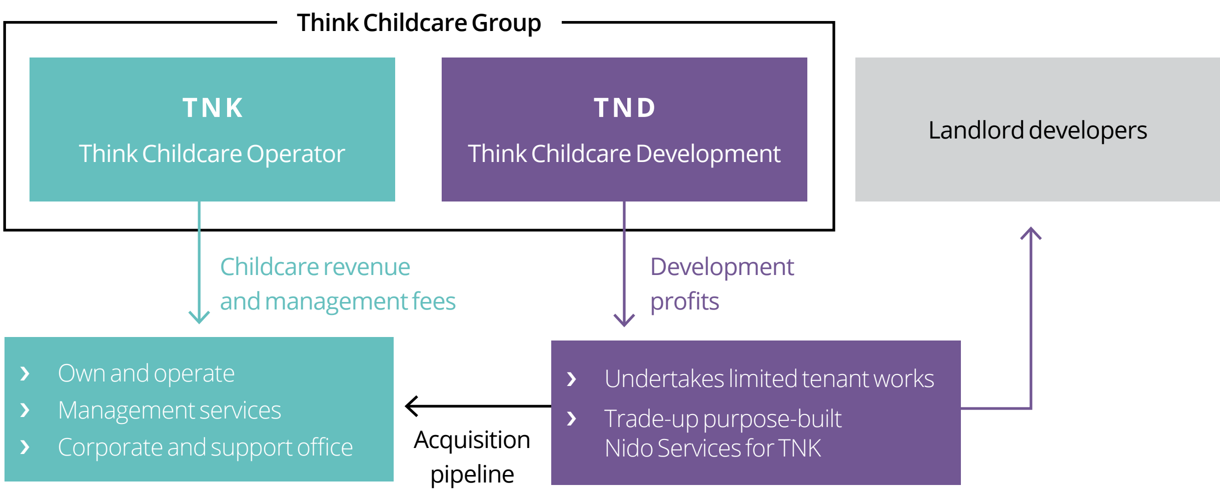
**1** The Independent Board Committee was established on 22 July 2020
**2** Appointed to the Board effective 1 October 2020, is not a member of other committees
**3 Attended** – Indicates the number of meetings attended during the year that each Director was a member of the Board or Committee
**4 Held** – Indicates the number of meetings held while each Director was a member of the Board or Committee

## PRINCIPAL ACTIVITIES

Think Childcare Development is the largest developer and incubator of purpose-built child care Services in Australia. The principal activities of TND are summarised as follows:

- Develops purpose-built child care Services under the "Nido" brand and operating model; and
- Trades-up child care Services before selling the child care Service to Think Childcare (at agreed acquisition criteria).

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



# DIRECTORS' REPORT CONTINUED

## DIVIDENDS

The Company has not paid or declared a dividend during the financial year.

Think Childcare Development is in its formative years and development profits are not expected to form part of funds available for distribution to security holders. In the short-term these proceeds will be reinvested into the business to fund the future pipeline.

## REVIEW AND RESULTS OF OPERATIONS

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

Think Childcare Development opened 4 purpose-built Nido child care Services during the financial year. It also acquired 7 Nido child care Services including 6 child care Services in trade-up and one under construction from a third-party. The child care Services in trade-up achieved a peak occupancy of 60% by 31 December 2020, well ahead of expectations.

At 31 December 2020, Think Childcare Development had an enviable pipeline of 36 child care Services including:

- 10 purpose-built Nido Services at various stages of trade-up;
- 26 child care sites which are geographically diversified with 10 in Victoria, 8 in Western Australia, 7 in South Australia and 1 in New South Wales.

The development pipeline is largely de-risked with 16 Services under-construction, 5 with development approval and 5 in the planning stage. The end value of the pipeline of 36 child care Services is estimated at $60 million.

During the financial year, 2 child care Services achieved TNK acquisition metrics (of 75% occupancy and $0.25 million Service based earnings before interest tax, depreciation and amortisation (Service EBITDA) and were sold to TNK for $3.7 million, realising a profit on sale of $2.9 million.

## FINANCIAL OVERVIEW

Think Childcare Development recorded a statutory net loss after tax (NPAT statutory) of $0.5 million (2019: loss $1.4 million). The current year NPAT (statutory) was impacted by AASB 16 Leases which adjusts for lease rental expenses of $1.9 million and deducts depreciation for right of use assets (being the leases) of $1.0 million and deducts for notional interest expense of $1.6 million. These entries give rise to a net negative impact of $0.7 million offset by a positive tax impact of $0.2 million. Adjusting for the impact of AASB16 Leases and its positive tax impact, the NPAT (underlying) is a loss of $0.04 million.

Think Childcare Development underlying earnings before interest, tax, depreciation, and amortisation EBITDA (underlying) of $0.9 million (2019: loss of $0.5 million).

## OPERATING RESULTS

2020 is Think Childcare Development's first full year of operation. The below operating result, namely an EBITDA (underlying) of $0.9 million reflects the successful trade-up of 12 purpose-built Nido child care Services including the profit on sale of 2 Services to TNK of $2.9 million. This outcome demonstrates the security holder value created by TND (which would otherwise be captured by third-party incubators).

| | 2020 $'000 | 2019 [2] $'000 |
|---|---|---|
| Service revenue | **8,773** | 301 |
| Labour | **(5,560)** | (282) |
| Occupancy | **(2,328)** | (234) |
| Service overheads | **(1,004)** | (340) |
| **Service performance** | **(119)** | **(555)** |
| Corporate costs | **(1,373)** | - |
| Profit on Sale | **2,922** | - |
| Acquisition expenses | **(568)** | - |
| **EBITDA (underlying)** | **862** | **(555)** |
| Operating lease costs [1] | **1,897** | 134 |
| Non underlying expenses | **-** | (1,309) |
| **EBITDA** | **2,759** | **(1,730)** |
| Finance costs | **(2,185)** | (107) |
| Depreciation and amortisation | **(1,401)** | (90) |
| Tax | **287** | 568 |
| **Profit / (Loss) for the period** | **(540)** | **(1,359)** |
| Interest on lease liabilities | **1,586** | 107 |
| Depreciation on right of use assets | **1,021** | 88 |
| Operating lease costs [1] | **(1,897)** | (134) |
| Tax impact | **(213)** | (18) |
| **NPAT (underlying)** | **(43)** | **(1,316)** |

**1** This caption represents rental payments or cash out flow for leases for the year ended 31 December 2020

**2** To enable comparison with current year performance, certain captions within the 31 December 2019 segment information have been re-allocated to conform with current year presentation. There is no net impact on the comparative profit or loss of the company

EBITDA, EBITDA (underlying), NPAT (underlying) reflect the results of the ongoing business of the Company 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 our 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) is disclosed as a useful guide for investors to gain a better understanding of the Think Childcare Development's financial results from normal operating activities in the 2020 Think Childcare Group Annual Report.

| **Balance Sheet** 31-Dec-20 | **TND underlying** $'000 | **AASB 16** $'000 | **TND statutory** $'000 |
|---|---|---|---|
| Cash | 7,060 | - | 7,060 |
| Receivables and other assets | 2,767 | - | 2,767 |
| Property, plant and equipment | 4,941 | - | 4,941 |
| Intangible assets | 4,940 | - | 4,940 |
| Right of use asset | - | 27,197 | 27,197 |
| **Total assets** | **19,708** | **27,197** | **46,905** |
| Borrowings | 11,421 | - | 11,421 |
| Other liabilities | 3,249 | - | 3,249 |
| Lease liability | - | 27,968 | 27,968 |
| **Total liabilities** | **14,670** | **27,968** | **42,638** |
| **Equity** | **5,038** | **(771)** | **4,266** |

# DIRECTORS' REPORT CONTINUED

## CAPITAL MANAGEMENT

On 4 August 2020, Think Childcare Development secured a debt facility of $11.5m with a two year term. The commercial terms of the facility are in line with market benchmarks. The facility was fully drawn at 31 December 2020 and was partially applied to fund the acquisitions made during the financial year.

Think Childcare Development's closing cash of $7.1 million is available to fund pipeline child care Services.

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 the Company is a going concern.

## COVID-19 IMPACT

During 2020, Think Childcare Development was impacted by the COVID-19 pandemic. Child care Services experienced a material decline in attendance in the first half of the year because 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, home schooling became prevalent, and many carers were working from home.

TND child care 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.

In late June 2020, the Victorian government implemented stage 3 restrictions followed by stage 4 restrictions from the first week of August until 13 September in metro Melbourne and Mitchell Shire, because of a significant rise in the number of COVID-19 cases.

The Federal Government introduced a number of relief packages to support the continued viability of the child care sector and to ensure child care Services remained open to essential workers. Think Childcare Development Services received limited support from the relief packages (as outlined below) due to the profile of its portfolio of Services (being in trade-up or not opened at the time of qualification for the subsidies):

- Early Childhood Education and Care (ECEC) Relief Package;
- JobKeeper stimulus package (JobKeeper);
- ECEC transition arrangements; and
- Rental relief for commercial tenants.

For details of Think Childcare Development COVID-19 response initiatives reference should be made to the Think Childcare Group Annual Report.

# REMUNERATION REPORT

The shares of Think Childcare Development are stapled to the shares of and Think Childcare and in accordance with Accounting Standard AASB 3 Business Combinations, the stapling of Think Childcare and Think Childcare Development was regarded as a business combination. Think Childcare was deemed to be the parent for the purposes of preparing the consolidated financial report of Think Childcare Group consequently, for details of the Company's remuneration policy and framework, reference should be made to the Think Childcare Group Remuneration Report as set out on pages 40 to 57 of the 2020 Think Childcare Group's Annual Report which forms part of this Directors Report.

The table below provides specific reference to the Think Childcare Remuneration Report

| Section | Title | Description | Details / Reference |
|---|---|---|---|
| 1 | **Introduction** | Describes the scope of the Remuneration Report and the individuals whose remuneration details are disclosed together with a summary of the key changes during the financial year. | Think Childcare Group Remuneration Report page 41 |
| 2 | **Remuneration governance** | Describes the role of the Board and the Human Resources and Remuneration Committee, and the use of remuneration consultants when making remuneration decisions. | Think Childcare Group Remuneration Report page 43 |
| 3 | **Non-executive director remuneration** | Provides details regarding the fees paid to non-executive directors. | Think Childcare Group Remuneration Report page 44 and page 10 of this report |
| 4 | **Executive remuneration** | Outlines the principles and strategy applied to executive remuneration decisions and the framework used to deliver rewards including company performance and executive Key Management Personnel remuneration linkages. | Think Childcare Group Remuneration Report page 46 and page 11 of this report |
| 5 | **KMP equity interests** | Provides details regarding security holdings in Think Childcare Group of the Boards and executive Key Management Personnel. | Think Childcare Group Remuneration Report page 53 |
| 6 | **Equity granted as remuneration** | Number of performance rights granted to executive Key Management Personnel as well as the number of instruments that vested or were forfeited during the financial year ended 31 December 2020. | Think Childcare Group Remuneration Report page 54 |
| 7 | **Employment agreements** | Provides details of the contractual arrangements between Think Childcare Group and the executives whose remuneration details are disclosed. | Think Childcare Group Remuneration Report page 55 |
| 8 | **Loans given to KMP** | Details of loans issued to Key Management Personnel during the financial year. | Think Childcare Group Remuneration Report page 56 |
| 9 | **Other transactions with KMPs** | Details of any transactions entered into with Key Management Personnel not included elsewhere in the report. | Think Childcare Group Remuneration Report page 56 |

# REMUNERATION REPORT CONTINUED

## NED FEES AND OTHER BENEFITS EXPLAINED

| Elements | Details | 2020 | 2019 |
|---|---|---|---|
| **Board fees per annum** | Board Chairman | **65,700** | Nil |
| | Board Non-Executive Director | **43,800** | 43,800 |
| **Committee fees per annum** | Chair of Independent Board Committee [1] | **35,000** | Nil |
| | Member of Independent Board Committee [1] | **25,000** | Nil |

**1** Fees per IBC per annum

## POST-EMPLOYMENT BENEFITS

| | | |
|---|---|---|
| Post-employment benefits | **Superannuation** | Superannuation contributions have been made at a rate of 9.5% of the board fee (but only up to the Australian Government's prescribed maximum contributions limit) which satisfies the Company's statutory superannuation contributions. The contribution rate will increase in future years in line with mandated legislative increases. |
| | **Retirement schemes** | There are no retirement schemes in place for NED other than statutory superannuation. |
| Other benefits | **Equity instruments** | NED do not receive any performance related remuneration, options, performance rights or securities. |
| | **Other fees / benefits** | NED receive reimbursement for costs directly related to the Company's business.<br><br>No payments were made to NED during 2020 for travel allowances, extra services or special exertions other than consulting services which are captured in the following NED total remuneration paid table. |

## NED TOTAL REMUNERATION

| | | Short-term benefits | Equity Based Payments | Post-employment benefits | | |
|---|---|---|---|---|---|---|
| | **Year** | **Fees ($)** | **Performance Rights ($)** | **Termination benefits ($)** | **Superannuation benefits ($)** | **Total ($)** |
| **Mark Kerr (Chairman) [2]** | 2020 | 85,000 | - | - | 8,075 | 93,075 |
| | 2019 | - | - | - | - | - |
| **Joe Dicks [2]** | 2020 | 56,667 | - | - | 5,383 | 62,050 |
| | 2019 | - | - | - | - | - |
| **Michael Doble [1]** | 2020 | 47,599 | - | - | 4,522 | 52,121 |
| | 2019 | 6,667 | - | - | 633 | 7,300 |
| **Nick Anagnostou [3]** | 2020 | 18,000 | - | - | 1,710 | 19,710 |
| | 2019 | - | - | - | - | - |
| **Total** | **2020** | **207,266** | **-** | **-** | **19,690** | **226,956** |
| | **2019** | **6,667** | **-** | **-** | **633** | **7,300** |

**1** Includes IBC fees paid in 2020
**2** Includes fees relating to 2019 that were resolved and paid in mid-2020. As these amounts were paid in 2020 the NED have opted to disclose as part of their 2020 remuneration
**3** Includes consultancy fees of $8,760

The Executive Key Management Personnel are paid by Think Childcare and is not cross-charged or recovered from Think Childcare Development. Management assessed that for 2020, 20% of Key Management Personnel time is attributable to TND and therefore represented as follows:

## EXECUTIVE REMUNERATION TABLE - AUDITED STATUTORY DISCLOSURE

| | | Short-term benefits | | | | Equity Based Payments | | Other | | |
|---|---|---|---|---|---|---|---|---|---|---|
| $ | Year | Salary / Fees ($) | Cash STI | Other Cash Benefits | Deferred STI Rights | LTI Perform-ance Rights | LTI Recog-nition Rights | Long Service Leave | Superan-nuation | Total ($) |
| **Mathew Edwards (TNK and TND)** | 2020 | 92,547 | 43,000 | - | - | - | - | - | 5,316 | 14,863 |
| | 2019 | - | - | - | - | - | - | - | - | - |
| **Jenny Saliba (TNK)** | 2020 | 60,000 | 33,000 | - | - | - | - | - | 8,835 | 101,835 |
| | 2019 | - | - | - | - | - | - | - | - | - |
| **Georgina Gaussen (TNK)** | 2020 | 64,000 | 30,400 | - | - | - | - | - | 8,968 | 103,368 |
| | 2019 | - | - | - | - | - | - | - | - | - |
| **Total** | **2020** | **216,547** | **106,400** | **-** | **-** | **-** | **-** | **-** | **23,119** | **346,066** |
| | **2019** | - | - | - | - | - | - | - | **-** | **-** |

Reference should also be made to section 4 of the Think Childcare Group Remuneration Report.

## MAJOR CUSTOMER

During the year ended 31 December 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 (2019: Nil).

## COMPANY SECRETARIES

The company secretary is Trinh Bui. Trinh is a member of the Law Society of New South Wales and a Fellow member of the Governance Institute of Australia with over 4.5 years listed company secretarial experience and 12 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.

## INDEMNITY AND INSURANCE OF OFFICERS AND AUDITORS

Subject to the following, no insurance premium was paid during or since the end of the 2020 financial year for a person who is or has been an officer or auditor of the TND.

During the period, TND paid a premium in respect of a contract ensuring 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 TND provide 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

# DIRECTORS' REPORT CONTINUED

judge-made law. Pursuant to this requirement, each Director of the Company is party to Deeds of Indemnity, Access and Insurance, which provide for indemnity against liability as a Director, except to the extent of indemnity under an insurance policy or where prohibited by statute.

The Company has not otherwise, during or since the end of the 2020 financial year, indemnified or agreed to indemnify an officer or auditor of the Company against a liability as such an officer or auditor.

## PROCEEDINGS ON BEHALF OF THE COMPANY

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

## NON-AUDIT SERVICES

During the year, KPMG (auditors) have not performed any non-audit services. 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 Company auditor for audit and non-audit services provided during the year are given in note 24 of this report.

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

There are no officers of TND who are former Directors of KPMG.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

## MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Other than the Company's ASX announcement on 20 January 2021 concerning the revised proposal from Busy Bees, there have been no events subsequent to 31 December 2020 in connection with the proposals.

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

## LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

There are no developments that are expected to impact the Company's business.

## 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
24 February 2021
Melbourne

# DIRECTORS' DECLARATION

In the Directors' opinion:

- The attached consolidated financial statements and notes that are set out on pages 15 to 48 comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- The attached consolidated financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- The attached consolidated financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2020 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
24 February 2021
Melbourne



Nido Early School Noarlunga Downs,SA

# FINANCIAL REPORT

# FINANCIAL REPORT

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

| | Note | Year ended 2020 $'000 | Period ended [1] 2019 $'000 |
|---|---|---|---|
| **Revenue** | 5a | **8,693** | 301 |
| Other income | 5b | **3,002** | - |
| **Expenses** | | | |
| Employee benefit | 6 | **5,755** | 298 |
| Occupancy | | **427** | 38 |
| Direct expenses of providing services | | **426** | 234 |
| Corporate and marketing | | **790** | 834 |
| Acquisition and integration | 7 | **568** | 40 |
| Other | | **970** | 587 |
| Depreciation and amortisation | 12 | **1,401** | 90 |
| Finance costs | 8 | **2,185** | 107 |
| **Loss before tax** | | **(827)** | (1,927) |
| Income tax | 9 | **287** | 568 |
| **Loss for the year/period** | | **(540)** | (1,359) |
| Other comprehensive loss for the year/period, net of tax | | **-** | - |
| **Total comprehensive loss for the year/period** | | **(540)** | (1,359) |

| **Earnings per share** | | Cents | **Cents** |
|---|---|---|---|
| Basic | 33 | **(0.89)** | (2.35) |
| Diluted | 33 | **(0.88)** | (2.35) |

**1** Refer to note 1

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 2020

| | Note | 2020 $'000 | 2019 $'000 |
|---|---|---|---|
| **Assets** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | | **7,060** | 3,268 |
| Trade and other receivables | 10 | **333** | 53 |
| Other assets | 11 | **1,587** | 550 |
| **Total current assets** | | **8,980** | 3,871 |
| **Non-current assets** | | | |
| Property, plant and equipment | 12 | **32,138** | 8,733 |
| Intangible assets | 13, 29 | **4,940** | - |
| Deferred tax assets | 14 | **847** | 580 |
| **Total non-current assets** | | **37,925** | 9,313 |
| **Total assets** | | **46,905** | 13,184 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 15 | **1,897** | 776 |
| Borrowings | 17 | **3,042** | 580 |
| Employee benefits | 16 | **659** | 72 |
| **Total current liabilities** | | **5,598** | 1,428 |
| **Non-current liabilities** | | | |
| Borrowings | 17 | **36,347** | 7,144 |
| Employee benefits | 16 | **5** | - |
| Provisions | 18 | **688** | - |
| **Total non-current liabilities** | | **37,040** | 7,144 |
| **Total liabilities** | | **42,638** | 8,572 |
| **Net assets** | | **4,267** | 4,612 |
| **Equity** | | | |
| Issued capital | 19 | **5,993** | 5,971 |
| Reserves | | **173** | - |
| Retained earnings | | **(1,899)** | (1,359) |
| **Total equity** | | **4,267** | 4,612 |

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

# FINANCIAL REPORT CONTINUED

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

| 2019 | Note | Issued capital $'000 | Reserves $'000 | Retained earnings $'000 | Total Equity $'000 |
|---|---|---|---|---|---|
| **Balance at 29 July 2019 [1]** | | **-** | **-** | **-** | **-** |
| Loss for the year | | - | - | (1,359) | (1,359) |
| Other comprehensive income/(loss) for the period | | - | - | - | - |
| **Total comprehensive loss for the period** | | **-** | **-** | **(1,359)** | **(1,359)** |
| Contributions of equity, net of transaction costs | 19 | 5,971 | - | - | 5,971 |
| Dividends | | - | - | - | - |
| **Total contributions and distributions** | | **5,971** | **-** | **-** | **5,971** |
| **Balance at 31 December 2019** | | **5,971** | **-** | **(1,359)** | **4,612** |

| 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 year | | - | - | (540) | (540) |
| Other comprehensive income/(loss) for the year | | - | - | - | - |
| **Total comprehensive loss for the period** | | **-** | **-** | **(540)** | **(540)** |
| Contributions of equity, net of transaction costs | 19 | 22 | - | - | 22 |
| Transfer of assets in specie from TNK to TND | 27 | - | 173 | - | 173 |
| Dividends | | - | - | - | - |
| **Total contributions and distributions** | | **22** | **173** | **-** | **195** |
| **Balance at 31 December 2020** | | **5,993** | **173** | **(1,899)** | **4,267** |

**1** Refer to note 1

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 2020

| | Note | Year ended 2020 $'000 | Period ended [1] 2019 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from parents and government funding | 5a | **8,493** | 248 |
| Payments to suppliers and employees | | **(8,911)** | (1,745) |
| | | **(418)** | (1,497) |
| Interest and other finance costs | 26 | **(1,586)** | (107) |
| **Net cash used in operating activities** | 32 | **(2,004)** | (1,604) |
| **Cash flows from investing activities** | | | |
| Payments for the acquisition of business | 29 | **(5,312)** | - |
| Proceeds from the sale of child care Services | 30 | **3,739** | - |
| Payments for property, plant and equipment | 12 | **(3,842)** | (1,072) |
| **Net cash used in investing activities** | | **(5,415)** | (1,072) |
| **Cash flows from financing activities** | | | |
| Proceeds from capitalisation of Think Childcare Development (net of transaction costs) | 19 | **-** | 5,971 |
| Proceeds from issue of shares | 19 | **22** | - |
| Proceeds from borrowings | | **11,500** | - |
| Repayment of lease principal | 26 | **(311)** | (27) |
| **Net cash from financing activities** | | **11,211** | 5,944 |
| Net increase in cash and cash equivalents | | **3,792** | 3,268 |
| Cash and cash equivalents at the beginning of the year | | **3,268** | - |
| **Cash and cash equivalents at the end of the year** | | **7,060** | 3,268 |

**1** Refer to note 1

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 1. GENERAL INFORMATION

The financial statements cover Think Childcare Development Limited and its controlled entities (hereafter, referred to as Think Childcare Development, the Company or TND). The Company was incorporated on 29 July 2019. The comparative period constitutes from the date of incorporation being 29 July 2019 to the year ended 31 December 2019 and may not be entirely comparable.

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

For the purposes of preparing the consolidated financial statements, Think Childcare Development Limited is a for-profit entity. The consolidated financial statements are presented in Australian dollars, which is Think Childcare Development Limited's functional and presentation currency.

TND 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

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 24 February 2021. The Directors have the power to amend and reissue the financial statements.

## NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

### Statement of compliance

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

### Standards issued but not yet adopted

Several amendments and interpretations apply for the first time in 2020, but either do not have an impact or are not expected to have significant impact on the Company's consolidated financial statements.

#### 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 material impact on the consolidated financial statements of the Company.

#### 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.

### Basis of preparation

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

## 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.

## Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the consolidated results of TND. Supplementary information about the parent entity is disclosed in note 28.

## Basis of consolidation

### Subsidiaries

Subsidiaries are entities controlled by the Company. The Company 'controls' an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

### Loss of control

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

## Operating segments

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

## Revenue recognition

The accounting policies for the 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 Subsidy) are recognised as and when a child attends a child care Service. Billing for Services occurs on a weekly basis, in advance for parent fees and in arrears for Australian Government payments, based on attendance records.

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

### 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.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate.

### Other revenue

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

## Leases

### Definition of a lease

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. For leases of properties in which it is a lessee, the Company has elected to separate non-lease components and will separately account for the lease and non- lease components of a lease.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### As a lessee

The Company mainly leases properties for child care Services. The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognises lease liabilities to make lease payments and right of use assets representing the right to use the underlying assets. Under AASB 16, the Company recognises right of use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

### Right of use assets

The Company recognises right of use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right of use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right of use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right of use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets. However, if ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

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

### Lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the incremental borrowing rate for the portfolio of leases. Lease liabilities are presented in note 18 Borrowings.

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

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

## Income tax

The income tax expense or benefit for the year is the tax payable on that year's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

## Deferred tax

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 Development 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 a group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

In addition to 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 intergroup charge equals the current tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

## Current and non-current classification

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

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

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

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

## Cash and cash equivalents

Cash and cash equivalents includes cash at bank and on hand.

## 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## Property, plant and equipment

### Recognition and measurement

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

Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

### Subsequent expenditure

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

### Depreciation

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

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

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

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

## Intangible assets

### Goodwill

Where an entity or operation is acquired in a business combination that is not a common control transaction, the identifiable net assets acquired are measured at fair value. The excess of the fair value of the cost of the acquisition over the fair value of the identifiable net assets acquired is brought to account as goodwill. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

### Software

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

## Impairment of non-financial assets

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.

## 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 30-60 days of recognition.

## 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.

## 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 stapled securities are classified as equity.

Incremental costs directly attributable to the issue of new stapled securities 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 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 at fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

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

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the 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.

## Earnings per stapled security

### Basic earnings per stapled security

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

### Diluted earnings per stapled security

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

## Goods and Services Tax (GST) and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

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

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

## Rounding of amounts

The 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 dollars, unless stated otherwise.

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

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

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

# Note 3. Critical accounting judgements, estimates and assumptions

## Goodwill

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

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

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

## 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 CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### Common Control Transactions

The Company has elected to recognise the gain or loss on the assets and liabilities of entities divested via common control transactions to Think Childcare in profit or loss rather than in equity as this most appropriately reflects the substance of the transaction. This accounting policy will be applied for all future similar transactions.

## NOTE 4. SEGMENT INFORMATION

### Identification of reportable operating segments

The Company operates in one segment being a 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 year ended 31 December 2020, none of the Company's external revenue was derived from sales to one specific customer or Company of customers that comprised more than 10% of total revenue (2019: Nil).

## NOTE 5A. REVENUE

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Revenue from contracts with customers | **7,862** | 301 |
| ECEC Relief Package | **831** | - |
| **Revenue** | **8,693** | **301** |

### Revenue from contracts with customers

Disaggregation of revenue from contracts with customers:

| 2020 | Child care Services | ECEC Relief Package | Total |
|---|---|---|---|
| Revenue from external customers | 7,862 | 831 | 8,693 |
| **Timing of revenue recognition** | | | |
| Over time | 7,862 | 831 | 8,693 |
| | **7,862** | **831** | **8,693** |
| 2019 | | | |
| Revenue from external customers | 301 | - | 301 |
| **Timing of revenue recognition** | | | |
| Over time | 301 | - | 301 |
| | **301** | **-** | **301** |

## 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 in the reference fortnight, being 17 February 2020 to 28 February 2020. 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 to parents.

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

In light of the second wave lockdown that impacted Victoria, the Child Care Recovery Package (Victorian Recovery Package) was introduced to target support for Victorian Services. The package applied from 28 September 2020 to 31 January 2021 and included a recovery payment of 25% of fees charged in the same reference fortnight used for the original ECEC Relief Package. As part of the conditions of receiving this package, Services were not permitted to increase child care fees and an employment guarantee had to be applied to ensure that these payments were effectively passed on to educators and employees.

The ECEC Relief Package, transition payments and the Child Care Recovery Package have been recognised as revenue from contracts with customers in accordance with AASB 15. The performance obligation associated with the ECEC Relief Package, transition payments and the Child Care Recovery Package was to operate child care Services and provide care to children of essential workers. As a result, the 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.

## Assets and liabilities related to contracts with customers

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

| | Note | 2020 $'000 | 2019 $'000 |
|---|---|---|---|
| Child care advances | 15 | **121** | - |
| **Total contract liabilities** | | **121** | |

# NOTE 5B. OTHER INCOME

| | Note | 2020 $'000 | 2019 $'000 |
|---|---|---|---|
| Government grants | | **80** | - |
| Profit on sale of child care Services | 30 | **2,922** | - |
| **Other income** | | **3,002** | **-** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## NOTE 6. EMPLOYEE BENEFIT EXPENSE

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Salaries and wages | **5,639** | 275 |
| JobKeeper expense[1] | **49** | - |
| JobKeeper subsidy | **(419)** | - |
| Defined contribution to superannuation plans | **486** | 23 |
| **Employee benefits expense** | **5,755** | **298** |

**1** JobKeeper expense refers to payments made to employees during a fortnight, over and above their ordinary salaries and wages up to $1,500, as required by the JobKeeper payment scheme.

### JobKeeper subsidy

The JobKeeper payment scheme was announced on 30 March 2020 as a temporary subsidy for businesses with turnover under $1 billion and a decline of greater than 30% of turnover relative to the same period in the previous year. By virtue of the ECEC Relief Package, 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 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 before tax, per fortnight per eligible employee which was passed on to the eligible employee.

JobKeeper payments received from the Commonwealth Government have been recorded in accordance with AASB 120 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.

## NOTE 7. ACQUISITION & INTEGRATION EXPENSE

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Legal and stamp duty | **358** | 40 |
| Commission | **210** | - |
| **Acquisition & integration expense** | **568** | **40** |

## NOTE 8. FINANCE COSTS

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Interest on borrowings | **599** | - |
| Interest on lease liabilities | **1,586** | 107 |
| **Finance costs** | **2,185** | **107** |

## NOTE 9. INCOME TAX EXPENSE

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| **Income tax expense** | | |
| Current tax | 2 | - |
| Deferred tax - origination and reversal of temporary differences | (268) | (568) |
| Adjustment recognised for prior periods | (8) | - |
| **Aggregate income tax expense** | (274) | (568) |

| | | |
|---|---|---|
| **Deferred tax included in income tax expense comprises:** | | |
| Increase in deferred tax assets (note 14) | (274) | 569 |
| Increase in deferred tax liabilities (note 14) | 7 | (1) |

| | | |
|---|---|---|
| **Numerical reconciliation of income tax expense and tax at the statutory rate** | | |
| Loss before tax | (827) | (1,927) |
| Tax at the statutory tax rate of 30% | (248) | (580) |

| | | |
|---|---|---|
| **Tax effect amounts which are not deductible in calculating taxable income** | | |
| Acquisition and integration expenses | - | 12 |
| | (248) | (568) |
| Other adjustments | (39) | - |
| **Income tax benefit** | (287) | (568) |

| | | |
|---|---|---|
| **Amounts charged directly to equity** | | |
| Deferred tax assets (note 14) | - | 12 |

The effective tax rate for the year ended 31 December 2020 is 34.7% (2019: 29.5%).

## NOTE 10. TRADE AND OTHER RECEIVABLES

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Trade receivables | 284 | 29 |
| Less: Provision for impairment of receivables | (13) | (5) |
| | 271 | 24 |
| Other receivables | 62 | 29 |
| **Trade and other receivables** | 333 | 53 |

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

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| 1 to 30 days past due | 4 | - |
| 31 to 60 days past due | 7 | - |
| over 61 days past due | 2 | 5 |
| **Impaired receivables** | 13 | 5 |

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

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Opening balance | 5 | - |
| Additional provisions recognised | 10 | 5 |
| Unused amounts reversed | (2) | - |
| **Closing balance** | 13 | 5 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## Past due but not impaired

Customers with balances past due but without provision for impairment of receivables amount to $271,000 as at 31 December 2020 (2019: $11,000).

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:

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| 1 to 30 days past due | 269 | - |
| 31 to 60 days past due | 1 | 4 |
| over 61 days past due | 1 | 7 |
| **Trade and other receivables** | **271** | **11** |

## NOTE 11. OTHER ASSETS

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Prepayments | 207 | 550 |
| Other assets | 1,380 | - |
| **Other assets - current** | **1,587** | **550** |

## NOTE 12. PROPERTY, PLANT AND EQUIPMENT

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| **Plant and equipment - at cost** | 2,867 | 100 |
| Less: Accumulated depreciation | (234) | (1) |
| | 2,633 | 99 |
| **Leasehold improvements - at cost** | 379 | 913 |
| Less: Accumulated depreciation | (19) | (1) |
| | 360 | 912 |
| **Computer equipment - at cost** | 192 | 38 |
| Less: Accumulated depreciation | (23) | - |
| | 169 | 38 |
| **Right of use asset (ROU)** | 27,986 | 7,751 |
| Less: Accumulated depreciation | (789) | (88) |
| | 27,197 | 7,663 |
| **Construction in progress** | 1,779 | 21 |
| | 32,138 | 8,733 |

## Reconciliations

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

| | Note | Plant and equipment $'000 | Leasehold Improve-ments $'000 | Computer equipment $'000 | Right of use asset $'000 | Construction in progress $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2019** | | - | - | - | - | - | - |
| Additions | | 20 | 36 | - | 7,751 | 1,016 | 8,823 |
| Transfer | | 80 | 877 | 38 | - | (995) | - |
| Disposals | | - | - | - | - | - | - |
| Depreciation Expense | | (1) | (1) | - | (88) | - | (90) |
| **Balance at 31 December 2019** | | 99 | 912 | 38 | 7,663 | 21 | 8,733 |
| Additions | | 664 | 180 | 67 | 11,900 | 2,931 | 15,742 |
| Additions through business combinations | 29 | 949 | 83 | 86 | 15,700 | 125 | 16,943 |
| Transfer | | 1,876 | (624) | 46 | - | (1,298) | - |
| Disposals | | (642) | (156) | (36) | (7,045) | - | (7,879) |
| Depreciation Expense | | (313) | (35) | (32) | (1,021) | - | (1,401) |
| **Balance at 31 December 2020** | | **2,633** | **360** | **169** | **27,197** | **1,779** | **32,138** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## NOTE 13. INTANGIBLES

| Current | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Goodwill - at cost | **4,940** | - |
| **Intangibles** | **4,940** | **-** |

### Reconciliation

Reconciliation of the carrying value at the beginning and end of the current and previous financial year is set out below:

| | Note | Goodwill $'000 | Total $'000 |
|---|---|---|---|
| Balance at 1 January 2019 | | - | - |
| Additions | 29 | 4,940 | 4,940 |
| **Balance at 31 December 2020** | | **4,940** | **4,940** |

### Impairment test for goodwill

For impairment testing, the goodwill acquired through business combinations is allocated to the group of cash-generating units (CGU) which is also the Company's operating segment. As at 31 December 2020, the goodwill amount allocated to Child Care Development was $4,940,000.

The Company performed its annual impairment test in December 2020. 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 2020, 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 three year period are extrapolated using the estimated growth rates of occupancy and daily fee. The growth rate does not exceed the long term average growth rate for the business. The pre-tax discount rate applied to the cash flow projections is 17.9%. The growth rate used to extrapolate the cash flows of the unit beyond the five-year period is 2.5%.

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

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

- Discount rate which is based on the specific circumstances of the Company and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Company's investors. The cost of debt is based on the interest-bearing borrowings of the Company.
- Service occupancy rates which are based on the current market conditions plus anticipated annual increases.
- Service wages which are based on industry award standards and forecast to increased by historically established wage cost as a percentage of revenue which is driven by future growth occupancy.
- Occupancy expenses which are based on current rental payments and increase by a historically established occupancy cost as a percentage of revenue which is driven by future growth in occupancy.
- Terminal growth rate

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

## NOTE 14. DEFERRED TAX

| 2020 | Balance at 1 January 2020 $'000 | Credited / (charged) to profit and loss $'000 | Credited / (Charged) to equity $'000 | Balance at 31 December 2020 $'000 |
|---|---|---|---|---|
| Receivables | 2 | 2 | - | 4 |
| Prepayments | (1) | (7) | - | (8) |
| Employee benefits | 6 | 103 | - | 109 |
| AASB 16 (Leases) | 18 | 213 | - | 231 |
| Property, plant and equipment | - | 83 | - | 83 |
| Capitalised costs | 327 | 88 | - | 415 |
| Other | - | 13 | - | 13 |
| Net temporary differences | 352 | 495 | - | 847 |
| Tax losses - revenue | 228 | (228) | - | - |
| **Deferred tax asset** | **580** | **267** | **-** | **847** |

| 2019 | Balance at 29 July 2019 $'000 | Credited / (charged) to profit and loss $'000 | Credited / (Charged) to equity $'000 | Balance at 31 December 2019 $'000 |
|---|---|---|---|---|
| Receivables | - | 2 | - | 2 |
| Prepayments | - | (1) | - | (1) |
| Employee benefits | - | 6 | - | 6 |
| AASB 16 (Leases) | - | 18 | - | 18 |
| Capitalised costs | - | 315 | 12 | 327 |
| Net temporary differences | - | 340 | 12 | 352 |
| Tax losses - revenue | - | 228 | - | 228 |
| **Deferred tax asset** | **-** | **568** | **12** | **580** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## NOTE 15. TRADE AND OTHER PAYABLES

| Current | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Trade payables | 532 | 184 |
| Child care advances | 121 | - |
| Other payables | 1,244 | 592 |
| **Trade and other payables** | **1,897** | **776** |

Refer to note 22 for further information on financial instruments.

## NOTE 16. EMPLOYEE BENEFITS

| Current | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Annual leave | 298 | 9 |
| Employee related payables | 361 | 63 |
| **Employee benefits - current** | **659** | 72 |
| Non-current | | |
| Long service leave | 5 | - |
| **Employee benefits - non current** | **5** | - |

## NOTE 17. BORROWINGS

| Current | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Lease liability | 3,042 | 580 |
| **Borrowings - current** | **3,042** | **580** |
| Non-current | | |
| Secured bank loans | 11,421 | - |
| Lease liability | 24,926 | 7,144 |
| **Borrowings - non current** | **36,347** | 7,144 |

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

## NOTE 18. PROVISION

| Current | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Contingent Consideration | 688 | - |
| **Opening balance** | - | - |
| Assumed in a business combination | 688 | - |
| **Balance at 31 December 2020** | 688 | - |

# NOTE 19. EQUITY - ISSUED CAPITAL

| | 2020 Stapled security | 2019 Stapled security | 2020 $'000 | 2019 $'000 |
|---|---|---|---|---|
| Ordinary stapled securities - fully paid | **61,058,636** | 60,862,889 | **5,993** | 5,971 |

## Movements in ordinary security capital

| Details | Date | Stapled security | Issue Price | $'000 |
|---|---|---|---|---|
| Balance at 29 July 2019 | 29 July 2019 | - | | - |
| Special Dividend applied to capitalise Think Childcare Development | 23 December 2019 | 60,862,889 | $0.10 | 6,000 |
| Transaction Cost | | | | (29) |
| Balance | 31 December 2019 | 60,862,889 | | 5,971 |
| Issue of stapled security under Dividend Reinvestment Plan | 27 March 2020 | 195,747 | $0.11 | 22 |
| **Think Childcare Development balance** | **31 December 2020** | **61,058,636** | | **5,993** |

## Ordinary stapled securities

Ordinary stapled securities 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 stapled securities held. The fully paid ordinary stapled securities 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 stapled security 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 security holders 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 security holders, return capital to security holders, issue new share or sell assets to reduce debt.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## NOTE 20. EQUITY - RESERVES

### Performance Rights granted to Key Management Personnel and employees

| Year / employee entitled | Number of instruments |
|---|---|
| **Performance Rights granted to Key Management Personnel** | |
| 2019 | 47,619 |
| **2020** | **72,464** |
| **Total Performance Rights** | **120,083** |

### Reconciliation of outstanding Performance Rights

| | Numbers | | Fair Value | |
|---|---|---|---|---|
| | **2020** | **2019** | **2020** | **2019** |
| Outstanding at 1 January | **46,367** | 75,906 | **1.42** | 1.39 |
| Granted during the year | **72,464** | 47,619 | **1.38** | 1.68 |
| Exercised during the year | **(66,726)** | (77,158) | **1.68** | 1.68 |
| Outstanding at 31 December | **52,105** | 46,367 | **1.47** | 1.42 |

# NOTE 21. EQUITY - DIVIDENDS

## Dividends

The company has not paid or declared any dividends during the year (2019: Nil).

## Franking credits

No franking credits were available for distribution as at 31 December 2020 (2019: Nil).

# 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 of TNK 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 of TNK identifies, evaluates and hedges financial risks within the Company's operating units. The CFO of TNK 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 is not exposed to any significant interest risk.

## 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 executive service manager level; at the people and quality leader 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.

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

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 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.

| 2020 | 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 | | 532 | - | - | - | 532 |
| Other payables | | 1,365 | - | - | - | 1,365 |
| **Interest-bearing** | | | | | | |
| Secured bank loans | 12.50% | - | - | 11,421 | - | 11,421 |
| Lease liability | 11.10% | 3,042 | 3,233 | 9,862 | 11,831 | 27,968 |
| Contingent consideration | | 688 | - | - | - | 688 |
| **Total non-derivatives** | | **5,627** | **3,233** | **21,283** | **11,831** | **41,974** |

| 2019 | | | | | | |
|---|---|---|---|---|---|---|
| **Non-derivatives** | | | | | | |
| **Non-interest bearing** | | | | | | |
| Trade payables | | 184 | - | - | - | 184 |
| Child care advances | | 592 | - | - | - | 592 |
| **Interest-bearing** | | | | | | |
| Lease liability | 5.74% | 580 | 598 | 1,903 | 4,643 | 7,724 |
| **Total non-derivatives** | | **1,356** | **598** | **1,903** | **4,643** | **8,500** |

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

## NOTE 23. 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:

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Short-term employee benefits | **530** | 6 |
| Post-employment benefits | **43** | 1 |
| **Aggregate compensation - Directors & other KMP** | **573** | **7** |

The executive Key Management Personnel are paid by Think Childcare and is not cross-charged or recovered from Think Childcare Development.

## NOTE 24. REMUNERATION OF AUDITORS

During the financial year the following fees were paid or payable for services provided by KPMG the auditor of the Company, and its network firms:

| | 2020 $ | 2019 $ |
|---|---|---|
| **Audit services** | | |
| Audit or review of the financial statements | **87,500** | 25,000 |
| **Other services** | | |
| Accounting advisory | - | 30,000 |
| **Remuneration of professional service businesses** | **87,500** | **55,000** |

## NOTE 25. CONTINGENT LIABILITIES

The Company has given a corporate guarantee as at 31 December 2020 of $6,359,801 (2019: $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 CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## NOTE 26. LEASES

### Leases as lessee (AASB 16)

The Company leases properties for child care Services. Leases typically run for a period of 10-15 years, with option to renew the lease after that date for another 5-15 years. Lease payments are renegotiated on a regular basis to reflect market rentals. Some leases provide for additional rent payments that are based on changes in CPI. For certain leases, the Company is restricted from entering into any sub-lease arrangements.

Information about leases for which the Company is a lessee is presented below:

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| **Right of use assets** | | |
| Balance at 1 January | **7,663** | - |
| Additions | **27,600** | 7,751 |
| Derecognition | **(7,045)** | - |
| Depreciation expense | **(1,021)** | (88) |
| **Balance at 31 December** | **27,197** | **7,663** |
| **Lease liability** | | |
| Balance at 1 January | **7,725** | - |
| Additions | **27,600** | 7,751 |
| Derecognition | **(7,046)** | - |
| Interest expense | **1,586** | 107 |
| Lease payments | **(1,897)** | (133) |
| **Balance at 31 December** | **27,968** | 7,725 |

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| **Amounts recognised in profit or loss** | | |
| **2020 - Leases under AASB 16** | | |
| Interest on lease liabilities | **1,586** | 107 |
| Depreciation on right of use assets | **(1,021)** | - |
| **Amounts recognised in statement of cashflows** | | |
| **Total cash outflow for leases** | **1,897** | 133 |

### Extension options

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

# NOTE 27. RELATED PARTY TRANSACTIONS

## Parent entity

Think Childcare Development Limited is the parent entity of TND.

## Subsidiaries

Interests in subsidiaries are set out in note 31.

## Think Childcare Limited

Think Childcare Limited provided management and establishment services to the Company during the year ended 31 December 2020. The Company paid Think Childcare Limited $1.2m in establishment fees. The balance outstanding as at 31 December 2020 was $1.1m.

Refer to note 30 for information on the divestment of Services to Think Childcare Limited.

## Key management personnel

Disclosures relating to Key Management Personnel are set out in note 23 and the Remuneration Report included in the Directors' Report.

## Transactions with related parties

### Mathew Edwards

During the year ended 31 December 2019, Think Childcare provided establishment services to a child care Service incubator entity in which Mathew Edwards (Managing Director of TNK and Executive Director of TND) is a Director and shareholder, as was disclosed in the 2019 Think Childcare Group Annual report note 28 and 2020 Think Childcare Group interim financial report note 15. Think Childcare did not provide establishment services to this incubator entity in 2020. The balance outstanding as at 31 December 2020 is $nil.

During the year ended 31 December 2020, Think Childcare Development entered into leases and/or agreement for leases in respect of 7 greenfield sites. TND assumed the obligations in respect of establishment services and fees of $1.1m, which has been fully paid to TNK as at 31 December 2020.

In relation to 1 of the greenfield sites, notwithstanding that TND had assumed the obligations in respect of that establishment service, the third party landlord only agreed to enter into the transaction with TND on the condition that Mathew Edwards provided a personal guarantee (in addition, to TND as guarantor) for the premises until such time that the third party landlord was comfortable with TND's financial capacity. As this greenfield site has commenced trading, the parties are in discussion in respect to the release of Mathew Edward's personal guarantee.

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

- 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 meeting while the relevant agenda item is being discussed and abstains from voting on any question relating to the item.

Mathew Edwards, via an indirect interest (Isamax Pty Ltd), has an established working relationship with a developing landlord with respect to child care freehold properties (Developing Landlord).

From time to time Mathew Edwards may (but is not obliged to) introduce freehold properties to the Developing Landlord; such properties may be considered a location for a child care Service to be developed.

Where the Developing Landlord acquires land (whether introduced by Mathew Edwards or not), develops a child care Service, secures a tenancy and then sells the land (Childcare Freehold Property), upon the Completion of the sale of the Childcare Freehold Property, the Developing Landlord is required to pay Mathew Edwards 3-5% of the sale price on the contract for sale of the freehold with respect to the Childcare Freehold Property. The Development Landlord is not obliged to sell any Childcare Freehold Property.

During the financial year ended 31 December 2020, the Developing Landlord has not sold any Freehold Childcare Properties and Mathew Edwards (personally or via Isamax Pty Ltd) have not received any funds from the Developing Landlord.

- Risk of commercial terms of the tenancy (where Think Childcare is a proposed tenant) being less favourable terms than those in similar arm's length transactions between unrelated third parties.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

There is no obligation on Think Childcare to become a tenant of the Childcare Freehold Property. Where Think Childcare wishes to own a child care Service located on a child care freehold property, negotiations of the terms of the tenancy must meet Think Childcare's base line requirements and are in line with the terms agreed at arm's length with other landlords. A business case is prepared for consideration of the Board of Think Childcare.

- 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 the child care freehold property, Mathew Edwards recuses himself from attending the meeting while the relevant agenda item is being discussed and abstains from voting on any question relating to the item.

### Nick Anagnostou

Nick Anagnostou (Non-executive director) via an indirect interest provides consultancy services to Think Childcare Development (TND).

The services relate in the main to site selection and specialist advice on lease and occupancy terms.

For the year ended 31 December 2020, TND paid consultancy fees for these services of $8,760. These are over and above non-executive director's fees paid over the period to Mr Anagnostou via his indirect interest.

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

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

Mr Anagnostou via his indirect interest provides equivalent consultancy services to a number of unrelated third parties on substantially the same terms to the terms on which those services are provided to TND.

TND has a need for the services that Mr Anagnostou provides, and considers that it obtains those services on similar or better terms when compared to what TND is able to obtain from unrelated third parties.

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

If and when the Board of Directors or any Board committee meets to discuss any issues relating to the engagement of such services, Mr Anagnostou recuses himself from attending the meeting while the relevant agenda item is being discussed. Mr Anagnostou would also abstain from voting on any question relating to the services.

## Scheme of arrangement

### Think Childcare Development child care Services

As part of the restructuring of the Company 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 3 new child care Services. The share sale agreements and, accordingly, the transfer of the issued share capital in the 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 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 3 existing TNK subsidiaries was effected on 23 December 2019, resulting in transfer of assets in specie of $173,000 from TNK to TND. This transaction is reflected in reserves within the consolidated statement of changes in equity as at 31 December 2020.

### 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 Company, 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.

## NOTE 28. PARENT ENTITY INFORMATION

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

| | 2020<br>$'000 | 2019<br>$'000 |
|---|---|---|
| **Statement of profit or loss and other comprehensive income** | | |
| Loss for the year / period | **(986)** | (699) |
| **Total comprehensive income** | **(986)** | **(699)** |
| **Statement of financial position** | | |
| Total current assets | **16,831** | 6,283 |
| **Total assets** | **38,636** | **14,526** |
| Total current liabilities | **1,338** | (1,529) |
| **Total liabilities** | **34,328** | **(9,253)** |
| **Equity** | | |
| Issued capital | **5,981** | 5,971 |
| Accumulated losses | **(1,673)** | (699) |
| **Total equity** | **4,308** | **5,272** |

### Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The parent entity had no corporate guarantee to lessors in relation to property leases on a number of child care facilities.

### Contingent liabilities

The parent entity had no contingent liabilities as at 31 December 2020.

### 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; and
- 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 CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## NOTE 29. BUSINESS COMBINATIONS

### Current year acquisitions

The Company acquired 6 Nido Services and 1 pipeline service during the year for a total consideration of $6,000,118. The goodwill of $4,940,000 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 $3,885,009 and the contribution to EBITDA is $235,622 for the year ended 31 December 2020. The acquisitions are provisional at 31 December 2020. Due to estimation uncertainty the Company is unable to disclose Revenue and EBITDA if acquisitions were made at start of the period.

Details of the acquisitions are as follows:

| Fair Value | **2020** $'000 |
|---|---|
| Other current assets | 153 |
| Property, plant and equipment | 1,243 |
| Deferred tax asset | 29 |
| Right of use asset (ROU) | 15,700 |
| Lease liability | (15,700) |
| Employee benefits | (179) |
| Other liabilities | (186) |
| **Net assets acquired** | **1,060** |
| **Goodwill** | **4,940** |
| **Acquisition date fair value of the total consideration transferred** | **6,000** |
| **Representing:** | |
| Cash paid to vendors | 5,312 |
| Contingent consideration | 688 |
| **Total consideration** | **6,000** |

## NOTE 30. DIVESTMENTS

### Current year divestments

The Company divested 2 Nido Services to Think Childcare during the year for a total consideration of $3,739,000. The profit on sale of child care Services of $2,922,000 represents the excess of consideration over net assets transferred.

Details of the divestments are as follows:

| | **2020** $'000 |
|---|---|
| Other current assets | 31 |
| Property, plant and equipment | 834 |
| Deferred tax asset | 21 |
| Right of use asset (ROU) | 7,045 |
| Lease liability | (7,045) |
| Employee benefits | (69) |
| Other liabilities | - |
| **Net assets transferred** | **817** |
| **Profit on divestments** | **2,922** |
| **Acquisition date fair value of the total consideration received** | **3,739** |
| **Representing:** | |
| Cash received from buyer | 3,739 |
| **Total consideration** | **3,739** |

# NOTE 31. INTERESTS IN SUBSIDIARIES

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

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

| | Ownership interest % | |
|---|---|---|
| **Name** | **2020** | **2019** |
| Think Childcare Operations Pty Ltd | **100%** | 100% |
| Think Development Employee Services Pty Ltd | **100%** | 100% |
| Think Childcare 3006 Pty Ltd | **100%** | 100% |
| Think Childcare 3040 Pty Ltd | **100%** | 100% |
| Think Childcare 3058 Pty Ltd | **100%** | 100% |
| Think Childcare 3083 Pty Ltd | **100%** | 100% |
| Think Childcare 3085 Pty Ltd | **100%** | 100% |
| Think Childcare 3204 Pty Ltd | **100%** | 100% |
| Think Childcare 3930 Pty Ltd | **100%** | 100% |
| Think Childcare 5044 Pty Ltd | **100%** | 100% |
| Think Childcare 5112 Pty Ltd | **100%** | 100% |
| Think Childcare 6016 Pty Ltd | **100%** | 100% |
| Think Childcare 6025 Pty Ltd | **100%** | 100% |
| Think Childcare 6028 Pty Ltd | **100%** | 100% |
| Think Childcare 6164 Pty Ltd | **100%** | 100% |
| Think Childcare 6166 Pty Ltd | **100%** | 100% |
| Think Childcare 6173 Pty Ltd | **100%** | 100% |
| Think Childcare 6308 Pty Ltd | **100%** | 100% |
| Think 3 Essendon Ral Pty Ltd | **100%** | 100% |
| Think 6 Coogee Pin Pty Ltd | **100%** | 100% |
| Think 6 Kensington Fou Pty Ltd | **100%** | 100% |

| | Ownership interest % | |
|---|---|---|
| **Name** | **2020** | **2019** |
| Think Childcare 6069 Pty Ltd | **0%** | 100% |
| Think Childcare 6110 Pty Ltd | **0%** | 100% |
| Think Childcare 5013 Pty Ltd | **100%** | 0% |
| Think Childcare 3024 Pty Ltd | **100%** | 0% |
| Think Childcare 6165 Pty Ltd | **100%** | 0% |
| Tildamo Childcare 6021 Pty Ltd | **100%** | 0% |
| Tildamo Childcare 3226 Pty Ltd | **100%** | 0% |
| Tildamo Childcare 5052 Pty Ltd | **100%** | 0% |
| Tildamo Childcare 3032 Pty Ltd | **100%** | 0% |
| Think Ellenbrook 6069 Pty Ltd | **100%** | 0% |
| Think Rosanna 3084 Pty Ltd | **100%** | 0% |
| Think Paradise 5075 Pty Ltd | **100%** | 0% |
| Think Childcare 6148 Pty Ltd | **100%** | 0% |
| Think Childcare 2171 Pty Ltd | **100%** | 0% |
| Think Childcare 5125 Pty Ltd | **100%** | 0% |
| Think Childcare 6055 Pty Ltd | **100%** | 0% |
| Think Childcare 5121 Pty Ltd | **100%** | 0% |
| Think Childcare 5035 Pty Ltd | **100%** | 0% |
| Think Childcare 6112 Pty Ltd | **100%** | 0% |
| Think Childcare 5097 Pty Ltd | **100%** | 0% |
| Think Childcare 5076 Pty Ltd | **100%** | 0% |
| Think Childcare Management Pty Ltd | **100%** | 0% |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## NOTE 32. RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH FROM OPERATING ACTIVITIES

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| **Loss for the year** | **(540)** | **(1,359)** |
| **Adjustments for:** | | |
| Depreciation and amortisation | **1,401** | 90 |
| Profit on sale of child care Services | **(2,922)** | - |
| Repayment of lease liability | **-** | - |
| **Change in operating assets and liabilities:** | | |
| Increase in trade and other receivable | **(280)** | (53) |
| (Increase)/decrease in deferred tax assets | **(259)** | (580) |
| (Increase)/decrease in other assets | **(915)** | (550) |
| Increase in trade and other payables | **948** | 776 |
| Increase in employee benefits | **563** | 72 |
| **Net cash from operating activities** | **(2,004)** | (1,604) |

## NOTE 33. EARNINGS PER SHARE

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| **Total comprehensive income attributable to:** | | |
| **Members of Think Childcare Development Limited** | **(540)** | (1,359) |

| | Note | 2020 Number | 2019 Number |
|---|---|---|---|
| **Weighted average number of shares used in calculating basic earnings per share** | | **61,012,641** | 57,741,028 |
| Adjustments for calculation of diluted earnings per share: | | | |
| **Performance Rights over shares** | 20 | **52,105** | 46,367 |
| **Weighted average number of shares used in calculating diluted earnings per share** | | **61,064,746** | 57,787,395 |

| Earnings per share | 2020 Cents | 2019 Cents |
|---|---|---|
| **Basic** | **(0.89)** | (2.35) |
| **Diluted** | **(0.88)** | (2.35) |

## NOTE 34. EVENTS AFTER THE REPORTING PERIOD

The Company made an ASX announcement on 20 January 2021 concerning the revised proposal from Busy Bees. There have been no events subsequent to 31 December 2020 in connection with the proposals.

No other matter or circumstance has arisen since 31 December 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 years.

# INDEPENDENT AUDITORS DECLARATION

KPMG

## 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 audit of Think Childcare Development Limited for the financial year ended 31 December 2020 there have been:

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

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

KPMG

KPMG

Paul Thomas

*Partner*

Sydney

24 February 2021

# INDEPENDENT AUDITORS DECLARATION CONTINUED

KPMG

## Independent Auditor's Report

To the shareholders of Think Childcare Development Limited

### Report on the audit of the Financial Report

#### Opinion

We have audited the ***Financial Report*** of Think Childcare Development Limited (the Company Financial Report).

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

- giving a true and fair view of the ***Group***'s financial position as at 31 December 2020 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** of the Company comprises:

- Consolidated Statement of financial position as at 31 December 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 year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

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

#### Basis for opinion

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

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

## Other Information

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

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

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

## Responsibilities of the Directors for the Financial Report

The Directors of Think Childcare Development Limited are responsible for:

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

## Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf. This description forms part of our Auditor's Report.

KPMG

## Report on the Remuneration Report

### Opinion

In our opinion, the Remuneration Report of Think Childcare Development Limited for the year ended 31 December 2020, complies with *Section 300A* of the *Corporations Act 2001*.

### Directors' responsibilities

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

### Our responsibilities

We have audited the Remuneration Report included in pages 9 to 11 of the Directors' report for the year ended 31 December 2020.

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

KPMG

KPMG

Paul Thomas

*Partner*

Sydney

24 February 2021

# SECURITY HOLDERS INFORMATION

The security holder information set out below was applicable as at 16 February 2021.

## EQUITY SECURITY HOLDERS

### Twenty largest quoted equity security holders

| | **Stapled Securities Held** Number held | **Stapled Securities** % issued |
|---|---|---|
| NKT Investments Pty Ltd | 11,739,083 | 19.23 |
| J P Morgan Nominees Australia Pty Limited | 9,367,755 | 15.34 |
| Mr Mathew Edwards | 6,797,482 | 11.13 |
| Isamax Pty Ltd (The Edwards Family A/C) | 6,661,427 | 10.91 |
| Citicorp Nominees Pty Limited | 4,327,737 | 7.09 |
| HSBC Custody Nominees (Australia) Limited | 3,340,195 | 5.47 |
| Mr Mark Gregory Kerr + Mrs Linda Marie Kerr (Lindmark Inv Staff S/F A/C) | 1,824,066 | 2.99 |
| Riversdale Road Shareholding Company (Riversdale Road Holding A/C) | 1,354,828 | 2.22 |
| BNP Paribas Nominees Pty Ltd (IB Au Noms Retailclient Drp) | 1,315,553 | 2.15 |
| National Nominees Limited | 1,207,295 | 1.98 |
| Zachary Investments Pty Ltd | 1,108,000 | 1.81 |
| J & P Chick Pty Limited (J & P Chick Pty Ltd S/F A/C) | 750,000 | 1.23 |
| Paradyce Pty Ltd | 685,737 | 1.12 |
| Mr Michael Norman Kroger (Michael Kroger S/F A/C) | 373,342 | 0.61 |
| Forum Investments Pty Limited | 355,000 | 0.58 |
| Dr Jeffrey Eric Dale Chick + Dr Pamela Hazel Chick | 344,000 | 0.56 |
| CS Fourth Nominees Pty Limited (HSBC Cust Nom Au Ltd 11 A/C) | 321,150 | 0.53 |
| Mr Quan Gao | 275,181 | 0.45 |
| Westor Asset Management Pty Ltd (Value Partnership A/C) | 236,761 | 0.39 |
| BFA Super Pty Ltd (GDN Super Fund A/C) | 205,000 | 0.34 |
| **Total Holding – 20 largest security holders** | **52,589,592** | **86.13** |
| **Total Holding – Other security holders** | **8,469,044** | **13.87** |
| **Total Holding – All security holders** | **61,058,636** | **100.00** |

# SECURITY HOLDERS INFORMATION CONTINUED

## DISTRIBUTION OF EQUITY STAPLED SECURITIES

Analysis of number of equity security holders by size of holding as at 16 February 2021.

| | Number of holders of securities |
|---|---|
| 1 to 1,000 | 319 |
| 1,001 to 5,000 | 438 |
| 5,001 to 10,000 | 130 |
| 10,001 to 100,000 | 168 |
| 100,001 and Over | 31 |
| | **1,086** |
| **Holding less than an marketable parcel** | **66** |

## SUBSTANTIAL HOLDERS

As at 16 February 2021 the following substantial security holdings have been declared to the Company:

| | Securities | |
|---|---|---|
| Declared entitled party | Number held | % of total securities held |
| NKT Investments Pty Ltd | 11,739,083 | 19.23 |
| J P Morgan Nominees Australia Pty Limited | 9,367,755 | 15.34 |
| Mr Mathew Edwards/ Isamax Pty Ltd (The Edwards Family A/C)/Seuss Tpywg Pty Ltd (Atf Ed Super) | 13,634,452 | 22.33 |
| Citicorp Nominees Pty Limited | 4,327,737 | 7.09 |
| HSBC Custody Nominees (Australia) Limited | 3,340,195 | 5.47 |

## UNQUOTED EQUITY SECURITIES

| | Number on issue | Number of holders |
|---|---|---|
| **Performance Rights over unissued ordinary securities** | **88,337** | **1** |

# INVESTOR SERVICES

| | |
|---|---|
| **Directors** of<br>**Think Childcare Limited** | **Mark Kerr** Chairman and Independent Non-Executive Director<br>**Mathew Edwards** Managing Director and Chief Executive Officer<br>**Evonne Collier** Independent Non-Executive Director<br>**Joe Dicks** Independent Non-Executive Director<br>**James Spenceley** Independent Non-Executive Director |
| **Directors** of<br>**Think Childcare Development Limited** | **Mark Kerr** Chairman and Independent Non-Executive Director<br>**Mathew Edwards** Executive Director<br>**Michael Doble** Independent Non-Executive Director<br>**Joe Dicks** Independent Non-Executive Director<br>**Nick Anagnostou** Independent Non-Executive Director |
| **Company Secretaries** of<br>**Think Childcare Limited** | **Trinh Bui**<br>**Mourice Garbutt** |
| **Company Secretary** of<br>**Think Childcare Development Limited** | **Trinh Bui** |
| **Notice** of<br>**Annual General Meeting** | The annual general meeting of Think Childcare Limited and Think Childcare Development Limited will be held as a combined meeting of both companies at **10:30am** (AEST time) on **Thursday 13 May 2021** (registration opens at 10:00am), and to the extent permitted by law or by ASIC, is proposed to be conducted virtually. Details will be set out in the Notice of Meeting. |
| **Registered Office** | **Think Childcare**<br>Suite 3, 1 Park Avenue<br>Drummoyne NSW 2047<br>Telephone 02 9712 7444 |
| **Share Register** | **Computershare Investor Services Pty Limited**<br>Yarra Falls, 452 Johnson Street Abbotsford VIC 3067<br>Telephone 1300 787 272 |
| **Auditor** | **KPMG**<br>Tower Three, International Towers Sydney 300 Barangaroo Avenue<br>Barangaroo NSW 2000 |
| **Solicitors** | **Minter Ellison**<br>Level 20, Collins Arch<br>447 Collins Street<br>Melbourne VIC 3000 |
| **Stock Exchange Listing** | Think Childcare Group stapled securities are listed on the **Australian Securities Exchange** (ASX: TNK) |
| **ASX Code** | **TNK** |
| **Website** | **www.thinkchildcare.com.au** |

THINK Childcare Development

Suite 3, 1 Park Avenue Drummoyne NSW 2047
Telephone 02 9712 7444
Investor Relations IR@thinkchildcare.com.au
Public Relations PR@thinkchildcare.com.au

Nido Early School Cragie, WA

THINK Childcare Group

ANNUAL REPORT **2020**

BUILDING CONFIDENT, CONNECTED AND ENGAGED LITTLE LEARNERS

Think Childcare Group is proud to present this annual report for the financial year ended 31 December 2020.

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

# CONTENTS



| | |
|---|---|
| Name | Think Childcare Group |
| ABN | 81 600 793 388 |
| Reporting period | 1 January 2020 to 31 December 2020 |
| ASX code | TNK |

Cover photo Nido Early School Moonee Ponds, VIC
This photo Nido Early School Canning Vale, WA

# HIGHLIGHTS

## Think Childcare Group

**$26.8 million underlying EBITDA,** a 89% increase on 2019

**$24.2 million debt headroom,** equivalent figure to 2019

**$22.9 million cash,** a 96% increase on 2019

**12 cents dividend per security,** a 30% reduction on 2019

## Think Childcare (TNK)

**1.12 million days of learning enrolled,** up 25% on 2019

**2,300 Educators,** compared to 1,800 Educators in 2019

**7,106 Licensed places (owned),** 17% up on 2019

**Meet or exceed rating,** up 4% on 2019 (81 compared to 78)

**120 Trainees,** a 500% improvement on 2019

## Think Childcare Development (TND)

**2 Services sold to TNK,** an inaugural event

**60% average occupancy of trading Services,** a 27% increase on 2019

**5 Services with Development Approval** confirmed

**16 Services under Construction,** compared to 6 in 2019

**5 Services with Development Approval** pending

# MAJOR MILESTONES

**2020**

Secured independent funding of $11.5m for Think Childcare Development (TND)

Acquired 6 purpose built Nido trading Services and 1 pipeline Service from incubator partner

Acquired 2 Nido Services from incubator partner

**2019**

Acquired 4 Nido Early School (Nido) Services from 2 third-party incubator partners

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

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

**2018**

First Nido Early School greenfield Service opens

Early Learning & Kinder websites merge into one central website.

First Service opening in QLD

Acquired 5 Services from third-party incubator partners

**2017**

First study tour to Reggio Emilia, Italy with 9 delegates

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

**2009**

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

# CHAIRMAN AND MANAGING DIRECTOR'S LETTER

**Mark Kerr**
Chairman

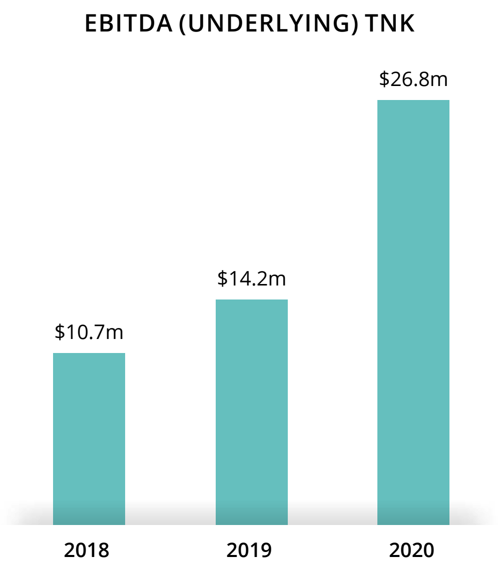
**Mathew Edwards**
Managing Director

## The Boards and executive leadership team are proud to present the Think Childcare Group Annual Report for 2020

We are pleased to report that Think Childcare Group has outperformed our market guidance as published on 21 December 2020 and has achieved earnings before interest, income tax, amortisation and depreciation EBITDA (underlying) of $26.8 million, a 89% increase on prior comparison period (pcp).

Think Childcare Limited (Think Childcare or TNK) has achieved EBITDA (underlying) of $30.1 million against a guidance range of $27.5 million and $28.5 million. The underlying net profit after tax was $16.3 million, representing a 179% increase on pcp.

Think Childcare Development Limited (Think Childcare Development or TND) has achieved EBITDA (underlying) of $0.9 million against a guidance range of $0.5 million and $1.0 million. The underlying net loss after tax was $38 thousand. This result has been achieved in TND's first full-year as a developer of leasehold child care Services.




## 2020 key highlights

The key highlights for the financial year include:

- Licence places grew by 17% to 7,106
- Number of trading child care Services owned by TNK grew to 73 whilst TND grew its pipeline of child care Services by 50% to 36 including the acquisition of:
  - 6 purpose-built Nido child care Services and 1 child care site by TND
  - 4 purpose-built Nido child care Services by TNK including 2 from TND and 2 from third-party incubator partners
- Opened 15 new Services (4 for TND and 11 for third-party incubator partners)
- Completed a $2.8 million capital investment program to transition Early Learning & Kinder Services to Nido, resulting in 72% of our Services being premium branded Nido
- TND secured $11.5m million in debt to fund acquisitions and the future pipeline

## Dividends and earnings per share

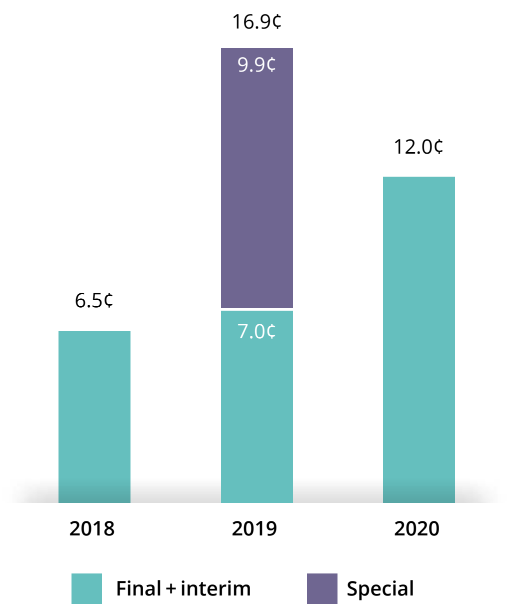
Think Childcare Limited has the pleasure of determining a fully franked final dividend of 12 cents per stapled security.

We took the stance in 2017 to invest heavily into our corporate office team and hire for the company we wanted to be, undertake capex, minimise external acquisitions excepting for Nido purpose built Services. We undertook several capital raises in order to give us a strong capital base.

We knew this would negatively impact our earnings per security (EPS), however our focus was to build a company that lasts rather than a company that grows in a manner that is unsustainable.

Whilst we continue this investment, we are now seeing the benefits of our earnings growth, and this reflects an underlying EPS in TNK of 27 cents (up 144%) and TND at breakeven and TNK Group of 20 cents (up 93%) on the prior year.

**DIVIDEND PER SHARE TNK[1]**




1 Dividend relates to the year and not the payment date

## Outperformance in the face of COVID-19

2020 will be a year to remember. As COVID-19 engulfed the world, the teams at Think Childcare Group, Nido and Early Learning & Kinder stood fast and moved swiftly to contain costs, stem any cash leakage and took the aggressive move to market our way out of the pandemic.

We continued to execute on our strategy; deliver exceeding quality early education in the suburbs. Throughout the year we invested in data analytics and roster management, which assisted us greatly to achieve the solid results we have.

We have come out of CY2020 in a strong financial position, an organisation that is stronger and more nimble than when we entered the pandemic.

## Nido Early School, exceeding quality early education

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

In 2018 we began the move to transition all our Services to a best in market model, taking exceeding quality early education to the suburbs under Nido Early School (Nee-doh, means nest in Italian). We have invested circa $13 million in capex and transitioning our Services, and we are now seeing the financial rewards of this investment. We expect to complete the transition by June 2021.

We operate the only national premium early education stapled group in Australia. We have continued our focus on quality education, appreciating this is a long game and for us quality education is the only game.

# CHAIRMAN AND MANAGING DIRECTOR'S LETTER CONTINUED

## How we grow through greenfield developments of Nido

The model used by all other listed operators now and historically was to acquire on market from independent operators and benefit from the private to public multiple arbitrage.

Think Childcare is a unique operator and developer of greenfield child care Services. We began the journey to grow through internal development and through external incubator partners when we listed. In December 2019 we listed Think Childcare Development Ltd (TND) and stapled it to TNK to form the Think Childcare Group (ASX:TNK). TNK operates mainly mature child care Services and TND opens new Services and trades them up and then sells them to TNK at 4x Service earnings before interest tax and depreciation ( Service EBITDA).

We quarantine the risk of trade-up in TND and the entity enjoys the risk reward equation, whilst TNK provides more stable earnings with its child care Services being more mature.

Whilst we still have a number of third-party incubators whom we acquire Services from at 4x Service EBITDA, the internal greenfield development model ensures we capture the goodwill component of a Service (normally around 85% of the acquisition price) internally reducing the leakage in paying this to external parties.

## Capital management

We closed the year with:

- Strong closing cash of $22.9 million
- Healthy facility headroom of $24.2 million (3.5 years remaining term to June 2023)
- Banking covenants of 1.0 times net leverage ratio and 2.3 times fixed cover ratio, well below the facility obligations (as measured under the MBL facility)

This includes securing an independent debt facility of $11.5m for TND which enabled it to fund acquisitions during the year, while also ensuring the remainder of TND's pipeline is funded. As a result of this new debt, the TNK inter-company loan was terminated, thereby enhancing TNK's liquidity position.

## Remuneration review

The Board has undertaken improvement of our disclosure in relation to Key Management Personnel (KMP) remuneration and review of the existing remuneration framework within the Group.

Our Human Resources and Remuneration Committee and the Board engaged PwC in 2018 and has continued to keep Crichton Associates engaged to advise on the remuneration policy and framework for the Group which came into effect on 1 January 2020.

## Outlook

The total number of Services owned has grown by 15% from 72 to 83 plus a pipeline of 26 Services expected to be delivered over the next 30 months.

We are continuing our transition to Nido Early School, the sector leading early education provider with all capex expected to be completed by the end of June 2021.

Finally, on behalf of the Boards and executive leadership team we would like to thank you for your support and our Educators and employees for their commitment and contribution to the Group's success.

Mark Kerr

**Mathew Edwards**
Managing Director
24 February 2021
Sydney

**Mark Kerr**
Chairman
24 February 2021
Melbourne

# STRATEGY & OPERATIONS

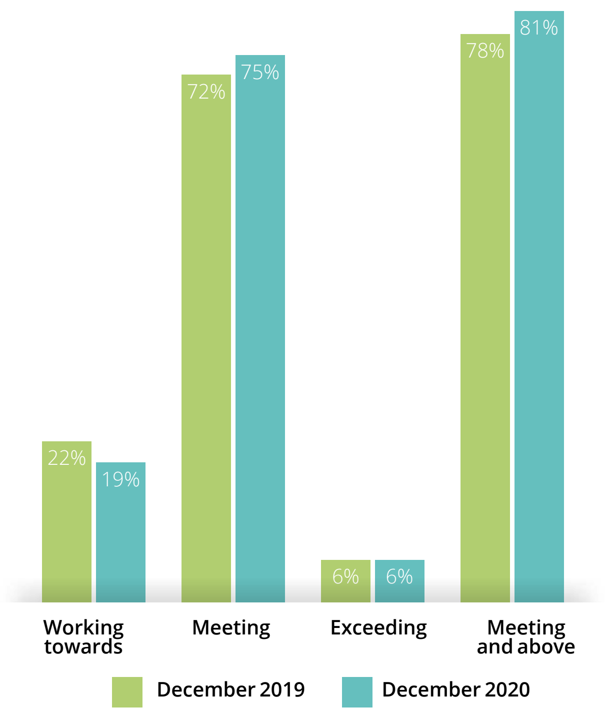
# STRATEGY & OPERATIONS

## OUR QUALITY JOURNEY

### Ongoing commitment to high quality education and care resulting in improved quality ratings

- Creation of Quality Leader roles to embed quality pedagogy and practice at scale.
- Rollout of monthly quality webinars, available on-demand to all Educators via an internal online learning platform.
- Establishment of communities of practice for Curriculum Leaders nationally.
- Online Learning Hub developed in response to COVID-19 lockdowns to support continuity of learning for children at home; 55 learning activities were published in collaboration with Curriculum Leaders, cooks, and Educators.
- Transition of educational programming system to Xplor, facilitating real-time access to educational documentation and continuity of support during COVID-19 lockdown restrictions.

QUALITY RATING TRENDS




**ONLINE LEARNING HUB**

55 activities to engage with absent families

**MARKETING HUB**

55 available templates; 3,500 local opportunities

**SOCIAL PRESENCE**

400 posts; 1,200 comments and responses

**VIRTUAL TOURS**

Australia industry first: 95 virtual Service tours

# NATIONAL PORTFOLIO

| TRADING | UNDER CONSTRUCTION | APPROVED | PLANNING |
|---|---|---|---|
| **83** | **5** | **16** | **5** |


| | WESTERN AUSTRALIA | SOUTH AUSTRALIA | QUEENS-LAND | NEW SOUTH WALES | AUSTRALIAN CAPITAL TERRITORY | VICTORIA | **TOTAL** |
|---|---|---|---|---|---|---|---|
| **TNK** | 14 | 8 | 1 | 7 | 2 | 41 | **73** |
| **TND** | 6 | 2 | - | - | - | 2 | **10** |
| **THIRD-PARTY** | 6 | 1 | - | - | - | 3 | **10** |
| **TOTAL** | **26** | **11** | **1** | **7** | **2** | **46** | **93** |

# STRATEGY & OPERATIONS

## PEOPLE

### The dedication and resilience of our people during 2020 was our greatest strength

- **COVID-19 response** included the development of resources including new policies, procedures and checklists to minimise the risk of a positive case and to manage the situation accordingly :
  - Developed a resource management plan per COVID-19 scenario;
  - Introduced enhanced COVID-safe practices (increased hand hygiene, temperature checks, visitor records and additional cleaning);
  - Established a COVID-19 taskforce;
  - Developed a Positive Case Workflow including closure procedures and checklists and communications plans .
- **Traineeship program accelerated** with an increase of 101 new trainees across the portfolio.
- **Onboarding** enhanced via documents and program developed for key Service-based roles.
- **Competency framework** (skills and behaviours based) was developed for all Educators and leadership roles within every Service.
- **Employee Assistance Program** (EAP) launched in partnership with Prima EAP on R U OK? Day.

# OPERATING MODEL

## We continue to refine our operating model for efficiencies

- **RACIs** (Responsible, Accountable, Consult, Informed) developed for all key operational roles, ensuring clear understanding of responsibilities and accountabilities.
- **Policies and procedures** were reviewed, refreshed and relaunched with increased accessibility for all employees.
- **Onboarding process** and toolkit developed for key Service based roles.
- **People Quality Leaders** increased to 14.
- **Business Intelligence Reporting** – leveraged to effectively manage wages, rosters, leave and attendance.

**TRAINING PROGRAM**

75 Service marketing sessions

# CASE STUDY: NIDO EARLY SCHOOL BYFORD SCHOOL BASED TRAINEESHIP PROGRAM

Nido Early School Byford has developed strong relationships with local schools since opening at the end of 2018, and this year hosted their first school-based traineeship.

Skye (pictured below) completed a Certificate III in business admin in year 12 as part of a school based traineeship at Nido Early School Byford after completing a Certificate III in Early Childhood Education and Care in year 11.

Our Executive Service Manager attended Byford Secondary College 2020 Valedictory evening as a VIP guest with local MPs, teachers, community members and over 800 students to celebrate Skye achieving the 2020 workplace learning award.

To date, Byford has hosted 8 school-based student placements for students completing formal qualifications in early childhood education and care or community services. This allows students to finish school with a formal training qualification, ready to enter the workforce.

# STRATEGY & OPERATIONS

## RECONCILIATION

2020 saw a continued focus on embedding Aboriginal and Torres Strait Islander culture and perspective into our curriculum.

Services embedded culture in ways which were locally meaningful such as creating bush tucker gardens, learning about the Aboriginal seasons, learning the local languages and engaging in learning experiences for both children and Educators.

11 Services had Service-level Reconciliation Action Plans published on the Reconciliation Australia website in 2020 with Nido Early School Aveley nominated for a Reconciliation Australia Award for their commitment to reconciliation.

Smoking ceremonies and Welcome to Country ceremonies have become part of new Service opening rituals nationally, strengthening shared understandings and partnerships between Services and local Aboriginal Elders.

## SUSTAINABLE PRACTICES

Services continued to embed sustainable practices across Service operations including reducing single plastics, composting to divert food waste from landfill, establishing community gardens and participating in adopt-a-spot initiatives.

2020 saw an increased focus on the incorporation of the UN Sustainable Development Goals (SDGs) in Services, particularly in relation to Goal 2: Zero hunger and Goal 12: Life on land. An SDG action plan template was launched to support Services to document their journey.

100% of Services assessed in 2020 were rated as 'meeting the National Quality Standard' for element 3.2.3 (Environmental Responsibility).

**COMMUNITY ENGAGEMENT**

Community competitions

SUSTAINABLE DEVELOPMENT GOALS

2 ZERO HUNGER

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

# CASE STUDY: NIDO EARLY SCHOOL KENSINGTON PARK, SA : 2020 STATE WINNERS (SA) – LITTLE SCIENTISTS EARLY AWARD

'The Wonder of Bees' research project began when children noticed bees buzzing around our beautiful Crepe Myrtle tree which had blossomed with pink flowers. Together we gathered around the tree as the children were intrigued and began searching to find bees. Together we wondered, "how do the bees make honey?" The children were invited to do observational drawings of the trees and bees.

Children inquired about all aspects of the insect from anatomy to exploring the fauna in which bees live. The inquiry-based experiences were related to STEM concepts (science, technology, engineering and mathematics) and included scientific observation, use of cameras and digital microscopes, engineering perfume from flowers, and identification of body parts.

***A genuine example of what can be achieved when children and teachers research together***

**- Little Scientists judging panel**

# BENEFICIAL RISK-TAKING IN SAFE ENVIRONMENTS

## Our learning environments continue to evolve, ensuring that children are exposed to beneficial risk

Research continues to highlight the importance of beneficial risk in supporting children's learning and development in early childhood. Beneficial risk helps develop many dispositions for learning including problem solving, resilience, testing limits and learning to make mistakes – all important skills for lifelong learning.

Our carefully considered outdoor learning environments offer a balance of spaces purposefully designed to encourage children to take beneficial risks in a safe and supportive environment. Children navigate forts, boulders, rocks and other challenging things, always supervised by our Educators.

# STRATEGY & OPERATIONS

**EDUCATORS' DAY**

Multiple parent and Educator communications created

## EDUCATOR DAY

We said thank you to our Service people and Educators with an annual Early Childhood Educator's Day which took place on 2 September 2020. This day recognises and celebrates the work of the Educators in our Services for their amazing contribution to the wellbeing and healthy development of the young children in their care.

- Each Service printed out notice board posters and organised morning tea.
- The ESM's handed out water bottles, gifts and appreciation certificates to all Educators.
- At Aveley the water bottles were decorated in Aboriginal design art.
- All Educators received a thank you email from their ESM on the day .
- The Marketing team created a gif which was included in each email.


## DIVERSITY AND INCLUSION

### Nido Early School Somerton Park is proud of the diversity of their families and Educators including 3 hearing impaired children and a deaf Educator

To ensure that hearing impaired children feel a sense of belonging, in 2020 the Service made the decision to embed Auslan in everyday learning and routines for all children.

In 2020 Sachiko was welcomed to the nest, a deaf Educator with a Certificate III in Early Childhood Education and Care and nine years' sector experience.

Sachiko supports the integration of Auslan across the Service in collaboration with her colleagues, children and families. Sachiko signs with all children and has introduced baby sign in the nursery room with great success.

Supporting the team is an Executive Service Manager, who is fluent in Auslan and holds a Certificate in Disability Studies from Flinders University, South Australia.

# CORPORATE GOVERNANCE


Nido Early School Byford, WA

# CORPORATE GOVERNANCE

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

## BOARD SIZE AND COMPOSITION

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

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

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

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

## ROLE OF DIRECTORS

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

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

## POLICIES AND GOVERNANCE DOCUMENTATION

The Group's policies and governance documentation (including the full Corporate Governance Statement for the 2020 financial year, disclosing the extent in which the Group has followed the 4th edition of the ASX Corporate Governance Principles and Recommendations) are available on the Group's website at www.thinkchildcare.com.au/about/corporate- governance-and-policies.

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

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

## MINIMISING THE RISK OF MODERN SLAVERY

The Group has a strong commitment to social responsibility. Our approach to Modern Slavery and ethical business standards are set out in our Modern Slavery Policy. Our Supplier Code of Conduct provides information to our suppliers in relation to our expectations of them. We will release our Modern Slavery Statement in the 2021 financial year as required under the Modern Slavery Act 2018 (Cth).

## DIVERSITY

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

## BOARD COMMITTEES

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

## AUDIT, RISK AND COMPLIANCE COMMITTEE (ARC)

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

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

## HUMAN RESOURCES AND REMUNERATION COMMITTEE (HRRC)

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

The HRRC comprises four non-executive Directors (Evonne Collier as Chair, Joe Dicks, Mark Kerr and James Spenceley).

## INDEPENDENT BOARD COMMITTEE (IBC)

The Independent Committee of the Group's Board of Directors was established to oversee the process in relation to the non-binding and indicative proposal from Alceon Group Pty Ltd (Alceon) pursuant to which Alceon or an affiliate would acquire all the issued stapled securities of the Group (Proposal).

Broadly, the objective of the IBC is to ensure that in relation to responding to the Proposal, the best interests of target security holders are advanced by the proper development, analysis and evaluation of the Proposal (or any other proposal received thereafter).

The IBC comprises three independent non-executive Directors (Mark Kerr as Chair, Michael Doble as Deputy Chair and Evonne Collier).

## ETHICAL STANDARDS

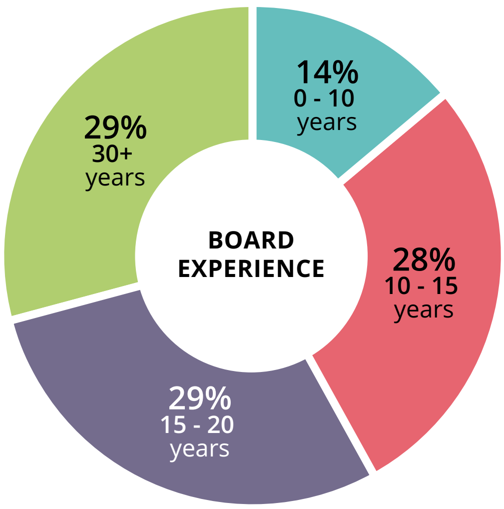
Recognising the need for the highest standards of behaviour and business ethics, the Group has a Code of Conduct, which sets out the values, commitments, ethical standards and policies of the Group and outlines the standards of conduct expected of the Group's businesses and employees. The Code of Conduct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

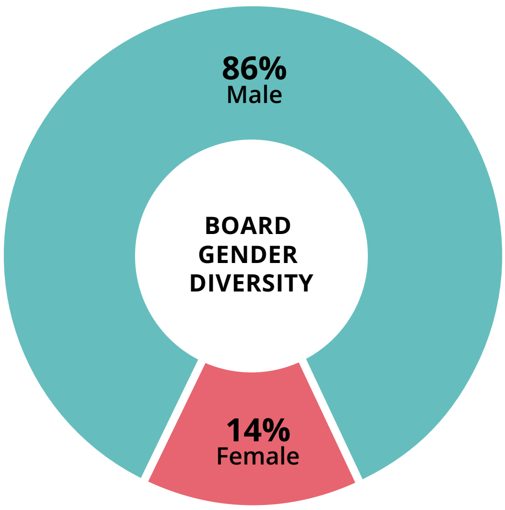
# CORPORATE GOVERNANCE CONTINUED

## BOARD SKILLS MATRIX

The matrix below represents some of the key skills that our Boards have identified as particularly valuable to the effective oversight of the Group and the execution of our strategy, highlighting the depth and breadth of skills on the Boards.

| Industry Knowledge, Skills and Experience | | Number of Directors with developed capability or competency |
|---|---|---|
| **Board of Directors experience** | Substantial Board experience in a large organisation, with proven track record of leadership | **7** out of 7 |
| **Public Company Board experience** | Substantial Board experience in a publicly listed company with proven track record of leadership | **6** out of 7 |
| **Specific child care industry experience** | Extensive experience in the childcare industry, including a strong understanding of and experience with childcare operations | **3** out of 7 |
| **Specific property investment industry experience** | Strong understanding and experience in evaluating property investment proposals | **2** out of 7 |
| **Knowledge of sector** | Experience in some or all of the markets or services which are directly relevant to the organisation or experience relevant to the operation of marketing of such services | **4** out of 7 |
| **Governance experience** | Knowledge, experience and commitment to governance issues, including the legal, compliance and regulatory environment applicable to listed entities or large complex organisations | **6** out of 7 |
| **Knowledge of broad public policy direction** | Experience in assessing the impact of public and regulatory matters on the organisation | **7** out of 7 |
| **Understanding of government legislative process** | Relevant experience and capability in dealing with government policy matters at an executive level | **7** out of 7 |



## Technical Knowledge, Skills and Experience

| | | Number of Directors with developed capability or competency |
|---|---|---|
| **Accounting** | Qualifications or relevant accounting experience | **4** out of 7 |
| **Finance** | Relevant experience and capability to evaluate and oversee financial statements and understand key financial drivers of the business, bringing understanding of corporate finance and experience to evaluate the adequacy of financial risk and controls | **5** out of 7 |
| **Law** | Qualifications or relevant legal experience | **2** out of 7 |
| **Marketing** | Commercial and business experience to evaluate and oversee marketing objectives and plans | **4** out of 7 |
| **Information Technology** | Experience in overseeing the use of information technology infrastructure to drive competitive strategy, innovation, revenue growth and business performance | **3** out of 7 |
| **Public Relations** | Commercial and business experience in developing and overseeing strong customer- focused culture in large complex organisations | **4** out of 7 |
| **Risk Management** | Able to identify key risks (both financial and non- financial) and emerging risks to the organisation. Experience with risk management frameworks and controls, setting risk appetites, and monitoring the effectiveness of risk management frameworks and practices | **4** out of 7 |
| **Human Resource Management** | Ability to assess senior management and experience in assessing remuneration frameworks, human resource management, organisational change and monitoring corporate change | **3** out of 7 |
| **CEO/Senior Management** | Successful career as senior executive in a publicly listed company or large organisation, with proven track record of leadership | **6** out of 7 |
| **Strategy development and implementation** | Experience in assessing and testing strategic objectives, business plans and financial performance and constructively questioning business plan and implementing strategies | **7** out of 7 |

# DIRECTORS' REPORT

The Directors of Think Childcare Group (hereafter, referred to as Think Childcare Group or the Group) which comprises of Think Childcare Limited and its controlled entities (hereafter, referred to as Think Childcare or TNK) and Think Childcare Development Limited and its controlled entities (hereafter, referred to as Think Childcare Development or TND) present their report for the financial year ended 31 December 2020 (referred to hereafter as the financial year) accompanied by the Financial Report of Think Childcare Group pursuant to the requirements of the Corporations Act 2001 (Cth) (Corporations Act).

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

## DIRECTORS

### Continuing Directors

| | |
|---|---|
| Mark Kerr | Independent Non-Executive Chairman (TNK and TND)<br>Member of Audit, Risk and Compliance Committee<br>Member of Human Resources and Remuneration Committee<br>Chair of Independent Board Committee |
| Mathew Edwards | Managing Director and Chief Executive Officer (TNK)<br>Executive Director (TND) |
| Evonne Collier | Independent Non-Executive Director (TNK only)<br>Chair of Human Resources and Remuneration Committee<br>Member of Audit, Risk and Compliance Committee<br>Member of Independent Board Committee |
| Joe Dicks | Independent Non- Executive Director (TNK and TND)<br>Chair of Audit, Risk and Compliance Committee<br>Member of Human Resources and Remuneration Committee |
| Michael Doble | Independent Non-Executive Director (TND only)<br>Deputy Chair of Independent Board Committee |

### New Directors

| | |
|---|---|
| James Spenceley | Independent Non-Executive Director (TNK only) appointed 15 May 2020<br>Member of Audit, Risk and Compliance Committee<br>Member of Human Resources and Remuneration Committee |
| Nick Anagnostou | Independent Non-Executive Director (TND only) appointed 1 October 2020 |

# DIRECTORS

## MARK KERR

### Title

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

### Term of Office

Mark Kerr joined the Board of TNK on 21 July 2014 and the Board of TND on 29 July 2019.

### Qualifications

LL.B.

### Experience and expertise

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

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

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

### Other current directorships

Non-Executive Chairman of Contango Income Generator Ltd (ASX:CIE)
Managing Director of Hawthorn Resources Limited (ASX:HAW)

### Former directorships (last 3 years)

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

### Special responsibilities

Chair of Think Childcare Limited and Think Childcare Development Limited
Chair of the Independent Board Committee

### Interests in stapled securities

2,509,803 stapled securities (all held indirectly)

### Interests in rights

None

# DIRECTORS' REPORT CONTINUED

## DIRECTORS

### MATHEW EDWARDS

#### Title

Managing Director and Chief Executive Officer (CEO) – TNK
Executive Director – TND

#### Term of Office

Mathew Edwards joined the Board of TNK on 21 July 2014 and the Board of TND on 29 July 2019.

#### Experience and expertise

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

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

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

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

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

#### Other current directorships

None

#### Former directorships (last 3 years)

None

#### Special responsibilities

CEO

#### Interests in stapled securities

13,634,452 stapled securities (6,797,482 held directly and 6,836,970 held indirectly)

#### Interests in rights

None

## EVONNE COLLIER

### Title

Independent Non-Executive Director – TNK

### Term of Office

Evonne Collier joined the Board of TNK on 06 April 2018.

### Qualifications

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

### Experience and expertise

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

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

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

### Other current directorships

None

### Former directorships (last 3 years)

Vault Intelligence Limited (ASX:VLT), resigned as Director effective 19 March 2019
1300SMILES Limited (ASX:ONT) resigned as Director effective 3 April 2020

### Special responsibilities

Chair of the Human Resources and Remuneration Committee
Member of the Independant Board Committee

### Interests in stapled securities

None

### Interests in rights

None

# DIRECTORS' REPORT CONTINUED

## DIRECTORS

### JOE DICKS

**Title**

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

**Term of Office**

Joe Dicks joined the Board of TNK on 06 April 2018, and the Board of TND on 29 July 2019.

**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 20 years' multi-national experience as a Non-Executive Director in a broad range of industries. He also has in-depth experience in government funded and regulated industries, infrastructure and the education and aged care sectors.

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

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

**Other current directorships**

None

**Former directorships (last 3 years):**

None

**Special responsibilities**

Chair of the Audit, Risk and Compliance Committee

**Interests in stapled securities**

29,630 stapled securities (all held indirectly)

**Interests in rights**

None

## MICHAEL DOBLE

### Title

Independent Non-Executive Director – TND

### Term of Office

Michael Doble joined the Board of TND on 14 October 2019.

### Qualifications

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

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

### Experience and expertise

Michael has enjoyed a long and distinguished career in the Australian property market. With over 33 years' experience, he started as a valuer with Knight Frank, moved into funds management with ANZ Funds Management and for the last 17 years was at APN Fund Management Ltd (APN) in the roles of Chief Executive Officer (Real Estate Securities) and subsequently Chief Investment Officer (Real Estate Securities).

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

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

### Other current directorships

None

### Former directorships (last 3 years)

None

### Special responsibilities

Deputy Chair of the Independent Board Committee

### Interests in stapled securities

None

### Interests in rights

None

# DIRECTORS' REPORT CONTINUED

## DIRECTORS

### NICK ANAGNOSTOU

#### Title

Independent Non-Executive Director – TND

#### Term of Office

Nick Anagnostou joined the Board of TND on 01 October 2020.

#### Qualifications

Nick holds a Bachelor of Business (Prop - Hons), Associate Australian Property Institute, is a Certified Practicing Fund Manager, Certified Practicing Valuer and a Licensed Estate Agent.

#### Experience and expertise

Nick brings to the Company over 30 years' experience in the real estate and funds management industries and most relevantly as a senior executive in the child care sector since 2005. From 2008 to 2019, Nick was CEO of Australia's largest ASX listed childcare Property Trust, the Charter Hall Social Infrastructure Trust, which was acquired from Folkestone. Nick navigated the REIT through the GFC and failure of its largest tenant in 2009 and subsequently grew the childcare REIT from a market capitalisation of approximately $20m to $1.2bn.

Nick's expertise is in real estate and site selection, corporate transactions, strategy and capital markets, with an extensive network within the child care industry including Institutional Investors throughout Asia. In his roles, he successfully acquired over 300 child care Services and successfully developed a further 70 plus child care Services.

#### Other current directorships

None

#### Former directorships (last 3 years)

None

#### Special responsibilities

None

#### Interests in stapled securities

None

#### Interests in rights

None

## JAMES SPENCELEY

### Title

Independent Non-Executive Director – TNK

### Term of Office

James Spenceley joined the Board of TNK on 15 May 2020.

### Experience and expertise

James is a well-known Australian professional investor, award-winning entrepreneur and experienced company director. He is the Chairman of Airtasker and former CEO and co-founder of MHOR Asset Management.

In 2007 James founded Vocus Communications and went on to become the youngest Australian to create and lead an ASX100 company. James was instrumental in building the Vocus business from a market cap of $25 million at listing to a multiple billion market cap via both organic and M&A growth.

James is a two-times EY Entrepreneur of the Year winner and in 2018 was inducted into the Telecommunications Hall of Fame. James is the first ambassador for the Women on Boards program and a board member of the not for profit, Humpty Dumpty Foundation.

### Other current directorships

None

### Former directorships (last 3 years)

None

### Special responsibilities

None

### Interests in stapled securities

None

### Interests in rights

None

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

# DIRECTORS' REPORT CONTINUED

## PRINCIPAL ACTIVITIES

Think Childcare Group operates best in sector child care Services. The principal activities of the Group are summarised as follows:

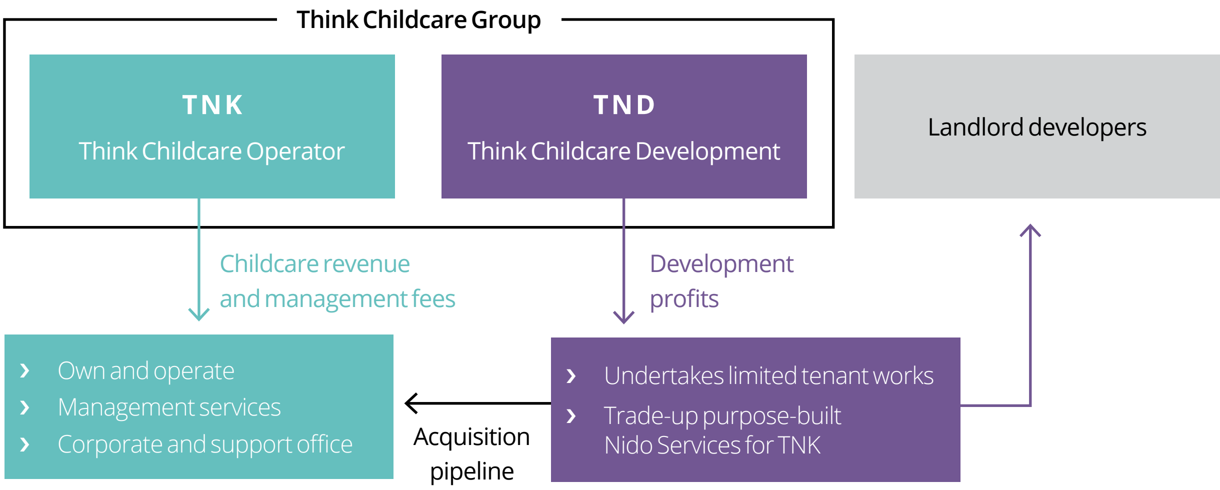
### Think Childcare

- Owns and operates predominately mature child care Services;
- Provides management services to clients, third-party incubator partners and TND;
- Acquires high-performing purpose-built child care Services from third-party incubator partners and TND.

### Think Childcare Development

- Develops purpose-built child care Services under the "Nido" brand and operating model;
- Trades-up child care Services before selling the child care Service to TNK (at agreed acquisition criteria).

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




## DIVIDENDS

Dividends paid during the financial year were as follows:

| | 2020 $'000 | 2019 $'000 | 2020 CPS | 2019 CPS |
|---|---|---|---|---|
| **Final 2019** 27 March 2020 | **3,043** | | **5.0** | |
| **Final 2018** 28 March 2019 | | 3,150 | | 6.5 |
| **Interim 2019** 20 September 2019 | | 1,209 | | 2.0 |
| **Special 2019** 23 December 2019 | | 6,000 | | 9.9 |

On 24 February 2021, a final dividend for the year ended 31 December 2020 of 12.0 cents per stapled security, fully franked, was determined with a record date of 16 March 2021. The dividend will be paid on 26 March 2021 and is estimated to be a total of $7.3 million.

The Group operates a Dividend Reinvestment Plan (DRP). During the financial year ended 31 December 2020, stapled securities issued pursuant to the DRP were 195,747 (2019: 792,591).

## REVIEW AND RESULTS OF OPERATIONS

Think Childcare operates child care Services with the objective of delivering value to security holders with stable earnings growth prospects over the medium to long-term. Think Childcare's strategy is to operate high quality child care Services under the Nido brand and in suburban markets supported by long-term leases. Additionally, Think Childcare provides child care management services to clients, including TND and third-party incubator partners.

On 31 December 2020, Think Childcare Group owned and operated over 83 child care Services nationally. The portfolio's geographic diversification was 43 in Victoria, 20 in Western Australia, 10 in South Australia, 7 in New South Wales, 2 in the Australian Capital Territory and 1 in Queensland. The total number of licensed places in owned TNK child care Services increased from 6,080 to 7,106, up 17% on prior comparison period (pcp).

Think Childcare has access to over 50 pipeline child care Services with an end value of $100m, which are at various stages of development and trade-up. This includes 26 pipeline child care Services expected to be delivered via TND with the balance being delivered by third-party incubator partners.

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

## FINANCIAL OVERVIEW

Think Childcare Group recorded a statutory net profit after tax NPAT (statutory) of $7.2 million (2019: $2.0 million). The current year NPAT (statutory) was impacted by AASB 16 Leases which adjusts for lease rental expenses of $18.8 million and deducts depreciation and impairment for right of use assets (being the leases) of $12.9m and deducts for notional interest expense of $11.6m. These entries give rise to a net negative impact of $5.7m.

Adjusting for the impact of AASB16 Leases and other underlying costs, the NPAT (underlying) performance of the Group is $12.2m and comprises the following:

- Think Childcare NPAT (underlying) is $16.3 million; and
- Think Childcare Development NPAT (underlying) is $(38) thousand; less
- Elimination of intragroup transactions of $(4.1) million.

Think Childcare Group underlying earnings before interest, tax, depreciation and amortisation EBITDA (underlying) of $26.8 million (2019: $14.2 million) and comprises the following:

- Think Childcare EBITDA (underlying) is $30.1 million; and
- Think Childcare Development EBITDA (underlying) is $0.9 million; less
- Elimination of intragroup transactions of $(4.1) million.

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

EBITDA, EBITDA (underlying), NPAT (underlying) reflect the results of the ongoing business of the consolidated entity 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 our 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) is disclosed as a useful guide for investors to gain a better understanding of the Group's financial results from normal operating activities.

# DIRECTORS' REPORT CONTINUED

## Operating results

| | 2020 | | | | 2019 |
|---|---|---|---|---|---|
| $'000 | **TNK** | **TND** | **Eliminations** | **Group** | Group |
| Service revenue | 129,332 | 8,773 | - | 138,105 | 110,605 |
| Labour | (61,489) | (5,560) | - | (67,049) | (66,406) |
| Occupancy | (22,311) | (2,328) | - | (24,639) | (18,164) |
| Service overheads | (7,655) | (1,004) | - | (8,659) | (7,369) |
| **Service performance** | **37,877** | **(119)** | **-** | **37,758** | **18,646** |
| Management and other revenue/(expenses) | 3,066 | (619) | (1,200) | 1,247 | 4,939 |
| Employee expenses | (7,765) | (45) | - | (7,810) | (6,254) |
| Corporate overheads | (2,966) | (709) | - | (3,675) | (3,140) |
| **Corporate costs** | **(7,665)** | **(1,373)** | **(1,200)** | **(10,238)** | **(4,455)** |
| (Loss)/profit on sale | (148) | 2,922 | (2,922) | (148) | - |
| Acquisition expenses | - | (568) | - | (568) | - |
| **EBITDA (underlying)** | **30,064** | **862** | **(4,122)** | **26,804** | **14,191** |
| Operating lease costs[1] | 16,934 | 1,897 | - | 18,831 | 13,062 |
| Non-underlying costs | (1,421) | - | - | (1,421) | (2,027) |
| **EBITDA** | **45,577** | **2,759** | **(4,122)** | **44,214** | **25,226** |
| Finance costs | (13,073) | (2,185) | - | (15,258) | (10,469) |
| Depreciation and amortisation | (15,427) | (1,401) | - | (16,828) | (11,522) |
| Tax | (5,246) | 287 | - | (4,959) | (1,230) |
| **Profit / (Loss) for the period** | **11,831** | **(540)** | **(4,122)** | **7,169** | **2,005** |
| Non-underlying costs | 1,421 | - | | 1,421 | - |
| Interest on lease liabilities | 10,035 | 1,586 | - | 11,621 | 7,738 |
| Depreciation and impairment on right of use assets | 11,888 | 1,021 | - | 12,909 | 8,900 |
| Operating lease costs [1] | (16,934) | (1,897) | - | (18,831) | (13,062) |
| Tax impact | (1,923) | (213) | - | (2,136) | (1,703) |
| **NPAT (underlying)** | **16,318** | **(43)** | **(4,122)** | **12,153** | **4,508** |

**1** This caption represents rental payments or cash out flow for leases for the year ended 31 December 2020.

## Balance Sheet

| $'000 | TNK | TND | AASB 16 | Eliminations | Group |
|---|---|---|---|---|---|
| Cash | 15,803 | 7,060 | - | - | **22,863** |
| Receivables and other assets | 10,022 | 2,767 | - | - | **12,789** |
| Property, plant and equipment | 18,311 | 4,941 | - | (1,200) | **22,052** |
| Intangible assets | 85,681 | 4,940 | - | (2,922) | **87,699** |
| Right of use asset | - | - | 200,162 | - | **200,162** |
| **Total assets** | **129,817** | **19,708** | **200,162** | **(4,122)** | **345,565** |
| Borrowings | 42,927 | 11,421 | - | - | **54,348** |
| Other liabilities | 18,853 | 3,249 | - | - | **22,102** |
| Lease liability | - | - | 209,436 | - | **209,436** |
| **Total liabilities** | **61,780** | **14,670** | **209,436** | **-** | **285,886** |
| **Equity** | **68,037** | **5,038** | **(9,274)** | **(4,122)** | **59,679** |

On 31 December 2020, the Group had net current liabilities of $12.6m which included $21.1m of current lease liabilities arising from AASB 16 Leases. The Group is forecasting positive cashflows based on conservative scenarios modelled for the next 12 months.

## CAPITAL MANAGEMENT

Think Childcare maintains a strong balance sheet by virtue of:

- Strong closing cash of $15.8 million; and
- Healthy bank facility headroom of $24.2 million (2.5 years remaining term due June 2023) along with banking covenants well below the facility requirements.

Think Childcare entered into a five year syndicated facility agreement with Macquarie Bank Limited on 27 June 2018. The facility amount is $78 million including an Accordion of $4.2 million.

Over the page is a table summarising the facility amounts.

# DIRECTORS' REPORT CONTINUED

## Bank facilities

| | TNK | | TND | | Group |
|---|---|---|---|---|---|
| As at 31 December 2020 $m | Drawn | Undrawn | Drawn | Undrawn | |
| Term loan | 37.8 | - | 11.5 | - | **49.3** |
| Acquisition facility | 6.2 | 12.2 | - | - | **18.4** |
| Working capital facility | 9.8 | 7.8 | - | - | **17.6** |
| Accordion | – | 4.2 | - | - | **4.2** |
| **Total** | **53.8** | **24.2** | **11.5** | **-** | **89.5** |

On 4 August 2020, Think Childcare Development secured a debt facility of $11.5m with a two year term. The commercial terms of the facility are in line with market benchmarks. The facility was partially applied to fund the acquisition of six Nido child care Services and one pipeline child care Service. Think Childcare Development's closing cash of $7.1 million is available to fund pipeline child care Services.

## COVID-19 IMPACT ON THE GROUP

During 2020, Think Childcare Group was impacted by the COVID-19 pandemic. Child care Services experienced a material decline in attendance from late March through to late April because 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, home schooling became prevalent, and many carers were working from home.

During May and June, the Group's child care 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.

In late June 2020, the Victorian government implemented stage 3 restrictions followed by stage 4 restrictions from the first week of August until 13 September in metro Melbourne and Mitchell Shire, because of a significant rise in the number of COVID-19 cases. The Group's Victoria based child care Services represent 52% of the portfolio of trading child care Services (by number of licensed places). The majority of the child care Services in the Victorian portfolio were in the stage 4 impacted locations and consequentially experienced a decline in attendance.

In response, the Australian Government announced that Child Care Subsidy (CCS) approved providers experiencing restrictions in metropolitan Melbourne would receive a 30% transition payment. This was an additional 5% on top of the previously announced 25% transition payment. An additional 30 days of allowable absences were granted to families with children attending the impacted child care Services. The Group waived the parent fees during these absences. The Group however, continued to receive CCS payments for the enrolled children. These measures were expected to be adequate to ensure the viability of those child care Services during the period of lockdown.

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 Group 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 Group is unable to continue as a going concern, it could have an impact on the Group'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 the Group will continue as a going concern.

## Government support packages

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

- Early Childhood Education and Care (ECEC) Relief Package;
- JobKeeper stimulus package (JobKeeper);
- ECEC transition arrangements;
- Rental relief for commercial tenants.

The government support packages were designed for operators to achieve 85% of their pre-COVID-19 revenue as the ECEC Relief Package was based upon 50% of fees during the reference fortnight in February which is seasonally a lower enrolment period for the child care sector. JobKeeper which commenced on 30 March 2020 discontinued from 20 July 2020, contrary to the broader economy where JobKeeper was extended until 31 January 2021. Operators received a transitional payment which equated to 25% of the fees in the reference period in lieu of JobKeeper.

For details of COVID-19 subsidies refer to notes 5 and 6 of the Financial Statements.


## COVID-19 response

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

- The establishment of a COVID-19 response committee which mobilised to implement health, hygiene and safety practices across the Group's child care Services and corporate office;
- Deferred planned capital investment and corporate projects (including suspension of discretionary spend);
- Deferred appointment of new roles,
- Reduced rostered hours to align with the drop in attendance and implemented leave management strategies; and
- Engaged proactively with Think Childcare's financier to ensure support and to provide transparency should Think Childcare experience any liquidity constraints.

Notwithstanding the impact of COVID-19 on the Group, the Group did not:

- Reduce salaries;
- Increase child care fees;
- Turn away families or deny new enrolments;
- Abandon our strategy;
- Compromise the health, well-being and safety of Educators, families and children; and
- Experience any major COVID-19 outbreak.

Think Childcare Group experienced a strong rebound in the last quarter of 2020.

### Think Childcare

At 31 December 2020, Think Childcare owned 73 child care Services and notwithstanding the pandemic all cohorts made a positive contribution to the year-on-year earnings uplift. Child care Service performance of $37.9m ($19.1m pcp). Think Childcare child care Services experienced a strong rebound in occupancy with 43% of enrolments by December 2020 represented by new children. This was primarily driven by proactive marketing campaigns to increase enrolments during the free child care period. Whilst many operators were not accepting new enrolments, Think Childcare took the risk to increase enrolments without knowing the duration of free child care period and JobKeeper.

# DIRECTORS' REPORT CONTINUED

Think Childcare acquired four new purpose-built child care Services in November 2020, two from third-party incubator partners and two from Think Childcare Development.

During the 2019 financial year, Think Childcare launched a capital investment program to transition the portfolio of Early Learning & Kinder (ELK) child care Services to Nido. Think Childcare completed $5.0 million in capital investment in the 2019 financial year with a further $2.8 million completed in the 2020 financial year.

### Think Childcare Development

Think Childcare Development opened four purpose-built Nido child care Services during the financial year.

It also acquired seven Nido child care Services including six child care Services in trade-up and one under construction from a third-party. The child care Services in trade-up achieved a peak occupancy of 60% by 31 December 2020, well ahead of expectations.

This was attributable to enhanced marketing capability which is showing positive new and re-enrolments trends for the first quarter of 2021 financial year. Along with focused on wage management, reducing the cost per child per day by $2.80 i.e., 5% against budget in the fourth quarter of 2020, a more normalised environment.

- Continued investment in Think Childcare Group's operating platform and strategy execution;
- Return on investment (ROI) hurdle achieved for acquisitions capital investments made in 2019 financial year.

## OUTLOOK FOR 2021

Think Childcare's strategic objective is to be the sector leader in the innovation of early childhood education through the development of a national curriculum which is benchmarked against global standards. The Group is well positioned to continue to deliver on its strategic objective of delivering quality child care Services to suburban markets in the next financial year. This strategy is supported by Think Childcare capital investment program including the transition to the Nido brand. The Group has access to a pipeline of child care Services and a national footprint in key suburban markets within Australia.

Priorities for the 2021 financial year include:

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

## MAJOR CUSTOMER

During the year ended 31 December 2020, none of the Group's external revenue was derived from sales to one specific customer or group of customers that comprised more than 10% of total revenue (2019: Nil).

## COMPANY SECRETARIES

### Think Childcare Limited:

Joint Company secretaries are **Trinh Bui** and **Mourice Garbutt**

### Think Childcare Development Limited:

Company secretary is **Trinh Bui**

**Trinh** is a member of the Law Society of New South Wales and a Fellow member of the Governance Institute of Australia with over 5 years listed company secretarial experience and 12 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 being: Certified Practising Accountant, British Institute of Management and Institute of Directors in Australia. In addition, Mourice served for many years as an Honorary Justice of the Peace in Victoria.

# MEETINGS OF DIRECTORS

Details of director attendance at Board and Committee meetings in the last 12 months up to 31 December 2020 are set out below.

Additional board meetings were held to discuss specific matters, and matters were dealt with as required by circular resolution.

Provided there is no conflict of interest, directors are also invited to, and occasionally attend as observers, meetings of Board Committees of which they are not members.

The CEO is not present for Human Resource and Remuneration Committee discussion on his remuneration.

| | Attended / Held | | | | |
|---|---|---|---|---|---|
| | Board Meetings | | Audit Risk and Compliance Committee | Human Resources and Remuneration Committee | Independent Board Committee[1] |
| Director Name | TNK | TND | | | |
| Evonne Collier (TNK only) | 24 / 26 | – | 9 / 9 | 8 / 8 | 5 / 5 |
| Joe Dicks | 25 / 26 | 25 / 26 | 9 / 9 | 8 / 8 | N/A |
| Mark Kerr | 25 / 26 | 26 / 26 | 8 / 9 | 7 / 8 | 5 / 5 |
| Mathew Edwards | 26 / 26 | 26 / 26 | N/A | N/A | N/A |
| Michael Doble (TND only) | N/A | 26 / 26 | N/A | N/A | 5 / 5 |
| James Spenceley[2] (TNK only) | 18 / 18 | N/A | 4 / 4 | 4 / 4 | N/A |
| Nick Anagnostou[3] (TND only) | N/A | 8/8 | N/A | N/A | N/A |

**Held** – Indicates the number of meetings held while each Director was a member of the Board or Committee.
**Attended** – Indicates the number of meetings attended during the period that each Director was a member of the Board or Committee.

**1** The Independent Board Committee was established on 22 July 2020.

**2** Appointed to the TNK Board on 15 May 2020 and is a member of the Audit Risk and Compliance Committee and the Human Resources and Remuneration Committee.

**3** Appointed to the TND Board 01 October 2020, is not a member of other committees.

# DIRECTORS' REPORT CONTINUED

## INDEMNITY AND INSURANCE OF OFFICERS AND AUDITORS

Subject to the following, no insurance premium was paid during or since the end of the 2020 financial year for a person who is or has been an officer or auditor of the Think Childcare Group.

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

The constitutions of each Group entity provides that each officer of the Group must be indemnified by the relevant Group entity against any liability incurred by that person in that capacity. However, the Group entity 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 officer of the Group is party to Deeds of Indemnity, Access and Insurance, which provide for indemnity against liability as an officer, except to the extent of indemnity under an insurance policy or were prohibited by statute.

The Group has not otherwise, during or since the end of the 2020 financial year, indemnified or agreed to indemnify an officer or auditor of the Group against a liability as such an officer or auditor.

## PROCEEDINGS ON BEHALF OF A GROUP ENTITY

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

## NON-AUDIT SERVICES

During the year, KPMG (auditors) have not performed any non-audit services. 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 26 of this report.

## OFFICERS OF THE GROUP WHO ARE FORMER DIRECTORS OF KPMG (AUDITORS)

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

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

## MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Other than the Group's ASX announcement on 20 January 2021 concerning the revised proposal from Busy Bees, there have been no events subsequent to 31 December 2020 in connection with the proposals.

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

## ROUNDING OF AMOUNTS

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

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

On behalf of the Directors

## LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

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

## ENVIRONMENTAL REGULATION

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

Mark Kerr

**Mark Kerr**
Chairman
24 February 2021
Melbourne

# REMUNERATION REPORT - AUDITED

## REMUNERATION REPORT CONTENTS

| Section | Title | Description |
|---|---|---|
| 1 | Introduction | Describes the scope of the Remuneration Report and the individuals whose remuneration details are disclosed together with a summary of the key changes during the financial year. |
| 2 | Remuneration governance | Describes the role of the Board and the Human Resources and Remuneration Committee (HRRC), and the use of remuneration consultants when making remuneration decisions. |
| 3 | Non-Executive Director remuneration | Provides details regarding the fees paid to non-executive directors (NED). |
| 4 | Executive remuneration | Outlines the principles and strategy applied to executive remuneration decisions and the framework used to deliver rewards including company performance and executive Key Management Personnel remuneration linkages. |
| 5 | KMP equity interests | Provides details regarding security holdings in Think Childcare Group of the Boards and executive Key Management Personnel (KMP). |
| 6 | Equity granted as remuneration | Number of performance rights granted to executive Key Management Personnel as well as the number of instruments that vested or were forfeited during the financial year ended 31 December 2020. |
| 7 | Employment agreements | Provides details of the contractual arrangements between Think Childcare Group and the executives whose remuneration details are disclosed. |
| 8 | Loans given to KMP | Details of loans issued to Key Management Personnel during the financial year. |
| 9 | Other transactions with KMPs | Details of any transactions entered into with Key Management Personnel not included elsewhere in the report. |

# 1. INTRODUCTION

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

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

Board and executive Key Management Personnel (KMP) notable points that arose in the 31 December 2020 financial year, included:

- The Chairman and Non-Executive Director fees were increased effective from 1 January 2021 to align with market rates and to compensate Directors for the additional workload and responsibilities arising from growth of the business, including the internalisation of the pipeline and the stapled security structure. The Boards consider this structure appropriate to facilitate enhanced security holder value;
- Two new independent Non-Executive Directors were appointed during the financial year;
- The CEO remuneration was increased effective from 1 January 2020 to align with market;
- Short term incentives (STI) were awarded for the 2020 financial year to executive KMP; and
- Long term incentive (LTI) awards were not granted to executive KMP in the 2020 financial year.

COVID-19 impacted the Group in the 2020 year. In summary, the key impacts and responses to COVID-19 included:

- Decline in occupancy at child care Services (as compared with prior year) with the worst impacts experienced in March and April;
- Revenue was restricted as the government mandated free child care for families from 1 April 2020 to 12 July 2020;
- The Federal Government introduced a number of relief packages including the Early Childhood Education and Relief Package (ECERP/CCP), which partially mitigated the impact;
- JobKeeper was also available but was discontinued on 20 July 2020;
- Planned capital expenditure was deferred (including suspension of discretionary spend) during the height of the pandemic;
- Staff on probation or casuals were stood down;
- Rent abatements were negotiated;
- Corporate and support office new roles were deferred;
- Rostered hours were aligned with attendance along with active leave management; and
- Fees were not increased, and salaries were not reduced.

For further detail please refer to the Think Childcare Directors' Report.

Changes to our remuneration strategy adopted effective from 1 January 2020, included:

- A comprehensive Board and executive KMP remuneration and reward framework has been adopted;
- Fixed Annual Remuneration (FAR) changes effective from 1 January 2020 for selected executive KMP were implemented to ensure market alignment;
- The remuneration mix (strategic intention) for selected executive KMP and senior executives have been approved;
- The revised STI scheme introduced a new Key Performance Indicator (KPI) framework. The CEO and other executive KMP have KPI targets that cover achievement of financial and operational performance metrics and strategic plan implementation milestones across 4 areas, being financial, culture, quality/risk and compliance, and systems/business processes. All non-financial KPI are subject to a minimum financial performance gateway;
- The LTI scheme has been reviewed independently and the revised terms to be adopted are in line with guidelines and market expectations;
- An STI deferral scheme for selected executives was considered but not implemented;
- Minimum security holding guidelines were adopted for the Board and executive KMP to ensure alignment with security holder interests;

# REMUNERATION REPORT – AUDITED CONTINUED

- A claw back policy for executive KMP was adopted; and
- Employment contracts for executive KMP and selected other senior executives were updated.

The changes to be adopted in 2021 are under constant review. Any further material Board or executive KMP remuneration strategy changes will be advised annually.

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

## Scope

This Remuneration Report sets out, in accordance with the relevant Corporations Act 2001 (Corporations Act) and accounting standard requirements, the remuneration arrangements in place for KMP during 2020.

## Key management personnel

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

| | | Title[1] / Committees | Change in 2020 |
|---|---|---|---|
| Non-executive directors | Mark Kerr | Independent Non-Executive Chairman (TNK and TND)<br>Member of Audit, Risk and Compliance Committee<br>Member of Human Resources and Remuneration Committee<br>Chair of Independent Board Committee* (IBC) | IBC established on 22 July 2020 |
| | Joe Dicks | Independent Non-Executive Director (TNK and TND)<br>Chair of Audit, Risk and Compliance Committee<br>Member of Human Resources and Remuneration Committee | No change |
| | Evonne Collier | Independent Non-Executive Director (TNK only)<br>Chair of Human Resources and Remuneration Committee<br>Member of Audit, Risk and Compliance Committee<br>Member of Independent Board Committee (IBC) | IBC established on 22 July 2020 |
| | Michael Doble | Independent Non-Executive Director (TND only)<br>Deputy Chair of Independent Board Committee (IBC) | IBC established on 22 July 2020 |
| | James Spenceley | Independent Non-Executive Director (TNK only)<br>Member of Audit, Risk and Compliance Committee<br>Member of Human Resources and Remuneration Committee | Appointed 15 May 2020 |
| | Nick Anagnostou | Independent Non-Executive Director (TND only) | Appointed 1 October 2020 |
| Executive directors | Mathew Edwards | Managing Director and Chief Executive Officer (TNK)<br>Executive Director (TND) | No change |
| Other executive KMP | Jennifer Saliba | Chief Financial Officer | No change |
| | Georgina Gaussen | Chief Operating Officer | No change |

1 Title at year end
* The IBC was established, based on independent advice, to specifically manage acquisition, takeover and merger activities impacting the current period. IBC may be suspended once these issues are no longer an intensive and time consuming activity requiring careful management of conflicts of interest.

## 2. REMUNERATION GOVERNANCE

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

### Role of the Board and the Human Resources and Remuneration Committee (HRRC)

The Boards are responsible for Think Childcare Group's remuneration strategy and policies. Consistent with this responsibility, the Board of Think Childcare has established the HRRC which solely comprises independent non-executive directors (NED).

The role of the HRRC is set out in its Charter, which is reviewed annually. In summary, the HRRC's role is to:

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

The HRRC's role and interaction with the Board of Think Childcare, internal and external advisors, are further illustrated below:

**THE BOARD**

Reviews, applies judgment and, as appropriate, approves the HRRC's recommendations

**THE HUMAN RESOURCES AND REMUNERATION COMMITTEE (HRRC)**

The HRRC operates under the delegated authority of the Board.

The HRRC is empowered to source any internal resources and obtain external independent professional advice it considers necessary to enable it to make recommendations to the Board on the following:

| Remuneration policy, composition and quantum of remuneration components for executive KMP, and performance targets | Remuneration policy in respect of NED | Talent management policies and practices including superannuation arrangements | Design features of employee and executive STI and LTI plan awards, including setting of performance and other vesting conditions |
|---|---|---|---|
| ↕ | ↕ | ↕ | ↕ |
| **EXTERNAL CONSULTANTS** | | **INTERNAL RESOURCES** | |

# REMUNERATION REPORT – AUDITED CONTINUED

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

### Use of remuneration consultants

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

During the 2020 financial year, the Group engaged Crichton & Associates Pty Limited (C&A) to assist with ad-hoc consulting advice, including limited remuneration advice in relation to executive KMP. The remuneration advice was provided in accordance with the Corporations Act. Fees paid to C&A during the 2020 financial year amounted to $1,750 (remuneration advice in respect of KMP) and $21,282 (for other services).

## 3. NON-EXECUTIVE DIRECTOR (NED) REMUNERATION

### NED remuneration

| Principle | Comment |
|---|---|
| Fees are set by reference to key considerations | Fees for NED are based on the nature of the NED work and their responsibilities. The remuneration rates reflect the complexity and continued growth experienced by Think Childcare Group.<br><br>In determining the level of fees, survey data on comparable companies is considered. NED fees are recommended by the HRRC and determined by the Boards.<br><br>Security holders approve the aggregate amount available for the remuneration of NED. |
| Remuneration is structured to preserve independence whilst creating alignment | To preserve independence and impartiality, NED are not entitled to any form of incentive payments including options and the level of their fees are not set with reference to any measure of Think Childcare Group performance.<br><br>However, to create alignment between Directors and security holders, the Board has adopted guidelines that request NED to hold (or have a benefit in) securities in Think Childcare Group equivalent in value to at least 100% of one year's base fees to be achieved progressively over a period of four years. Think Childcare Group does not offer loans to NED to fund share ownership.<br><br>Refer Section 5 for NED security holding as at 31 December 2020. |
| Aggregate Board and committee fees are approved by security holders | The total amount of fees paid to NED in 2020 is within the aggregate amount approved by security holders of $750,000 per annum including superannuation for each of Think Childcare Limited and Think Childcare Development Limited.<br><br>No increase in the fee pool limit is proposed this year. |

## NED fees and other benefits explained

| Elements | Details | 2020 | 2019 |
|---|---|---|---|
| Board fees per annum | Board Chairman TNK | **109,500** | 109,500 |
| | Board Chairman TND | **65,700** | Nil |
| | Board NED TNK | **75,000** | 60,000 |
| | Board NED TND | **43,800** | 43,800 |
| Committee fees per annum | Chair of Audit, Risk and Compliance Committee | **Nil** | 15,000 |
| | Chair of Human Resources and Remuneration Committee | **Nil** | 15,000 |
| | Chair of Independent Board Committee[1] | **35,000** | Nil |
| | Member of Independent Board Committee[1] | **25,000** | Nil |

1 Fees per IBC per annum

| | | |
|---|---|---|
| Post-employment benefits | **Superannuation** | Superannuation contributions have been made at a rate of 9.5% of the board fee (but only up to the Australian Government's prescribed maximum contributions limit) which satisfies the Company's statutory superannuation contributions. The contribution rate will increase in future years in line with mandated legislative increases. |
| | **Retirement schemes** | There are no retirement schemes in place for NED other than statutory superannuation. |
| Other benefits | **Equity instruments** | NED do not receive any performance related remuneration, options, performance rights or securities. |
| | **Other fees / benefits** | NED receive reimbursement for costs directly related to Think Childcare Group business.<br>No payments were made to NED during 2020 for travel allowances, extra services or special exertions other than consulting services which are captured in the following NED total remuneration paid table. |

## NED total remuneration

| Think Childcare Limited | Year | Short-term benefits<br>Fees ($) | Equity Based Payments<br>Performance Rights ($) | Post-employment benefits<br>Termination benefits ($) | Post-employment benefits<br>Superannuation benefits ($) | Total ($) |
|---|---|---|---|---|---|---|
| Mark Kerr (Chairman)[1] | 2020 | 115,049 | - | - | 10,930 | 125,979 |
| | 2019 | 100,000 | 22,399 | - | 9,500 | 131,899 |
| Joe Dicks[1] | 2020 | 68,493 | - | - | 6,507 | 75,000 |
| | 2019 | 68,493 | - | - | 6,507 | 75,000 |
| Evonne Collier | 2020 | 77,177 | - | - | 6,144 | 83,321 |
| | 2019 | 68,493 | - | - | 6,507 | 75,000 |
| James Spenceley | 2020 | 50,333 | - | - | 4,782 | 55,115 |
| **Total** | **2020** | **311,052** | **-** | **-** | **28,363** | **339,415** |
| | **2019** | **236,986** | **22,399** | **-** | **22,514** | **281,899** |

1 Includes fees relating to 2019 that were resolved and paid in mid-2020. As these amounts were paid in 2020, the NED have opted to disclose as part of their 2020 remuneration

# REMUNERATION REPORT – AUDITED CONTINUED

| Think Childcare Development Limited | | Short-term benefits | Equity Based Payments | Post-employment benefits | | |
|---|---|---|---|---|---|---|
| | **Year** | **Fees** ($) | **Performance Rights** ($) | **Termination benefits** ($) | **Superannuation benefits** ($) | **Total** ($) |
| **Mark Kerr** (Chairman)[2] | 2020 | 85,000 | - | - | 8,075 | 93,075 |
| | 2019 | - | - | - | - | - |
| **Joe Dicks**[2] | 2020 | 56,667 | - | - | 5,383 | 62,050 |
| | 2019 | - | - | - | - | - |
| **Michael Doble**[3] | 2020 | 47,599 | - | - | 4,522 | 52,121 |
| | 2019 | 6,667 | - | - | 633 | 7,300 |
| **Nick Anagnostou**[1] | 2020 | 18,000 | - | - | 1,710 | 19,710 |
| | 2019 | - | - | - | - | - |
| **Total** | **2020** | **207,266** | **-** | **-** | **19,690** | **226,956** |
| | **2019** | **6,667** | **-** | **-** | **633** | **7,300** |

**1** Includes consultancy fees of $8,760.

**2** Includes fees relating to 2019 that were resolved and paid in mid-2020. As these amounts were paid in 2020, the NED have opted to disclose as part of their 2020 remuneration.

**3** Includes IBC fees paid in 2020.

## Minimum security holding guidelines

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

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

Due to the turbulence of 2020 trading, the Boards took a prudent position and did not encourage Directors to acquire securities on market. This left little opportunity for Directors to act in a manner consistent with the agreed guidelines.

Refer Section 5 for a summary of NED equity interests.

# 4. EXECUTIVE REMUNERATION

## Executive KMP remuneration

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

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

## EXECUTIVE KMP REMUNERATION OBJECTIVES

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

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

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

## TOTAL TARGETED REMUNERATION (TTR)

TTR is intended to be positioned consistent with market, benchmarked with comparative companies

# REMUNERATION REPORT – AUDITED CONTINUED

## Remuneration composition mix and timing of receipt

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

## Remuneration mix – 2020

The mix of remuneration for the CEO and executive KMP for 2020 resulted in the following remuneration mix:

| | FAR | STI | LTI |
|---|---|---|---|
| **Chief Executive Officer** | 50% | Up to 25% | Up to 25% |
| **Chief Financial Officer** | 50% | Up to 25% | Up to 25% |
| **Chief Operating Officer** | 60% | Up to 25% | Up to 25% |

Following a review of executive remuneration undertaken in the 2020 financial year, as noted in our 2019 Remuneration Report, the following strategic remuneration decisions have been implemented to be effective from 1 January 2021.

## Remuneration mix – 2021 proposed

The mix of remuneration for the CEO and executive KMP proposed for 2021 is as follows:

| | FAR | STI | LTI |
|---|---|---|---|
| **Chief Executive Officer** | 50% | Up to 25% | Up to 25% |
| **Chief Financial Officer** | 50% | Up to 25% | Up to 25% |
| **Chief Operating Officer** | 50% | Up to 25% | Up to 25% |

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

## Fixed Annual Remuneration (FAR) or Total Fixed Remuneration (TFR) – CY21

Think Childcare Group seeks to position all executives at a level reflective of similar size businesses with like aspirations and challenges, explained further below. This positioning is confirmed regularly by reference to remuneration surveys and independent benchmark assessments from time to time.

A description of the 2020 short-term and long-term incentive schemes are set out below.

## Total Target Remuneration (TTR)

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

## FAR or TFR remuneration explained

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

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

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

Any adjustments to executive KMP remuneration are approved by the relevant Board, on recommendation of the HRRC and CEO.

## Variable (at risk) remuneration explained

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

The key aspects are summarised below:

### Short-term incentives (STI) – 2020 and 2021

| | |
|---|---|
| **Purpose** | The STI arrangements at Think Childcare Group are designed to reward executives for the achievement against annual performance targets set by the Board at the beginning of the performance period. The STI program is reviewed annually by the HRRC and approved by the Board.<br><br>Any STI award in excess of the 100% budget opportunity is individually approved by the HRRC. All STI awards to the CEO and other executive KMP are approved by the HRRC and Board. |
| **Performance targets – 2020** | Effective from 1 January 2020, the Boards of Think Childcare Group have introduced a revised Short-term Incentive (STI) scheme for the CEO and other executive KMP that provides cash rewards for the achievement of performance targets that are consistent with the Group's approved business plan.<br><br>The CEO and other executive KMP have key performance indicators (KPI) targets that cover achievement of financial and operational performance metrics and strategic plan implementation milestones across four areas, being financial, culture, quality/risk and compliance, systems/business processes.<br><br>The level of reward available under the STI scheme is dependent on the achievement of KPI targets under a tiered measurement structure. All non-financial KPI are subject to a minimum financial performance gateway. |
| **Performance targets – 2021** | The KPI selected for 2021 were based on the same methodology adopted in 2020. |
| **Rewarding performance** | The STI performance ratings are determined under a predetermined matrix with the Board determination as final. |
| **Deferral of STI** | STI deferral was not adopted in respect of 2020 STI and no STI deferral is proposed for 2021 STI. The nature of the business is such that we seek to reward KMP for the work in the prior year. With the mix of an STI and a three year LTI, which has 100% of the LTI at risk until the end of the three years, there is sufficient incentive for KMP to take actions that support long term performance without the need to defer an STI. Therefore, a deferred STI will not form part of the company's remuneration strategy. |

### Long-term incentives (LTI) – 2020

As the focus during the financial year was on navigating the impacts of COVID-19 and responding to takeover proposals, no long term incentives were provided in 2020. Only the CFO received an LTI in 2019.

The Board expect to review 2020 and 2021 LTI grants and present their recomendation at the Annual General Meeting (AGM) for security holder consideration.

Details of performance rights awarded to the CFO in 2019 were as follows:

| Rights Granted | Opening Balance | Rights Vested | Rights Lapsed | Closing Balance |
|---|---|---|---|---|
| 47,619 | 31,746 | 15,873 | Nil | 15,873 |

# REMUNERATION REPORT – AUDITED CONTINUED

### Long-term incentives (LTI) – CY21

Effective from 2021 the LTI provides an annual opportunity for executive KMP and other selected executives (based on their ability to influence and execute strategy) to receive an equity award deferred for three years, that is intended to align a significant portion of executives' overall remuneration to security holder value over the longer term. All LTI awards remain at risk and subject to 'claw back' (forfeiture or lapse) until vesting and must meet or exceed performance targets set over the vesting period.

<table>
<tr><td>Purpose</td><td>To align executive KMP remuneration opportunity with security holder value and provide retention stimulus.</td></tr>
<tr><td>Types of equity awarded</td><td>LTI is provided under the Think Childcare Group Employee Share Option Plan.<br><br>Under the Think Childcare Group Employee Incentive Plan, selected senior executives are offered performance rights (being a nil exercise price right to fully paid ordinary securities of Think Childcare Group), subject to satisfying the relevant requirements.</td></tr>
<tr><td>Time of grant</td><td>All equity grants will be made after the AGM each year but based on values determined at the date of the release of TNK's annual results.</td></tr>
<tr><td>Time restrictions</td><td>Equity grants awarded to the CEO and other executive KMP are tested against the performance hurdles set, at the end of three years. If the performance hurdles are not met at the vesting date, performance rights lapse.</td></tr>
<tr><td>Performance hurdles and vesting schedule</td><td>The 2021 equity grants to the CEO and other executive KMP are subject to one performance condition, as follows:<br><br>
<table>
<tr><th colspan="2">Compound annual growth in Total Shareholder Return (TSR) (3 years)</th></tr>
<tr><th>Performance</th><th>% of equity to vest</th></tr>
<tr><td>< 10%</td><td>0%</td></tr>
<tr><td>10% to 15%</td><td>50% to 100% pro-rata</td></tr>
<tr><td>> 15%</td><td>100%</td></tr>
</table>
<br>Performance rights vest if the time restrictions and relevant performance hurdles are met. The Board must approve any special provisions, in accordance with company policies, in the event of termination of employment or a change of control.<br><br>The Board has considered the TSR achieved by comparable companies and relevant market indices in deriving the hurdle and target TSR. The TSR measurement period commences 1 January and ends 31 December, three years later.</td></tr>
<tr><td>Dividends</td><td>No dividends are attached to performance rights.</td></tr>
<tr><td>Voting rights</td><td>There are no voting rights attached to performance rights.</td></tr>
<tr><td>Retesting</td><td>The LTI performance hurdles were reviewed by the HRRC and Board and considered appropriate.</td></tr>
<tr><td>LTI allocation</td><td>The size of individual LTI grants for the CEO and other executive KMP is determined in accordance with the Board approved remuneration strategy mix.<br><br>The allocation methodology for performance rights is to determine the target LTI dollar value for each executive and divide it by the face value based on a Black-Scholes-Merton pricing model without discounting for service or performance hurdles.</td></tr>
</table>

## Other remuneration elements and disclosures relevant to executive KMP

### Claw back

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

### Hedging and margin lending prohibition

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

Think Childcare Group also prohibits the CEO or other 'Designated Persons' (including executive KMP) providing a material number of Think Childcare Group securities in connection with any margin loan or similar financing arrangement unless that person has received a specific notice of no objection in compliance with the policy from the Board.

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

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

## Relationship between Think Childcare Group performance and executive KMP remuneration

During a financial year overshadowed by a global pandemic, our executive team delivered a solid financial performance while undertaking the following initiatives:

- Secured a pipeline of sites for the development of greenfield leasehold child care Services:
- Secured an $11.5m debt facility for Think Childcare Development;
- Think Childcare Development acquired six Nido purpose-built Services and one pipeline Service from a third-party;
- Think Childcare acquired four Nido child care Services – two from TND and two from third-party incubator partners;
- Continued the transition to best in market child care operator;
- Executed on the capital investment program to improve quality at Think Childcare owned Services; and
- Enhanced the operating capability of the Group.

The performance of the Group and remuneration paid to KMP over the last five years is summarised in the table below:

| $'000 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|
| **Total revenue and other income** | 46,512 | 66,886 | 85,808 | 115,544 | **139,938** |
| **EBITDA (underlying)** | 8,833 | 9,645 | 10,662 | 14,191 | **26,804** |
| **EBITDA** | 8,495 | 10,447 | 10,678 | 25,226 | **44,214** |
| **Net Profit After Tax (underlying)** | 5,367 | 5,773 | 4,950 | 4,508 | **12,153** |
| **Net Profit After Tax** | 5,367 | 5,773 | 4,950 | 2,005 | **7,169** |
| **EPS (cents)** | 13.12 | 13.68 | 10.46 | 3.47 | **11.75** |
| **Security price as at 31 December ($)** | 2.23 | 2.28 | 1.39 | 1.42 | **1.71** |
| **Dividend per security (cents)** | 9.0 | 10.0 | 6.5 | 7.0 | **12.0** |

# REMUNERATION REPORT – AUDITED CONTINUED

Key financial outcomes achieved, included:

- Total revenue and other income increased 21.1% partially attributable to the increase in number of license places;
- Underlying EBITDA increased 88.9%;
- Underlying NPAT increased 169.6%;
- EPS increased by 8.28 cents per security; and
- Dividend determined is $0.12 per security.

Accordingly, the Board, after careful evaluation, has approved the payment of a short term incentive to executive KMP to reflect their contributions.

No LTI grant was awarded to the CEO in 2019 because the LTI scheme was under review. An LTI allocation for the CEO will be presented to security holders for approval at the upcoming AGM. The proposed LTI grant will meet ASX corporate governance guidelines.

A grant of performance rights (47,619) was made to the CFO to meet contractual commitments in 2019. No grants were made in 2020.

## Executive remuneration table – audited statutory disclosure

| | | Short Term Benefits | | | | Other | | | |
|---|---|---|---|---|---|---|---|---|---|
| $ | | Salary / fees | Cash STI | Other Cash Benefits | Deferred STI | LTI Performance Rights | Long Service Leave | Superannuation | Total |
| Mathew Edwards | 2020 | 462,736 | 215,000 | 231 | - | 24,563 | 43,572 | 26,581 | 772,683 |
| | 2019 | 235,904 | 120,000 | 56,798 | - | 80,559 | 7,900 | 20,530 | 521,691 |
| Jennifer Saliba | 2020 | 300,000 | 165,000 | - | - | 26,667 | - | 44,175 | 535,842 |
| | 2019 | 301,154 | 150,000 | - | 100,000 | 26,667 | 793 | 36,210 | 614,824 |
| Georgina Gaussen | 2020 | 320,000 | 152,000 | - | - | - | - | 44,840 | 516,840 |
| | 2019 | 56,615 | 11,252 | - | - | - | - | 5,378 | 73,245 |
| **Total** | **2020** | **1,082,736** | **532,000** | **231** | **-** | **51,230** | **43,572** | **115,596** | **1,825,365** |
| | **2019** | **593,673** | **281,252** | **56,798** | **100,000** | **107,226** | **8,693** | **62,118** | **1,209,760** |

The increase in remuneration for Mr Edwards in 2020 reflects an increase in base remuneration effective from 1 January 2020 to bring Mathew Edwards' fixed remuneration in line with market expectations and includes Director fees paid for TND of $55,076.89 plus superannuation. Remuneration paid to Georgina Gaussen in 2019 was for a part year only.

The executive KMP STI awards were made due to the following achievements:

- Developed data analytics, implemented roster management and various austerity measures which preserved liquidity during the height of the pandemic;
- Executed the COVID-19 response initiatives which resulted in a strong rebound in occupancy in second half of the financial year;
- Delivered capital investment program to transition Early Learning & Kinder Services to Nido Early School;
- Opened 15 purpose-built Nido Services (4 TND and 11 third-party incubators);
- Secured TND debt of $11.5 million; and
- Grew the number of trading child care Services owned by TNK to 73 whilst TND grew its pipeline of child care Services by 50% to 36 including the acquisition of:
  - 6 purpose-built Nido child care Services and 1 child care site by TND; and
  - 4 purpose-built Nido child care Services by TNK including 2 from TND and 2 from third-party incubator partners.

## 5. KMP EQUITY INTERESTS

The tables below set out the equity interests held by NED and executive KMP. Whilst we have agreed minimum security holdings guidelines, due to the turbulence of 2020 trading, the Boards took a prudent position and did not encourage Directors to acquire securities on market. This left little opportunity for Directors to act in a manner consistent with the agreed guidelines.

| Staple Securities | 1 January 2020 | Securities Acquired | Securities Sold | Received as Remuneration | 31 December 2020 |
|---|---|---|---|---|---|
| Mark Kerr | 1,824,066 | 685,737 | - | - | 2,509,803 |
| Joe Dicks | - | 29,630 | - | - | 29,630 |
| Evonne Collier | - | - | - | - | - |
| Michael Doble | - | - | - | - | - |
| James Spenceley | - | - | - | - | - |
| Nick Anagnostou | - | - | - | - | - |
| Mathew Edwards | 14,335,198 | - | 715,367 | 14,621 | 13,634,452 |
| Jennifer Saliba | 40,564 | - | - | 15,873 | 56,437 |
| Georgina Gaussen | - | - | - | - | - |

| Performance Rights | 1 January 2020 | Rights Acquired | Rights Exercised | Received as Remuneration | 31 December 2020 |
|---|---|---|---|---|---|
| Mark Kerr | - | - | - | - | - |
| Joe Dicks | - | - | - | - | - |
| Evonne Collier | - | - | - | - | - |
| Michael Doble | - | - | - | - | - |
| James Spenceley | - | - | - | - | - |
| Nick Anagnostou | - | - | - | - | - |
| Mathew Edwards | 14,621 | - | 14,621 | - | - |
| Jennifer Saliba | 31,746 | - | 52,105 | 72,464 | 52,105 |
| Georgina Gaussen | - | - | - | - | - |

# REMUNERATION REPORT - AUDITED CONTINUED

## 6. EQUITY GRANTED AS REMUNERATION

The table below presents the number of performance rights granted under ESOP to KMP as well as the number of rights that have vested or lapsed during the year.

| Director/Executive KMP | Grant year | Rights Granted | Opening Balance | Rights Vested | Rights Lapsed | Closing Balance |
|---|---|---|---|---|---|---|
| **Mathew Edwards** Performance Rights | 2020 | - | - | - | - | - |
| | 2019 | - | - | - | - | - |
| **Jennifer Saliba**[1] Performance Rights | 2020 | 72,464 | | 36,232 | - | 36,232 |
| | 2019 | 47,619 | 31,746 | 15,873 | - | 15,873 |
| **Georgina Gaussen** Performance Rights | 2020 | - | - | - | - | - |
| | 2019 | - | - | - | - | - |
| **Mark Kerr** | | None issued or vested | | | | |
| **Joe Dicks** | | None issued or vested | | | | |
| **Evonne Collier** | | None issued or vested | | | | |
| **Michael Doble** | | None issued or vested | | | | |
| **James Spenceley** | | None issued or vested | | | | |
| **Nick Anagnostou** | | None issued or vested | | | | |

**1** Performance Rights issued to Jennifer Saliba in 2019 are deferred STI.

## 7. EMPLOYMENT AGREEMENTS (AUDITED)

The CEO and other executive KMP operate under employment agreements.

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

| | |
|---|---|
| **Length of contract** | The CEO and other executive KMP are on permanent contracts, which is an ongoing employment contract until notice is given by either party. |
| **Notice periods** | In order to terminate the employment arrangements, the CEO is required to provide Think Childcare with six months' written notice. Other executive KMP are required to provide Think Childcare with between three months' and six months' written notice. |
| **Resignation** | On resignation, unless the Boards determines otherwise, all unvested STI or LTI benefits are forfeited. |
| **Termination on notice by Think Childcare** | Think Childcare Group may terminate employment of the CEO by providing six months' written notice. For other executive KMP, the notice period varies from three to six months' written notice. The Group may make payment in lieu of the notice period based on FAR.<br><br>On termination on notice by Think Childcare Group, unless the Boards determines otherwise unvested STI or LTI benefits may lapse. |
| **Death or total and permanent disability** | On death or total and permanent disability, the Boards have discretion to allow all unvested STI and LTI benefits to vest. |
| **Termination for serious misconduct** | Think Childcare Group may immediately terminate employment at any time in the case of serious misconduct, and other executive KMP will only be entitled to payment of TFR up to the date of termination.<br><br>On termination without notice by Think Childcare Group in the event of serious misconduct all unvested STI or LTI benefits will be forfeited, and any ESOP instruments provided to the employee on vesting of STI or LTI awards that are held in trust, will be forfeited. |
| **Statutory entitlements** | Payment of statutory entitlements of long service leave and annual leave applies in all events of separation. |
| **Post-employment restraints** | The CEO is subject to post-employment restraints of up to 24 months. All other executive KMP are subject to post-employment restraints for up to 12 months. |

# REMUNERATION REPORT – AUDITED CONTINUED

## 8. LOANS GIVEN TO KMPS

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

## 9. OTHER TRANSACTIONS WITH KMPS

### Mark Kerr

Mark Kerr (Non-Executive Director), via an indirect interest, has a partial interest as sub-landlord with respect to premises leased to Think Childcare in relation to a Think Childcare operating child care Service. The lease on the property commenced on 7 November 2016 on an outgoings only basis, until February 2017 when rent payments commenced. The lease had 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 2020, Think Childcare paid rent of $281,769. The rent is secured under a standard and commercial rent bond of $143,000.

### Mathew Edwards

#### Management and other services

Think Childcare provides management and establishment services to a child care Service incubator entity of which the siblings (brother and sister) of Mathew Edwards (Managing Director of TNK and Executive Director of TND) are shareholders. In consideration for the services provided by Think Childcare to the incubator entity, Think Childcare is paid fees in accordance with the agreed terms of engagement and management services.

During the 2020 financial year, the incubator entity had established two child care Services (Service Approval dates: January 2020 and December 2020) which Think Childcare currently manages. The Group expects the entity to open two child care Services in late 2021. During the year ended 31 December 2020, Think Childcare recognised from the incubator entity $108,043 (2019: $443,409) in management fees. The balance outstanding as at 31 December 2020 was $168,348.

Whilst Think Childcare is not obliged to acquire a child care Service from the incubator entity under the terms of the management services that it provides to the incubator entity, during the financial year ended 31 December 2020, Think Childcare acquired two child care Services from the entity, which was announced to the market on 16 November 2020. The aggregate initial purchase price for the two child care Services was $4,611,872.

The two child care Services that were acquired originally formed part of the portfolio of a child care Service incubator entity in which Mathew Edwards (Managing Director of TNK and Non-Executive Director of TND) is a Director and shareholder, as was disclosed below and in the 2019 Think Childcare Group Annual report (note 28) and 2020 Think Childcare Group interim financial report (note 15). In the original transfer of the two child care Services from Mathew Edwards to the incubator partner entity, Mathew Edwards had remained as a personal guarantor for the Leases in relation to these two child care Services. Upon the sale of these two child care Services by the partner entity to Think Childcare, Mathew Edwards was released as guarantor as part of the Assignment of Lease process incidental to the acquisition of the Services, transferring the lease interest to a TNK subsidiary on completion of the acquisition.

During the year ended 31 December 2019, Think Childcare provided establishment services to a child care Service incubator entity in which Mathew Edwards (Managing Director of TNK and Non-Executive Director of TND) is a Director and shareholder, as was disclosed in the 2019 Think Childcare Group Annual report (note 28) and 2020 Think Childcare Group interim financial report (note 15). Think Childcare did not provide establishment services to this incubator entity in 2020. The balance outstanding as at 31 December 2020 is $nil.

During the year ended 31 December 2020, Think Childcare Development entered into leases and/or agreement for leases in respect of seven greenfield sites. TND assumed the obligations in respect of establishment services and fees of $1.1m, which has been fully paid as at 31 December 2020.

In relation to one of the greenfield sites, notwithstanding that TND had assumed the obligations in respect of that establishment service, the third party landlord only agreed to enter into the transaction with TND on the condition that Mathew Edwards provided a personal guarantee (in addition, to TND as guarantor) for the premises until such time that the third party landlord was comfortable with TND's financial capacity. As this greenfield site has commenced trading, the parties are in discussion in respect to the release of Mathew Edwards' personal guarantee.

Mathew Edwards (Managing Director), via an indirect interest (Isamax Pty Ltd), has an established working relationship with a developing landlord with respect to child care freehold properties (Developing Landlord).

From time to time Mathew Edwards may (but is not obliged to) introduce freehold properties to the Developing Landlord; such properties may be considered a location for a child care service to be developed.

Where the Developing Landlord acquires land (whether introduced by Mathew Edwards or not), develops a child care service, secures a tenancy and then sells the land (Childcare Freehold Property), upon the Completion of the sale of the Childcare Freehold Property, the Developing Landlord is required to pay Mathew Edwards 3-5% of the sale price on the contract for sale of the freehold with respect to the Childcare Freehold Property. The Development Landlord is not obliged to sell any Childcare Freehold Property.

During the financial year ended 31 December 2020, the Developing Landlord has not sold any Freehold Childcare Properties and Mathew Edwards (personally or via Isamax Pty Ltd) has not received any funds from the Developing Landlord.

## Nick Anagnostou

Nick Anagnostou (Non-Executive Director) via an indirect interest provides consultancy services to Think Childcare Development Limited (TND).

The services relate in the main, to site selection and specialist advice on lease and occupancy terms.

For the year ended 31 December 2020, TND paid consultancy fees for the services of $8,760. These are over and above non-executive director's fees paid over the period to Mr Anagnostou via his indirect interest.

# DIRECTORS' DECLARATION

In the Directors' opinion:

- The attached consolidated financial statements and notes that are set out on pages 59 to 107 and the Remuneration Report on pages 40 to 57 in the Directors' Report, comply with the Corporations Act 2001, Australian Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- The attached consolidated financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- The attached consolidated financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2020 and of its performance for the financial year ended on that date; and
- There are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

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

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

On behalf of the Directors

Mark Kerr

**Mark Kerr**
Chairman
24 February 2021
Melbourne

# FINANCIAL REPORT


Nido Early School Donvale, VIC

# FINANCIAL REPORT

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

| | Note | 2020 $'000 | 2019 $'000 |
|---|---|---|---|
| **Revenue** | 5a | **136,358** | 113,547 |
| Other income | 5b | **3,580** | 1,997 |
| **Expenses** | | | |
| Employee benefit | 6 | **75,551** | 72,725 |
| Occupancy | | **6,649** | 4,992 |
| Direct expenses of providing services | | **4,475** | 4,412 |
| Corporate & marketing | | **4,155** | 4,237 |
| Acquisition and integration | 7 | **1,048** | 758 |
| Other | | **3,848** | 3,194 |
| Depreciation, amortisation and impairment | 12,13 | **16,826** | 11,522 |
| Finance costs | 8 | **15,258** | 10,469 |
| **Profit before tax** | | **12,128** | 3,235 |
| Income tax | 9 | **4,959** | 1,230 |
| **Profit for the year** | | **7,169** | 2,005 |
| Other comprehensive income for the year, net of tax | | **-** | - |
| **Total comprehensive income for the year** | | **7,169** | 2,005 |
| Profit/(loss) for the year attributable to: | | | |
| Members of Think Childcare Limited | | **10,005** | 3,364 |
| Members of Think Childcare Development Limited | | **(2,836)** | (1,359) |
| **Stapled security holders of Think Childcare Group** | | **7,169** | 2,005 |
| Total comprehensive income/(loss) attributable to: | | | |
| Members of Think Childcare Limited | | **10,005** | 3,364 |
| Members of Think Childcare Development Limited | | **(2,836)** | (1,359) |
| **Stapled security holders of Think Childcare Group** | | **7,169** | 2,005 |
| **Earnings per stapled security - Think Childcare Group** | | **Cents** | Cents |
| Basic | 35 | **11.75** | 3.47 |
| Diluted | 35 | **11.74** | 3.47 |

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 2020

| | Note | 2020 $'000 | 2019 $'000 |
|---|---|---|---|
| **Assets** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | | **22,863** | 11,685 |
| Trade and other receivables | 10 | **4,757** | 5,754 |
| Current tax asset | | **-** | 77 |
| Other assets | 11 | **2,272** | 1,527 |
| **Total current assets** | | **29,892** | 19,043 |
| **Non-current assets** | | | |
| Property, plant and equipment | 12 | **222,214** | 193,262 |
| Intangible assets | 13 | **87,699** | 78,103 |
| Deferred tax assets | 14 | **5,760** | 4,040 |
| **Total non-current assets** | | **315,673** | 275,405 |
| **Total assets** | | **345,565** | 294,448 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 15 | **5,663** | 6,636 |
| Borrowings | 18 | **21,622** | 17,687 |
| Current tax liabilities | | **2,607** | - |
| Employee benefits | 16 | **10,146** | 10,585 |
| Other liabilities | 17 | **33** | 141 |
| Provisions | 19 | **2,397** | - |
| **Total current liabilities** | | **42,468** | 35,049 |
| **Non-current liabilities** | | | |
| Borrowings | 18 | **242,162** | 202,887 |
| Derivative financial instruments | 24 | **847** | 744 |
| Employee benefits | 16 | **409** | 593 |
| **Total non-current liabilities** | | **243,418** | 204,224 |
| **Total liabilities** | | **285,886** | 239,273 |
| **Net assets** | | **59,679** | 55,175 |
| **Equity** | | | |
| **Think Childcare Limited** | | | |
| Issued capital | 20 | **73,039** | 72,845 |
| Reserves | 21 | **(19,120)** | (19,109) |
| Retained earnings | | **3,789** | (3,173) |
| Equity attributable to members of Think Childcare Limited | | **57,708** | 50,563 |
| **Think Childcare Development Limited** | | | |
| Issued capital | 20 | **5,993** | 5,971 |
| Reserves | 21 | **173** | - |
| Retained earnings | | **(4,195)** | (1,359) |
| Equity attributable to members of Think Childcare Development Limited | | **1,971** | 4,612 |
| **Total equity** | | **59,679** | 55,175 |

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

# FINANCIAL REPORT CONTINUED

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

| | | Think Childcare Limited | | | | Think Childcare Development Limited | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| 2019 | Note | Issued capital $'000 | Reserves $'000 | Retained earnings $'000 | Total Equity $'000 | Issued capital $'000 | Reserves $'000 | Retained earnings $'000 | Total equity $'000 | Total Equity $'000 |
| **Balance at 1 January 2019** | | **53,779** | **(18,971)** | **3,822** | **38,630** | **-** | **-** | **-** | **-** | **38,630** |
| Profit/(loss) for the year | | - | - | 3,364 | 3,364 | - | - | (1,359) | (1,359) | 2,005 |
| Other comprehensive income for the year | | - | - | - | - | - | - | - | - | - |
| **Total comprehensive income/(loss) for the year** | | **-** | **-** | **3,364** | **3,364** | **-** | **-** | **(1,359)** | **(1,359)** | **2,005** |
| Contributions of equity, net of transaction costs | 20 | 18,858 | - | - | 18,858 | 5,971 | - | - | 5,971 | 24,829 |
| Security-based payments | 21 | - | 70 | - | 70 | - | - | - | - | 70 |
| Performance Rights exercised | 20,21 | 208 | (208) | - | 0 | - | - | - | - | 0 |
| Dividends | 22 | - | - | (10,359) | (10,359) | - | - | - | - | (10,359) |
| **Total contributions and distributions** | | **19,066** | **(138)** | **(10,359)** | **8,569** | **5,971** | **-** | **-** | **5,971** | **14,540** |
| **Balance at 31 December 2019** | | **72,845** | **(19,109)** | **(3,173)** | **50,563** | **5,971** | **-** | **(1,359)** | **4,612** | **55,175** |

| 2020 | Note | Think Childcare Limited Issued capital $'000 | Reserves $'000 | Retained earnings $'000 | Total Equity $'000 | Think Childcare Development Limited Issued capital $'000 | Reserves $'000 | Retained earnings $'000 | Total equity $'000 | Total Equity $'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2020** | | **72,845** | **(19,109)** | **(3,173)** | **50,563** | **5,971** | **-** | **(1,359)** | **4,612** | **55,175** |
| Profit/(loss) for the year | | - | - | 10,005 | 10,005 | - | - | (2,836) | (2,836) | 7,169 |
| Other comprehensive income for the year | | - | - | - | - | - | - | - | - | - |
| **Total comprehensive income/(loss) for the year** | | **-** | **-** | **10,005** | **10,005** | **-** | **-** | **(2,836)** | **(2,836)** | **7,169** |
| Contributions of equity, net of transaction costs | 20 | 194 | - | - | 194 | 22 | - | - | 22 | 216 |
| Transfer of assets in specie from TNK to TND | 29 | - | (173) | - | (173) | - | 173 | - | 173 | - |
| Security-based payments | 21 | - | 263 | - | 263 | - | - | - | - | 263 |
| Performance Rights exercised | 21 | - | (101) | - | (101) | - | - | - | - | (101) |
| Dividends | 22 | - | - | (3,043) | (3,043) | - | - | - | - | (3,043) |
| **Total contributions and distributions** | | **194** | **(11)** | **(3,043)** | **(2,860)** | **22** | **173** | **-** | **195** | **(2,665)** |
| **Balance at 31 December 2020** | | **73,039** | **(19,120)** | **3,789** | **57,708** | **5,993** | **173** | **(4,195)** | **1,971** | **59,679** |

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

# FINANCIAL REPORT CONTINUED

## CONSOLIDATED STATEMENT OF CASH FLOW

For the year ended 31 December 2020

| | Note | 2020 $'000 | 2019 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from parents and government funding | | **92,029** | 111,197 |
| Receipts from Early Childhood Education and Care Relief Package | 5a | **29,749** | - |
| Receipts from JobKeeper | 6 | **16,213** | - |
| Payments to suppliers and employees | | **(96,855)** | (85,660) |
| Government grants | 5b | **2,944** | 1,722 |
| Interest and other finance cost | | **(15,155)** | (9,164) |
| Income tax | | **(3,952)** | (3,702) |
| Net cash from operating activities | 33 | **24,973** | 14,393 |
| **Cash flows from investing activities** | | | |
| Payments for acquisition of business | 19,31 | **(9,790)** | (24,291) |
| Payments for property, plant and equipment | 12 | **(5,407)** | (7,213) |
| Payments for intangibles | 13 | **(61)** | (269) |
| Receipt/(payments) for security deposits | | **-** | 26 |
| Net cash used in investing activities | | **(15,258)** | (31,747) |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of shares (net of transaction costs) | 20 | **216** | 19,066 |
| Proceeds from capitalisation of Think Childcare Development (net of transaction costs) | 20 | **-** | 5,971 |
| Proceeds from borrowings | 18 | **11,500** | 16,125 |
| Repayment of lease liabilities | | **(7,210)** | (5,324) |
| Special dividend to capitalise Think Childcare Development | 22 | **-** | (6,000) |
| Dividends paid to shareholders of Think Childcare Limited | 22 | **(3,043)** | (4,359) |
| Net cash (used in)/from financing activities | | **1,463** | 25,479 |
| Net increase in cash and cash equivalents | | **11,178** | 8,125 |
| Cash and cash equivalents at the beginning of the year | | **11,685** | 3,560 |
| Cash and cash equivalents at the end of the year | | **22,863** | 11,685 |

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 1. GENERAL INFORMATION

The financial statements cover Think Childcare Group (hereafter, referred to as Think Childcare Group or the Group) which comprises Think Childcare Limited and its controlled entities (hereafter, referred to as Think Childcare or TNK) and Think Childcare Development Limited and its controlled entities (hereafter, referred to as Think Childcare Development or TND). The shares of TNK are stapled to the shares of TND and trade on the Australian Securities Exchange (ASX) as one security (ASX code: TNK).

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

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

Suite 3, 1 Park Avenue
Drummoyne NSW 2047

A description of the nature of the Group's operations and its principal activities are included in the Directors' report, which is not part of the financial statements. The financial statements were authorised for issue, in accordance with a resolution of Directors, on 23 February 2021. The Directors have the power to amend and reissue the financial statements.

## NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

### Statement of compliance

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

### Standards on issue but not yet adopted

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

#### 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 Group but may impact future periods should the Group 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 material impact on the consolidated financial statements of the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

**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 AASB 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 Group.

## Net current liabilities

As at 31 December 2020, the Group had net current liabilities of $12.6m which include $21.1m of current lease liabilities arising from AASB 16 Leases which will be settled through operating cash flows earned in the next 12 months. The Group is forecasting positive cash flows based on the scenarios modelled for the next 12 months. The Group recorded profit for the year of $7.2m (2019: profit of $2.0m).

The Group recorded EBITDA of $44.2m (2019: $24.9m) and EBITDA (underlying) of $26.8m (2019: $13.9m) for the year. As at 31 December 2020 Think Childcare had closing cash of $22.9m, facility headroom of $24.2m ($12.2m restricted for acquisitions, $4.2m Accordion facility and $7.8m for working capital and bank guarantees). Think Childcare was compliant with all bank covenants and based on the forecast, is expected to maintain compliance in the next 12 months.

The ongoing impact of COVID-19 remains uncertain. Other factors that may impact the outlook of the Group 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 Group is unable to continue as a going concern, it could have an impact on the Group'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 the Group will continue as a going concern.

## Basis of preparation

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

## Critical accounting estimates

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

## Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 30.

## Basis of consolidation

### Business combinations

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

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

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

#### Subsidiaries

Subsidiaries are entities controlled by the Group. The Group 'controls' an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

#### Loss of control

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

### Operating segments

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

### Revenue recognition

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

#### Provision of child care services

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

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

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

#### Management fees

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

#### Establishment fees

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

#### Licence fees

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

#### Commonwealth, State and Territory Government grants

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses, the related costs for which the grants are intended to compensate.

#### 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.

### Leases

#### Definition of a lease

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. For leases of properties in which it is a lessee, the Group has elected to separate non-lease components and will separately account for the lease and non-lease components of a lease.

### Group as a lessee

The Group mainly leases properties for child care services. The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right of use assets representing the right to use the underlying assets. Under AASB 16, the Group recognises right of use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

### Right of use assets

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

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

### Lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the incremental borrowing rate for the portfolio of leases. Lease liabilities are presented in note 18 Borrowings.

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

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

## Income tax

The income tax expense or benefit for the year is the tax payable on that year's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

### Deferred tax

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
- When an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

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

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

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

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

## Current and non-current classification

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

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

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

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

## Cash and cash equivalents

Cash and cash equivalents includes cash at bank and on hand.

## Provisions

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

## Finance costs

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

## Trade and other receivables

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## Property, plant and equipment

### Recognition and measurement

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

Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

### Subsequent expenditure

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

### Depreciation

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

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

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

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

## Intangible assets

### Goodwill

Where an entity or operation is acquired in a business combination that is not a common control transaction, the identifiable net assets acquired are measured at fair value. The excess of the fair value of the cost of the acquisition over the fair value of the identifiable net assets acquired is brought to account as goodwill. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

### Software

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

## Impairment of non-financial assets

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

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

## Trade and other payables

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

Contingent consideration is detailed in the business combination policy. Refer to note 31 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, 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.

### Security-based payments

Equity-settled security-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.

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

The cost of equity-settled transactions is 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.

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 security-based compensation benefit as at the date of modification.

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

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

## Fair value measurement

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

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

Valuation techniques that are appropriate in the circumstances and for which sufficient data is available

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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 stapled securities are classified as equity.

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

## Dividends

Dividends are recognised when declared during the financial year.

## Business combinations

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

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

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

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

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

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the Group's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from a financier under comparable terms and conditions.

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

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

#### Common control transactions

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

### Earnings per stapled security

#### Basic earnings per stapled security

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

#### Diluted earnings per stapled security

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

### Goods and Services Tax (GST) and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

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

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

### Rounding of amounts

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

## NOTE 3. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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

### Goodwill

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

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

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

### Recovery of deferred tax assets

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

### Employee benefits provision

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

### Business combinations

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

## NOTE 4. OPERATING SEGMENTS

### Identification of reportable operating segments

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

Think Childcare Group comprises the following reportable segments:

- Child Care Operations
- Child Care Development

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

### Major customers

During the year ended 31 December 2020, none of the Group's external revenue was derived from sales to one specific customer or group of customers that comprised more than 10% of total revenue (2019: nil).

EBITDA, EBITDA (underlying) and NPAT (underlying) reflect the results of the ongoing business of the consolidated entity 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 our 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) is disclosed as a useful guide for investors to gain a better understanding of the Group's financial results from normal operating activities.

## Reportable segments

| 2020 | Operations $'000 | Development $'000 | Eliminations $'000 | Total $'000 |
|---|---|---|---|---|
| **Segment revenue** | | | | |
| Service revenue | 129,332 | 8,773 | - | 138,105 |
| Labour | (61,489) | (5,560) | - | (67,049) |
| Occupancy | (22,311) | (2,328) | - | (24,639) |
| Service overheads | (7,655) | (1,004) | - | (8,659) |
| **Service performance** | **37,877** | **(119)** | **-** | **37,758** |
| Management and other fees [3] | 3,066 | (619) | (1,200) | 1,247 |
| Employee expenses | (7,765) | (45) | - | (7,810) |
| Corporate overheads | (2,996) | (709) | - | (3,675) |
| **Corporate costs** | **(7,665)** | **(1,373)** | **(1,200)** | **(10,238)** |
| (Loss)/profit on sale of child care Services [2] | (148) | 2,922 | (2,922) | (148) |
| Acquisition expenses | - | (568) | - | (568) |
| **EBITDA (underlying)** | **30,064** | **862** | **(4,122)** | **26,804** |
| Operating lease costs [1] | 16,934 | 1,897 | - | 18,831 |
| Non underlying expenses | (1,421) | - | - | (1,421) |
| **Segment EBITDA** | **45,577** | **2,759** | **(4,122)** | **44,214** |
| Finance cost | (13,073) | (2,185) | - | (15,258) |
| Depreciation and amortisation | (15,427) | (1,401) | - | (16,828) |
| Tax | (5,246) | 287 | - | (4,959) |
| **Profit/(Loss) for the period** | **11,831** | **(540)** | **(4,122)** | **7,169** |
| Non-underlying costs | 1,421 | - | - | 1,421 |
| Interest on lease liabilities | 10,035 | 1,586 | - | 11,621 |
| Depreciation on right of use assets | 11,888 | 1,021 | - | 12,909 |
| Operating lease costs | (16,934) | (1,897) | - | (18,831) |
| Tax impact | (1,923) | (213) | - | (2,136) |
| **NPAT (underlying)** | **16,318** | **(43)** | **(4,122)** | **12,153** |

| Segment assets and liabilities | | | | |
|---|---|---|---|---|
| Segment assets | 302,782 | 46,905 | (4,122) | 345,565 |
| Unallocated assets | - | - | - | - |
| **Total assets** | **302,782** | **46,905** | **(4,122)** | **345,565** |
| Segment liabilities | 243,248 | 42,638 | - | 285,886 |
| Unallocated liabilities | - | - | - | - |
| **Total liabilities** | **243,248** | **42,638** | **-** | **285,886** |

**1** This caption represents cash out flow for leases for the year ended 31 December 2020
**2** Think Childcare Development sold two Nido Services to Think Childcare, the profit on sale of $2.9m has been eliminated
**3** Think Childcare provided Establishment Services to Think Childcare Development and received $1.2m in fees which has been eliminated on consolidation

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

| 2019 [2] | Operations $'000 | Development $'000 | Eliminations $'000 | Total $'000 |
|---|---|---|---|---|
| **Segment revenue** | | | | |
| Service revenue | 110,304 | 301 | - | 110,605 |
| Labour | (66,124) | (282) | - | (66,406) |
| Occupancy | (17,930) | (234) | - | (18,164) |
| Service overheads | (7,049) | (340) | - | (7,369) |
| **Service performance** | **19,201** | **(555)** | **-** | **18,646** |
| Management and other fees | 4,949 | - | - | 4,939 |
| Employee expenses | (6,254) | - | - | (6,254) |
| Corporate overheads | (3,140) | - | - | (3,140) |
| **Corporate costs** | **(4,455)** | **-** | **-** | **(4,455)** |
| **EBITDA (underlying)** | **14,746** | **(555)** | **-** | **14,191** |
| Operating lease costs [1] | 12,928 | 134 | - | 13,062 |
| Non underlying expenses | (718) | (1,309) | - | (2,027) |
| **Segment EBITDA** | **26,956** | **(1,730)** | **-** | **25,226** |
| Finance cost | (10,362) | (107) | - | (10,469) |
| Depreciation and amortisation | (11,432) | (90) | - | (11,522) |
| Tax | (1,798) | 568 | - | (1,130) |
| **Profit/(Loss) for the period** | **3,364** | **(1,357)** | **-** | **2,005** |
| Non-underlying costs | 718 | 1,309 | - | 2,027 |
| Interest on lease liabilities | 7,631 | 107 | - | 7,738 |
| Depreciation on right of use assets | 8,812 | 88 | - | 8,900 |
| Operating lease costs | (12,928) | (134) | - | (13,062) |
| Tax impact | (1,055) | (18) | - | (1,073) |
| **NPAT (underlying)** | **5,824** | **(1,316)** | **-** | **4,508** |
| **Segment assets and liabilities** | | | | |
| **Segment assets** | **281,264** | **13,184** | **-** | **294,448** |
| **Unallocated assets** | **-** | **-** | **-** | **-** |
| **Total assets** | **281,264** | **13,184** | **-** | **294,448** |
| **Segment liabilities** | **230,701** | **8,572** | **-** | **239,273** |
| **Unallocated liabilities** | **-** | **-** | **-** | **-** |
| **Total liabilities** | **230,701** | **8,572** | **-** | **239,273** |

**1** This caption represents cash out flow for leases for the year ended 31 December 2019.
**2** To enable comparison with current year performance, certain captions within the 31 December 2019 segment information have been re-allocated to conform with current year presentation. There is no net impact on the comparative profit or loss of the group.

| | 2020<br>$'000 | 2019<br>$'000 |
|---|---|---|
| **Income per reportable segments** | | |
| Service revenue | **138,105** | 110,605 |
| Management and other fees | **1,247** | 4,939 |
| Other income | **-** | - |
| Rent abatement (included in occupancy) | **586** | - |
| **Consolidated income** | **139,938** | 115,544 |

| | 2020<br>$'000 | 2019<br>$'000 |
|---|---|---|
| **Income per condensed consolidated statement of profit or loss** | | |
| Revenue | **136,353** | 113,547 |
| Other income | **3,585** | 1,997 |
| **Consolidated income** | **139,938** | 115,544 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## NOTE 5A. REVENUE

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Child care fees | 105,357 | 108,582 |
| ECEC Relief Package | 29,749 | - |
| Management fees | 884 | 1,611 |
| Establishment fees | 350 | 2,989 |
| Licence fees | 18 | 365 |
| **Revenue** | 136,358 | 113,547 |

### Revenue from contracts with customers

#### Disaggregation of revenue from contracts with customers

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

| 2020 | Child care services | ECEC Relief Package | Management fees | Establishment fees | Licence fees | Total |
|---|---|---|---|---|---|---|
| Revenue from external customers | 105,357 | 29,749 | 884 | 350 | 18 | 136,358 |
| **Timing of revenue recognition** | | | | | | |
| At a point in time | - | - | - | 350 | - | 350 |
| Over time | 105,357 | 29,749 | 884 | - | 18 | 136,008 |
| | **105,357** | **29,749** | **884** | **350** | **18** | **136,358** |

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

## 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 in the reference fortnight, being 17 February 2020 to 28 February 2020. 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 to parents.

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

In light of the second wave lockdown that impacted Victoria, the Child Care Recovery Package (Victorian Recovery Package) was introduced to target support for Victorian Services. The package applied from 28 September 2020 to 31 January 2021 and included a recovery payment of 25% of fees charged in the same reference fortnight used for the original ECEC Relief Package. As part of the conditions of receiving this package, Services were not permitted to increase child care fees and an employment guarantee had to be applied to ensure that these payments were effectively passed on to educators and employees.

The ECEC Relief Package, transition payments and the Child Care Recovery Package have been recognised as revenue from contracts with customers in accordance with AASB 15. The performance obligation associated with the ECEC Relief Package, transition payments and the Child Care Recovery Package was to operate child care Services and provide care to children of essential workers. As a result, the 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.

### Assets and liabilities related to contracts with customers

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

| | Note | 2020 $'000 | 2019 $'000 |
|---|---|---|---|
| Capitalised setup costs relating to Licence fees | | - | 15 |
| **Total contract assets** | | - | **15** |
| Child care advances | 15 | **1,098** | 1,121 |
| Service enrolment advances | 15 | **176** | 258 |
| Unearned revenue relating to Licence fees | 17 | - | 18 |
| **Total contract liabilities** | | **1,274** | **1,397** |

## NOTE 5B. OTHER INCOME

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Government grants | **2,944** | 1,722 |
| Rent abatement | **586** | - |
| Other | **50** | 275 |
| **Other income** | **3,580** | **1,997** |

## Rent Abatement

The Federal Government encouraged a Code of Conduct (CoC) be applied to landlords and tenants to work together to agree rent reductions and abatements commensurate with their reduction in revenue. Think Childcare Group approached its portfolio of landlords and requested a 12.5% abatement, whilst the CoC suggested a 50% abatement based on the 50% decline in revenue. Think Childcare Group was able to obtain rent abatements of $0.6m for a limited number of leases in the year ended 31 December 2020.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## NOTE 6. EMPLOYEE BENEFIT EXPENSE

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Salaries and wages | 82,148 | 67,171 |
| JobKeeper expense [1] | 2,684 | - |
| JobKeeper subsidy | (16,213) | - |
| Defined contribution to superannuation plans | 6,932 | 5,554 |
| **Employee benefits expense** | **75,551** | **72,725** |

1 JobKeeper expense refers to payments made to employees during a fortnight, over and above their ordinary salaries and wages up to $1,500, as required by the JobKeeper payment scheme.

### 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 Group qualified for the JobKeeper payments. The payment was made to eligible registered child care provider employers until 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 Group received a payment of $1,500 before tax, per fortnight per eligible employee which was passed on to the eligible employee.

JobKeeper payments received from the Commonwealth Government have been recorded in accordance with AASB 120 Government Grants. Government grants are recognised at their fair value when there is a reasonable assurance that the grant will be received and the Group will comply with all conditions associated with the grant. The Group has elected to include the JobKeeper grants in employee benefits and off-set against employee benefit expenses.

## NOTE 7. ACQUISITION & INTEGRATION EXPENSE

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Costs of capital raising | - | 21 |
| Legal and stamp duty | 712 | 739 |
| Commission | 336 | (2) |
| **Acquisition & integration expense** | **1,048** | **758** |

## NOTE 8. FINANCE COSTS

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Interest on borrowings | 3,637 | 2,731 |
| Interest on lease liabilities | 11,621 | 7,738 |
| **Finance costs** | **15,258** | **10,469** |

## NOTE 9. INCOME TAX EXPENSE

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| **Income tax expense** | | |
| Current tax | 6,653 | 2,962 |
| Deferred tax - origination and reversal of temporary differences | (1,686) | (1,820) |
| Adjustment recognised for prior periods | (18) | 88 |
| **Aggregate income tax expense** | **4,959** | **1,230** |
| **Deferred tax included in income tax expense comprises** | | |
| (Decrease)/increase in deferred tax assets (note 14) | (2,102) | 2,080 |
| Increase/(decrease) in deferred tax liabilities (note 14) | 416 | (260) |
| **Numerical reconciliation of income tax expense and tax at the statutory rate** | | |
| Profit before tax | 12,128 | 3,235 |
| Inter-segment profit subject to tax | 4,122 | - |
| **Profit before tax including inter-segment profit** | **16,250** | **3,235** |
| Tax at the statutory tax rate of 30% | 4,875 | 970 |
| **Tax effect amounts which are not deductible/(taxable) in calculating taxable income** | | |
| Other income not included in assessable income | - | (60) |
| Acquisition and integration expenses | 144 | 232 |
| | **5,019** | **1,142** |
| Other adjustments | (60) | 88 |
| **Income tax expense** | **4,959** | **1,230** |

| | | |
|---|---|---|
| **Amounts charged directly to equity** | | |
| Deferred tax assets (note 14) | - | 235 |

The effective tax rate for the year ended as at 31 December 2020 is 30.5% (2019: 38.0%).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## NOTE 10. TRADE AND OTHER RECEIVABLES

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Trade receivables | **4,046** | 5,997 |
| Less: Provision for impairment of receivables | **(295)** | (296) |
| | **3,751** | **5,701** |
| **Other** | | |
| Other receivables | **1,006** | 53 |
| **Trade and other receivables** | **4,757** | **5,754** |

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

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| 1 to 30 days past due | **106** | 33 |
| 31 to 60 days past due | **34** | 24 |
| over 61 days past due | **155** | 239 |
| | **295** | **296** |

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

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Opening balance | **296** | 307 |
| Additional provisions recognised | **44** | 112 |
| Unused amounts reversed | **(45)** | (123) |
| **Closing balance** | **295** | **296** |

### Past due but not impaired

Customers with balances past due but without provision for impairment of receivables amount to $3,751,000 as at 31 December 2020 ($858,000 as at 31 December 2019).

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

At 31 December 2020, the analysis of past due trade receivables not impaired are as follows:

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| 1 to 30 days past due | **1,883** | 651 |
| 31 to 60 days past due | **20** | 64 |
| over 61 days past due | **1,848** | 143 |
| | **3,751** | **858** |

## NOTE 11. OTHER ASSETS

| **Current** | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Prepayments | **903** | 727 |
| Rental bonds and other | **1,369** | 538 |
| Contingent consideration from incubator partners | **-** | 262 |
| **Other assets** | **2,272** | **1,527** |

Refer note 19 for movement in contingent consideration.

# NOTE 12. PROPERTY, PLANT AND EQUIPMENT

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| **Plant and equipment – at cost** | 22,697 | 16,637 |
| Less: Accumulated depreciation | (6,211) | (3,568) |
| | 16,486 | 13,069 |
| **Leasehold improvements – at cost** | 5,315 | 5,070 |
| Less: Accumulated depreciation | (1,439) | (872) |
| | 3,876 | 4,198 |
| **Motor vehicles – at cost** | 29 | 320 |
| Less: Accumulated depreciation | (25) | (222) |
| | 4 | 98 |
| **Computer equipment – at cost** | 1,705 | 1,088 |
| Less: Accumulated depreciation | (638) | (322) |
| | 1,067 | 766 |
| **Right of use asset (ROU)** | 220,873 | 183,441 |
| Less: Accumulated depreciation | (20,711) | (8,900) |
| | 200,162 | 174,541 |
| **Construction in progress** | 619 | 590 |
| | 222,214 | 193,262 |

# NOTES TO THE CONSOLIDATED 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 | Right of use asset $'000 | Construction in progress $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| Balance at 1 January 2019 | 7,044 | 1,910 | 185 | 414 | - | 1,408 | 10,961 |
| **Additions** | 1,105 | 918 | - | 387 | 183,441 | 5,244 | 191,095 |
| Additions through business combination (note 31) | 2,514 | 458 | - | 153 | - | - | 3,125 |
| Transfer | 4,776 | 1,286 | - | - | - | (6,062) | - |
| **Disposals** | (383) | (28) | (16) | (15) | - | - | (442) |
| Depreciation Expense | (1,987) | (346) | (71) | (173) | (8,900) | - | (11,477) |
| **Balance at 31 December 2019** | 13,069 | 4,198 | 98 | 766 | 174,541 | 590 | 193,262 |
| **Additions** | 1,722 | 685 | - | 453 | 15,260 | 2,547 | 20,667 |
| Additions through business combination (note 31) | 1,390 | (168) | - | 127 | 24,534 | 125 | 26,344 |
| Transfer | 3,159 | (563) | - | 47 | - | (2,643) | - |
| **Disposals** | (22) | (4) | (45) | (2) | (1,265) | - | (1,338) |
| Impairment | (88) | (6) | - | (12) | (238) | - | (344) |
| Depreciation Expense | (2,744) | (602) | (49) | (312) | (12,670) | - | (16,377) |
| **Balance at 31 December 2020** | **16,486** | **3,876** | **4** | **1,067** | **200,162** | **619** | **222,214** |

# NOTE 13. INTANGIBLES

| | 2020<br>$'000 | 2019<br>$'000 |
|---|---|---|
| Goodwill - at cost | **87,404** | 77,764 |
| Software - at cost | **551** | 490 |
| Less: Accumulated amortisation | **(256)** | (151) |
| Total software | **295** | 339 |
| **Intangibles** | **87,699** | **78,103** |

## Reconciliations

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

| | Note | Goodwill<br>$'000 | Software<br>$'000 | Total<br>$'000 |
|---|---|---|---|---|
| Balance at 1 January 2019 | | 57,161 | 115 | 57,276 |
| **Additions** | | - | 269 | 269 |
| Additions through business combination | 31 | 21,655 | - | 21,655 |
| Adjustments relating to prior year acquisitions | | (1,052) | - | (1,052) |
| Amortisation expense | | - | (45) | (45) |
| **Balance at 31 December 2019** | | 77,764 | 339 | 78,103 |
| **Additions** | | - | 61 | 61 |
| Additions through business combination | 31 | 10,100 | - | 10,100 |
| Adjustments relating to prior year acquisitions | | (198) | - | (198) |
| Disposal of child care Service | | (262) | - | (262) |
| Amortisation expense | | - | (105) | (105) |
| **Balance at 31 December 2020** | | **87,404** | **295** | **87,699** |

Think Childcare divested 1 child care Service to a third party during the year for a total consideration of $115,000. The loss on sale of child care Service of $197,000 represents the excess of net assets transferred over consideration received.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## Impairment test for goodwill

For impairment testing, the goodwill acquired through business combinations is allocated to the group of cash-generating units (CGUs) which are also the Group's operating segments. As at 31 December 2020, the goodwill amount allocated to Child Care Operations CGU was $82,464,000 and to Child Care Development was $4,940,000.

The Group performed its annual impairment test in December 2020. The Group considers the relationship between its market capitalisation and its book value, among other factors, when reviewing for indicators of impairment. As at 31 December 2020, the Group has not identified any indicators of impairment.

The recoverable amount of a CGU is determined based on a value in use calculation using cash flow projections from financial budgets approved by Management covering a three year period. Cash flows beyond the three year period are extrapolated using the estimated growth rates of occupancy and daily fee. The growth rate does not exceed the long term average growth rate for the business. The pre-tax discount rate applied to the cash flow projections is 13.5% (2019: 13.5%). The growth rate used to extrapolate the cash flows of the unit beyond the five-year period is 2.5% (2019: 2.5%).

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

### 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 which is based on the specific circumstances of the group and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the group's investors. The cost of debt is based on the interest-bearing borrowings of the group.
- Service occupancy rates which are based on the current market conditions plus anticipated annual increases.
- Service wages which are based on industry award standards and forecast to increase by historically established wage cost as a percentage of revenue which is driven by future growth occupancy.
- Occupancy expenses which are based on current rental payments and increased by a historically established occupancy cost as a percentage of revenue which is driven by future growth in occupancy.
- Terminal growth rate.

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

## NOTE 14. DEFERRED TAX

| 2020 | Balance at 1 January 2020 $'000 | Credited / (Charged) to profit and loss $'000 | Credited / (Charged) to equity $'000 | Acquisitions and other adjustments $'000 | Balance at 31 December 2020 $'000 |
|---|---|---|---|---|---|
| Receivables | 89 | - | - | - | 89 |
| Prepayments | (86) | 61 | - | - | (25) |
| Employee benefits | 2,161 | 289 | - | 34 | 2,484 |
| AASB 16 (Leases) | 1,073 | 1,709 | - | - | 2,782 |
| Property, plant and equipment | (294) | (415) | - | - | (709) |
| Capitalised costs | 625 | 32 | - | - | 657 |
| Payables | - | - | - | - | - |
| Provisions | - | - | - | - | - |
| Share based payment reserve | (17) | 48 | - | - | 31 |
| Other | 261 | 190 | - | - | 451 |
| Net temporary differences | 3,812 | 1,914 | - | 34 | 5,760 |
| Tax losses - revenue | 228 | (228) | - | - | - |
| **Deferred tax asset** | **4,040** | **1,686** | **-** | **34** | **5,760** |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## NOTE 15. TRADE AND OTHER PAYABLES

| Current | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Trade payables | 3,134 | 3,380 |
| Service enrolment advances | 176 | 258 |
| Child care advances | 1,098 | 1,121 |
| Other payables | 1,255 | 1,877 |
| **Trade and other payables** | **5,663** | **6,636** |

All of the opening contract liabilities were recognised as revenue during the year. Refer to note 23 for further information on financial instruments.

## NOTE 16. EMPLOYEE BENEFITS

| Current | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Annual leave | 4,485 | 3,546 |
| Long service leave | 1,385 | 1,348 |
| Employee related payables | 4,276 | 5,691 |
| **Employee benefits - current** | **10,146** | **10,585** |
| **Non-Current** | | |
| Long service leave | 409 | 593 |
| **Employee benefits - non current** | **409** | **593** |

## NOTE 17. OTHER LIABILITIES

| Current | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Unearned revenue relating to Licence fees | - | 18 |
| Deferred revenue | 33 | 123 |
| **Other liabilities - current** | **33** | **141** |

## NOTE 18. BORROWINGS

| Current | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Secured bank loans | 475 | 428 |
| Lease liability | 21,147 | 17,259 |
| **Borrowings - current** | **21,622** | **17,687** |
| **Non-Current** | | |
| Secured bank loans | 53,873 | 41,986 |
| Lease liability | 188,289 | 160,901 |
| **Borrowings - non current** | **242,162** | **202,887** |

Refer to note 23 for further information about the Group's exposure to interest rate and liquidity risks.

The unused portion of the bank loan facility is $20.0m (2019: $20.3m) plus an Accordion of $4.2m (2019: $4.2m). The interest rate payable on each loan is based on the base rate (BBSW) plus the lender's margin depending on the covenant. Maturity date of the facility is June 2023. As at 31 December 2020, the Macquarie Bank Limited facility was in good order and the Group was not in breach of any covenants.

### Assets pledged as security

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

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

## Financing arrangements

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| **Total facilities** | | |
| Secured bank loans | **67,700** | 57,800 |
| Inter-changeable facility (comprising working facility and bank guarantee facility) | **17,600** | 16,000 |
| | **85,300** | 73,800 |
| **Used at the reporting date** | | |
| Secured bank loans | **55,500** | 44,000 |
| Inter-changeable facility (comprising working facility and bank guarantee facility) | **9,824** | 9,453 |
| | **65,324** | 53,453 |
| **Unused at the reporting date** | | |
| Secured bank loans | **12,200** | 13,800 |
| Inter-changeable facility (comprising working facility and bank guarantee facility) | **7,776** | 6,547 |
| | **19,976** | 20,347 |

# NOTE 19. PROVISIONS

| **Current** | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Contingent consideration | **1,922** | - |
| Legal | **475** | - |
| **Provisions** | **2,397** | **-** |

| | Contingent Consideration $'000 | Legal $'000 | Total $'000 |
|---|---|---|---|
| Balance at 1 January 2020 (refer note 11) | (262) | - | (262) |
| Assumed in a business combination | 1,840 | - | 1,840 |
| Adjustments relating to prior year acquisitions | 344 | - | 344 |
| Provisions made during the year | - | 475 | 475 |
| **Balance at 31 December 2020** | **1,922** | **475** | **2,397** |

## Litigation

At 31 December 2020, the Group had litigation matters outstanding with expected resolution within the first quarter of the 2021 financial year. Based on legal advice, the Directors do not expect the outcomes to be materially different to the amount provided for.

In the Directors' opinion, disclosure of any further information would be prejudicial to the interests of the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## NOTE 20. EQUITY - ISSUED CAPITAL

| | 2020 Stapled securities | 2019 Stapled securities | 2020 $'000 | 2019 $'000 |
|---|---|---|---|---|
| Ordinary securities - fully paid | **61,058,636** | 60,862,889 | **79,032** | 78,816 |

### Movements in ordinary securities capital

| Details | Date | Stapled securities | Issue Price | $'000 |
|---|---|---|---|---|
| Think Childcare balance | 1 January 2019 | 48,467,659 | | 53,779 |
| Issue of stapled securities under Dividend Reinvestment Plan | 28 March 2019 | 527,990 | $1.76 | 926 |
| Issue of stapled securities through capital raising | 29 March 2019 | 11,479,114 | $1.58 | 18,137 |
| Transaction cost | | | | (520) |
| Issue of stapled securities under Employee Share Option Plan | 31 July 2019 | 123,525 | $1.68 | 208 |
| Issue of stapled securities under Dividend Reinvestment Plan | 20 September 2019 | 264,601 | $1.19 | 315 |
| Balance | 31 December 2019 | 60,862,889 | | 72,845 |
| Issue of stapled securities under Dividend Reinvestment Plan | 27 March 2020 | 195,747 | $0.99 | 194 |
| **Think Childcare balance** | **31 December 2020** | **61,058,636** | | **73,039** |
| Think Childcare Development balance | 29 July 2019 | - | | - |
| Special Dividend applied to capitalise Think Childcare Development | 23 December 2019 | 60,862,889 | $0.10 | 6,000 |
| Transaction cost | | | | (29) |
| Balance | 31 December 2019 | 60,862,889 | | 5,971 |
| Issue of stapled securities under Dividend Reinvestment Plan | 27 March 2020 | 195,747 | $0.11 | 22 |
| **Think Childcare Development balance** | **31 December 2020** | **61,058,636** | | **5,993** |

## Ordinary securities

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

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

## Capital risk management

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

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

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

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

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

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

# NOTE 21. EQUITY - RESERVES

| **Think Childcare** | **2020** $'000 | **2019** $'000 |
|---|---|---|
| Common control reserve | **(19,052)** | (19,052) |
| Security-based payments reserve | **105** | (57) |
| Transfer of assets in specie from TNK to TND | **(173)** | - |
| **Equity - reserves** | **(19,120)** | **(19,109)** |

## Common control reserve

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

## Security-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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## Movements in Think Childcare reserves

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

| | Common control $'000 | Security-based payments $'000 | Other $'000 | Total $'000 |
|---|---|---|---|---|
| Balance at 1 January 2019 | (19,052) | 81 | - | (18,971) |
| Security-based payment | - | 70 | - | 70 |
| Performance Rights exercised | - | (208) | - | (208) |
| Balance at 31 December 2019 | (19,052) | (57) | - | (19,109) |
| Security-based payment | - | 263 | - | 263 |
| Performance Rights exercised | - | (101) | - | (101) |
| Transfer of assets in specie from TNK to TND | - | - | (173) | (173) |
| **Balance at 31 December 2020** | **(19,052)** | **105** | **(173)** | **(19,120)** |

## Description of security-based payment arrangements

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

### Performance Rights granted to Key Management Personnel and employees

| Year / employee entitled | Number of instruments |
|---|---|
| **Performance Rights granted to Key Management Personnel** | |
| 2016 | 286,842 |
| 2017 | 78,946 |
| 2018 | - |
| 2019 | 47,619 |
| 2020 | 72,464 |
| **Performance Rights granted to Group executives** | |
| 2016 | 68,419 |
| **Total Performance Rights** | **554,290** |

### Reconciliation of outstanding Performance Rights

| | Numbers | | Fair Value | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Outstanding at 1 January | 46,367 | 75,906 | 1.42 | 1.39 |
| Granted during the year | 72,464 | 47,619 | 1.38 | 1.68 |
| Exercised during the year | (66,726) | (77,158) | 1.68 | 1.68 |
| **Outstanding at 31 December** | **52,105** | **46,367** | **1.47** | **1.42** |

### Expense recognised in statement of profit and loss

The Group has recognised security based payment expense of $263,000 (2019: $70,000).

# NOTE 22. EQUITY - DIVIDENDS

## Dividends

Dividends paid during the financial year were as follows:

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Final dividend for the year ended 31 December 2019 of 5.0 cents (2019: 31 December 2018 of 6.5 cents) per ordinary security | 3,043 | 3,150 |
| Interim dividend for the year ended 31 December 2019 of 2.0 cents | - | 1,209 |
| Special dividend for the year ended 31 December 2019 of 9.9 cents | - | 6,000 |
| **Equity – dividends** | **3,043** | **10,359** |

On 24 February 2021, a final dividend for the year ended 31 December 2020 of 12.0 cents per ordinary stapled security, fully franked was determined, with a record date of 16 March 2021. The dividend of $7.3 million will be paid on 26 March 2021. The dividend was not provided for in the accounts.

## Franking credits

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| **Franking credits available for subsequent financial years based on a tax rate of 30%** | **5,924** | **3,246** |

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

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

# NOTE 23. FINANCIAL INSTRUMENTS

## Financial risk management objectives

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## Market risk

### Foreign currency risk

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

### Price risk

The Group is not exposed to any significant price risk.

### Interest rate risk

The Group's main interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The policy is to maintain up to 25% of borrowings at fixed rate using interest rate swaps and the balance at variable interest rate to achieve more certainty over cashflows.

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

| 2020 | Weighted average interest rate % | Balance $'000 |
|---|---|---|
| Secured bank loans | 6.69% | 54,348 |
| **Net exposure to cash flow interest rate risk** | | **54,348** |

| 2019 | | |
|---|---|---|
| Secured bank loans | 4.63% | 42,414 |
| **Net exposure to cash flow interest rate risk** | | **42,414** |

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

An increase/decrease in interest rates of 50 (2019: 50) basis points would have an adverse/favourable effect on profit before tax and equity of $272,000 (2019: $212,000) per annum.

## Credit risk

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

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

The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The Group does not hold any collateral.

## Liquidity risk

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

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

## Financing arrangements

Unused borrowing facilities at the reporting date:

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Secured bank loans | 12,200 | 13,800 |
| Inter-changeable facility (comprising working capital and bank guarantee facility) | 7,776 | 6,547 |
| **Unused borrowing facilities** | **19,976** | **20,347** |

The unused portion of the bank loan facility is $20.0m plus an Accordion of $4.2m. Refer to note 18 for further details.

### Remaining contractual maturities

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

| 2020 | Weighted average interest rate % | 1 year or less $'000 | Between 1 and 2 years $'000 | Between 2 and 5 years $'000 | Over 5 years $'000 | Remaining contractual maturities $'000 |
|---|---|---|---|---|---|---|
| **Non-derivatives** | | | | | | |
| **Non-interest bearing** | | | | | | |
| Trade payables | - | 3,134 | - | - | - | 3,134 |
| Other payables | - | 2,529 | - | - | - | 2,529 |
| **Interest-bearing** | | | | | | |
| Secured bank loans | 6.69% | 475 | - | 53,873 | - | 54,348 |
| Lease liability | 6.00% | 21,147 | 21,976 | 66,433 | 99,879 | 209,436 |
| Contingent consideration | | 1,922 | - | - | - | 1,922 |
| **Total non-derivatives** | | **29,207** | **21,976** | **120,307** | **99,879** | **271,369** |
| **Derivatives** | | | | | | |
| Interest rate swaps inflow | 2.36% | - | - | 847 | - | 847 |
| **Total derivatives** | | **-** | **-** | **847** | **-** | **847** |

| 2019 | | | | | | |
|---|---|---|---|---|---|---|
| **Non-derivatives** | | | | | | |
| **Non-interest bearing** | | | | | | |
| Trade payables | - | 3,380 | - | - | - | 3,380 |
| Other payables | - | 3,256 | - | - | - | 3,256 |
| **Interest-bearing** | | | | | | |
| Bank loans (secured) | 4.63% | 428 | - | 41,986 | - | 42,414 |
| Lease liability | 5.74% | 17,259 | 17,222 | 52,184 | 91,495 | 178,160 |
| Contingent consideration | - | 2,397 | - | - | - | 2,397 |
| **Total non-derivatives** | | **26,720** | **17,222** | **94,170** | **91,495** | **229,607** |
| **Derivatives** | | | | | | |
| Interest rate swaps inflow | 2.36% | - | - | 744 | - | 744 |
| **Total derivatives** | | **-** | **-** | **744** | **-** | **744** |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## NOTE 24. FAIR VALUE MEASUREMENT

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

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

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

**Level 3**: Unobservable inputs for the asset or liability

| 2020 | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|
| **Liabilities** | | | | |
| Contingent consideration payable | - | - | 1,922 | 1,922 |
| Derivative financial instruments | - | 847 | - | 847 |
| **Total liabilities** | **-** | **847** | **1,922** | **2,769** |

| 2019 | | | | |
|---|---|---|---|---|
| **Liabilities** | | | | |
| Derivative financial instruments | - | 744 | - | 744 |
| **Total liabilities** | **-** | **744** | **-** | **744** |

There were no transfers between levels during the financial year.

The contingent consideration arising from business combinations (refer to notes 19 and 31) is based on future profits over and above those allowed for in the purchase consideration calculation up to a capped amount representing 25% of the purchase consideration. The capped amount is $1,840,000 in relation to business combinations during the year. The amount provided as at 31 December 2020 is based on the budgeted estimates for the acquired services.

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

### Level 3 assets and liabilities

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

| | Contingent consideration $'000 | Total $'000 |
|---|---|---|
| Balance at 1 January 2019 | 1,069 | 1,069 |
| Amount paid | (2,949) | (2,949) |
| Additions through business combination (note 31) | 1,618 | 1,618 |
| Interest accrued | - | - |
| Balance at 31 December 2019 | (262) | (262) |
| Additions through business combination (note 31) | 1,840 | 1,840 |
| Adjustments relating to prior year acquisitions | 344 | 344 |
| Interest accrued | - | - |
| **Balance at 31 December 2020** | **1,922** | **1,922** |

The Group includes the fair value of deferred contingent consideration as a liability for the acquisition of a business where it expects the earn-out targets to be met, or as an asset where it expects to claw back part of the acquisition price where earn-out targets are not met.

# NOTE 25. KEY MANAGEMENT PERSONNEL DISCLOSURES

## Compensation

The aggregate compensation made to Directors and other members of Key Management Personnel of the Group is set out below:

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Short-term employee benefits | **2,130** | 1,275 |
| Post-employment benefits | **191** | 94 |
| Security-based payments | **51** | 130 |
| **Aggregate compensation - Directors & other KMP** | **2,372** | **1,499** |

# NOTE 26. REMUNERATION OF AUDITORS

During the financial year the following fees were paid or payable for services provided by KPMG, the auditor of the Group, and its network firms:

| | 2020 $ | 2019 $ |
|---|---|---|
| **Audit services** | | |
| Audit or review of the financial statements | **257,500** | 232,500 |
| **Other services** | | |
| Accounting advisory | - | 40,000 |
| Tax advisory | - | 16,000 |
| Risk compliance services | - | 167,000 |
| **Remuneration of professional service businesses** | - | **223,000** |

# NOTE 27. CONTINGENT LIABILITIES

The Group has given corporate guarantees as at 31 December 2020 of $53,439,583 (2019: $44,380,286) to lessors in relation to property leases on a number of child care facilities. The amount is based on lease payments for the next two years. The amount includes $9,824,139 (2019: $9,453,021) in rental bonds.

# NOTE 28. LEASES

## Leases as lessee (AASB 16)

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

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

| Right of use assets | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Balance at 1 January 2020 | **174,541** | 115,954 |
| Additions | **39,794** | 67,399 |
| Derecognition | **(1,265)** | - |
| Impairment | **(238)** | |
| Depreciation expense | **(12,670)** | (8,812) |
| **Balance at 31 December 2020** | **200,162** | **174,541** |

| Lease Liability | | |
|---|---|---|
| Balance at 1 January 2020 | **178,029** | 115,954 |
| Additions | **39,794** | 67,399 |
| Derecognition | **(1,177)** | - |
| Interest expense | **11,621** | 7,738 |
| Lease payments | **(18,831)** | (13,062) |
| **Balance at 31 December 2020** | **209,436** | **178,029** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

| Amounts recognised in profit or loss | 2020 $'000 | 2019 $'000 |
|---|---|---|
| **2020 - Leases under AASB 16** | | |
| Interest on lease liabilities | **11,621** | 7,738 |
| Depreciation on right of use assets | **12,670** | 8,900 |
| Income from right of use assets presented in 'other revenue' | **(8)** | (20) |
| Expenses relating to short-term leases | **42** | 211 |

| Amounts recognised in statement of cashflows | | |
|---|---|---|
| **Total cash outflow for leases** | **19,450** | **13,273** |

### Extension options

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

### Leases as lessor

The Group sub-let one of its property leases for part of 2020. The Group has classified this lease as operating lease, because they do not transfer substantially all of the risk and rewards incidental to the lease.

## NOTE 29. RELATED PARTY TRANSACTIONS

### Parent entity

Think Childcare Limited is the parent entity.

### Subsidiaries

Interests in subsidiaries are set out in note 32.

### Key management personnel

Disclosures relating to key management personnel are set out in note 25 and the remuneration report is included in the Directors' report.

### Transactions with related parties

**Mark Kerr**

Mark Kerr (Non-Executive Director), via an indirect interest, has a partial interest as sub-landlord with respect to premises leased to Think Childcare in relation to a Think Childcare operating child care Service. The lease on the property commenced on 7 November 2016 on an outgoings only basis, until February 2017 when rent payments commenced. The lease had 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 2020, Think Childcare paid rent of $281,769. The rent is secured under a standard and commercial rent bond of $143,000.

Below is Think Childcare'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 Think Childcare) 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 as sub-landlord of the premises on which the Service is located. Think Childcare had negotiated the terms of the lease with an incubator and the head landlord at arm's length. The lease 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 exclusive discretion by Mark Kerr or the Group. Any amendments to the lease will require the head landlord's consent.

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

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

### Mathew Edwards

#### Management and other services

Think Childcare provides management and establishment services to a child care Service incubator partner entity of which the siblings (brother and sister) of Mathew Edwards (Managing Director of TNK and Non-Executive Director of TND) are shareholders. In consideration for the services provided by Think Childcare to the incubator entity, Think Childcare is paid fees in accordance with the agreed terms of engagement and management services.

During the 2020 financial year, the incubator entity had established 2 child care Services (Service Approval dates: January 2020 and December 2020) which Think Childcare currently manages. The Group expects the entity to open 2 child care Services in late 2021. During the year ended 31 December 2020, Think Childcare recognised from the incubator entity $108,043 (2019: $443,409) in management fees. The balance outstanding as at 31 December 2020 was $168,348.

Whilst Think Childcare is not obliged to acquire a child care Service from the incubator entity under the terms of the management services that it provides to the incubator entity, during the financial year ended 31 December 2020, Think Childcare acquired 2 child care Services from the entity, which was announced to the market on 16 November 2020. The aggregate initial purchase price for the two child care Services was $4,611,872.

The 2 child care Services that were acquired originally formed part of the portfolio of a child care Service incubator entity in which Mathew Edwards (Managing Director of TNK and Non-Executive Director of TND) is a Director and shareholder, as was disclosed below and in the 2019 Think Childcare Group Annual report (note 28) and 2020 Think Childcare Group interim financial report (note 15). In the original transfer of the 2 child care Services from Mathew Edwards to the incubator partner entity, Mathew Edwards had remained as a personal guarantor for the Leases in relation to these two child care Services. Upon the sale of these 2 child care Services by the partner entity to Think Childcare, Mathew Edwards was released as guarantor as part of the Assignment of Lease process incidental to the acquisition of the Services, transferring the lease interest to a TNK subsidiary on completion of the acquisition.

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

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

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

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

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

During the year ended 31 December 2019, Think Childcare provided establishment services to a child care Service incubator entity in which Mathew Edwards (Managing Director of TNK and Non-Executive Director of TND) is a Director and shareholder, as was disclosed in the 2019 Think Childcare Group Annual report (note 28) and 2020 Think Childcare Group interim financial report (note 15). Think Childcare did not provide establishment services to this incubator entity in 2020. The balance outstanding as at 31 December 2020 is $nil.

During the year ended 31 December 2020, Think Childcare Development entered into leases and/or agreement for leases in respect of 7 greenfield sites. TND assumed the obligations in respect of establishment services and fees of $1.1m, which has been fully paid as at 31 December 2020.

In relation to 1 of the greenfield sites, notwithstanding that TND had assumed the obligations in respect of that establishment service, the third party landlord only agreed to enter into the transaction with TND on the

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

condition that Mathew Edwards provided a personal guarantee (in addition, to TND as guarantor) for the premises until such time that the third party landlord was comfortable with TND's financial capacity. As this greenfield site has commenced trading, the parties are in discussion in respect to the release of Mathew Edwards' personal guarantee.

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

- 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 meeting while the relevant agenda item is being discussed and abstains from voting on any question relating to the item.

Mathew Edwards (Managing Director), via an indirect interest (Isamax Pty Ltd), has an established working relationship with a developing landlord with respect to child care freehold properties (Developing Landlord).

From time to time Mathew Edwards may (but is not obliged to) introduce freehold properties to the Developing Landlord; such properties may be considered a location for a child care service to be developed.

Where the Developing Landlord acquires land (whether introduced by Mathew Edwards or not), develops a child care service, secures a tenancy and then sells the land (Childcare Freehold Property), upon the Completion of the sale of the Childcare Freehold Property, the Developing Landlord is required to pay Mathew Edwards 3-5% of the sale price on the contract for sale of the freehold with respect to the Childcare Freehold Property. The Development Landlord is not obliged to sell any Childcare Freehold Property.

During the financial year ended 31 December 2020, the Developing Landlord has not sold any Freehold Childcare Properties and Mathew Edwards (personally or via Isamax Pty Ltd) has not received any funds from the Developing Landlord.

- Risk of commercial terms of the tenancy (where Think Childcare is a proposed tenant) being less favourable terms than those in similar arm's length transactions between unrelated third parties.

There is no obligation on Think Childcare to become a tenant of the Childcare Freehold Property. Where Think Childcare wishes to own a child care Service located on an Introduced Land, negotiations of the terms of the tenancy must meet Think Childcare's base line requirements and are in line with the terms agreed at arm's length with other landlords. A business case is prepared for consideration of the Board of Think Childcare

- 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 the Introduced Land, Mathew Edwards recuses himself from attending the meeting while the relevant agenda item is being discussed and abstains from voting on any question relating to the item.

### Nick Anagnostou

Nick Anagnostou (Non-Executive Director) via an indirect interest provides consultancy services to Think Childcare Development Limited (TND).

The services relate in the main to site selection and specialist advice on lease and occupancy terms.

For the year ended 31 December 2020, TND paid consultancy fees for these services of $8,000. These are over and above non-executive director's fees paid over the period to Mr Anagnostou via his indirect interest.

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

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

Mr Anagnostou via his indirect interest provides equivalent consultancy services to a number of unrelated third parties on substantially the same terms to the terms on which those services are provided to TND.

TND has a need for the services that Mr Anagnostou provides, and considers that it obtains those services on similar or better terms (to TND) when compared to what TND is able to obtain from unrelated third parties.

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

If and when the Board of Directors or any Board committee meets to discuss any issues relating to the engagement of such services, Mr Anagnostou recuses himself from attending the meeting while the relevant agenda item is being discussed. Mr Anagnostou would also abstain from voting on any question relating to the services.

## 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 3 new child care Services. The share sale agreements and, accordingly, the transfer of the issued share capital in the 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 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 3 existing TNK subsidiaries was effected on 23 December 2019, resulting in a transfer of assets in specie of $173,000 from TNK to TND. This transaction is reflected in reserves within the consolidated statement of changes in equity as at 31 December 2020.

### 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## NOTE 30. PARENT ENTITY INFORMATION

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

| | Parent | |
|---|---|---|
| Statement of profit or loss and other comprehensive income | 2020 $'000 | 2019 $'000 |
| Loss for the year | (16,972) | (8,833) |
| **Total comprehensive income** | **(16,972)** | **(8,833)** |

| Statement of financial position | | |
|---|---|---|
| Total current assets | 20,678 | 41,866 |
| Total assets | 210,948 | 57,522 |
| Total current liabilities | (239) | 2,210 |
| **Total liabilities** | **214,508** | **37,845** |

| Equity | | |
|---|---|---|
| Issued capital | 73,039 | 72,845 |
| Security-based payments reserve | 105 | (56) |
| Accumulated losses | (76,704) | (53,112) |
| **Total equity** | **(3,560)** | **19,677** |

### 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 2020 of $9,824,138 (2019: $9,543,021) 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 2020.

### Significant accounting policies

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

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

## NOTE 31. BUSINESS COMBINATIONS

### Current year acquisitions

The Group acquired nine child care Services during the year for a total consideration of $11,710,212. The goodwill of $9,957,905 represents the value attributed to assembled workforces and management teams within the acquiree's, expected synergies from combining the operations, and other non-recognisable intangible assets. The revenue from the acquisitions amounted to $4,544,877 and the contribution to EBITDA is $381,320 for the year ended 31 December 2020. The acquisitions are provisional at 31 December 2020. Due to estimation uncertainty, the Group is unable to disclose Revenue and EBITDA if acquisitions were made at the start of the year.

Details of the acquisitions are as follows:

| Fair Value 2020 | $'000 |
|---|---|
| Other current assets | 186 |
| Property, plant and equipment | 1,808 |
| Deferred tax asset | 49 |
| Right of use asset (ROU) | 24,534 |
| Lease liability | (24,534) |
| Employee benefits | (247) |
| Other liabilities | (186) |
| Net assets acquired | 1,610 |
| Goodwill | 10,100 |
| **Acquisition date fair value of the total consideration transferred** | **11,710** |
| Representing: | |
| Cash paid to vendors | 9,870 |
| Contingent consideration | 1,840 |
| **Total consideration** | **11,710** |

### Prior year acquisitions

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

Details of the acquisitions are as follows:

| Fair Value 2019 | **$'000** |
|---|---|
| Other current assets | 284 |
| Property, plant and equipment | 3,125 |
| Deferred tax asset | 132 |
| Right of use asset (ROU) | 49,230 |
| Lease liability | (49,230) |
| Employee benefits | (936) |
| Other liabilities | (249) |
| Net assets acquired | 2,356 |
| Goodwill | 21,655 |
| **Acquisition date fair value of the total consideration transferred** | **24,011** |
| Representing: | |
| Cash paid to vendors | 22,393 |
| Contingent consideration | 1,618 |
| **Total consideration** | **24,011** |

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

Refer to note 19 for further details.

## Business combinations (stapling)

The redemption of TNK's preference share on 23 December 2019 resulted in TNK losing ownership of TND while simultaneously gaining control by virtue of the business combination (stapling).

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

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

# NOTE 32. INTERESTS IN SUBSIDIARIES

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

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

| | Ownership interest % | |
|---|---|---|
| **Name** | **2020** | **2019** |
| Baker Street Childcare Education Pty Ltd | **100%** | 100% |
| Childcare Management Services Pty Ltd | **100%** | 100% |
| Edhod Greensborough Pty Ltd | **100%** | 100% |
| Edhod Macleod Pty Ltd | **100%** | 100% |
| Edhod Newcomb Pty Ltd | **100%** | 100% |
| Edhod Settlement Pty Ltd | **100%** | 100% |
| Edhod Trafalgar Pty Ltd | **100%** | 100% |
| Edhod Wilson Pty Ltd | **100%** | 100% |
| LEA Childcare Pty Ltd | **100%** | 100% |
| LEA Childcare Services Pty Ltd | **100%** | 100% |
| LEA Cobbs Pty Ltd | **100%** | 100% |
| LEA Cranbourne Pty Ltd | **100%** | 100% |
| LEA Georges Pty Ltd | **100%** | 100% |
| LEA Landsdale Pty Ltd | **100%** | 100% |
| LEA Lara Pty Ltd | **100%** | 100% |
| LEA Springhill Pty Ltd | **100%** | 100% |
| LEA Superior Pty Ltd | **100%** | 100% |
| LEA Westmeadows Pty Ltd | **100%** | 100% |
| Think 2 Georges Hall Geor Pty Ltd | **100%** | 100% |
| Think 2 Tuggerah Cob Pty Ltd | **100%** | 100% |
| Think 3 Dandenong Can Pty Ltd | **100%** | 100% |
| Think 3 Rowville Lakes Sup Pty Ltd | **100%** | 100% |
| Think Childcare Belmont Pty Ltd | **100%** | 100% |
| Think Childcare Moorabbin Pty Ltd | **100%** | 100% |
| Think Childcare Services Pty Ltd | **100%** | 100% |
| Think Childcare Services No.1 Pty Ltd | **100%** | 100% |
| Think 2 Campbelltown Bro Pty Ltd | **100%** | 100% |
| Think 5 Golden Grove Ten Pty Ltd | **100%** | 100% |
| Think 3 Altona Meadows Poi Pty Ltd | **100%** | 100% |
| Think 2 Amaroo Mor Pty Ltd | **100%** | 100% |

| | Ownership interest % | |
|---|---|---|
| **Name** | **2020** | **2019** |
| Think 3 Moonee Ponds Mcp Pty Ltd | **100%** | 100% |
| Think 3 Port Melbourne Ing Pty Ltd | **100%** | 100% |
| Think 3 Prahran Don Pty Ltd | **100%** | 100% |
| Think 3 Truganina Sam Pty Ltd | **100%** | 100% |
| Think 6 Perth Geo Pty Ltd | **100%** | 100% |
| Think 5 Crittenden Smi Pty Ltd | **100%** | 100% |
| Think 5 Wandana Gil Pty Ltd | **100%** | 100% |
| Think Childcare ESOP Holding Company Pty Ltd | **100%** | 100% |
| Think 2 Brookvale Pit Pty Ltd | **100%** | 100% |
| Think 2 Grays Point Gra Pty Ltd | **100%** | 100% |
| Think 4 Woolloongabba May Pty Ltd | **100%** | 100% |
| Think 6 Beeliar Dur Pty Ltd | **100%** | 100% |
| Think 3 Bentleigh East Che Pty Ltd | **100%** | 100% |
| Think 3 Sunshine West Ral Pty Ltd | **100%** | 100% |
| Think 2 Franklin Nul Pty Ltd | **100%** | 100% |
| Think 3 Hartington Gle Pty Ltd | **100%** | 100% |
| Think 3 Cheltenham Ber Pty Ltd | **100%** | 100% |
| Think 3 Coburg North Eli Pty Ltd | **100%** | 100% |
| Think 3 Donvale Spr Pty Ltd | **100%** | 100% |
| Think 3 Grovedale Bai Pty Ltd | **100%** | 100% |
| Think 6 Hocking Nic Pty Ltd | **100%** | 100% |
| Think 6 Willetton Cam Pty Ltd | **100%** | 100% |
| Think 3 Lalor Hig Pty Ltd | **100%** | 100% |
| Think 3 Montrose Lei Pty Ltd | **100%** | 100% |
| Think 6 Baldivis Bor Pty Ltd | **100%** | 100% |
| Think 6 Caversham Bod Pty Ltd | **100%** | 100% |
| Think 6 Grove Joo Pty Ltd | **100%** | 100% |
| Think 6 Padbury For Pty Ltd | **100%** | 100% |
| Think 2 Holborn Gle Pty Ltd | **100%** | 100% |
| Think 2 Tamworth Wir Pty Ltd | **100%** | 100% |

| | Ownership interest % | |
|---|---|---|
| **Name** | **2020** | **2019** |
| Think 3 Sandringham Bay Pty Ltd | **100%** | 100% |
| Think 3 Byford Cov Pty Ltd | **100%** | 100% |
| Think 5 Kensington Park Mag Pty Ltd | **100%** | 100% |
| Airport West 3042 Think Pty Ltd | **100%** | 100% |
| Bayswater North 3153 Think Pty Ltd | **100%** | 100% |
| Craigieburn 3064 Think Pty Ltd | **100%** | 100% |
| Kilburn 5084 Think Pty Ltd | **100%** | 100% |
| Maitland 2320 Think Pty Ltd | **100%** | 100% |
| Narre Warren South 3805 Think Pty Ltd | **100%** | 100% |
| Noarlunga Downs 5168 Think Pty Ltd | **100%** | 100% |
| Salisbury Downs 5108 Think Pty Ltd | **100%** | 100% |
| Seven Hills 2147 Think Pty Ltd | **100%** | 100% |
| Shepparton 3630 Think Pty Ltd | **100%** | 100% |
| Think 3 Ormond Kat Pty Ltd | **100%** | 100% |
| Think 6 Carlisle Wes Pty Ltd | **100%** | 100% |
| Think 6 Lakelands Bar Pty Ltd | **100%** | 100% |
| Yanchep 6035 Think Pty Ltd | **100%** | 100% |
| Think Childcare 6069 Pty Ltd | **100%** | 100% |
| Think Childcare 6110 Pty Ltd | **100%** | 100% |
| Think Childcare Development Limited | **100%** | 100% |
| Think Childcare Operations Pty Ltd | **100%** | 100% |
| Think Development Employee Services Pty Ltd | **100%** | 100% |
| Think Childcare 3006 Pty Ltd | **100%** | 100% |
| Think Childcare 3040 Pty Ltd | **100%** | 100% |
| Think Childcare 3058 Pty Ltd | **100%** | 100% |
| Think Childcare 3083 Pty Ltd | **100%** | 100% |
| Think Childcare 3085 Pty Ltd | **100%** | 100% |
| Think Childcare 3204 Pty Ltd | **100%** | 100% |
| Think Childcare 3930 Pty Ltd | **100%** | 100% |
| Think Childcare 5044 Pty Ltd | **100%** | 100% |

| | Ownership interest % | |
|---|---|---|
| **Name** | **2020** | **2019** |
| Think Childcare 5112 Pty Ltd | **100%** | 100% |
| Think Childcare 6016 Pty Ltd | **100%** | 100% |
| Think Childcare 6025 Pty Ltd | **100%** | 100% |
| Think Childcare 6028 Pty Ltd | **100%** | 100% |
| Think Childcare 6164 Pty Ltd | **100%** | 100% |
| Think Childcare 6166 Pty Ltd | **100%** | 100% |
| Think Childcare 6173 Pty Ltd | **100%** | 100% |
| Think Childcare 6308 Pty Ltd | **100%** | 100% |
| Think 3 Essendon Ral Pty Ltd | **100%** | 100% |
| Think 6 Coogee Pin Pty Ltd | **100%** | 100% |
| Think 6 Kensington Fou Pty Ltd | **100%** | 100% |
| Think Childcare 5013 Pty Ltd | **100%** | 0% |
| Think Childcare 3024 Pty Ltd | **100%** | 0% |
| Think Childcare 6165 Pty Ltd | **100%** | 0% |
| Tildamo Childcare 6021 Pty Ltd | **100%** | 0% |
| Tildamo Childcare 3226 Pty Ltd | **100%** | 0% |
| Tildamo Childcare 5052 Pty Ltd | **100%** | 0% |
| Tildamo Childcare 3032 Pty Ltd | **100%** | 0% |
| Think Ellenbrook 6069 Pty Ltd | **100%** | 0% |
| Think Rosanna 3084 Pty Ltd | **100%** | 0% |
| Think Paradise 5075 Pty Ltd | **100%** | 0% |
| Think Childcare 6148 Pty Ltd | **100%** | 0% |
| Think Childcare 2171 Pty Ltd | **100%** | 0% |
| Think Childcare 5125 Pty Ltd | **100%** | 0% |
| Think Childcare 6055 Pty Ltd | **100%** | 0% |
| Think Childcare 5121 Pty Ltd | **100%** | 0% |
| Think Childcare 5035 Pty Ltd | **100%** | 0% |
| Think Childcare 6112 Pty Ltd | **100%** | 0% |
| Think Childcare 5097 Pty Ltd | **100%** | 0% |
| Think Childcare 5076 Pty Ltd | **100%** | 0% |
| Think Childcare Management Pty Ltd | **100%** | 0% |

## NOTE 33. RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH FROM OPERATING ACTIVITIES

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Profit for the year | 7,169 | 2,005 |
| **Adjustments for:** | | |
| Depreciation and amortisation | 16,828 | 11,208 |
| Security-based payments | 263 | 70 |
| Performance Rights paid | (101) | (208) |
| **Change in operating assets and liabilities:** | | |
| (Increase)/decrease in trade and other receivable | 997 | (2,513) |
| Increase in deferred tax assets | (1,677) | (2,010) |
| (Increase)/decrease in other assets | (562) | 72 |
| Increase in trade and other payables | (1,594) | 5,479 |
| Increase in derivative liabilities | 103 | 444 |
| Increase/(decrease) in provision for income tax | 2,684 | (462) |
| Increase/(decrease) in employee benefits | (569) | 375 |
| Decrease in other operating liabilities | (294) | (67) |
| **Net cash from operating activities** | **24,973** | **14,393** |

## NOTE 34. NON-CASH INVESTING AND FINANCING ACTIVITIES

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Stapled securities issued under employee share plan | - | 208 |
| **Non-cash investing and financing** | **-** | **208** |

## NOTE 35. EARNINGS PER STAPLED SECURITY

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| **Total comprehensive income attributable to:** | | |
| Members of Think Childcare Limited | **10,005** | 3,364 |
| Members of Think Childcare Development Limited | **(2,836)** | (1,359) |
| **Stapled security holders of Think Childcare Group** | **7,169** | **2,005** |

| | Note | Number | Number |
|---|---|---|---|
| Weighted average number of stapled securities used in calculating basic earnings per stapled security | | **61,012,641** | 57,741,028 |
| **Adjustments for calculation of diluted earnings per stapled security:** | | | |
| Performance Rights over stapled securities | 21 | **52,105** | 46,367 |
| Weighted average number of stapled securities used in calculating diluted earnings per stapled security | | **61,064,746** | 57,787,395 |

| Earnings per share - Think Childcare Limited | Cents | Cents |
|---|---|---|
| Basic | **16.40** | 5.83 |
| Diluted | **16.38** | 5.82 |

| Earnings per share - Think Childcare Development Limited | Cents | Cents |
|---|---|---|
| Basic | **(4.65)** | (2.35) |
| Diluted | **(4.64)** | (2.35) |

| Earnings per stapled security - Think Childcare Group | Cents | Cents |
|---|---|---|
| Basic | **11.75** | 3.47 |
| Diluted | **11.74** | 3.47 |

## NOTE 36. EVENTS AFTER THE REPORTING PERIOD

The Group made an ASX announcement on 20 January 2021 concerning the revised proposal from Busy Bees. There have been no events subsequent to 31 December 2020 in connection with the proposals.

Apart from dividend determination as disclosed in note 22, no other matter or circumstance has arisen since 31 December 2020 and up to the date of this report that has significantly affected, or may significantly affect, the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

# INDEPENDENT AUDITORS DECLARATION

KPMG

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

### To the Directors of Think Childcare Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Think Childcare Limited for the financial year ended 31 December 2020 there have been:

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

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

KPMG

KPMG

Paul Thomas

*Partner*

Sydney

24 February 2021

# Independent Auditor's Report

## To the stapled security holders of Think Childcare Group

## Report on the audit of the Financial Report

### Opinion

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

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

- giving a true and fair view of the ***Stapled Group***'s financial position as at 31 December 2020 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

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

- Consolidated Statement of financial position as at 31 December 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 year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

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

### Basis for opinion

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

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Stapled Group and Think Childcare Limited in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

# INDEPENDENT AUDITORS DECLARATION CONTINUED

KPMG

## Key Audit Matters

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

- Recoverability of goodwill
- Accounting for acquired businesses

***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.

| **Recoverability of goodwill ($87.4m)** | |
|---|---|
| Refer to Note 13 'Intangible assets' to the Financial Report | |
| **The key audit matter** | **How the matter was addressed in our audit** |
| A key audit matter for us was the Stapled Group's annual testing of goodwill for impairment, given the size of the balance (being 25% of total assets). Certain conditions impacting the Stapled Group increased the judgement applied by us when evaluating the evidence available. We focussed on the significant forward-looking assumptions the Stapled Group applied in their value in use model for the Child Care Operations group of Cash Generating Units (CGUs) and the Child Care Development group of Cash Generating Units, including:<br>• Forecast operating cash flows, growth rates and terminal growth rate – the Stapled Group acquired a number of businesses in the current year which increases the risk of inaccurate forecasts or a wider range of possible outcomes for us to consider. We focused on forecast service occupancy rates which drive the forecast operating cash flows and growth rates, which are highly sensitive to small changes, reducing available headroom. This drives additional audit effort specific to their feasibility and consistency of application to the Stapled Group's strategy.<br>• Discount rate - these are complicated in nature and vary according to the conditions and environment the specific group of CGUs (Child Care Operations or Child Care Development) is subject to from time to time, and the modelling approach to | Working with our valuation specialists, our procedures included:<br>• We considered the appropriateness of the value in use method applied by the Stapled Group to perform the annual test of goodwill for impairment against the requirements of the accounting standards.<br>• We assessed the integrity of the value in use model used, including the accuracy of the underlying calculation formulas.<br>• We compared the forecast cash flows and capital expenditure contained in the value in use model to Board approved forecasts.<br>• We assessed the accuracy of previous forecasts to inform our evaluation of forecasts incorporated in the model.<br>• We considered the sensitivity of the model by varying key assumptions, such as forecast growth rates, terminal growth rate and discount rate, within a reasonably possible range. We did this to identify those assumptions at higher risk of bias or inconsistency in application and to focus our further procedures.<br>• We assessed forecast service occupancy rates against publicly available industry predictions for comparable locations. |

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|---|---|
| incorporating risks into the cash flows or discount rate. The Stapled Group's modelling is highly sensitive to small changes in the discount rate.<br><br>The Stapled Group uses a complex model to perform their annual testing of goodwill for impairment. The models are largely manually developed, use adjusted historical performance, and a range of internal and external sources as inputs to the assumptions. Complex modelling, using forward-looking assumptions tend to be prone to greater risk for potential bias, error and inconsistent application. These conditions necessitate additional scrutiny by us, in particular to address the objectivity of sources used for assumptions, and their consistent application.<br><br>The Stapled Group acquired a number of businesses in the current year, necessitating our consideration of the Stapled Group's:<br><br>• determination of CGUs, based on the smallest group of assets to generate largely independent cash inflows; and<br><br>• allocation of goodwill to the group of CGUs to which they belong based on the management and monitoring of the business.<br><br>We involved valuation specialists to supplement our senior audit team members in assessing this key audit matter. | • We assessed forecast occupancy rates against publicly available industry studies of industry average achievable occupancy by location, which the Stapled Group adjusted for their specific locations.<br><br>• We challenged the Stapled Group's significant forecast cash flow and growth assumptions. We compared key events to the Board approved plan and strategy. We compared forecast growth rates and terminal growth rate to published studies of industry trends and expectations, and considered differences for the Stapled Group's operations. We used our knowledge of the Stapled Group, their past performance, business and customers, and our industry experience.<br><br>• We independently developed a discount rate range considered comparable using publicly available market data for comparable entities, adjusted by risk factors specific to the Stapled Group and the industry it operates in.<br><br>• We considered the Stapled Group's determination of their CGUs based on our understanding of the operations of the Stapled Group's business, impact of the acquisitions, and, how independent cash inflows were generated, against the requirements of the accounting standards.<br><br>• We analysed the impact of the acquisitions and the Stapled Group's internal reporting to assess the Stapled Group's monitoring and management of activities, and the consistency of the allocation of goodwill to the Child Care Operations group of CGUs and the Child Care development group of CGUs.<br><br>• We assessed the disclosures in the financial report using our understanding obtained from our testing and against the requirements of the accounting standards. |

# INDEPENDENT AUDITORS DECLARATION CONTINUED

| Accounting for acquired businesses | |
|---|---|
| Refer to Note 31 'Business combinations' to the Financial Report | |
| **The key audit matter** | **How the matter was addressed in our audit** |
| The Stapled Group's acquisition of nine child care centres in the current year for consideration of $11.7 million represents a significant series of acquisitions.<br><br>This was a key audit matter due to the combined size of the acquisitions. The acquisitions had a pervasive impact on the financial statements and consequently required significant audit effort and senior team involvement.<br><br>Significant judgement was required by us in assessing the Stapled Group's:<br>• Determination of the fair value of acquired assets and liabilities, in particular employee benefits and property, plant and equipment; and<br>• Estimate of the fair value of the contingent consideration. We focused on the forecast cash flows assumptions, which is forward-looking and tends to be prone to greater risk for potential bias. | Our procedures included:<br>• We read the Business Acquisition Contracts and related key acquisition transactions documents to:<br>  – Understand the key terms and conditions of the acquisitions; and<br>  – Assess the acquisitions against the criteria of a business combination in the accounting standards.<br>• We assessed the fair value of employee benefits liability to underlying contractual arrangements such as employee contracts.<br>• We assessed the fair value of property, plant and equipment to underlying accounting records.<br>• We challenged the forecast cash flows assumptions for each child care centre acquired, as it enters into the contingent consideration fair value. We assessed the feasibility of these assumptions and consistency of application to industry trends and expectations, and considered differences for the Stapled Group's operations. We used our knowledge of the Stapled Group, past performance, business and customers, and our industry experience.<br>• Assessing the Stapled Group's disclosures in respect of business combinations with reference to the requirements of the accounting standards. |

## Other Information

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

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

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

## Responsibilities of the Directors for the Financial Report

The Directors of Think Childcare Limited are responsible for:

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

## Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

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

# INDEPENDENT AUDITORS DECLARATION CONTINUED

## Report on the Remuneration Report

### Opinion

In our opinion, the Remuneration Report of Think Childcare Limited for the year ended 31 December 2020, complies with *Section 300A* of the *Corporations Act 2001*.

### Directors' responsibilities

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

### Our responsibilities

We have audited the Remuneration Report included in pages 40 to 57 of the Directors' report for the year ended 31 December 2020.

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

KPMG

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Paul Thomas

*Partner*

Sydney

24 February 2021

# SECURITY HOLDERS INFORMATION

The security holder information set out below was applicable as at 16 February 2021.

## EQUITY SECURITY HOLDERS

### Twenty largest quoted equity security holders

| | **Stapled Securities Held** Number held | **Stapled Securities** % issued |
|---|---|---|
| NKT Investments Pty Ltd | 11,739,083 | 19.23 |
| J P Morgan Nominees Australia Pty Limited | 9,367,755 | 15.34 |
| Mr Mathew Edwards | 6,797,482 | 11.13 |
| Isamax Pty Ltd (The Edwards Family A/C) | 6,661,427 | 10.91 |
| Citicorp Nominees Pty Limited | 4,327,737 | 7.09 |
| HSBC Custody Nominees (Australia) Limited | 3,340,195 | 5.47 |
| Mr Mark Gregory Kerr + Mrs Linda Marie Kerr (Lindmark Inv Staff S/F A/C) | 1,824,066 | 2.99 |
| Riversdale Road Shareholding Company (Riversdale Road Holding A/C) | 1,354,828 | 2.22 |
| BNP Paribas Nominees Pty Ltd (IB Au Noms Retailclient Drp) | 1,315,553 | 2.15 |
| National Nominees Limited | 1,207,295 | 1.98 |
| Zachary Investments Pty Ltd | 1,108,000 | 1.81 |
| J & P Chick Pty Limited (J & P Chick Pty Ltd S/F A/C) | 750,000 | 1.23 |
| Paradyce Pty Ltd | 685,737 | 1.12 |
| Mr Michael Norman Kroger (Michael Kroger S/F A/C) | 373,342 | 0.61 |
| Forum Investments Pty Limited | 355,000 | 0.58 |
| Dr Jeffrey Eric Dale Chick + Dr Pamela Hazel Chick | 344,000 | 0.56 |
| CS Fourth Nominees Pty Limited (HSBC Cust Nom Au Ltd 11 A/C) | 321,150 | 0.53 |
| Mr Quan Gao | 275,181 | 0.45 |
| Westor Asset Management Pty Ltd (Value Partnership A/C) | 236,761 | 0.39 |
| BFA Super Pty Ltd (GDN Super Fund A/C) | 205,000 | 0.34 |
| **Total Holding – 20 largest security holders** | **52,589,592** | **86.13** |
| **Total Holding – Other security holders** | **8,469,044** | **13.87** |
| **Total Holding – All security holders** | **61,058,636** | **100.00** |

# SECURITY HOLDERS INFORMATION CONTINUED

## DISTRIBUTION OF EQUITY STAPLED SECURITIES

Analysis of number of equity security holders by size of holding as at 16 February 2021.

| | Number of holders of securities |
|---|---|
| 1 to 1,000 | 319 |
| 1,001 to 5,000 | 438 |
| 5,001 to 10,000 | 130 |
| 10,001 to 100,000 | 168 |
| 100,001 and Over | 31 |
| | **1,086** |
| **Holding less than an marketable parcel** | **66** |

## UNQUOTED EQUITY SECURITIES

| | Number on issue | Number of holders |
|---|---|---|
| **Performance Rights over unissued ordinary securities** | **88,337** | **1** |

## SUBSTANTIAL HOLDERS

As at 16 February 2021 the following substantial security holdings have been declared to the Group:

| | Securities | |
|---|---|---|
| Declared entitled party | Number held | % of total securities held |
| NKT Investments Pty Ltd | 11,739,083 | 19.23 |
| J P Morgan Nominees Australia Pty Limited | 9,367,755 | 15.34 |
| Mr Mathew Edwards / Isamax Pty Ltd (The Edwards Family A/C) / Seuss Tpywg Pty Ltd (Atf Ed Super) | 13,634,452 | 22.33 |
| Citicorp Nominees Pty Limited | 4,327,737 | 7.09 |
| HSBC Custody Nominees (Australia) Limited | 3,340,195 | 5.47 |

# INVESTOR SERVICES

| | |
|---|---|
| **Directors** of **Think Childcare Limited** | **Mark Kerr** Chairman and Independent Non-Executive Director<br>**Mathew Edwards** Managing Director and Chief Executive Officer<br>**Evonne Collier** Independent Non-Executive Director<br>**Joe Dicks** Independent Non-Executive Director<br>**James Spenceley** Independent Non-Executive Director |
| **Directors** of **Think Childcare Development Limited** | **Mark Kerr** Chairman and Independent Non Executive Director<br>**Mathew Edwards** Executive Director<br>**Michael Doble** Independent Non-Executive Director<br>**Joe Dicks** Independent Non-Executive Director<br>**Nick Anagnostou** Independent Non-Executive Director |
| **Company Secretaries** of **Think Childcare Limited** | **Trinh Bui**<br>**Mourice Garbutt** |
| **Company Secretary** of **Think Childcare Development Limited** | **Trinh Bui** |
| **Notice** of **Annual General Meeting** | The annual general meeting of Think Childcare Limited and Think Childcare Development Limited will be held as a combined meeting of both companies at **10:30am** (AEST time) on **Thursday 13 May 2021** (registration opens at 10:00am), and to the extent permitted by law or by ASIC, is proposed to be conducted virtually. Details will be set out in the Notice of Meeting. |
| **Registered Office** | **Think Childcare**<br>Suite 3, 1 Park Avenue<br>Drummoyne NSW 2047<br>Telephone 02 9712 7444 |
| **Share Register** | **Computershare Investor Services Pty Limited**<br>Yarra Falls, 452 Johnson Street Abbotsford VIC 3067<br>Telephone 1300 787 272 |
| **Auditor** | **KPMG**<br>Tower Three, International Towers Sydney 300 Barangaroo Avenue<br>Barangaroo NSW 2000 |
| **Solicitors** | **Minter Ellison**<br>Level 20, Collins Arch<br>447 Collins Street<br>Melbourne VIC 3000 |
| **Stock Exchange Listing** | Think Childcare Group stapled securities are listed on the **Australian Securities Exchange** (ASX: TNK) |
| **ASX Code** | **TNK** |
| **Website** | **www.thinkchildcare.com.au** |

THINK Childcare Group

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Public Relations PR@thinkchildcare.com.au

Nido Early School
Gregory Hills, NSW