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BUILDING CONFIDENT,  
CONNECTED AND ENGAGED  
LITTLE LEARNERS





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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.

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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

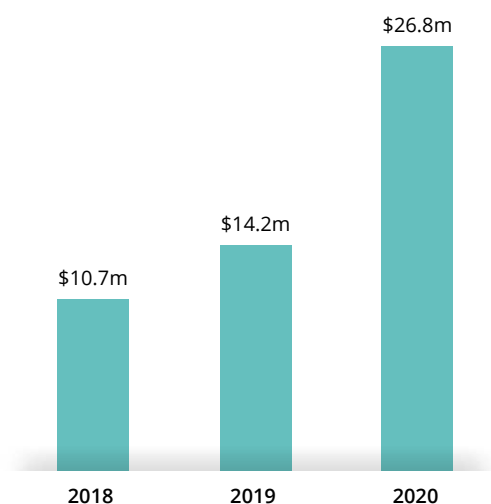
The Boards and executive leadership team are proud to present the Think Childcare Group Annual Report for 2020

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.

**EBITDA (UNDERLYING) TNK**



## 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.

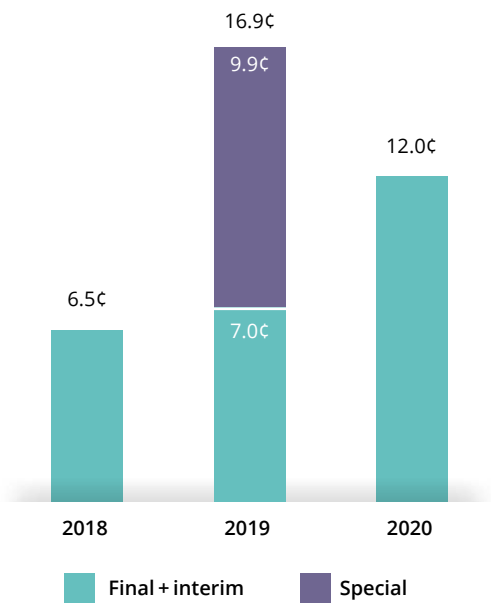
Outperformance in the face of COVID-19

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.

DIVIDEND PER SHARE TNK<sup>1</sup>



1 Dividend relates to the year and not the payment date

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.



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



**Mark Kerr**  
Chairman  
24 February 2021  
Melbourne



# STRATEGY & OPERATIONS

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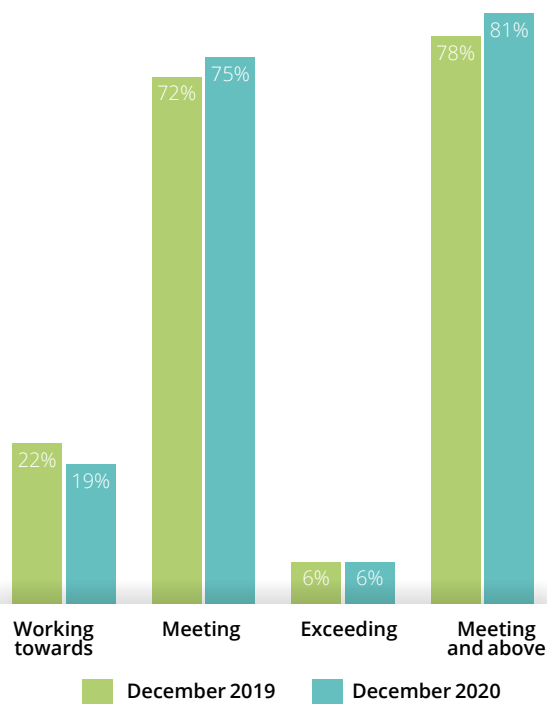
## STRATEGY & OPERATIONS

### 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**  
**83**

  
**UNDER CONSTRUCTION**  
**5**

  
**APPROVED**  
**16**

  
**PLANNING**  
**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).





## 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

### 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

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# 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](http://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](http://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

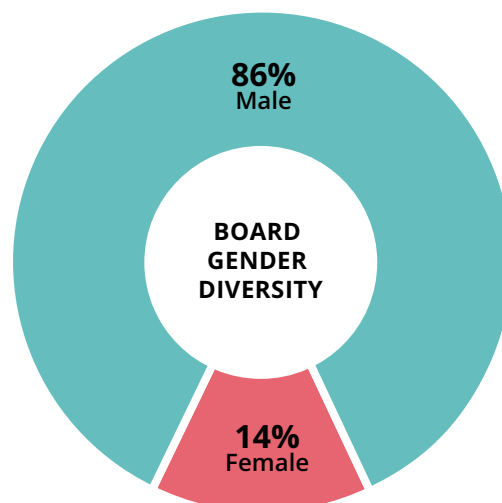
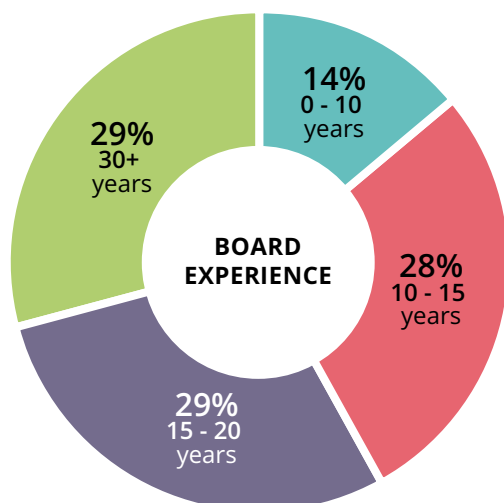
Recognising the need for the highest standards of behaviour and business ethics, the Group has a Code of Conduct, which sets out the values, commitments, ethical standards and policies of the Group and outlines the standards of conduct expected of the Group's businesses and employees. The Code of Conduct 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
<b>Board of Directors experience</b>	Substantial Board experience in a large organisation, with proven track record of leadership	7 out of 7
<b>Public Company Board experience</b>	Substantial Board experience in a publicly listed company with proven track record of leadership	6 out of 7
<b>Specific child care industry experience</b>	Extensive experience in the childcare industry, including a strong understanding of and experience with childcare operations	3 out of 7
<b>Specific property investment industry experience</b>	Strong understanding and experience in evaluating property investment proposals	2 out of 7
<b>Knowledge of sector</b>	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
<b>Governance experience</b>	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
<b>Knowledge of broad public policy direction</b>	Experience in assessing the impact of public and regulatory matters on the organisation	7 out of 7
<b>Understanding of government legislative process</b>	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

<b>Accounting</b>	Qualifications or relevant accounting experience	<b>4</b> out of 7
<b>Finance</b>	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	<b>5</b> out of 7
<b>Law</b>	Qualifications or relevant legal experience	<b>2</b> out of 7
<b>Marketing</b>	Commercial and business experience to evaluate and oversee marketing objectives and plans	<b>4</b> out of 7
<b>Information Technology</b>	Experience in overseeing the use of information technology infrastructure to drive competitive strategy, innovation, revenue growth and business performance	<b>3</b> out of 7
<b>Public Relations</b>	Commercial and business experience in developing and overseeing strong customer- focused culture in large complex organisations	<b>4</b> out of 7
<b>Risk Management</b>	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	<b>4</b> out of 7
<b>Human Resource Management</b>	Ability to assess senior management and experience in assessing remuneration frameworks, human resource management, organisational change and monitoring corporate change	<b>3</b> out of 7
<b>CEO/Senior Management</b>	Successful career as senior executive in a publicly listed company or large organisation, with proven track record of leadership	<b>6</b> out of 7
<b>Strategy development and implementation</b>	Experience in assessing and testing strategic objectives, business plans and financial performance and constructively questioning business plan and implementing strategies	<b>7</b> 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)
	Member of Audit, Risk and Compliance Committee
	Member of Human Resources and Remuneration Committee
	Chair of Independent Board Committee
Mathew Edwards	Managing Director and Chief Executive Officer (TNK)
	Executive Director (TND)
Evonne Collier	Independent Non-Executive Director (TNK only)
	Chair of Human Resources and Remuneration Committee
	Member of Audit, Risk and Compliance Committee
	Member of Independent Board Committee
Joe Dicks	Independent Non-Executive Director (TNK and TND)
	Chair of Audit, Risk and Compliance Committee
	Member of Human Resources and Remuneration Committee
Michael Doble	Independent Non-Executive Director (TND only)
	Deputy Chair of Independent Board Committee

### New Directors

James Spenceley	Independent Non-Executive Director (TNK only) appointed 15 May 2020
	Member of Audit, Risk and Compliance Committee
	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:QX), 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 Independent 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 Practising Fund Manager, Certified Practising 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:

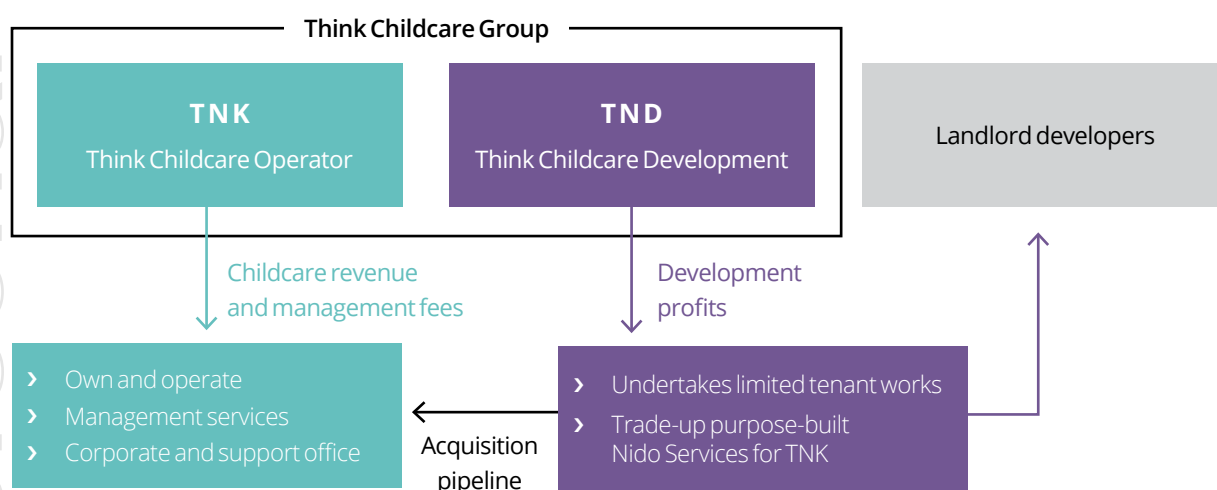
### Think Childcare

- › 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

\$'000	2020				2019
	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)
<b>Service performance</b>	<b>37,877</b>	<b>(119)</b>	<b>-</b>	<b>37,758</b>	<b>18,646</b>
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)
<b>Corporate costs</b>	<b>(7,665)</b>	<b>(1,373)</b>	<b>(1,200)</b>	<b>(10,238)</b>	<b>(4,455)</b>
(Loss)/profit on sale	(148)	2,922	(2,922)	(148)	-
Acquisition expenses	-	(568)	-	(568)	-
<b>EBITDA (underlying)</b>	<b>30,064</b>	<b>862</b>	<b>(4,122)</b>	<b>26,804</b>	<b>14,191</b>
Operating lease costs <sup>1</sup>	16,934	1,897	-	18,831	13,062
Non-underlying costs	(1,421)	-	-	(1,421)	(2,027)
<b>EBITDA</b>	<b>45,577</b>	<b>2,759</b>	<b>(4,122)</b>	<b>44,214</b>	<b>25,226</b>
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)
<b>Profit / (Loss) for the period</b>	<b>11,831</b>	<b>(540)</b>	<b>(4,122)</b>	<b>7,169</b>	<b>2,005</b>
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 <sup>1</sup>	(16,934)	(1,897)	-	(18,831)	(13,062)
Tax impact	(1,923)	(213)	-	(2,136)	(1,703)
<b>NPAT (underlying)</b>	<b>16,318</b>	<b>(43)</b>	<b>(4,122)</b>	<b>12,153</b>	<b>4,508</b>

<sup>1</sup> 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
<b>Total assets</b>	<b>129,817</b>	<b>19,708</b>	<b>200,162</b>	<b>(4,122)</b>	<b>345,565</b>
Borrowings	42,927	11,421	-	-	54,348
Other liabilities	18,853	3,249	-	-	22,102
Lease liability	-	-	209,436	-	209,436
<b>Total liabilities</b>	<b>61,780</b>	<b>14,670</b>	<b>209,436</b>	<b>-</b>	<b>285,886</b>
<b>Equity</b>	<b>68,037</b>	<b>5,038</b>	<b>(9,274)</b>	<b>(4,122)</b>	<b>59,679</b>

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

As at 31 December 2020 \$m	TNK		TND		Group
	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
<b>Total</b>	<b>53.8</b>	<b>24.2</b>	<b>11.5</b>	<b>-</b>	<b>89.5</b>

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 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, 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 KR 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.

Director Name	Attended / Held				
	Board Meetings		Audit Risk and Compliance Committee	Human Resources and Remuneration Committee	Independent Board Committee <sup>1</sup>
	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 <sup>2</sup> (TNK only)	18 / 18	N/A	4 / 4	4 / 4	N/A
Nick Anagnostou <sup>3</sup> (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.

<sup>1</sup> The Independent Board Committee was established on 22 July 2020.

<sup>2</sup> 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.

<sup>3</sup> 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 clawback 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 <sup>1</sup> / Committees	Change in 2020
Non-executive directors	<b>Mark Kerr</b> Independent Non-Executive Chairman (TNK and TND) Member of Audit, Risk and Compliance Committee Member of Human Resources and Remuneration Committee Chair of Independent Board Committee* (IBC)	IBC established on 22 July 2020
	<b>Joe Dicks</b> Independent Non-Executive Director (TNK and TND) Chair of Audit, Risk and Compliance Committee Member of Human Resources and Remuneration Committee	No change
	<b>Evonne Collier</b> Independent Non-Executive Director (TNK only) Chair of Human Resources and Remuneration Committee Member of Audit, Risk and Compliance Committee Member of Independent Board Committee (IBC)	IBC established on 22 July 2020
	<b>Michael Doble</b> Independent Non-Executive Director (TND only) Deputy Chair of Independent Board Committee (IBC)	IBC established on 22 July 2020
	<b>James Spenceley</b> Independent Non-Executive Director (TNK only) Member of Audit, Risk and Compliance Committee Member of Human Resources and Remuneration Committee	Appointed 15 May 2020
	<b>Nick Anagnostou</b> Independent Non-Executive Director (TND only)	Appointed 1 October 2020
Executive directors	<b>Mathew Edwards</b> Managing Director and Chief Executive Officer (TNK) Executive Director (TND)	No change
Other executive KMP	<b>Jennifer Saliba</b> Chief Financial Officer	No change
	<b>Georgina Gausson</b> Chief Operating Officer	No change

<sup>1</sup> 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)

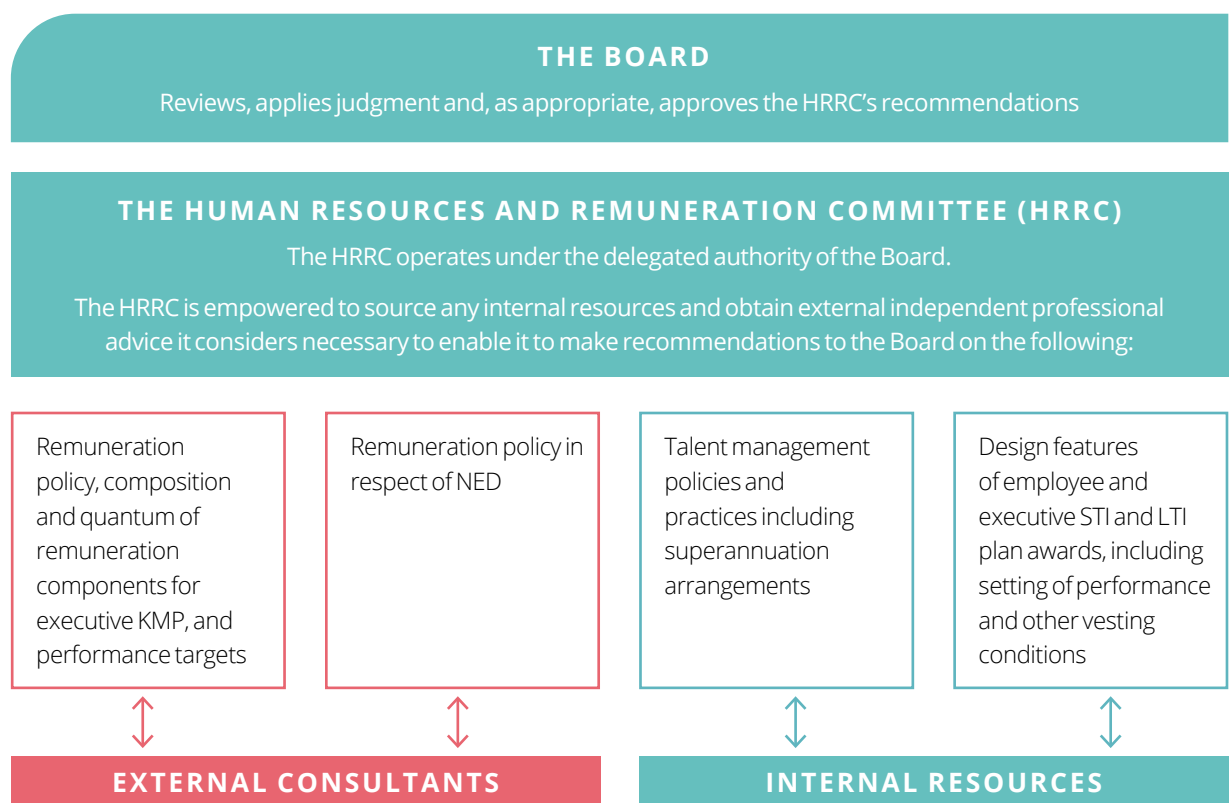
The Boards are responsible for Think Childcare Group's remuneration strategy and policies. Consistent with this responsibility, the Board of Think Childcare has established the HRRC which solely comprises independent non-executive directors (NED).

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:



# 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	<p>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.</p> <p>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.</p> <p>Security holders approve the aggregate amount available for the remuneration of NED.</p>
Remuneration is structured to preserve independence whilst creating alignment	<p>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.</p> <p>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.</p> <p>Refer Section 5 for NED security holding as at 31 December 2020.</p>
Aggregate Board and committee fees are approved by security holders	<p>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.</p> <p>No increase in the fee pool limit is proposed this year.</p>

## 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 <sup>1</sup>	35,000	Nil
	Member of Independent Board Committee <sup>1</sup>	25,000	Nil

<sup>1</sup> 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. 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	Equity Based Payments	Post-employment benefits		Total (\$)
		Fees (\$)	Performance Rights (\$)	Termination benefits (\$)	Superannuation benefits (\$)	
Mark Kerr (Chairman) <sup>1</sup>	2020	115,049	-	-	10,930	125,979
	2019	100,000	22,399	-	9,500	131,899
Joe Dicks <sup>1</sup>	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

<sup>1</sup> 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

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

<sup>1</sup> Includes consultancy fees of \$8,760.

<sup>2</sup> 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.

<sup>3</sup> 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

Total fixed remuneration (TFR)

TFR is set based on relevant market relativities, reflecting responsibilities, performance, qualifications, experience and geographic location.

AT RISK

Short-term incentives (STI)

STI performance criteria are set by reference to Think Childcare Group performance targets comprising both financial and non-financial measures.

Long-term incentives (LTI)

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
<b>Chief Executive Officer</b>	50%	Up to 25%	Up to 25%
<b>Chief Financial Officer</b>	50%	Up to 25%	Up to 25%
<b>Chief Operating Officer</b>	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
<b>Chief Executive Officer</b>	50%	Up to 25%	Up to 25%
<b>Chief Financial Officer</b>	50%	Up to 25%	Up to 25%
<b>Chief Operating Officer</b>	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

<b>Purpose</b>	<p>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.</p> <p>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.</p>
<b>Performance targets – 2020</b>	<p>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.</p> <p>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.</p> <p>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.</p>
<b>Performance targets – 2021</b>	The KPI selected for 2021 were based on the same methodology adopted in 2020.
<b>Rewarding performance</b>	The STI performance ratings are determined under a predetermined matrix with the Board determination as final.
<b>Deferral of STI</b>	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 recommendation 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.

Purpose	To align executive KMP remuneration opportunity with security holder value and provide retention stimulus.		
Types of equity awarded	LTI is provided under the Think Childcare Group Employee Share Option Plan. 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.		
Time of grant	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.		
Time restrictions	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.		
Performance hurdles and vesting schedule	The 2021 equity grants to the CEO and other executive KMP are subject to one performance condition, as follows:		
	Compound annual growth in Total Shareholder Return (TSR) (3 years)		
	Performance	% of equity to vest	
	< 10%	0%	
	10% to 15%	50% to 100% pro-rata	
	> 15%	100%	
	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.		
	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.		
Dividends	No dividends are attached to performance rights.		
Voting rights	There are no voting rights attached to performance rights.		
Retesting	The LTI performance hurdles were reviewed by the HRRC and Board and considered appropriate.		
LTI allocation	The size of individual LTI grants for the CEO and other executive KMP is determined in accordance with the Board approved remuneration strategy mix.		
	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.		



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

# 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			Total
		Salary / fees	Cash STI	Other Cash Benefits	Deferred STI	LTI Performance Rights	Long Service Leave	Super-annuation	
\$									
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 Gausson	2020	320,000	152,000	-	-	-	-	44,840	516,840
	2019	56,615	11,252	-	-	-	-	5,378	73,245
<b>Total</b>	<b>2020</b>	<b>1,082,736</b>	<b>532,000</b>	<b>231</b>	<b>-</b>	<b>51,230</b>	<b>43,572</b>	<b>115,596</b>	<b>1,825,365</b>
	<b>2019</b>	<b>593,673</b>	<b>281,252</b>	<b>56,798</b>	<b>100,000</b>	<b>107,226</b>	<b>8,693</b>	<b>62,118</b>	<b>1,209,760</b>

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 Gausson 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 <sup>1</sup> 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				

<sup>1</sup> 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.

<b>Length of contract</b>	The CEO and other executive KMP are on permanent contracts, which is an ongoing employment contract until notice is given by either party.
<b>Notice periods</b>	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.
<b>Resignation</b>	On resignation, unless the Boards determines otherwise, all unvested STI or LTI benefits are forfeited.
<b>Termination on notice by Think Childcare</b>	<p>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.</p> <p>On termination on notice by Think Childcare Group, unless the Boards determines otherwise unvested STI or LTI benefits may lapse.</p>
<b>Death or total and permanent disability</b>	On death or total and permanent disability, the Boards have discretion to allow all unvested STI and LTI benefits to vest.
<b>Termination for serious misconduct</b>	<p>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.</p> <p>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.</p>
<b>Statutory entitlements</b>	Payment of statutory entitlements of long service leave and annual leave applies in all events of separation.
<b>Post-employment restraints</b>	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 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.

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**

Chairman

24 February 2021

Melbourne



# FINANCIAL REPORT

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## FINANCIAL REPORT

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

For the year ended 31 December 2020

	Note	2020 \$'000	2019 \$'000
<b>Revenue</b>	5a	<b>136,358</b>	113,547
Other income	5b	<b>3,580</b>	1,997
<b>Expenses</b>			
Employee benefit	6	<b>75,551</b>	72,725
Occupancy		<b>6,649</b>	4,992
Direct expenses of providing services		<b>4,475</b>	4,412
Corporate & marketing		<b>4,155</b>	4,237
Acquisition and integration	7	<b>1,048</b>	758
Other		<b>3,848</b>	3,194
Depreciation, amortisation and impairment	12,13	<b>16,826</b>	11,522
Finance costs	8	<b>15,258</b>	10,469
<b>Profit before tax</b>		<b>12,128</b>	3,235
Income tax	9	<b>4,959</b>	1,230
<b>Profit for the year</b>		<b>7,169</b>	2,005
Other comprehensive income for the year, net of tax		-	-
<b>Total comprehensive income for the year</b>		<b>7,169</b>	2,005
Profit/(loss) for the year attributable to:			
Members of Think Childcare Limited		<b>10,005</b>	3,364
Members of Think Childcare Development Limited		<b>(2,836)</b>	(1,359)
<b>Stapled security holders of Think Childcare Group</b>		<b>7,169</b>	2,005
Total comprehensive income/(loss) attributable to:			
Members of Think Childcare Limited		<b>10,005</b>	3,364
Members of Think Childcare Development Limited		<b>(2,836)</b>	(1,359)
<b>Stapled security holders of Think Childcare Group</b>		<b>7,169</b>	2,005
<b>Earnings per stapled security - Think Childcare Group</b>		<b>Cents</b>	Cents
Basic	35	<b>11.75</b>	3.47
Diluted	35	<b>11.74</b>	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
<b>Assets</b>			
<b>Current Assets</b>			
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
<b>Total current assets</b>		<b>29,892</b>	<b>19,043</b>
<b>Non-current assets</b>			
Property, plant and equipment	12	222,214	193,262
Intangible assets	13	87,699	78,103
Deferred tax assets	14	5,760	4,040
<b>Total non-current assets</b>		<b>315,673</b>	<b>275,405</b>
<b>Total assets</b>		<b>345,565</b>	<b>294,448</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
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	-
<b>Total current liabilities</b>		<b>42,468</b>	<b>35,049</b>
<b>Non-current liabilities</b>			
Borrowings	18	242,162	202,887
Derivative financial instruments	24	847	744
Employee benefits	16	409	593
<b>Total non-current liabilities</b>		<b>243,418</b>	<b>204,224</b>
<b>Total liabilities</b>		<b>285,886</b>	<b>239,273</b>
<b>Net assets</b>		<b>59,679</b>	<b>55,175</b>
<b>Equity</b>			
<b>Think Childcare Limited</b>			
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
<b>Think Childcare Development Limited</b>			
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
<b>Total equity</b>		<b>59,679</b>	<b>55,175</b>

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	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	
<b>Balance at 1 January 2019</b>		<b>53,779</b>	<b>(18,971)</b>	<b>3,822</b>	<b>38,630</b>	-	-	-	-	<b>38,630</b>
Profit/(loss) for the year		-	-	3,364	3,364	-	-	(1,359)	(1,359)	2,005
Other comprehensive income for the year		-	-	-	-	-	-	-	-	-
<b>Total comprehensive income/(loss) for the year</b>		<b>-</b>	<b>-</b>	<b>3,364</b>	<b>3,364</b>	<b>-</b>	<b>-</b>	<b>(1,359)</b>	<b>(1,359)</b>	<b>2,005</b>
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)
<b>Total contributions and distributions</b>		<b>19,066</b>	<b>(138)</b>	<b>(10,359)</b>	<b>8,569</b>	<b>5,971</b>	<b>-</b>	<b>-</b>	<b>5,971</b>	<b>14,540</b>
<b>Balance at 31 December 2019</b>		<b>72,845</b>	<b>(19,109)</b>	<b>(3,173)</b>	<b>50,563</b>	<b>5,971</b>	<b>-</b>	<b>(1,359)</b>	<b>4,612</b>	<b>55,175</b>



2020	Note	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	
<b>Balance at 1 January 2020</b>		<b>72,845</b>	<b>(19,109)</b>	<b>(3,173)</b>	<b>50,563</b>	<b>5,971</b>	<b>-</b>	<b>(1,359)</b>	<b>4,612</b>	<b>55,175</b>
Profit/(loss) for the year		-	-	10,005	10,005	-	-	(2,836)	(2,836)	7,169
Other comprehensive income for the year		-	-	-	-	-	-	-	-	-
<b>Total comprehensive income/(loss) for the year</b>		<b>-</b>	<b>-</b>	<b>10,005</b>	<b>10,005</b>	<b>-</b>	<b>-</b>	<b>(2,836)</b>	<b>(2,836)</b>	<b>7,169</b>
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)
<b>Total contributions and distributions</b>		<b>194</b>	<b>(11)</b>	<b>(3,043)</b>	<b>(2,860)</b>	<b>22</b>	<b>173</b>	<b>-</b>	<b>195</b>	<b>(2,665)</b>
<b>Balance at 31 December 2020</b>		<b>73,039</b>	<b>(19,120)</b>	<b>3,789</b>	<b>57,708</b>	<b>5,993</b>	<b>173</b>	<b>(4,195)</b>	<b>1,971</b>	<b>59,679</b>

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
<b>Cash flows from operating activities</b>			
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
<b>Cash flows from investing activities</b>			
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)
<b>Cash flows from financing activities</b>			
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
<b>Segment revenue</b>				
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)
<b>Service performance</b>	<b>37,877</b>	<b>(119)</b>	<b>-</b>	<b>37,758</b>
Management and other fees <sup>3</sup>	3,066	(619)	(1,200)	1,247
Employee expenses	(7,765)	(45)	-	(7,810)
Corporate overheads	(2,996)	(709)	-	(3,675)
<b>Corporate costs</b>	<b>(7,665)</b>	<b>(1,373)</b>	<b>(1,200)</b>	<b>(10,238)</b>
(Loss)/profit on sale of child care Services <sup>2</sup>	(148)	2,922	(2,922)	(148)
Acquisition expenses	-	(568)	-	(568)
<b>EBITDA (underlying)</b>	<b>30,064</b>	<b>862</b>	<b>(4,122)</b>	<b>26,804</b>
Operating lease costs <sup>1</sup>	16,934	1,897	-	18,831
Non underlying expenses	(1,421)	-	-	(1,421)
<b>Segment EBITDA</b>	<b>45,577</b>	<b>2,759</b>	<b>(4,122)</b>	<b>44,214</b>
Finance cost	(13,073)	(2,185)	-	(15,258)
Depreciation and amortisation	(15,427)	(1,401)	-	(16,828)
Tax	(5,246)	287	-	(4,959)
<b>Profit/(Loss) for the period</b>	<b>11,831</b>	<b>(540)</b>	<b>(4,122)</b>	<b>7,169</b>
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)
<b>NPAT (underlying)</b>	<b>16,318</b>	<b>(43)</b>	<b>(4,122)</b>	<b>12,153</b>
<b>Segment assets and liabilities</b>				
Segment assets	302,782	46,905	(4,122)	345,565
Unallocated assets	-	-	-	-
<b>Total assets</b>	<b>302,782</b>	<b>46,905</b>	<b>(4,122)</b>	<b>345,565</b>
Segment liabilities	243,248	42,638	-	285,886
Unallocated liabilities	-	-	-	-
<b>Total liabilities</b>	<b>243,248</b>	<b>42,638</b>	<b>-</b>	<b>285,886</b>

<sup>1</sup> This caption represents cash out flow for leases for the year ended 31 December 2020

<sup>2</sup> Think Childcare Development sold two Nido Services to Think Childcare, the profit on sale of \$2.9m has been eliminated

<sup>3</sup> 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 <sup>2</sup>	Operations \$'000	Development \$'000	Eliminations \$'000	Total \$'000
<b>Segment revenue</b>				
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)
<b>Service performance</b>	<b>19,201</b>	<b>(555)</b>	<b>-</b>	<b>18,646</b>
Management and other fees	4,949	-	-	4,939
Employee expenses	(6,254)	-	-	(6,254)
Corporate overheads	(3,140)	-	-	(3,140)
<b>Corporate costs</b>	<b>(4,455)</b>	<b>-</b>	<b>-</b>	<b>(4,455)</b>
<b>EBITDA (underlying)</b>	<b>14,746</b>	<b>(555)</b>	<b>-</b>	<b>14,191</b>
Operating lease costs <sup>1</sup>	12,928	134	-	13,062
Non underlying expenses	(718)	(1,309)	-	(2,027)
<b>Segment EBITDA</b>	<b>26,956</b>	<b>(1,730)</b>	<b>-</b>	<b>25,226</b>
Finance cost	(10,362)	(107)	-	(10,469)
Depreciation and amortisation	(11,432)	(90)	-	(11,522)
Tax	(1,798)	568	-	(1,130)
<b>Profit/(Loss) for the period</b>	<b>3,364</b>	<b>(1,357)</b>	<b>-</b>	<b>2,005</b>
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)
<b>NPAT (underlying)</b>	<b>5,824</b>	<b>(1,316)</b>	<b>-</b>	<b>4,508</b>
<b>Segment assets and liabilities</b>				
<b>Segment assets</b>	<b>281,264</b>	<b>13,184</b>	<b>-</b>	<b>294,448</b>
<b>Unallocated assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total assets</b>	<b>281,264</b>	<b>13,184</b>	<b>-</b>	<b>294,448</b>
<b>Segment liabilities</b>	<b>230,701</b>	<b>8,572</b>	<b>-</b>	<b>239,273</b>
<b>Unallocated liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total liabilities</b>	<b>230,701</b>	<b>8,572</b>	<b>-</b>	<b>239,273</b>

<sup>1</sup> This caption represents cash out flow for leases for the year ended 31 December 2019.

<sup>2</sup> 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 \$'000	2019 \$'000
<b>Income per reportable segments</b>		
Service revenue	138,105	110,605
Management and other fees	1,247	4,939
Other income	-	-
Rent abatement (included in occupancy)	586	-
<b>Consolidated income</b>	<b>139,938</b>	115,544
<b>Income per condensed consolidated statement of profit or loss</b>		
Revenue	136,353	113,547
Other income	3,585	1,997
<b>Consolidated income</b>	<b>139,938</b>	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
<b>Revenue</b>	<b>136,358</b>	<b>113,547</b>

## 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
	<b>105,357</b>	<b>29,749</b>	<b>884</b>	<b>350</b>	<b>18</b>	<b>136,358</b>

## 2019

Revenue from external customers	108,582	-	1,611	2,989	365	113,547
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## Timing of revenue recognition

At a point in time	-	-	-	2,989	-	2,989
Over time	108,582	-	1,611	-	365	110,558
	<b>108,582</b>	<b>-</b>	<b>1,611</b>	<b>2,989</b>	<b>365</b>	<b>113,547</b>

## 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
<b>Total contract assets</b>		<b>-</b>	<b>15</b>
Child care advances	15	1,098	1,121
Service enrolment advances	15	176	258
Unearned revenue relating to Licence fees	17	-	18
<b>Total contract liabilities</b>		<b>1,274</b>	<b>1,397</b>

## NOTE 5B. OTHER INCOME

	2020 \$'000	2019 \$'000
Government grants	2,944	1,722
Rent abatement	586	-
Other	50	275
<b>Other income</b>	<b>3,580</b>	<b>1,997</b>

## 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 <sup>1</sup>	2,684	-
JobKeeper subsidy	(16,213)	-
Defined contribution to superannuation plans	6,932	5,554
<b>Employee benefits expense</b>	<b>75,551</b>	<b>72,725</b>

<sup>1</sup> 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 \$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 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 &amp; INTEGRATION EXPENSE

	2020 \$'000	2019 \$'000
Costs of capital raising	-	21
Legal and stamp duty	712	739
Commission	336	(2)
<b>Acquisition &amp; integration expense</b>	<b>1,048</b>	<b>758</b>

## NOTE 8. FINANCE COSTS

	2020 \$'000	2019 \$'000
Interest on borrowings	3,637	2,731
Interest on lease liabilities	11,621	7,738
<b>Finance costs</b>	<b>15,258</b>	<b>10,469</b>

## NOTE 9. INCOME TAX EXPENSE

	2020 \$'000	2019 \$'000
<b>Income tax expense</b>		
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
<b>Aggregate income tax expense</b>	<b>4,959</b>	<b>1,230</b>
<b>Deferred tax included in income tax expense comprises</b>		
(Decrease)/increase in deferred tax assets (note 14)	(2,102)	2,080
Increase/(decrease) in deferred tax liabilities (note 14)	416	(260)
<b>Numerical reconciliation of income tax expense and tax at the statutory rate</b>		
Profit before tax	12,128	3,235
Inter-segment profit subject to tax	4,122	-
<b>Profit before tax including inter-segment profit</b>	<b>16,250</b>	<b>3,235</b>
Tax at the statutory tax rate of 30%	4,875	970
<b>Tax effect amounts which are not deductible/(taxable) in calculating taxable income</b>		
Other income not included in assessable income	-	(60)
Acquisition and integration expenses	144	232
	<b>5,019</b>	<b>1,142</b>
Other adjustments	(60)	88
<b>Income tax expense</b>	<b>4,959</b>	<b>1,230</b>
<b>Amounts charged directly to equity</b>		
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
<b>Other</b>		
Other receivables	1,006	53
<b>Trade and other receivables</b>	<b>4,757</b>	<b>5,754</b>

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)
<b>Closing balance</b>	<b>295</b>	<b>296</b>

## 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

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

Refer note 19 for movement in contingent consideration.



## NOTE 12. PROPERTY, PLANT AND EQUIPMENT

	2020 \$'000	2019 \$'000
<b>Plant and equipment – at cost</b>	<b>22,697</b>	16,637
Less: Accumulated depreciation	(6,211)	(3,568)
	<b>16,486</b>	13,069
<b>Leasehold improvements – at cost</b>	<b>5,315</b>	5,070
Less: Accumulated depreciation	(1,439)	(872)
	<b>3,876</b>	4,198
<b>Motor vehicles – at cost</b>	<b>29</b>	320
Less: Accumulated depreciation	(25)	(222)
	<b>4</b>	98
<b>Computer equipment – at cost</b>	<b>1,705</b>	1,088
Less: Accumulated depreciation	(638)	(322)
	<b>1,067</b>	766
<b>Right of use asset (ROU)</b>	<b>220,873</b>	183,441
Less: Accumulated depreciation	(20,711)	(8,900)
	<b>200,162</b>	174,541
<b>Construction in progress</b>	<b>619</b>	590
	<b>222,214</b>	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
<b>Additions</b>	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)	-
<b>Disposals</b>	(383)	(28)	(16)	(15)	-	-	(442)
Depreciation Expense	(1,987)	(346)	(71)	(173)	(8,900)	-	(11,477)
<b>Balance at 31 December 2019</b>	13,069	4,198	98	766	174,541	590	193,262
<b>Additions</b>	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)	-
<b>Disposals</b>	(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)
<b>Balance at 31 December 2020</b>	<b>16,486</b>	<b>3,876</b>	<b>4</b>	<b>1,067</b>	<b>200,162</b>	<b>619</b>	<b>222,214</b>

## NOTE 13. INTANGIBLES

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

### 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 \$'000	Software \$'000	Total \$'000
Balance at 1 January 2019		57,161	115	57,276
<b>Additions</b>		-	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)
<b>Balance at 31 December 2019</b>		77,764	339	78,103
<b>Additions</b>		-	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)
<b>Balance at 31 December 2020</b>		<b>87,404</b>	<b>295</b>	<b>87,699</b>

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

	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
<b>2020</b>					
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)	-	-	-
<b>Deferred tax asset</b>	<b>4,040</b>	<b>1,686</b>	<b>-</b>	<b>34</b>	<b>5,760</b>

	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
<b>2019</b>					
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
<b>Deferred tax asset</b>	<b>1,898</b>	<b>1,815</b>	<b>235</b>	<b>92</b>	<b>4,040</b>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## NOTE 15. TRADE AND OTHER PAYABLES

	2020 \$'000	2019 \$'000
<b>Current</b>		
Trade payables	3,134	3,380
Service enrolment advances	176	258
Child care advances	1,098	1,121
Other payables	1,255	1,877
<b>Trade and other payables</b>	<b>5,663</b>	<b>6,636</b>

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

	2020 \$'000	2019 \$'000
<b>Current</b>		
Annual leave	4,485	3,546
Long service leave	1,385	1,348
Employee related payables	4,276	5,691
<b>Employee benefits - current</b>	<b>10,146</b>	<b>10,585</b>
<b>Non-Current</b>		
Long service leave	409	593
<b>Employee benefits - non current</b>	<b>409</b>	<b>593</b>

## NOTE 17. OTHER LIABILITIES

	2020 \$'000	2019 \$'000
<b>Current</b>		
Unearned revenue relating to Licence fees	-	18
Deferred revenue	33	123
<b>Other liabilities - current</b>	<b>33</b>	<b>141</b>

## NOTE 18. BORROWINGS

	2020 \$'000	2019 \$'000
<b>Current</b>		
Secured bank loans	475	428
Lease liability	21,147	17,259
<b>Borrowings - current</b>	<b>21,622</b>	<b>17,687</b>
<b>Non-Current</b>		
Secured bank loans	53,873	41,986
Lease liability	188,289	160,901
<b>Borrowings - non current</b>	<b>242,162</b>	<b>202,887</b>

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
<b>Total facilities</b>		
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
<b>Used at the reporting date</b>		
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
<b>Unused at the reporting date</b>		
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

	2020 \$'000	2019 \$'000
<b>Current</b>		
Contingent consideration	1,922	-
Legal	475	-
<b>Provisions</b>	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
<b>Balance at 31 December 2020</b>	<b>1,922</b>	<b>475</b>	<b>2,397</b>

## 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
<b>Think Childcare balance</b>	<b>31 December 2020</b>	<b>61,058,636</b>		<b>73,039</b>
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
<b>Think Childcare Development balance</b>	<b>31 December 2020</b>	<b>61,058,636</b>		<b>5,993</b>

### 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)	-
<b>Equity - reserves</b>	<b>(19,120)</b>	<b>(19,109)</b>

### 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)
<b>Balance at 31 December 2020</b>	<b>(19,052)</b>	<b>105</b>	<b>(173)</b>	<b>(19,120)</b>

## 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
<b>Performance Rights granted to Key Management Personnel</b>	
2016	286,842
2017	78,946
2018	-
2019	47,619
2020	72,464
<b>Performance Rights granted to Group executives</b>	
2016	68,419
<b>Total Performance Rights</b>	<b>554,290</b>

## 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
<b>Outstanding at 31 December</b>	<b>52,105</b>	<b>46,367</b>	<b>1.47</b>	<b>1.42</b>

## 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
<b>Equity – dividends</b>	<b>3,043</b>	<b>10,359</b>

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
<b>Franking credits available for subsequent financial years based on a tax rate of 30%</b>	<b>5,924</b>	<b>3,246</b>

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:

	Weighted average interest rate	Balance
2020	%	\$'000
Secured bank loans	6.69%	54,348
<b>Net exposure to cash flow interest rate risk</b>		<b>54,348</b>
2019		
Secured bank loans	4.63%	42,414
<b>Net exposure to cash flow interest rate risk</b>		<b>42,414</b>

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
<b>Unused borrowing facilities</b>	<b>19,976</b>	<b>20,347</b>

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.

	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
<b>2020</b>						
<b>Non-derivatives</b>						
<b>Non-interest bearing</b>						
Trade payables	-	3,134	-	-	-	3,134
Other payables	-	2,529	-	-	-	2,529
<b>Interest-bearing</b>						
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
<b>Total non-derivatives</b>		<b>29,207</b>	<b>21,976</b>	<b>120,307</b>	<b>99,879</b>	<b>271,369</b>
<b>Derivatives</b>						
Interest rate swaps inflow	2.36%	-	-	847	-	847
<b>Total derivatives</b>		<b>-</b>	<b>-</b>	<b>847</b>	<b>-</b>	<b>847</b>
<b>2019</b>						
<b>Non-derivatives</b>						
<b>Non-interest bearing</b>						
Trade payables	-	3,380	-	-	-	3,380
Other payables	-	3,256	-	-	-	3,256
<b>Interest-bearing</b>						
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
<b>Total non-derivatives</b>		<b>26,720</b>	<b>17,222</b>	<b>94,170</b>	<b>91,495</b>	<b>229,607</b>
<b>Derivatives</b>						
Interest rate swaps inflow	2.36%	-	-	744	-	744
<b>Total derivatives</b>		<b>-</b>	<b>-</b>	<b>744</b>	<b>-</b>	<b>744</b>

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

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>2020</b>				
<b>Liabilities</b>				
Contingent consideration payable	-	-	1,922	1,922
Derivative financial instruments	-	847	-	847
<b>Total liabilities</b>	<b>-</b>	<b>847</b>	<b>1,922</b>	<b>2,769</b>
<b>2019</b>				
<b>Liabilities</b>				
Derivative financial instruments	-	744	-	744
<b>Total liabilities</b>	<b>-</b>	<b>744</b>	<b>-</b>	<b>744</b>

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	-	-
<b>Balance at 31 December 2020</b>	<b>1,922</b>	<b>1,922</b>

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
<b>Aggregate compensation - Directors &amp; other KMP</b>	<b>2,372</b>	<b>1,499</b>

## 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 \$
<b>Audit services</b>		
Audit or review of the financial statements	257,500	232,500
<b>Other services</b>		
Accounting advisory	-	40,000
Tax advisory	-	16,000
Risk compliance services	-	167,000
<b>Remuneration of professional service businesses</b>	<b>-</b>	<b>223,000</b>

## 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.

	2020 \$'000	2019 \$'000
<b>Right of use assets</b>		
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)
<b>Balance at 31 December 2020</b>	<b>200,162</b>	<b>174,541</b>

### 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)
<b>Balance at 31 December 2020</b>	<b>209,436</b>	<b>178,029</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## Amounts recognised in profit or loss

	2020 \$'000	2019 \$'000
<b>2020 - Leases under AASB 16</b>		
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

<b>Total cash outflow for leases</b>	<b>19,450</b>	<b>13,273</b>
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## 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)
<b>Total comprehensive income</b>	<b>(16,972)</b>	<b>(8,833)</b>

### Statement of financial position

Total current assets	20,678	41,866
Total assets	210,948	57,522
Total current liabilities	(239)	2,210
<b>Total liabilities</b>	<b>214,508</b>	<b>37,845</b>

### Equity

Issued capital	73,039	72,845
Security-based payments reserve	105	(56)
Accumulated losses	(76,704)	(53,112)
<b>Total equity</b>	<b>(3,560)</b>	<b>19,677</b>

### 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
<b>Acquisition date fair value of the total consideration transferred</b>	<b>11,710</b>
<b>Representing:</b>	
Cash paid to vendors	9,870
Contingent consideration	1,840
<b>Total consideration</b>	<b>11,710</b>

### 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:

<b>Fair Value 2019</b>	<b>\$'000</b>
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
<b>Acquisition date fair value of the total consideration transferred</b>	<b>24,011</b>
<b>Representing:</b>	
Cash paid to vendors	22,393
Contingent consideration	1,618
<b>Total consideration</b>	<b>24,011</b>

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.

Name	Ownership interest %	
	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%

Name	Ownership interest %	
	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%

Name	Ownership interest %	
	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%

Name	Ownership interest %	
	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
<b>Profit for the year</b>	<b>7,169</b>	2,005
<b>Adjustments for:</b>		
Depreciation and amortisation	16,828	11,208
Security-based payments	263	70
Performance Rights paid	(101)	(208)
<b>Change in operating assets and liabilities:</b>		
(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)
<b>Net cash from operating activities</b>	<b>24,973</b>	<b>14,393</b>

### NOTE 34. NON-CASH INVESTING AND FINANCING ACTIVITIES

	2020 \$'000	2019 \$'000
Stapled securities issued under employee share plan	-	208
<b>Non-cash investing and financing</b>	<b>-</b>	<b>208</b>



## NOTE 35. EARNINGS PER STAPLED SECURITY

	2020 \$'000	2019 \$'000
<b>Total comprehensive income attributable to:</b>		
Members of Think Childcare Limited	10,005	3,364
Members of Think Childcare Development Limited	(2,836)	(1,359)
<b>Stapled security holders of Think Childcare Group</b>	<b>7,169</b>	<b>2,005</b>
	<b>Note</b>	<b>Number</b>
Weighted average number of stapled securities used in calculating basic earnings per stapled security		57,741,028
		<b>61,012,641</b>
<b>Adjustments for calculation of diluted earnings per stapled security:</b>		
Performance Rights over stapled securities	21	46,367
		<b>52,105</b>
Weighted average number of stapled securities used in calculating diluted earnings per stapled security		57,787,395
		<b>61,064,746</b>
<b>Earnings per share - Think Childcare Limited</b>	<b>Cents</b>	<b>Cents</b>
Basic	16.40	5.83
Diluted	16.38	5.82
<b>Earnings per share - Think Childcare Development Limited</b>	<b>Cents</b>	<b>Cents</b>
Basic	(4.65)	(2.35)
Diluted	(4.64)	(2.35)
<b>Earnings per stapled security - Think Childcare Group</b>	<b>Cents</b>	<b>Cents</b>
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



### 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

A handwritten signature in blue ink, appearing to read 'Paul Thomas'.

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



### 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

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:

- 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.
- 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

#### How the matter was addressed in our audit

Working with our valuation specialists, our procedures included:

- 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.
- We assessed the integrity of the value in use model used, including the accuracy of the underlying calculation formulas.
- We compared the forecast cash flows and capital expenditure contained in the value in use model to Board approved forecasts.
- We assessed the accuracy of previous forecasts to inform our evaluation of forecasts incorporated in the model.
- 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.
- We assessed forecast service occupancy rates against publicly available industry predictions for comparable locations.



<p>incorporating risks into the cash flows or discount rate. The Stapled Group's modelling is highly sensitive to small changes in the discount rate.</p> <p>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.</p> <p>The Stapled Group acquired a number of businesses in the current year, necessitating our consideration of the Stapled Group's:</p> <ul style="list-style-type: none"> <li>• determination of CGUs, based on the smallest group of assets to generate largely independent cash inflows; and</li> <li>• allocation of goodwill to the group of CGUs to which they belong based on the management and monitoring of the business.</li> </ul> <p>We involved valuation specialists to supplement our senior audit team members in assessing this key audit matter.</p>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> <li>• 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.</li> <li>• 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.</li> <li>• 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.</li> <li>• We assessed the disclosures in the financial report using our understanding obtained from our testing and against the requirements of the accounting standards.</li> </ul>
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## INDEPENDENT AUDITORS DECLARATION CONTINUED



#### Accounting for acquired businesses

Refer to Note 31 'Business combinations' to the Financial Report

#### The key audit matter

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.

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.

Significant judgement was required by us in assessing the Stapled Group's:

- Determination of the fair value of acquired assets and liabilities, in particular employee benefits and property, plant and equipment; and
- 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.

#### How the matter was addressed in our audit

Our procedures included:

- We read the Business Acquisition Contracts and related key acquisition transactions documents to:
  - Understand the key terms and conditions of the acquisitions; and
  - Assess the acquisitions against the criteria of a business combination in the accounting standards.
- We assessed the fair value of employee benefits liability to underlying contractual arrangements such as employee contracts.
- We assessed the fair value of property, plant and equipment to underlying accounting records.
- 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.
- 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](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

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
<b>Total Holding – 20 largest security holders</b>	<b>52,589,592</b>	<b>86.13</b>
<b>Total Holding – Other security holders</b>	<b>8,469,044</b>	<b>13.87</b>
<b>Total Holding – All security holders</b>	<b>61,058,636</b>	<b>100.00</b>



## 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
	<b>1,086</b>
<b>Holding less than an marketable parcel</b>	<b>66</b>

### UNQUOTED EQUITY SECURITIES

	Number on issue	Number of holders
<b>Performance Rights over unissued ordinary securities</b>	<b>88,337</b>	<b>1</b>

### SUBSTANTIAL HOLDERS

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

Declared entitled party	Securities	
	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

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

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Public Relations [PR@thinkchildcare.com.au](mailto:PR@thinkchildcare.com.au)

