

APPENDIX 4D

Interim financial report

1. Company details

Name of entity: Think Childcare Group, a stapled entity comprising Think Childcare Limited (ABN: 81 600 793 388) and Think Childcare Development Limited (ABN: 55 635 178 166) (ASX: TNK)

Reporting period: For the half year-ended 30 June 2020

Previous period: For the half year-ended 30 June 2019

2. Results for announcement to the market

Key information

	Up/ Down	Movement %	30 June 2020 \$'000	30 June 2019 \$'000
Revenue from ordinary activities	Down	-0.47%	48,872	49,104
Earnings before interest, tax, depreciation and amortisation ("EBITDA")	Up	43.9%	14,453	10,044
Underlying EBITDA	Up	23.6%	5,353	4,331
Loss from ordinary activities after tax for the period	Up	11.4%	(359)	(405)
Net loss for the period	Up	11.4%	(359)	(405)

	30 June 2020 \$'000	30 June 2019 \$'000
<i>Reconciliation of underlying EBITDA</i>		
EBITDA	14,453	10,044
Lease rental expense (pre AASB 16)	(9,280)	(5,915)
Non-operating items		
Add: Acquisition and integration expense	180	202
EBITDA (underlying)	5,353	4,331

	30 June 2020 \$'000	30 June 2019 \$'000
<i>Reconciliation of underlying NPAT</i>		
Loss for the period	(359)	(405)
Add: AASB 16 notional interest expense	5,475	3,421
Add: AASB 16 right of use asset depreciation	5,976	3,991
Less: Lease rental expense	(9,280)	(5,915)
Add: Acquisition and integration expense	180	202
Less: Tax impact	(721)	(509)
NPAT (underlying)	1,271	784

Appendix 4D Interim financial report continued

2. Results for announcement to the market (continued)

Commentary on results

Net loss for the period attributable to Think Childcare Group stapled security holders of \$0.4 million (June 2019: loss of \$0.4 million) includes revenue from operations including other income of \$50.8 million (June 2019: \$50.0 million) and operating expenses of \$51.3 million (June 2019: \$50.1 million). This represents Think Childcare Group's statutory loss.

EBITDA of \$14.5 million has increased by \$4.4 million. In line with AASB 16 Leases, depreciation on right of use assets and interest on lease liabilities expenses are presented rather than lease rental expense, and therefore are not included within EBITDA. The Board and Management consider underlying EBITDA of \$5.4 million to be a correct reflection of the ongoing business which includes lease rental expense and excludes AASB 16 Leases, acquisition and integration expense. Underlying EBITDA of \$5.4 million is a 23.6% increase on the previous corresponding period of \$4.3 million (determined on the same basis).

The Board and Management consider underlying NPAT of \$1.3 million to be a correct reflection of the performance of Think Childcare Group as it excludes the impact of AASB 16 notional interest expense of \$5.5 million, right of use assets depreciation of \$6.0 million, the respective tax impact on the net movement of the AASB 16 adjustment (\$0.7 million) and replaces these with lease rental expense of \$9.3 million. Underlying NPAT of \$1.3 million is a 62.1% increase on the previous corresponding period of \$0.8 million (determined on the same basis).

Dividend information

	Cents per security	Franked amount per security	Tax rate for franking credit
Final dividend for the period ended 31 December 2019	5.0	5.0	30%

It was determined that Think Childcare Group will not pay an interim dividend for the half year ended 30 June 2020.

3. Net tangible assets per security

	30 June 2020 Cents	30 June 2019 Cents
Net tangible assets per stapled security*	(42.16)	(15.60)

* Right of use assets are included in the calculation of net tangible assets per stapled security.

Under the listing rules, net tangible assets per stapled security must be determined by deducting from total tangible assets all claims on those assets ranking ahead of the ordinary securities (i.e. all liabilities, preference shares, outside equity interests, etc).

The net tangible assets per stapled security does not reflect the fair value of Think Childcare Group's portfolio of assets. The value of the Group's assets is represented by goodwill arising from business acquisitions.

Appendix 4D Interim financial report continued

4. Control gained over entities

Not applicable.

5. Dividend reinvestment plans

The following dividend or distribution plans are in operation:

Think Childcare Group has a Dividend Reinvestment Plan (DRP), pursuant to which security holder participation is optional. The DRP will apply to future distributions unless notice is given of its suspension or termination.

6. Financial Information

The financial statements were subject to a review by the Group's auditors and the review report is attached as part of the Interim Financial Report which can be found on our website: www.thinkchildcare.com.au.

7. Other financial information required by Listing Rule 4.3A

Other information requiring disclosure to comply with Listing Rule 4.3A is contained in Think Childcare Group's Interim Financial Report which can be found on our website: www.thinkchildcare.com.au.

**INTERIM
FINANCIAL REPORT**

30 JUNE 2020



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DIRECTORS' REPORT

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

TNK and TND have separate Board of Directors. The term TNK Board hereafter should be read as a reference to the Board of Directors of TNK. The term TND Board hereafter should be read as a reference to the Board of Directors of 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 identified as the parent entity for the purposes of preparing a consolidated financial report. In accordance with this requirement, TNK is deemed to be the parent entity for accounting purposes and therefore TND is consolidated into the Group's financial statements. TND was incorporated on 29 July 2019 and as a result, comparatives in the Statement of profit or loss and other comprehensive income only include TNK.

DIRECTORS' REPORT CONTINUED

Directors

The Directors of the Group in office at any time during or since the end of the interim period (unless otherwise stated) were as follows:

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

New Directors

James Spenceley	Non-Executive Director (TNK only) – appointed 15 May 2020
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Principal activities

The principal activities of the Group during the financial half-year comprised the following:

Think Childcare

- › Owning and operating child care Services
- › Managing child care Services on behalf of TND, third-party incubators and clients

Think Childcare Development

- › Developing purpose-built leasehold child care Services under the “Nido” brand and operating model for the purpose of achieving pre-agreed trading metrics and then selling the Service to TNK.

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

DIRECTORS' REPORT CONTINUED

Review and results of operations

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

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

Think Childcare's strategy is to operate high quality child care Services under the Nido brand in suburban markets supported by long-term leases. Additionally, Think Childcare provides child care management services to clients, including Think Childcare Development and third-party incubators.

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

Financial overview

Think Childcare Group recorded a loss for the period (net profit/loss after tax (NPAT)) of \$0.4 million (30 June 2019: loss of \$0.4 million). NPAT includes the impact of AASB 16 Leases of \$1.5 million.

- › Think Childcare Group, adjusting for the impact of AASB 16, the NPAT (underlying) is \$1.3 million.
- › Think Childcare, adjusting for the impact of AASB 16, the NPAT (underlying) is \$2.2 million.
- › Think Childcare Development, adjusting for the impact of AASB 16, the NPAT (underlying) is (\$0.8) million.

Underlying earnings before interest, tax, depreciation and amortisation (EBITDA (underlying))

- › Think Childcare Group's EBITDA (underlying) of \$5.4 million (30 June 2019: \$4.3 million).
- › Think Childcare EBITDA (underlying) of \$6.6 million (30 June 2019: \$4.3 million).
- › Think Childcare Development EBITDA (underlying) of (\$1.1) million (30 June 2019: not applicable).

DIRECTORS' REPORT CONTINUED

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

Operating results

\$'000	30 June 2020			30 June 2019	
	TNK	TND	Eliminations	Group	TNK
Service revenue	48,454	1,087	-	49,541	47,929
Labour	(24,245)	(871)	-	(25,116)	(30,099)
Occupancy	(10,762)	(538)	-	(11,300)	(8,067)
Service overheads	(3,588)	(180)	-	(3,768)	(3,530)
Service performance	9,859	(502)	-	9,357	6,233
Management and other fees	1,077	(215)	(150)	712	2,038
Employee expenses	(3,110)	(17)	-	(3,127)	(2,556)
Corporate overheads	(1,264)	(325)	-	(1,589)	(1,385)
Corporate costs	(3,297)	(557)	(150)	(4,004)	(1,903)
EBITDA (underlying)	6,562	(1,059)	(150)	5,353	4,331
Operating lease costs ¹	8,838	442	-	9,280	5,915
Acquisition expenses	(180)	-	-	(180)	(202)
EBITDA	15,220	(617)	(150)	14,453	10,044
Finance costs	(6,697)	(465)	-	(7,162)	(5,179)
Depreciation and amortisation	(7,378)	(356)	-	(7,734)	(5,130)
Tax	(344)	428	-	84	(140)
Profit / (Loss) for the period	801	(1,010)	(150)	(359)	(405)
Interest on lease liabilities	5,010	465	-	5,475	3,421
Depreciation on right of use assets	5,704	272	-	5,976	3,991
Operating lease costs ¹	(8,838)	(442)	-	(9,280)	(5,915)
Acquisition expenses	180	-	-	180	202
Tax impact	(632)	(89)	-	(721)	(509)
NPAT (underlying)	2,225	(804)	(150)	1,271	784

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

DIRECTORS' REPORT CONTINUED

Balance Sheet

	30 June 2020				
\$'000	TNK	TND	AASB 16	Eliminations	Group
Cash	10,015	1,767	-	-	11,782
Receivables and other assets	12,517	1,710	-	-	14,227
Property, plant and equipment	17,563	2,844	-	(150)	20,257
Intangible assets	77,801	-	-	-	77,801
Right-of-use asset	-	-	175,716	-	175,716
Total assets	117,896	6,321	175,716	(150)	299,783
Borrowings	47,579	-	-	-	47,579
Other liabilities	16,428	2,168	-	-	18,596
Lease liability	-	-	181,550	-	181,550
Total liabilities	64,007	2,168	181,550	-	247,725
Equity	53,889	4,153	(5,834)	(150)	52,058

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

Operations overview

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

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

DIRECTORS' REPORT CONTINUED

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

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

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

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

2. JobKeeper

The JobKeeper payment scheme was announced on 30 March 2020 as a temporary subsidy for businesses with turnover under \$1 billion 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 the 20 July 2020, with respect to each eligible employee that was employed before 1 March 2020 and continued to be employed by the employer. The Group received a payment of \$1,500 per fortnight per eligible employee which was passed on to the eligible employee, before tax.

3. 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 abatement 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 for a limited number of leases in the half-year ended 30 June 2020 of \$0.3m.

DIRECTORS' REPORT CONTINUED

Capital management

The Group undertook a number of measures in direct response to the COVID-19 pandemic which were designed to provide enhanced liquidity and reduce costs. Notable measures included:

1. Suspended capital investment to upgrade or transition Early Learning & Kinder Services to Nido;
2. Suspended all discretionary expenditure;
3. Deferred the recruitment of new roles;
4. Stood down employees on probation;
5. Ceased the use of casual employees;
6. Encouraged employees to use annual leave;
7. Moved operation team into Services;
8. Reduced operational expenses without affecting hygiene or compliance; and
9. Rostered, where possible, to the \$1,500 JobKeeper allowance.

Going concern

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

During the half-year ended 30 June 2020, 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 as a result of the general populace's response to the uncertainty around the risk to children in child care contracting COVID-19. This was exacerbated in locations where schools were closed and the commencement of home schooling and many carers working from home.

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

In late June 2020, the Victorian government implemented stage 3 restrictions followed by stage 4 restrictions from the first week of August in metro Melbourne and Mitchell Shire, because of a significant rise in the number of COVID-19 cases. The Group's Victoria based Services represent 56% of the portfolio of trading Services (by number of licensed places). Majority of the Services in the Victorian portfolio are in the stage 4 impacted locations and consequentially experienced a decline in attendance.

Stage 4 restrictions commenced on 2 August 2020 impacting the metropolitan Melbourne and Mitchell shire in Victoria and is expected to last for 6 weeks until 13 September 2020. In response, the Australian Government announced that CCS approved providers experiencing restrictions in metropolitan Melbourne will receive a 30 per cent transition payment. This is an additional 5% on top of the previously announced 25% transition payment. An additional 30 days of allowable absences will be granted to families with children attending the impacted Services and the Group will waive the parent fees during these absences. The Group however, will continue to receive CCS payments for the enrolled children. These measures are expected to be adequate to ensure the viability of those services during the period of lockdown.

DIRECTORS' REPORT CONTINUED

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:

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

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

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

An outline of the application of these relief packages to Think Childcare Group is detailed on page 16 of the financial report.

As at 30 June 2020, the Group had net current liabilities of \$14.5m which include \$17.9m of current lease liabilities arising from AASB 16 Leases which will be settled through operating cashflows earned in the next 12 months. The Group is forecasting positive cashflows based on the scenarios modelled for the next 12 months. The Group recorded a net loss after tax of \$0.4m for the half-year period ending 30 June 2020 (30 June 2019: loss of \$0.4m).

The Group recorded EBITDA of \$14.5m (30 June 2019: \$10.0m) and EBITDA (underlying) of \$5.4m (30 June 2019: \$4.3m) for the period.

As at 30 June 2020 Think Childcare had closing cash of \$11.8m, facility headroom of \$19.1m (\$12.2m restricted for acquisitions, \$4.2m Accordion facility and \$2.7m 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 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 is a going concern.

DIRECTORS' REPORT CONTINUED

Significant changes in the state of affairs

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

Related party transactions

Mark Kerr

Mark Kerr (Non-Executive Director), via an indirect interest, has a partial interest in an operating child care Service leased to Think Childcare. 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.

During the period ended 30 June 2020, Think Childcare paid rent of \$140,228. 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. Think Childcare had negotiated the terms of the lease with an incubator and the head landlord at arm's length. The lease clearly sets out the mechanics for the review of rent which is to be applied at the appropriate time and which does not involve the exercise of any sole 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 relevant agenda item at the Board or committee meeting, and a stand-in Chair is nominated to chair the meeting. Mark would also abstain from voting on any question relating to the transaction.

Mathew Edwards

Management and other services

Think Childcare provides management and establishment services to a child care Service incubator 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 period ended 30 June 2020, the incubator entity has established two (2) child care Services (Service Approval dates: 9 September 2019 and 9 January 2020) which Think Childcare currently manages. The Group expects the entity to open another child care Service in late 2020. During the period ended 30 June 2020, Think Childcare recognised from the incubator entity \$60,000 in management fees. The balance outstanding as at 30 June 2020 is \$448,416.

DIRECTORS' REPORT CONTINUED

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 relevant agenda item and abstains from voting on any question relating to the transaction.

During the year ended 31 December 2019, Think Childcare had also 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. The balance outstanding as at 30 June 2020 is \$nil.

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

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

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

Scheme of arrangement

Think Childcare Development child care Services

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

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

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

DIRECTORS' REPORT CONTINUED

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.

Matters subsequent to the end of the financial half-year

On 1 July 2020, Think Childcare Development entered into binding agreements in relation to the acquisition of six (6) Nido Services and secured finance to support its pipeline of Services. The agreement also included the acquisition of four (4) pipeline Services of which three (3) pipeline Services were acquired exclusively with the view to resell to a third party incubator on back to back contractual terms. Think Childcare will provide management services to the three (3) Services on behalf of the third party incubator with an option to re-acquire the Services once certain operational metrics are achieved. The acquisition of six (6) Nido Services and four (4) pipeline Services including the back to back sale of three (3) pipeline Services was completed on 4 August 2020. Refer to Note 20 for further details on acquisitions.

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

On 2 August 2020, the Victorian government declared a state of disaster, announcing stage 4 restrictions for Melbourne and stage 3 restrictions for regional Victoria. The restrictions are expected to significantly impact the operations of Services in Victoria. Given the dynamic nature of these circumstances and the significant increase in economic uncertainty, the related impact on the Group's go forward consolidated results of operations, cash flows and financial condition cannot be reasonably estimated at this stage.

Stage 4 restrictions commenced on 2 August 2020 impacting the metropolitan Melbourne and Mitchell shire in Victoria and is expected to last for 6 weeks until 13 September 2020. In response, the Australian Government announced that CCS approved providers experiencing restrictions in metropolitan Melbourne will receive a 30 per cent transition payment. This is an additional 5% on top of the previously announced 25% transition payment. An additional 30 days of allowable absences will be granted to families with children attending the impacted Services and the Group will waive the parent fees during these absences. The Group however, will continue to receive CCS payments for the enrolled children. These measures are expected to be adequate to ensure the viability of those services during the period of lockdown.

DIRECTORS' REPORT CONTINUED

Apart from the items discussed and the dividend determination as disclosed in note 15, no other matter or circumstance has arisen since 30 June 2020 and up to the date of this report that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial periods.

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.

Lead auditor's independence declaration

The Lead auditor's independence declaration is set out on page 14 and forms part of this Directors' Report for the half-year ended 30 June 2020.

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

On behalf of the Directors



Mark Kerr

Chairman

19 August 2020 | Melbourne



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

To the Directors of Think Childcare Group

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

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and
- ii. no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

Paul Thomas
Partner

Sydney

19 August 2020

Condensed consolidated statement of profit or loss and other comprehensive income

For the half-year ended 30 June 2020

		30 June 2020	30 June 2019
	Note	\$'000	\$'000
Revenue	4	48,872	49,104
Other income		1,917	863
Expenses			
Employee benefit	5	28,243	32,730
Occupancy		2,732	2,006
Direct expenses of providing services		1,978	1,740
Marketing		546	592
Corporate		559	442
Information and communication		748	731
Share-based payment		69	70
Acquisition and integration		180	202
Other		1,281	1,410
Depreciation and amortisation		7,734	5,130
Finance costs	6	7,162	5,179
Loss before tax		(443)	(265)
Income tax	7	84	(140)
Loss for the period		(359)	(405)
Other comprehensive income for the period, net of tax		-	-
Total comprehensive loss for the period		(359)	(405)
Profit / (loss) for the period attributable to:			
Members of Think Childcare Limited		435	(405)
Members of Think Childcare Development Limited		(794)	-
Stapled security holders of Think Childcare Group		(359)	(405)
Total comprehensive income / (loss) attributable to:			
Members of Think Childcare Limited		435	(405)
Members of Think Childcare Development Limited		(794)	-
Stapled security holders of Think Childcare Group		(359)	(405)
Earnings per stapled security - Think Childcare Group			
Basic	19	(0.59)	(0.74)
Diluted	19	(0.59)	(0.74)

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

Condensed consolidated statement of financial position

As at 30 June 2020

	Note	30 June 2020 \$'000	31 December \$'000
Assets			
Current Assets			
Cash and cash equivalents		11,782	11,685
Trade and other receivables	8	8,306	5,754
Current tax asset		174	76
Other assets		1,112	1,527
Total current assets		21,374	19,042
Non-current assets			
Property, plant and equipment	9	195,973	193,263
Intangible assets	10	77,801	78,103
Deferred tax		4,635	4,040
Total non-current assets		278,409	275,406
Total assets		299,783	294,448
Liabilities			
Current liabilities			
Trade and other payables	11	12,055	12,327
Borrowings	13	18,458	17,687
Employee benefits		4,864	4,894
Other liabilities	12	472	141
Total current liabilities		35,849	35,049
Non-current liabilities			
Borrowings	13	210,671	202,887
Derivative financial instruments		963	744
Employee benefits		242	593
Total non-current liabilities		211,876	204,224
Total liabilities		247,725	239,273
Net assets		52,058	55,175
Equity			
Think Childcare Limited			
Issued capital	14	73,039	72,845
Reserves		(19,213)	(19,109)
Retained earnings		(5,781)	(3,173)
Equity attributable to members of Think Childcare Limited		48,045	50,563
Think Childcare Development Limited			
Issued capital	14	5,993	5,971
Reserves		173	-
Retained earnings		(2,153)	(1,359)
Equity attributable to members of Think Childcare Development Limited		4,013	4,612
Total equity		52,058	55,175

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

Condensed consolidated statement of changes in equity

For the half-year ended 30 June 2020

	Think Childcare Limited				Think Childcare Development Limited				Total equity \$'000
	Issued capital \$'000	Reserves \$'000	Retained earnings \$'000	Total equity \$'000	Issued capital \$'000	Reserves \$'000	Retained earnings \$'000	Total equity \$'000	
2020									
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 period	-	-	435	435	-	-	(794)	(794)	(359)
Other comprehensive income for the period	-	-	-	-	-	-	-	-	-
Total comprehensive income / (loss) for the period	-	-	435	435	-	-	(794)	(794)	(359)
Contributions of equity, net of transaction costs	194	-	-	194	22	-	-	22	216
Transfer of assets in specie from TNK to TND*	-	(173)	-	(173)	-	173	-	173	-
Share-based payment	-	69	-	69	-	-	-	-	69
Dividends	-	-	(3,043)	(3,043)	-	-	-	-	(3,043)
Total contributions and distributions	194	(104)	(3,043)	(2,953)	22	173	-	195	(2,758)
Balance at 30 June 2020	73,039	(19,213)	(5,781)	48,045	5,993	173	(2,153)	4,013	52,058
*Refer note 18 Related party transactions									
	Think Childcare Limited				Think Childcare Development Limited				Total equity \$'000
	Issued capital \$'000	Reserves \$'000	Retained earnings \$'000	Total equity \$'000	Issued capital \$'000	Reserves \$'000	Retained earnings \$'000	Total equity \$'000	
2019									
Balance at 1 January 2019	53,779	(18,971)	3,822	38,630	-	-	-	-	38,630
Loss for the period	-	-	(405)	(405)	-	-	-	-	(405)
Other comprehensive income for the period	-	-	-	-	-	-	-	-	-
Total comprehensive loss for the period	-	-	(405)	(405)	-	-	-	-	(405)
Contributions of equity, net of transaction costs	18,544	-	-	18,544	-	-	-	-	18,544
Share-based payment	-	70	-	70	-	-	-	-	70
Share options exercised	-	-	-	-	-	-	-	-	-
Dividends	-	-	(3,150)	(3,150)	-	-	-	-	(3,150)
Total contributions and distributions	18,544	70	(3,150)	15,464	-	-	-	-	15,464
Balance at 30 June 2019	72,323	(18,901)	267	53,689	-	-	-	-	53,689

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

Condensed consolidated statement of cash flow

For the half-year ended 30 June 2020

	30 June 2020 \$'000	30 June 2019 \$'000
Cash flows from operating activities		
Receipts from parents and government funding	31,431	46,440
Receipts from Early Childhood Education and Care Relief Package	15,473	-
Receipts from JobKeeper	8,020	-
Payments to suppliers and employees	(43,866)	(38,398)
	11,058	8,042
Government grants	1,333	841
Interest and other finance costs	(6,560)	(4,058)
Income tax	(1,172)	(953)
Net cash from operating activities	4,659	3,872
Cash flows from investing activities		
Payments for acquisition of business	-	(7,463)
Payments for property, plant and equipment	(3,251)	(3,684)
Payments for intangibles	(28)	(5)
Refunds/ (payments) for security deposits	415	(4)
Net cash used in investing activities	(2,864)	(11,156)
Cash flows from financing activities		
Proceeds from issue of shares (net of transaction costs)	216	17,617
Proceeds from borrowings	4,935	-
Repayment of lease principal	(3,806)	(2,521)
Dividends paid	(3,043)	(2,223)
Net cash (used in) / from financing activities	(1,698)	12,873
Net increase in cash and cash equivalents	97	5,589
Cash and cash equivalents at the beginning of the period	11,685	3,560
Cash and cash equivalents at the end of the period	11,782	9,149

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

Notes to the condensed consolidated interim financial statements

Note 1. General information

These condensed consolidated interim financial statements cover Think Childcare Group (Group) which comprises Think Childcare Limited (TNK) and its controlled entities (together referred to as Think Childcare) and Think Childcare Development Limited (TND) and its controlled entities (together referred to as Think Childcare Development). 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). The condensed financial statements are presented in Australian dollars, which is Think Childcare Limited's functional and presentation currency.

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

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

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

Note 2. Significant accounting policies

Statement of compliance

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

Basis of preparation

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

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

Notes to the condensed consolidated interim financial statements continued

Note 2. Significant accounting policies (continued)

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

Standards on issue but not yet adopted

Amendments to AASB 3: Definition of a Business

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

COVID-19 relief packages

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

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

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

Notes to the condensed consolidated interim financial statements continued

Note 2. Significant accounting policies (continued)

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

JobKeeper

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

JobKeeper payments received from the Commonwealth Government have been recorded in accordance with AASB 120 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. Refer to note 5 for details on the JobKeeper subsidies received during the period.

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 abatement 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 for a limited number of leases in the half-year ended 30 June 2020 of \$0.3m.

In accordance with amendments to AASB 16 Leases issued by the Australian Accounting Standards Board, the Group has elected to use a practical expedient not to assess whether a rent concession meets the conditions of a lease modification, as all the required conditions that apply only to those rent concessions that are received as a direct consequence of the COVID-19 pandemic have been met. The Group has applied the practical expedient to all rent concessions. The Group has recognised rent concessions of \$0.5m that has been recognised in other income.

Going Concern

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

During the half-year ended 30 June 2020, 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 as a result of the general population's response to the uncertainty around the risk to children in child care contracting COVID-19. This was exacerbated in locations where schools were closed, the commencement of home schooling and many carers working from home.

Notes to the condensed consolidated interim financial statements continued

Note 2. Significant accounting policies (continued)

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

In late June 2020, the Victorian government implemented stage 3 restrictions followed by stage 4 restrictions from the first week of August in metro Melbourne and Mitchell Shire, because of a significant rise in the number of COVID-19 cases. The Group's Victoria based Services represent 56% of the portfolio of trading Services (by number of licensed places). Majority of the Services in the Victorian portfolio are in the stage 4 impacted locations and consequentially experienced a decline in attendance.

Stage 4 restrictions commenced on 2 August 2020 impacting the metropolitan Melbourne and Mitchell shire in Victoria and is expected to last for 6 weeks until 13 September 2020. In response, the Australian Government announced that CCS approved providers experiencing restrictions in metropolitan Melbourne will receive a 30 per cent transition payment. This is an additional 5% on top of the previously announced 25% transition payment. An additional 30 days of allowable absences will be granted to families with children attending the impacted Services and the Group will waive the parent fees during these absences. The Group however, will continue to receive CCS payments for the enrolled children. These measures are expected to be adequate to ensure the viability of those services during the period of lockdown.

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:

- > Established a COVID-19 response committee which mobilised to implement health, hygiene and safety practices across the Group's Services and corporate office;
- > Suspended all capital investment and corporate projects (including suspension of all 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.

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

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

An outline of the application of these relief packages to Think Childcare Group is detailed in the previous section.

As at 30 June 2020, the Group had net current liabilities of \$14.5m which include \$17.9m 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 a net loss after tax of \$0.4m for the half-year period ending 30 June 2020 (30 June 2019: loss of \$0.4m).

Notes to the condensed consolidated interim financial statements continued

Note 2. Significant accounting policies (continued)

The Group recorded EBITDA of \$14.5m (30 June 2019: \$10.0m) and EBITDA (underlying) of \$5.4m (30 June 2019: \$4.3m) for the period. As at 30 June 2020 Think Childcare had closing cash of \$11.8m, facility headroom of \$19.1m (\$12.2m restricted for acquisitions, \$4.2m Accordion facility and \$2.7m 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 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 is a going concern.

Comparatives

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

Rounding of amounts

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

Notes to the condensed consolidated interim financial statements continued

Note 3. Segment information

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

Identification of reportable operating segments

Think Childcare Group comprises the following reportable segments:

- > Child Care Operations
- > Child Care Development

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

Major customers

During the period ended 30 June 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), 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.

Notes to the condensed consolidated interim financial statements continued

Note 3. Segment information (continued)

Reportable segments

	Operations \$'000	Development \$'000	Eliminations \$'000	Total \$'000
30 June 2020				
Segment revenue				
Service revenue	48,454	1,087	-	49,541
Labour	(24,245)	(871)	-	(25,116)
Occupancy	(10,762)	(538)	-	(11,300)
Service overheads	(3,588)	(180)	-	(3,768)
Service performance	9,859	(502)	-	9,357
Management and other fees	1,077	(215)	(150)	712
Employee expenses	(3,110)	(17)	-	(3,127)
Corporate overheads	(1,264)	(325)	-	(1,589)
Corporate costs	(3,297)	(557)	(150)	(4,004)
EBITDA (underlying)	6,562	(1,059)	(150)	5,353
Operating lease costs ¹	8,838	442	-	9,280
Acquisition expenses	(180)	-	-	(180)
EBITDA	15,220	(617)	(150)	14,453
Finance costs	(6,697)	(465)	-	(7,162)
Depreciation and amortisation	(7,378)	(356)	-	(7,734)
Tax	(344)	428	-	84
Profit / (loss) for the period	801	(1,010)	(150)	(359)
Interest on lease liabilities	5,010	465	-	5,475
Depreciation on right of use assets	5,704	272	-	5,976
Operating lease costs ¹	(8,838)	(442)	-	(9,280)
Acquisition expenses	180	-	-	180
Tax impact	(632)	(89)	-	(721)
NPAT (underlying)	2,225	(804)	(150)	1,271

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

Notes to the condensed consolidated interim financial statements continued

Note 3. Segment information (continued)

30 June 2020	Operations \$'000	Development \$'000	Eliminations \$'000	Total \$'000
Segment assets and liabilities				
Segment assets	279,055	20,878	(150)	299,783
Unallocated assets	-	-	-	-
Total assets	279,055	20,878	(150)	299,783
Segment liabilities	230,644	17,081	-	247,725
Unallocated liabilities	-	-	-	-
Total liabilities	230,644	17,081	-	247,725
30 June 2019	Operations \$'000	Development \$'000	Eliminations \$'000	Total \$'000
Segment revenue				
Service revenue	47,929	-	-	47,929
Labour	(30,099)	-	-	(30,099)
Occupancy	(8,067)	-	-	(8,067)
Service overheads	(3,530)	-	-	(3,530)
Service performance	6,233	-	-	6,233
Management and other fees	2,038	-	-	2,038
Employee expenses	(2,556)	-	-	(2,556)
Corporate overheads	(1,385)	-	-	(1,385)
Corporate costs	(1,903)	-	-	(1,903)
EBITDA (underlying)	4,331	-	-	4,331
Operating lease costs ¹	5,915	-	-	5,915
Acquisition expenses	(202)	-	-	(202)
EBITDA	10,044	-	-	10,044
Finance costs	(5,179)	-	-	(5,179)
Depreciation	(5,130)	-	-	(5,130)
Tax	(140)	-	-	(140)
Loss for the period	(405)	-	-	(405)
Interest on lease liabilities	3,421	-	-	3,421
Depreciation on right of use assets	3,991	-	-	3,991
Operating lease costs ¹	(5,915)	-	-	(5,915)
Acquisition expenses	202	-	-	202
Tax impact	(509)	-	-	(509)
NPAT (underlying)	784	-	-	784

¹ This caption represents cash out flow for leases for the half-year ended 30 June 2019

Notes to the condensed consolidated interim financial statements continued

Note 3. Segment information (continued)

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

Reconciliation of information on reportable segments to the amounts reported in financial statements

	30 June 2020 \$'000	30 June 2019 \$'000
Income per reportable segments		
Service revenue	49,541	47,929
Management and other fees	712	2,038
Rent abatement	287	-
Rent abatement - AASB 16	249	-
Consolidated income	50,789	49,967
Income per condensed consolidated statement of profit or loss		
Revenue	48,872	49,104
Other income	1,917	863
Consolidated income	50,789	49,967

Notes to the condensed consolidated interim financial statements continued

Note 4. Revenue

	30 June 2020 \$'000	30 June 2019 \$'000
Revenue from contracts with customers	48,872	49,104
	48,872	49,104

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:

Timing of revenue recognition

30 June 2020	At a point in time	Over time	Revenue from external customers
Child care services	-	32,687	32,687
ECEC Relief Package	-	15,473	15,473
Management fees	-	590	590
Establishment fees	122	-	122
Total	122	48,750	48,872

Refer note 2 for accounting policy on ECEC Relief Package.

Timing of revenue recognition

30 June 2019	At a point in time	Over time	Revenue from external customers
Child care services	-	47,093	47,093
Management fees	-	723	723
Establishment fees	844	-	844
Licence fees	-	444	444
Total	844	48,260	49,104

Assets and liabilities related to contracts with customers

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

	Note	30 June 2020 \$'000	31 December 2019 \$'000
Capitalised setup costs relating to Licence fees		-	15
Total contract assets		-	15
Child care advances	11	1,284	1,121
Unearned revenue relating to Licence fees	12	-	18
Total contract liabilities		1,284	1,121

Notes to the condensed consolidated interim financial statements continued

Note 5. Employee benefit

	30 June 2020	30 June 2019
	\$'000	\$'000
Salaries and wages	36,196	30,181
JobKeeper expense ¹	2,452	-
JobKeeper subsidy	(13,596)	-
Defined contribution to superannuation plans	3,191	2,549
	28,243	32,730

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

Note 6. Finance costs

	30 June 2020	30 June 2019
	\$'000	\$'000
Interest on borrowings	1,687	1,758
Interest on lease liabilities	5,475	3,421
	7,162	5,179

Note 7. Income tax

	30 June 2020	30 June 2019
	\$'000	\$'000
Income tax		
Current tax	(519)	(461)
Deferred tax - origination and reversal of temporary differences	595	547
Adjustment recognised for prior periods	8	(226)
Aggregate income tax	84	(140)

Deferred tax included in income tax comprises:

Increase in deferred tax assets	565	991
Increase/(decrease) in deferred tax liabilities	(30)	258

Numerical reconciliation of income tax and tax at the statutory rate

Loss before tax	(443)	(265)
Tax at the statutory tax rate of 30%	133	80

Tax effect amounts which are not deductible / (taxable) in calculating taxable income:

Other income not included in assessable income	-	67
Non-deductible expenses	(45)	-
Acquisition and integration expenses	(12)	(61)
	76	86
Other adjustments	8	(226)
Aggregate Income tax	84	(140)

Amounts charged directly to equity

Deferred tax assets	-	223
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Notes to the condensed consolidated interim financial statements continued

Note 8. Current assets - trade and other receivables

	30 June 2020 \$'000	31 December 2019 \$'000
Trade receivables	2,594	5,997
Less: Provision for impairment of receivables	(295)	(296)
JobKeeper subsidy	5,576	-
Other receivables	431	53
	8,306	5,754

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

	30 June 2020 \$'000	31 December 2019 \$'000
Plant and equipment - at cost	19,324	16,637
Less: Accumulated depreciation	(4,832)	(3,568)
	14,492	13,069
Leasehold improvements - at cost	4,753	5,070
Less: Accumulated depreciation	(1,154)	(872)
	3,599	4,198
Motor vehicles - at cost	269	320
Less: Accumulated depreciation	(208)	(222)
	61	98
Computer equipment - at cost	1,216	1,088
Less: Accumulated depreciation	(461)	(322)
	755	766
Right of use asset (ROU)	190,591	183,441
Accumulated depreciation	(14,875)	(8,900)
	175,716	174,541
Construction in progress	1,350	591
	195,973	193,263

Notes to the condensed consolidated interim financial statements continued

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

Reconciliations

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

	Plant and equip- ment	Lease- hold Improve- ments	Motor Vehicles	Com- puter equip- ment	Right of Use Asset	Construc- tion in progress	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 January 2020	13,069	4,198	98	766	174,541	591	193,263
Additions	76	373	-	63	7,151	2,746	10,409
Transfers	2,613	(699)	-	64	-	(1,978)	-
Disposals	-	-	(7)	-	-	-	(7)
Depreciation expense	(1,266)	(273)	(30)	(138)	(5,976)	-	(7,683)
Balance at 30 June 2020	14,492	3,599	61	755	175,716	1,350	195,973

Note 10. Non-current assets - intangible assets

	30 June 2020 \$'000	31 December 2019 \$'000
Goodwill - at cost	77,485	77,764
Software - at cost	518	490
Less: Accumulated amortisation	(202)	(151)
	316	339
	77,801	78,103

Reconciliations

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

	Goodwill \$'000	Software \$'000	Total \$'000
Balance at 1 January 2020	77,764	339	78,103
Additions	-	28	28
Adjustments relating to prior period acquisitions	(279)	-	(279)
Amortisation expense	-	(51)	(51)
Balance at 30 June 2020	77,485	316	77,801

Notes to the condensed consolidated interim financial statements continued

Note 11. Current liabilities - trade and other payables

	30 June 2020 \$'000	31 December 2019 \$'000
Trade payables	2,402	3,380
Service enrolment advances	225	258
Employee related payables	5,012	5,691
Child care advances	1,284	1,121
Other payables	3,132	1,877
	12,055	12,327

All of the opening contract liabilities (Child care advances) were recognised as revenue during the period.

Note 12. Current liabilities - other

	30 June 2020 \$'000	31 December 2019 \$'000
Unearned revenue relating to Licence fees	-	18
Contingent consideration	439	-
Deferred revenue	33	123
	472	141

All of the opening unearned revenue relating to Licence fees were recognised as revenue during the period. Refer to note 16 for fair value and movement information in relation to contingent consideration.

Note 13. Borrowings

	30 June 2020 \$'000	31 December 2019 \$'000
Current		
Secured bank loans	523	428
Lease liability	17,935	17,259
	18,458	17,687
Non-Current		
Bank loans	47,056	41,986
Lease liability	163,615	160,901
	210,671	202,887
	229,129	220,574

The unused portion of the bank loan facility is \$14.9m (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. Maturity date of the facility is June 2023. As at 30 June 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 against the rights to the leased assets, recognised in the statement of financial position, which revert to the lessor in the event of default.

Notes to the condensed consolidated interim financial statements continued

Note 14. Equity - issued capital

	30 Jun 2020	31 Dec 2019	2020	2019
	Shares	Shares	\$'000	\$'000
Ordinary shares - fully paid	61,058,636	60,862,889	79,032	78,816

Movements in ordinary share capital

Details	Number of Shares	Issue Price	\$'000
Think Childcare opening balance	60,862,889		72,845
Issue of shares under Dividend Reinvestment Plan	195,747	\$0.99	194
Think Childcare closing balance	61,058,636		73,039
Think Childcare Development opening balance	60,862,889		5,971
Issue of shares under Dividend Reinvestment Plan	195,747	\$0.11	22
Think Childcare Development closing balance	61,058,636		5,993

Note 15. Equity - dividends

Dividends

Dividends paid during the period were as follows:

	30 June 2020	30 June 2019
	\$'000	\$'000
Final dividend for the year ended 31 December 2019 of 5.0 cents (2019: 31 December 2018 of 6.5 cents) per ordinary share	3,043	3,150
	3,043	3,150

On 19 August 2020, it was determined that the Group will not pay an interim dividend.

Franking credits

	30 June 2020	30 June 2019
	\$'000	\$'000
Franking credits available for subsequent financial periods based on a tax rate of 30%	2,550	3,909

Notes to the condensed consolidated interim financial statements continued

Note 16. 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

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
30 June 2020				
Liabilities				
Contingent consideration	-	-	439	439
Derivative financial instruments	-	963	-	963
Total liabilities	-	963	439	1,402
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
31 December 2019				
Liabilities				
Derivative financial instruments	-	744	-	744
Total liabilities	-	744	-	744

There were no transfers between levels during the financial period.

The carrying amounts of financial instruments reflect their fair value. 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.

Note 17. Contingent liabilities

The Group has given corporate guarantees as at 30 June 2020 of \$46,936,000 (2019: \$35,899,011) 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. This includes \$10,037,000 (2019: \$9,453,021) in rental bonds.

Notes to the condensed consolidated interim financial statements continued

Note 18. Related party transactions

Transactions with Key Management Personnel

Mark Kerr

Mark Kerr (Non-Executive Director), via an indirect interest, has a partial interest in an operating child care Service leased to Think Childcare. The lease on the property commenced on 7 November 2016 on an outgoing 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.

During the period ended 30 June 2020, Think Childcare paid rent of \$140,228. 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. Think Childcare had negotiated the terms of the lease with an incubator and the head landlord at arm's length. The lease clearly sets out the mechanics for the review of rent which is to be applied at the appropriate time and which does not involve the exercise of any discretion by Mark Kerr or Think Childcare. Any amendments to the lease will require the head landlord's consent.

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

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

Mathew Edwards

Management and other services

Think Childcare provides management and establishment services to a child care Service incubator 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 period ended 30 June 2020, the incubator entity has established two child care Services (Service Approval dates: 9 September 2019 and 9 January 2020) which Think Childcare currently manages. The Group expects the entity to open another child care Service in late 2020.

During the period ended 30 June 2020, Think Childcare recognised from the incubator entity \$60,000 in management fees. The balance outstanding as at 30 June 2020 is \$448,416.

Notes to the condensed consolidated interim financial statements continued

Note 18. Related party transactions (continued)

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 Think Childcare's base line requirements and are in line with the terms agreed at arms' 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 relevant agenda item and abstains from voting on any question relating to the transaction.

During the year ended 31 December 2019, Think Childcare had also 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 note 28 to the 31 December 2019 Annual report. The balance outstanding as at 30 June 2020 is \$nil.

During the period ended 30 June 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 of which \$0.4m was outstanding as at 30 June 2020.

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

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

Notes to the condensed consolidated interim financial statements continued

Note 18. Related party transactions (continued)

Scheme of arrangement

Think Childcare Development child care Services

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

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

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

Centre Management Deed – removal of put option

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

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

Inter-company loan – termination

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

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

Notes to the condensed consolidated interim financial statements continued

Note 19. Earnings per share

	30 June 2020 \$'000	30 June 2019 \$'000
Total comprehensive income / (loss) attributable to:		
Members of Think Childcare Limited	435	(405)
Members of Think Childcare Development Limited	(794)	-
Stapled security holders of Think Childcare Group	(359)	(405)
	Number	Number
Weighted average number of stapled securities used in calculating basic earnings per stapled security	60,966,140	54,706,310
Adjustments for calculation of diluted earnings per stapled security:		
Performance Rights over stapled securities	15,873	123,525
Weighted average number of stapled securities calculating diluted earnings per stapled security	60,982,013	54,829,835
Earnings per stapled security - Think Childcare Group	Cents	Cents
Basic	(0.59)	(0.74)
Diluted	(0.59)	(0.74)

Note 20. Events after the reporting period

On 1 July 2020, Think Childcare Development entered into binding agreements in relation to the acquisition of six (6) Nido Services and secured finance to support its pipeline of Services. The agreement also included the acquisition of four (4) pipeline Services of which three (3) pipeline Services were acquired exclusively with the view to resell to a third party incubator on back to back contractual terms. Think Childcare will provide management services to the three (3) Services on behalf of the third party incubator with an option to re-acquire the Services once certain operational metrics are achieved. The acquisition of six (6) Nido Services and four (4) pipeline Services including the back to back sale of three (3) pipeline Services was completed on 4 August 2020.

The six (6) Nido Services and one (1) pipeline Service were acquired for a total consideration of \$6,007,000 and will contribute an additional 576 licensed places. All the acquired Nido Services are purpose built Nido Services and are located in metropolitan areas of Western Australia, Victoria and South Australia. The goodwill of \$4,691,000 represents the value attributed to assembled workforces and management teams within the acquirees, expected synergies from combining the operations, and other non-recognisable intangible assets. The acquisitions are provisional at 19 August 2020. Due to estimation uncertainty the Group is unable to disclose revenue and EBITDA if acquisitions were made at the start of the period.

Notes to the condensed consolidated interim financial statements continued

Note 20. Events after the reporting period

Details of the acquisition are as follows:

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

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

On 2 August 2020, the Victorian government declared a state of disaster, announcing stage 4 restrictions for Melbourne and stage 3 restrictions for regional Victoria. The restrictions are expected to significantly impact the operations of Services in Victoria. Given the dynamic nature of these circumstances and the significant increase in economic uncertainty, the related impact on the Group's go forward consolidated results of operations, cash flows and financial condition cannot be reasonably estimated at this stage.

Stage 4 restrictions commenced on 2 August 2020 impacting the metropolitan Melbourne and Mitchell shire in Victoria and is expected to last for 6 weeks until 13 September 2020. In response, the Australian Government announced that CCS approved providers experiencing restrictions in metropolitan Melbourne will receive a 30 per cent transition payment. This is an additional 5% on top of the previously announced 25% transition payment. An additional 30 days of allowable absences will be granted to families with children attending the impacted Services and the Group will waive the parent fees during these absences. The Group however, will continue to receive CCS payments for the enrolled children. These measures are expected to be adequate to ensure the viability of those services during the period of lockdown.

Apart from the items discussed and the dividend determination as disclosed in note 15, no other matter or circumstance has arisen since 30 June 2020 and up to the date of this report that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial periods.

DIRECTORS' DECLARATION

In the Directors' opinion:

- (a) the condensed consolidated financial statements and notes set out on pages 15 to 39, are in accordance with the Corporations Act 2001, including:
 - › Giving a true and fair view of the Group's financial position as at 30 June 2020 and of its performance, for the six-month period ended on that date; and
 - › Complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors.



Mark Kerr
Chairman
19 August 2020 | Melbourne



Independent Auditor's Review Report

To the shareholders of Think Childcare Group

Report on the Half-year Financial Report

Conclusion

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

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

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

The **Half-year Financial Report** for the Stapled Group comprises:

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

The **Stapled Group** comprises Think Childcare Limited and the entities it controlled at the Half year's end or from time to time during the Half-year and Think Childcare Development Limited and the entities it controlled at the Half year's end or from time to time during the Half-year.

Responsibilities of the Directors for the Half-year Financial Report

The Directors of the Stapled Group are responsible for:

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



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

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

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

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

KPMG

Paul Thomas
Partner

Sydney

19 August 2020

THINK

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