

26 June 2020

EVO announces Full Year Results for FY 31 March 2020

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Evolve Education Group Limited (NSX/ASX: EVO) has released its audited finalised results for financial year ended 31 March 2020 (the period from 1 April 2019 to 31 March 2020).

Key features of the results:

- Revenue of \$140.6m (FY19 \$137.2m)
- Net loss after tax at \$13.3m (FY19 loss of \$101.6m) including non-cash asset impairments of \$12.3m. The impairments are primarily attributable to Right of Use assets on adoption of new IFRS16 accounting standard this FY and do not affect Underlying EBITDA
- Underlying EBITDA of \$8.2m (FY19 \$13.3m)

Managing Director Chris Scott commented that it has been a year of change for the company but one that has seen necessary changes implemented to facilitate a reset for stabilisation and growth.

Following a revamp of the EVO Board on 19 September 2019, EVO experienced a stabilisation in occupancy levels, the streamlining of support office, a reduction in Board fees and the curtailment of fee discounting.

FY20 was also the year EVO expanded into Australia with the acquisition of 10 centres.

Mr. Scott noted that EVO was starting to see the fruits of actions taken being reflected in underlying EBITDA of \$8.2m for FY20 which is at the top end of the guidance range of \$7.8m to \$8.2m provided on 20 May 2020 and higher than the earlier guidance of \$6m to \$6.5m given on 28 November 2019.

Additional evidence for the progress being made is reflected in the following table which indicates that the underlying EBITDA in the second half of the financial year was stronger than the first half. Historically, the first half of the FY has been stronger than the second half due to seasonality.

Financial Year	First Half	Second Half
2020	\$3.9m	\$4.3m
2019	\$9.2m	\$4.1m
2018	\$12.5m	\$9.1m

EVO acknowledges the uncertainty caused by Covid-19, particularly the impact on the overall economies in New Zealand and Australia.

"The Governments of New Zealand and Australia have been very supportive of the early learning services sector and clearly recognise the important role of early childhood education to the economy and within the community," Mr. Scott said.

"Assuming no further lockdown due to a second wave of Covid-19, EVO is well placed to build on occupancy levels at both our New Zealand and Australian centres. EVO will continue to work on generating organic growth from operational improvements in New Zealand while growing by way of acquisitions in Australia".

For any further inquiries please contact:

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Edmund Mah

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Evolve Education Group Limited
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Results for announcement to the market		
Name of issuer	Evolve Education Group Limited	
Reporting Period	12 months to 31 March 2020	
Previous Reporting Period	12 months to 31 March 2019	
Currency	NZD	
	Amount (000s)	Percentage change
Revenue from continuing operations	\$140,607	2.5%
Total Revenue	\$140,607	(6.4%)
Net profit/(loss) from continuing operations	(\$13,300)	87.0%
Total net profit/(loss)	(\$13,300)	86.9%
Interim/Final Dividend		
Amount per Quoted Equity Security	It is not proposed to pay any dividends.	
Imputed amount per Quoted Equity Security	N/A	
Record Date	N/A	
Dividend Payment Date	N/A	
	Current period	Prior comparable period
Net tangible assets per Quoted Equity Security	(\$0.01)	(\$0.26)
A brief explanation of any of the figures above necessary to enable the figures to be understood	<p>Due to the nature of the Group's business, intangible assets are a major component of total assets. Accordingly, net assets per security is considered a more useful measure. At 31 March 2020 this was NZ\$0.09 (2019: NZ\$0.29).</p> <p>This results announcement should be read in conjunction with the audited financial statements and results presentation, which have been released along with this announcement.</p>	
Authority for this announcement		
Name of person authorised to make this announcement	Edmund Mah, Chief Financial Officer	
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Date of release through MAP	26/06/2020	

Audited financial statements accompany this announcement.

Evolve Education Group Limited

Consolidated Financial Statements
For the Year Ended 31 March 2020

The Directors present the Consolidated Financial Statements of Evolve Education Group Limited, for the year ended 31 March 2020.

The Consolidated Financial Statements presented are signed for and on behalf of the Board and were authorised for issue on 26 June 2020.



Hamish Stevens
Chair
26 June 2020



Adrian Fonseca
Chair of the Audit and Risk Committee
26 June 2020

Consolidated Statement of Comprehensive Income
FOR THE YEAR ENDED 31 MARCH 2020

\$'000	Note	YEAR	YEAR
		31 MARCH 2020	31 MARCH 2019
Childcare fees	6	54,408	46,731
NZ Ministry of Education funding	6	86,199	90,446
		140,607	137,177
Expenses			
Employee benefits expenses	7	(89,804)	(83,518)
Building occupancy expenses	7	(2,992)	(23,521)
Direct expenses of providing services		(14,783)	(13,528)
Acquisition expenses	13	(668)	-
Depreciation	5a, 11, 18c	(13,848)	(2,680)
Amortisation	5a, 14	(161)	(377)
Impairment expenses	11, 14, 15, 18a	(12,341)	(107,139)
Other expenses	7	(4,294)	(4,278)
Total expenses		(138,891)	(235,041)
Profit/(Loss) before net finance costs and income tax		1,716	(97,864)
Finance income	7	439	143
Finance costs	2, 7	(19,585)	(2,908)
Net finance costs		(19,146)	(2,765)
(Loss) before income tax		(17,430)	(100,629)
Income tax benefit/(expense)	8	4,130	(1,770)
(Loss) after income tax from continuing operations		(13,300)	(102,399)
Profit after income tax from discontinued operations	5a	-	845
(Loss) after income tax attributable to the shareholders of the Company		(13,300)	(101,554)
Other comprehensive income			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences on translation of foreign operations		(1,174)	-
Total comprehensive (loss) attributable to the shareholders of the Company		(14,474)	(101,554)
Earnings per share		Cents	Cents
Basic (and diluted) (loss)/earnings per share from continuing operations	23	(1.4)	(26.0)
Basic (and diluted) (loss)/earnings per share attributable to the shareholders of the Company	23	(1.4)	(25.8)

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity
FOR THE YEAR ENDED 31 MARCH 2020

\$'000	Note	ISSUED SHARE CAPITAL	FOREIGN CURRENCY TRANSLATION RESERVE	RETAINED (DEFICIT)/ EARNINGS	TOTAL
As at 31 March 2018		159,149	-	(2,574)	156,575
Change in accounting policy		-	-	(203)	(203)
As at 1 April 2018 (restated)		159,149	-	(2,777)	156,372
(Loss) after income tax		-	-	(101,554)	(101,554)
Other comprehensive income		-	-	-	-
Shares issued under Dividend Re-investment Plan	20	457	-	-	457
Share issue costs relating to shares issued	20	(8)	-	-	(8)
Dividends paid	22	-	-	(3,590)	(3,590)
As at 31 March 2019		159,598	-	(107,921)	51,677
Change in accounting policy	2	-	-	(14,803)	(14,803)
As at 1 April 2019 (restated)		159,598	-	(122,724)	36,874
(Loss) after income tax		-	-	(13,300)	(13,300)
Other comprehensive income		-	(1,174)	-	(1,174)
Issue of ordinary shares for cash, net of transaction costs	20	78,378	-	-	78,378
As at 31 March 2020		237,976	(1,174)	(136,024)	100,778

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

AS AT 31 MARCH 2020

\$'000	Note	AS AT 31 MARCH 2020	AS AT 31 MARCH 2019
ASSETS			
Current assets			
Cash and cash equivalents	9, 25	39,048	25,274
Current tax assets		1,381	1,229
Other current assets	10	13,761	2,387
Total current assets		54,190	28,890
Assets classified as held for sale	5b	-	672
Non-current assets			
Property, plant and equipment	11	6,783	5,824
Right-of-use assets	18a	178,238	-
Deferred tax assets	8	11,926	2,145
Intangible assets	13, 14, 15	117,082	98,610
Total non-current assets		314,029	106,579
Total assets		368,219	136,141
LIABILITIES			
Current liabilities			
Trade and other payables	16	19,173	10,294
Funding received in advance	17	11,804	12,625
Borrowings	25	-	30,000
Lease liabilities	18b	10,495	-
Employee entitlements	19	6,330	5,952
Total current liabilities		47,802	58,871
Liabilities classified as held for sale	5b	-	234
Non-current liabilities			
Borrowings	25	17,666	25,359
Lease liabilities	18b	201,973	-
Total non-current liabilities		219,639	25,359
Total liabilities		267,441	84,464
Net assets		100,778	51,677
EQUITY			
Issued share capital	20	237,976	159,598
Foreign currency translation reserve		(1,174)	-
Retained (deficit)/earnings		(136,024)	(107,921)
Total equity		100,778	51,677

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows
FOR THE YEAR ENDED 31 MARCH 2020

\$'000	Note	YEAR 31 MARCH 2020	YEAR 31 MARCH 2019
Cash flows from operating activities			
Receipts from childcare fees		54,998	51,342
NZ Ministry of Education funding		85,378	96,978
Payments to suppliers and employees		(117,125)	(137,616)
Income taxes paid		-	(3,259)
Interest received		439	118
Net cash flows from operating activities	26	23,690	7,563
Cash flows from investing activities			
Payments for purchase of businesses	13	(21,441)	-
Proceeds from sale of businesses		596	2,617
Cash balances transferred with businesses sold	5a	-	(6,580)
Proceeds from sale of land and buildings	11	-	3,370
Payments for software, property, plant and equipment		(4,516)	(3,565)
Net cash flows from investing activities		(25,361)	(4,158)
Cash flows from financing activities			
Proceeds from issues of shares	20	83,097	-
Share issue costs	20	(4,719)	(8)
Interest paid on borrowings		(1,842)	(3,411)
Proceeds from borrowings	25	-	92,247
Repayment of borrowings	25	(38,000)	(69,188)
Lease interest payments	7	(16,904)	-
Lease principal repayments		(6,187)	-
Dividends paid	22	-	(3,133)
Net cash flows from financing activities		15,445	16,507
Net increase in cash and cash equivalents	25	13,774	19,912
Cash and cash equivalents at the beginning of the year	9	25,274	5,362
Cash and cash equivalents at the end of the year	9	39,048	25,274

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2020

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Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2020

1. Reporting Entity

Evolve Education Group Limited (the "Company") is a company incorporated in New Zealand ("NZ"), registered under the Companies Act 1993 and listed on the NZX Main Board ("NZX") and the Australian Stock Exchange ("ASX"). The Company is a FMC Reporting Entity in terms of Part 7 of the Financial Markets Conduct Act 2013 ("the Act"). The registered office is located at Level 2, 54 Fort Street, Auckland 1010, New Zealand.

The principal activities of the Company and its subsidiaries (the "Group") are to invest in the provision and management of high quality early childhood education centres. During the current period the Group has expanded its operations to Australia (see Note 4, Segment Information). Further information on the Group's structure is provided in Note 12.

2. Basis of Preparation

Statement of Compliance

The consolidated financial statements (the "Group financial statements") have been prepared in accordance with the requirements of the NZX and ASX listing rules. The Group financial statements are for the Evolve Education Group Limited Group (the "Group"). The Group financial statements comprise the Company and its subsidiaries. In accordance with the Act, separate financial statements for the Company are not required to be prepared.

These Group financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). The Group is a Tier 1 reporting entity. The Group financial statements comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards, as appropriate for "for-profit" entities. These financial statements also comply with International Financial Reporting Standards ("IFRS") and IFRS Interpretations Committee interpretations.

The financial statements for the year ended 31 March 2020 were approved and authorised for issue by the Board of Directors on 26 June 2020.

Going Concern

The financial statements have been prepared on a going concern basis.

A capital management strategy was agreed with the provider of debt facilities, ASB Bank Limited ("ASB"), in March 2019. In line with this strategy, a capital raising of \$63.4 million pre-costs was completed in June 2019. Proceeds from this raise were used to repay \$30 million to ASB by June 2019.

In the interim financial statements to 30 September 2019, the Group disclosed a material uncertainty with regard to going concern. Subsequently, in December 2019 the Group completed a private placement raising A\$18.9 million pre-costs. This enabled repayment of a further \$8 million to ASB in February 2020.

The Group's operating cash flow remained positive for the financial year.

The Board has considered the impact of Covid-19 on the financial position of the Group. This is commented on in more detail in Notes 2(a) and 30. While operations have been curtailed as a result of the Government responses in both New Zealand and Australia, the supportive actions of both Governments have significantly offset these negative effects. All Evolve centres in New Zealand have been open in line with the conditions attached to alert levels 3 and 2. All centres in Australia have remained open, in line with conditions set by the Australian Government. Accordingly, the short-term financial position of the Group has not been materially impacted by Covid-19.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2020

2. Basis of Preparation (continued)

Going Concern (continued)

The longer-term effects of Covid-19 are not clear at the present point in time. Acknowledging this inherent uncertainty, and the likely adverse impacts on economic conditions in both New Zealand and Australia, these financial statements have been prepared based on currently available information and the Board's best estimates. A number of scenarios were considered, reflecting a range of outcomes potentially resulting from the aftermath of Covid-19.

Key assumptions underpinning the going concern assessment include:

- no further committed acquisitions of centres
- no adverse changes in Covid-19 alert levels or increased restrictions on operations
- occupancy above 70%
- no dividend payments in the forecast period
- continued funding from both the New Zealand and Australian Governments

This assessment indicates that the Group will be able to either continue to meet bank covenants, or repay the bank loan, and have sufficient cash to discharge its liabilities as they fall due.

Having regard to all of the above, the Board has concluded that it is appropriate that these financial statements are prepared on a going concern basis, while acknowledging the uncertainties in forecasting in the current environment.

The Board acknowledges that such uncertainties do not represent material uncertainties in relation to going concern.

Basis of Measurement

The financial statements are prepared on the basis of historical cost with the exception of certain items for which specific accounting policies are identified, as noted below.

Functional and Presentation Currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in New Zealand Dollars (\$), which is the Company's functional currency and Group's presentation currency. Unless otherwise stated, financial information has been rounded to the nearest thousand dollars (\$'000).

Estimates and Judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements required in the application of accounting policies are described below.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2020

2. Basis of Preparation (continued)

Estimates and Judgements (continued)

(a) Covid-19

The rapid global rise of Covid-19 has had a significant impact on global economies and financial markets and asset prices have fluctuated and in some cases materially changed. The pandemic and the response to it by the Governments of both New Zealand and Australia had only a minimal impact on the Group's underlying results up to 31 March 2020 as level 4 alert lockdown only took effect towards the end of March. The effects have been taken into account for assessments of impairment. The impacts since the reporting date are greater, with the closure of centres in New Zealand during the level 4 alert. Receipt of the Government wage subsidy (refer Note 7) enabled the Group to retain all staff on full pay for the duration of the 12-week subsidy period. The NZ Ministry of Education has maintained its funding at full levels throughout the current funding period to 30 June 2020, including a 2.3% increase in subsidy rates from 1 July 2020. The Group's centres in New Zealand re-opened with limited capacity on 29 April 2020 under Covid-19 alert level 3. The Group's centres in New Zealand were able to resume operating with full licenced capacity on 14 May 2020 when the country moved to Covid-19 alert level 2. No parental childcare fees were charged during alert levels 4 or 3, but have resumed upon the move to level 2.

In Australia, the Government's Early Childhood Education and Care Relief (ECECR) package and JobKeeper payment ensured that the Group's centres continued operating throughout. Under the ECECR Package, the Australian Government made weekly payments directly to early childhood education and care services in lieu of the Child Care Subsidy (CCS) and Additional Childcare Subsidy (ACCS) from 6 April 2020 to 28 June 2020. The weekly payment amount is essentially 50% of the total fees charged by a service during the fortnight commencing 17 February 2020 (reference fortnight). Under the ECECR package, families are not charged fees. On 8 June 2020, the Australian Government announced that the ECECR package will be extended until 12 July 2020. From 13 July 2020, CCS and ACCS will recommence with the introduction of a number of new Government measures to support providers and families through this period. In addition to CCS, the Government will pay child care services a Transition Payment of 25% of their fee revenue (based on the reference fortnight) from 13 July to 27 September 2020. JobKeeper will cease on 20 July 2020.

While there is uncertainty about the longer term impact of Covid-19 on both economies, the Board appreciates that the NZ Ministry of Education and Australian Government have been very supportive of the early learning services sectors and the role of early childhood education in the community. Accordingly, the Board is of the view that the Group is well placed to build on attendance levels at its NZ centres on the assumption that the Covid-19 alert level is not raised again, and continue to at least maintain attendance at the Australian centres.

The key components of the financial statements specifically impacted by Covid-19 are impairment of intangible assets (refer Notes 13, 14 and 15), right-of-use assets (refer Note 18) and property, plant and equipment (refer Note 11). These areas rely upon forecasts of future profitability as a basis for the carrying value of assets, and potential impairment. To reflect the uncertainty as at 31 March 2020, forecasts have been scaled back from previous levels for the purpose of financial reporting. More detail on the sensitivities of assumptions is provided in Note 15.

(b) Business combinations

As discussed in Note 3(a), 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 Group taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2020

2. Basis of Preparation (continued)

(c) Identification and valuation of intangible assets acquired

As part of the accounting for business combinations, the Group reviews each acquisition on a case by case basis to determine the nature and value of any intangible assets acquired. Different factors are considered including market presence of the acquired entity, the existence of any specialised or developed assets (e.g. software and training materials), and the nature and longevity of the acquired entity's customer-base. Following this assessment, the Group determines if the value of the intangible assets acquired can or should be allocated between fixed life or indefinite life intangible assets and goodwill.

Goodwill was acquired in the current year in relation to the acquisition of centres in Australia.

(d) Impairment assessments

The Group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether assets have suffered any impairment, in accordance with the accounting policy stated in Notes 3(h) and 3(m). Where impairment indicators exist, for annual goodwill and indefinite useful life intangible assets' impairment testing, the recoverable amounts of cash-generating units have been determined. This requires the use of key assumptions and estimates which require judgement. Further detail on the assumptions applied are included in Note 15.

(e) Identification of Cash Generating Units

In order to complete the impairment assessments referred to above, the Group must identify individual cash generating units ("CGUs") that best represent the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Identifying CGUs requires judgement and must be at the lowest level to minimise the possibility that impairments of one asset or group will be masked by a high-performing asset. The Group has adopted the following:

- New Zealand - Individual ECEs are identified as CGUs. These CGUs have been tested for impairment where an indicator exists. Indefinite useful life intangible assets in New Zealand have not been allocated to individual ECEs and therefore the impairment assessment is performed for the New Zealand group of CGUs which is the same as the New Zealand operating segment.
- Australia - Individual ECEs are identified as CGUs. These CGUs have been tested for impairment where an indicator exists. Goodwill in Australia has been allocated to four groups of CGUs. Refer to Note 15 for further information.

(f) Deferred tax assets

Deferred tax assets are recognised for deductible temporary differences. Forecasts prepared for the purpose of impairment testing (refer Notes 2(a) and 15) indicate future taxable amounts will be available to utilise these temporary differences. The deferred tax assets are therefore considered to be recoverable.

New and Amended Standards Adopted by the Group

NZ IFRS 16: Leases

The Group has adopted NZ IFRS 16: Leases retrospectively from 1 April 2019, but has not restated comparatives for the 2019 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 April 2019. The new accounting policies are disclosed in Note 3.

On adoption of NZ IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of NZ IAS 17: Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at 1 April 2019. The lessee's weighted average incremental borrowing rate applied to the lease liabilities on 1 April 2019 was 8.65%.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2020

2. Basis of Preparation (continued)

New and Amended Standards Adopted by the Group (continued)

NZ IFRS 16: Leases (continued)

Measurement of lease liabilities

\$'000

Operating lease commitments disclosed as at 31 March 2019	131,644
Discounted using the lessee's incremental borrowing rate at the date of initial application	91,807
Add: Adjustments as a result of different treatment of extension and termination options	100,212
Less: Low-value and short-term leases not recognised as liabilities	(2,178)
Lease liabilities recognised as at 1 April 2019	189,841
Of which are:	
Current lease liabilities	5,805
Non-current lease liabilities	184,036
	189,841

Measurement of right-of-use assets

The associated right-of-use assets for leases were measured using the modified retrospective approach and applied retrospectively from 1 April 2019 as if the NZ IFRS 16 standard had always been applied.

The recognised right-of-use assets relate to the following types of assets:

	AS AT 1 APRIL 2019
\$'000	
Properties	167,643
Motor vehicles	359
Total right-of-use assets	168,002

Adjustments recognised on adoption of NZ IFRS 16

The effect of adopting NZ IFRS 16 is as follows:

	AS AT 1 APRIL 2019
\$'000	
Assets	
Right-of-use assets	168,002
Deferred tax assets	5,725
Total assets	173,727
Liabilities	
Lease liabilities	189,841
Other payables	(1,311)
Total liabilities	188,530
Equity	
Retained earnings	(14,803)
Total adjustment to equity	(14,803)

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2020

2. Basis of Preparation (continued)

New and Amended Standards Adopted by the Group (continued)

NZ IFRS 16: Leases (continued)

Adjustments recognised on adoption of NZ IFRS 16 (continued)

Increase/(decrease)	YEAR 31 MARCH 2020
\$'000	
Revenue	-
Expenses	
Building occupancy expenses	(22,141)
Direct expenses of providing services	(205)
Depreciation	11,543
Impairment expense	7,840
Remeasurement adjustments (Other expenses)	(916)
Total expenses	(3,879)
Profit before net finance costs and income tax	3,879
Finance income	-
Finance costs	16,904
Net finance costs	16,904
(Loss) before income tax	(13,025)

(i) Impact on earnings per share

Earnings per share decreased by 1.0 cents per share for the year ended 31 March 2020 as a result of the adoption of NZ IFRS 16.

(ii) Practical expedients applied

In applying NZ IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- reliance on previous assessments of whether leases are onerous as a proxy for impairment testing;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 April 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use assets at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying NZ IAS 17 whether an arrangement contains a lease.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2020

2. Basis of Preparation (continued)

New and Amended Standards Adopted by the Group (continued)

NZ IFRS 16: Leases (continued)

Adjustments recognised on adoption of NZ IFRS 16 (continued)

The following tables shows the effect of adopting NZ IFRS 16 on the Consolidated Statement of Comprehensive Income and Consolidated Statement of Financial Position for the year ended 31 March 2020.

NZ IFRS 16: Leases - Impact on Consolidated Statement of Comprehensive Income

	YEAR		YEAR	
	31 MARCH 2020	31 MARCH 2020	31 MARCH 2020	31 MARCH 2019
	Statutory	NZ IFRS 16 Adjustment	Pre-NZ IFRS 16	Pre-NZ IFRS 16 (Statutory)
\$'000				
Note				
Childcare fees	54,408	-	54,408	46,731
NZ Ministry of Education funding	86,199	-	86,199	90,446
	140,607	-	140,607	137,177
Expenses				
Employee benefits expense	(89,804)	-	(89,804)	(83,518)
Building occupancy expenses	(2,992)	(22,141)	(25,133)	(23,521)
Direct expenses of providing services	(14,783)	(205)	(14,988)	(13,528)
Acquisition expenses	(668)	-	(668)	-
Depreciation	(13,848)	11,543	(2,305)	(2,680)
Amortisation	(161)	-	(161)	(377)
Impairment expenses	(12,341)	7,840	(4,501)	(107,139)
Other expenses	(4,294)	(916)	(5,210)	(4,278)
Total expenses	(138,891)	(3,879)	(142,770)	(235,041)
(Loss)/Profit before net finance costs and income tax	1,716	(3,879)	(2,163)	(97,864)
Finance income	439	-	439	143
Finance costs	(19,585)	16,904	(2,681)	(2,908)
Net finance costs	(19,146)	16,904	(2,242)	(2,765)
(Loss)/Profit before income tax	(17,430)	13,025	(4,405)	(100,629)
Income tax expense	4,130	(3,647)	483	(1,770)
(Loss)/Profit after income tax from continuing operations	(13,300)	9,378	(3,922)	(102,399)
Profit/(Loss) after income tax from discontinued operations	-	-	-	845
(Loss)/Profit after income tax attributable to the shareholders of the Company	(13,300)	9,378	(3,922)	(101,554)
Other comprehensive income				
<i>Items that may be reclassified to profit or loss</i>				
Exchange differences on translation of foreign operations	(1,174)	-	(1,174)	-
Total comprehensive (Loss)/Profit attributable to the shareholders of the Company	(14,474)	9,378	(5,096)	(101,554)

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2020

2. Basis of Preparation (continued)

New and Amended Standards Adopted by the Group (continued)

NZ IFRS 16: Leases (continued)

Adjustments recognised on adoption of NZ IFRS 16 (continued)

NZ IFRS 16: Leases - Impact on Consolidated Statement of Financial Position

\$'000	Note	AS AT	AS AT	AS AT	AS AT
		31 MARCH 2020	31 MARCH 2020	31 MARCH 2020	31 MARCH 2019
		Statutory	NZ IFRS 16 Adjustment	Pre-NZ IFRS 16	Pre-NZ IFRS 16 (Statutory)
ASSETS					
Current assets					
Cash and cash equivalents		39,048	-	39,048	25,274
Current tax assets		1,381	-	1,381	1,229
Other current assets		13,761	-	13,761	2,387
Total current assets		54,190	-	54,190	28,890
Assets classified as held for sale		-	-	-	672
Non-current assets					
Property, plant and equipment		6,783	-	6,783	5,824
Right-of-use assets		178,238	(178,238)	-	-
Deferred tax assets		11,926	(9,401)	2,525	2,145
Intangible assets		117,082	-	117,082	98,610
Total non-current assets		314,029	(187,639)	126,390	106,579
Total assets		368,219	(187,639)	180,580	136,141
LIABILITIES					
Current liabilities					
Trade and other payables		19,173	(144)	19,029	10,294
Funding received in advance		11,804	-	11,804	12,625
Borrowings		-	-	-	30,000
Lease liabilities		10,495	(10,495)	-	-
Employee entitlements		6,330	-	6,330	5,952
Total current liabilities		47,802	(10,639)	37,163	58,871
Liabilities classified as held for sale		-	-	-	234
Non-current liabilities					
Borrowings		17,666	-	17,666	25,359
Lease liabilities		201,973	(201,973)	-	-
Total non-current liabilities		219,639	(201,973)	17,666	25,359
Total liabilities		267,441	(212,612)	54,829	84,464
Net assets		100,778	24,973	125,751	51,677
EQUITY					
Issued share capital		237,976	-	237,976	159,598
Foreign currency translation reserve		(1,174)	(19)	(1,193)	-
Retained (deficit)/earnings		(136,024)	24,992	(111,032)	(107,921)
Total equity		100,778	24,973	125,751	51,677

Notes to the Consolidated Financial Statements
FOR THE YEAR ENDED 31 MARCH 2020

2. Basis of Preparation (continued)

New and Amended Standards Adopted by the Group (continued)

NZ IFRS 16: Leases (continued)

The Group's leasing activities and how these are accounted for

The Group leases childcare centres, motor vehicles and office equipment. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Prior to 1 April 2019, leases of property, vehicles and office equipment were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

From 1 April 2019, leases are recognised as a right-of-use asset with a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between repayment of the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the lessee's incremental borrowing rate, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- any restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets consist of office equipment.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2020

2. Basis of Preparation (continued)

New Standards and Interpretations Not Yet Adopted

The Group has adopted all applicable Financial Reporting Standards and Interpretations issued by the External Reporting Board ("XRB") that are mandatory for the current reporting period.

There are certain new standards, interpretations and amendments to existing IFRS that have been approved but are not yet effective, and have not been adopted by the Group for the year ended 31 March 2020. The assessment and expected impact of those that are relevant to the Group are set out below:

NZ IFRS 3: Business Combinations - definition of a business

The amendments clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

The amendments clarify that to be considered a business, an acquired 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 outputs. It narrows the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs. It also removes the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs.

In addition, an entity can apply an optional "concentration test" that, if met, eliminates the need for further assessment. Under this optional test, where substantially all the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets), the assets acquired would not represent a business.

The guidance might result in more acquisitions being accounted for as asset acquisitions and affect related accounting. It would also affect the accounting for disposal transactions.

The amendments to NZ IFRS 3 described above are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period. The amendments will therefore be effective for the year ending 31 December 2020 (refer Note 30).

There are no other new standards, amendments or interpretations that are not yet effective that are applicable to the Group.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2020

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently in these consolidated financial statements, and have been applied consistently by all Group entities.

(a) Basis of Consolidation

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. The Group controls an entity when the Group 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. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; less
- the net recognised amount of the identifiable assets acquired, the liabilities assumed, measured at fair value, and any non-controlling interest in the acquiree.

When the excess is negative, a bargain purchase gain is recognised immediately in the Consolidated Statement of Comprehensive Income.

Consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts generally are recognised in Consolidated Statement of Comprehensive Income.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Business combinations are initially accounted for on a provisional basis if the related initial accounting is incomplete by the end of the reporting period. The Group 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.

Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities that are expected to be recovered primarily through sale within one year, rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are re-measured in accordance with the Group's accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2020

3. Significant Accounting Policies (continued)

(a) Basis of Consolidation (continued)

Assets held for sale (continued)

Once classified as held for sale, intangible assets and property, plant and equipment are no longer amortised or depreciated.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(b) Determination of Fair Values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following method. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Intangible assets

The fair value of brands acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the brand being owned ("relief from royalty method"). The fair value of customer relationships acquired in a business combination is determined using the notional price per customer methodology. Software acquired in a business combination is determined using an estimate of replacement cost. Syllabus material acquired in a business combination is determined using the market elimination method.

The fair values of other intangible assets acquired in a business combination are based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

(c) Revenue

Revenues are recognised when the Group satisfies its performance obligations by providing early childhood education services to customers.

Childcare fees

The Group provides early childhood education services for children's various learning and care needs. Revenue from childcare fees are recognised as and when a child attends, or was scheduled to attend, a childcare facility. Australian Government funding relates to fees paid under the Child Care Subsidy and are recognised when there is reasonable assurance that the funding will be received. Australian Government funding is received in arrears. The performance obligations are satisfied over time as the child simultaneously receives and consumes the benefits.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2020

3. Significant Accounting Policies (continued)

(c) Revenue (continued)

Ministry of Education New Zealand ("MOE NZ") funding

MOE NZ funding relates to funding provided under the Education Act 1989 to eligible early childhood services subject to certain conditions so that they may provide early childhood education. It is recognised initially as funding received in advance and is then recognised in the Statement of Comprehensive Income over the period to match costs incurred in providing childcare services for which the funding is intended to compensate. This funding from the MOE NZ is presented separately from the related costs of providing services in the Statement of Comprehensive Income. Income receivable from the MOE NZ by way of a reconciliation payment is recognised as an asset, and is netted off against the income received in advance. There are no unfulfilled conditions or contingencies attached to the funding.

(d) Taxation

Tax expense

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in the Consolidated Statement of Comprehensive Income except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss,
- taxable temporary differences arising on the initial recognition of goodwill; and
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions, if any, and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2020

3. Significant Accounting Policies (continued)

(e) Foreign Currency Translation

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates, are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of comprehensive income, within finance costs. All other foreign exchange gains and losses are presented in the statement of comprehensive income, on a net basis, within other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

Group companies

The results and financial position of foreign operations that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate on the reporting date
- income and expenses are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(f) Dividends

The Group recognises a liability to make cash distributions to equity holders of the parent when the distribution is authorised and the distribution is no longer at the discretion of the Company. Under Company Law in New Zealand, a distribution is authorised when it is approved by the Directors. A corresponding amount is recognised directly in equity.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2020

3. Significant Accounting Policies (continued)

(g) Property, Plant and Equipment

Recognition and measurement

Items of property, plant and equipment are stated at cost, less accumulated depreciation and impairment losses. Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in the Consolidated Statement of Comprehensive Income.

Depreciation

Depreciation is charged based on the cost of an asset less its residual value. Depreciation is charged to the Consolidated Statement of Comprehensive Income on a straight line basis over the estimated useful lives of each item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Useful lives as at balance date were:

Buildings	50 years
Plant and equipment	4 years
Office furniture & fittings	4 years
Leasehold improvements	4 to 10 years
Motor vehicles	5 years

The depreciation methods, useful lives and residual values are reviewed at the reporting date and adjusted if appropriate. Work in progress is not depreciated until the asset is available for use.

(h) Intangible Assets

Goodwill

Goodwill initially represents amounts arising on acquisition of a business and is the difference between the cost of acquisition and the fair value of the net identifiable assets acquired.

Goodwill is subsequently measured at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units, or groups of cash-generating units, and is not amortised, but is reviewed at each balance date to determine whether there is any objective evidence of impairment (refer to Note 3(m) - Impairment).

Other intangible assets

Other intangible assets that are acquired by the Group and have finite and indefinite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses, as appropriate. Other intangible assets have been amortised on a straight-line basis over their estimated useful lives:

Customer lists	4 years
Syllabus material	4 years
Management contracts	4 years
Software	4 years
Brands	Indefinite life

Subsequent expenditure

Subsequent expenditure, including expenditure on internally generated goodwill and brands, is recognised in the Consolidated Statement of Comprehensive Income as incurred.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2020

3. Significant Accounting Policies (continued)

(i) Leases

As explained in Note 2, the Group has changed its accounting policy for leases where the Group is the lessee. The impacts of the new policy are described in Note 2.

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. The recognised right-of-use assets are depreciated on a straight-line basis over the shorter of useful life and the lease term.

Impairment of right-of-use assets

Right-of-use assets are reviewed at each reporting date to determine whether there is any indication of impairment. The assessment is conducted as described in Note 3(m).

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable and variable lease payments that depend on an index or a rate. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date as the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short term leases of properties (i.e. those leases that have a lease term of 12 months or less from the date of transition).

The Group applies the low-value assets recognition exemption to leases of office equipment that are considered of low value (\$10,000 or less). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Determining the lease term of contracts with renewal options

The Group determines the lease term as being the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, less any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2020

3. Significant Accounting Policies (continued)

(i) Leases (continued)

Determining the lease term of contracts with renewal options (continued)

The Group has the option, under some of its leases, to lease the assets for additional terms. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. It considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew. Assuming the exercise of a right of renewal results in an increase in both the lease liability and right-of-use asset.

Previous policy

Until 31 March 2019, leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease. No leases were previously classified as finance leases.

(j) Financial Instruments

Non-derivative financial assets

The Group initially recognises financial assets on trade date, being the date on which the Group commits to purchase or sell the asset. It classifies financial assets based on its business model for managing such financial assets and the contractual terms of cash flows. The Group determines all financial assets during the reporting periods presented are measured at amortised cost.

Financial assets and liabilities are offset and the net amount presented in the Consolidated Statement of Financial Position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Financial assets at amortised cost

Assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, financial assets are measured at amortised cost using the effective interest method, less any impairment losses. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period which are classified as non-current assets.

Financial assets at amortised cost comprise cash and cash equivalents and trade and other receivables, included in other current assets.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks and bank overdrafts. In the Consolidated Statement of Financial Position, bank overdrafts are shown within borrowings in current liabilities.

Non-derivative financial liabilities

The Group initially recognises financial liabilities on the date that they are originated. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Financial liabilities comprise borrowings, lease liabilities and trade and other payables.

Notes to the Consolidated Financial Statements
FOR THE YEAR ENDED 31 MARCH 2020

3. Significant Accounting Policies (continued)

(j) Financial Instruments (continued)

Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(k) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(l) Reserves

Foreign Currency Translation Reserves

Exchange differences arising on translation of the foreign controlled entities are recognised in other comprehensive income and accumulated in a separate reserve within equity. The cumulative amount is reclassified to the consolidated statement of comprehensive income when the net investment is disposed of.

(m) Impairment

Non-derivative financial assets

The Group uses a lifetime expected loss allowance for all trade and other receivables. To measure the expected credit losses, it is estimated based on the degree of aging of the receivable beyond the date it was due to be paid and any negative change in the customers' ability to pay. The expected loss rates are based on the payment profiles of revenue and the corresponding historical credit losses experienced within the period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customer to settle the receivable. The amount of the expected credit loss is recognised in the Consolidated Statement of Comprehensive Income.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and indefinite-life intangible assets are further tested annually for impairment. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount (refer Note 15).

The recoverable amount of an asset or CGU is the greater of its value-in-use and its fair value less costs of disposal. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Subject to an operating segment ceiling test, CGUs to which goodwill has been allocated are grouped so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal management purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2020

3. Significant Accounting Policies (continued)

(n) Employee Benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits and annual leave are recognised in respect of services provided by employees up to the reporting date and measured based on expected date of settlement.

Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

The liabilities for wages and salaries and annual 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.

Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

The Group contributes to Kiwisaver in New Zealand and superannuation funds in Australia.

(o) Expenses

Direct costs of providing services

These are costs incurred in the provision of services by the Group's early childhood education centres, other than employee and property costs. The major components are classroom teaching materials, cleaning, food supplies and building operating costs. These costs are recognised in the Statement of Comprehensive Income as incurred.

Finance costs

Finance costs comprise interest expense on borrowings and establishment fees, as well as the interest calculated on lease liabilities. All borrowing costs are recognised in the Consolidated Statement of Comprehensive Income using the effective interest method.

(p) Consolidated Statement of Cash Flows

The following are the definitions of the terms used in the Consolidated Statement of Cash Flows:

- Cash includes cash on hand, bank current accounts and any bank overdrafts.
- Operating activities include all transactions and other events that are not investing or financing activities.
- Investing activities are those activities relating to the acquisition, holding and disposal of businesses, property, plant and equipment and of investments.
- Financing activities are those activities that result in changes in the size and composition of the equity structure of the Group. This includes both equity and debt not falling within the definition of cash. Dividends paid and financing costs are included in financing activities. Lease payments are included as a financing activity.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2020

3. Significant Accounting Policies (continued)

(q) Segment Reporting

An operating segment is a component of an entity that engages in business activities from which it may earn and incur expenses, whose operating results are regularly reviewed by the entity's Chief Operating Decision Maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The Chief Operating Decision Maker, who is responsible for allocating resources and assessing performance of the Group, has been identified as the Managing Director.

(r) Earnings Per Share

Basic and diluted earnings per share

Basic and diluted earnings per share is calculated by dividing the profit attributable to the owners of the Company by the weighted average number of ordinary shares outstanding during the financial period.

(s) Share Based Payments

Certain senior managers formerly received remuneration in the form of share-based payment transactions, whereby employees rendered services as consideration for equity instruments (equity-settled transactions). The cost of equity-settled transactions with employees is measured by reference to the fair value at grant date.

(t) Goods and Services Tax

All amounts are shown exclusive of Goods and Services Tax (GST) including items disclosed in the Consolidated Statement of Cash Flows, except for trade receivables, included within other current assets, and trade payables that are stated inclusive of GST in the Consolidated Statement of Financial Position.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2020

4. Segment Information

During the previous year ended 31 March 2019, the Group had two reportable operating segments, as described below. The Group operated entirely within New Zealand. Each segment was managed separately. For each of the segments, the Group's Managing Director ("Group MD" and the "Chief Operating Decision Maker") reviewed internal management reports at least on a monthly basis. The following summary describes the operations in each of the Group's reportable segments:

ECE Centres - generally purpose built facilities that offer all day or part-day early childhood services, and

Home-based ECE - involves an independent educator delivering services to a small group of children in a home setting and is supported by a registered teacher coordinator who oversees the children's learning progress.

The Home-based ECE businesses was sold during the previous year ended 31 March 2019. This segment met the definition of a discontinued operation (refer Note 5a). Following the disposal, the management of ECE Centres became the only reportable operating segment.

However, during the current year ended 31 March 2020, the Group acquired ten childcare centres across Queensland and Victoria, Australia (refer Note 13). As a result of the acquisition of these centres, the Group now reports operating segments by geographical location, namely New Zealand and Australia.

Other operations included ECE Management, a non-reportable segment, through which the Group provided management and back-office expertise to ECE centres it did not operate. This operation was sold during the previous year ended 31 March 2019. This operation did not meet any of the quantitative thresholds for determining reportable segments and as such it has been included as an unallocated amount. Unallocated amounts also represent other corporate support services, acquisition and integration costs.

As a result of these changes in the composition of the Group, segmental results are now presented on a geographical rather than product basis. The prior period has not been restated as the change in segments has arisen from the disposal of the Home-based ECE business in the previous period, and acquisition of Australian ECE centres in the current period, rather than a reorganisation of ongoing businesses.

The Group's corporate and management costs include certain financing income and expenditure and taxation that are managed on a Group basis and are not allocated to operating segments.

The Group accounting policies are applied consistently to each reporting segment.

Information regarding the results of each reportable segment is included below. Performance is measured based on NZ GAAP measures of profitability and in relation to the Group's segments, segment profit before income tax. In addition to GAAP measures of profitability, the Group also monitors its profitability using non-GAAP financial measures (that is, earnings before interest, tax, depreciation and amortisation ("EBITDA") and underlying EBITDA, as described below and as included in the internal management reports that are reviewed by the Group MD and Board. EBITDA and underlying EBITDA are not defined by NZ GAAP, IFRS or any other body of accounting standards and the Group's calculation of this measure may differ from similarly titled measures presented by other companies.

Underlying EBITDA excludes the effects of NZ IFRS 16: Leases, gains and losses on the sale or closure of businesses, acquisition and integration costs, impairment losses (or reversals of impairment losses), restructuring costs and non-operational items.

The above items can be driven by factors other than those that impact the underlying performance of the business. Underlying EBITDA excludes the impact of these items to allow the Group MD to measure the financial performance trends of the underlying businesses from period to period and enable necessary decision-making.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2020

4. Segment Information (continued)

The segment information for the years ended 31 March 2019 and 2020 is presented in the following tables:

31 March 2020		New Zealand ECE centres	Australia ECE centres	Support and Corporate functions	Consolidated
	Note	\$'000	\$'000	\$'000	\$'000
Childcare fees		44,752	9,656	-	54,408
NZ Ministry of Education funding		86,199	-	-	86,199
	6	130,951	9,656	-	140,607
Operating expenses		(114,181)	(8,493)	(9,699)	(132,373)
Underlying EBITDA		16,770	1,163	(9,699)	8,234
NZ IFRS 16 rental expense adjustment		20,821	1,251	203	22,275
NZ IFRS 16 remeasurement gains	7	916	-	-	916
<i>Non-underlying or non-operational items:</i>					
Restructuring costs		-	-	(1,011)	(1,011)
(Loss)/Gain on sale or closure of businesses		(1,477)	-	-	(1,477)
Other items		-	(89)	(114)	(203)
Acquisition costs	13	-	(668)	-	(668)
Impairment expenses	11,14,15,18	(6,903)	(5,438)	-	(12,341)
EBITDA		30,127	(3,781)	(10,621)	15,725
Depreciation	11, 18	(13,153)	(648)	(47)	(13,848)
Amortisation	14	-	-	(161)	(161)
Earnings before interest and income tax		16,974	(4,429)	(10,829)	1,716
Net finance costs	7	(15,516)	(1,388)	(2,242)	(19,146)
Reportable segment profit/(loss) before income tax		1,458	(5,817)	(13,071)	(17,430)
Less: profit before income tax from discontinued operations	5a	-	-	-	-
(Loss) before income tax from continuing operations					(17,430)
Total assets		270,529	61,288	36,402	368,219
Total liabilities		(181,358)	(66,700)	(19,383)	(267,441)

Total assets within the support and corporate functions segment are primarily cash and cash equivalents. Total liabilities within the support and corporate functions segment are primarily borrowings. This is reflective of the Group managing financing activities centrally rather than allocating this to operating segments.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2020

4. Segment Information (continued)

31 March 2019		ECE Centres	Home-based ECE (Discontinued)	Support and Corporate functions	Consolidated
	Note	\$'000	\$'000	\$'000	\$'000
Childcare fees		46,379	1,155	-	47,534
NZ Ministry of Education funding		90,446	11,548	-	101,994
Other		-	300	352	652
	6	136,825	13,003	352	150,180
Operating expenses		(113,850)	(12,425)	(10,648)	(136,923)
Underlying EBITDA		22,975	578	(10,296)	13,257
<i>Non-underlying or non-operational items:</i>					
Gain on sale of assets		293	-	-	293
(Loss)/gain on sale and closure of businesses		(275)	1,612	20	1,357
Onerous lease expense	5a	(385)	(1,201)	-	(1,586)
Impairment expense - intangible assets	14, 15	(107,139)	-	-	(107,139)
EBITDA		(84,531)	989	(10,276)	(93,818)
Depreciation	11	(2,582)	(15)	(98)	(2,695)
Amortisation	14	-	(56)	(377)	(433)
Earnings before interest and income tax		(87,113)	918	(10,751)	(96,946)
Net finance costs	7	-	-	(2,765)	(2,765)
Reportable segment profit/(loss) before income tax		(87,113)	918	(13,516)	(99,711)
Less: (loss) before income tax from discontinued operations	5a				(918)
(Loss) before income tax from continuing operations					(100,629)
Total assets		109,537	-	26,604	136,141
Total liabilities		(25,006)	-	(59,458)	(84,464)

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2020

5. Discontinued Operations and Non-current Assets Held for Sale

a) Discontinued operations

There are no discontinued operations or assets held for sale during the current year ended 31 March 2020.

During the previous year ended 31 March 2019, the Group divested all of the businesses of the Home-based ECE operating segment, enabling the Group to concentrate on its core business of centre-based early childhood education.

Financial information presented is for the period to 30 November 2018 for the four PORSE companies (PORSE), and to 31 January 2019 for Au Pair Link Limited (APL).

The profit/(loss) for the previous year ended 31 March 2019 from the discontinued operation is analysed as follows:

	YEAR 31 MARCH 2019
\$'000	
Revenue	13,003
Depreciation	(15)
Amortisation	(56)
Operating expenses	(13,626)
(Loss) before income tax	(694)
Income tax expense	(73)
(Loss) after income tax	(767)
Gain on sale of the discontinued operation after income tax	1,612
Profit after income tax from the discontinued operation	845
Basic (and diluted) earnings/(loss) per share from discontinued operations (cents per share)	0.2

The cash flow for the previous year ended 31 March 2019 from the discontinued operation is analysed as follows:

	YEAR 31 MARCH 2019
\$'000	
Operating activities	
Net cash flows from operating activities	4,950
Investing activities	
Receipts from sale of businesses	2,550
Payments for software, property, plant and equipment	(249)
Cash transferred with businesses sold	(6,580)
Net cash flows from investing activities	(4,279)
Net increase in cash generated by the discontinued operation	671

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2020

5. Discontinued Operations and Non-current Assets Held for Sale (continued)

a) Discontinued operations (continued)

The gain on disposal of the discontinued operation is analysed as follows:

	YEAR 31 MARCH 2019
\$'000	
Cash consideration receivable	2,550
Working capital adjustment payable	(117)
Carrying value of net assets sold	(581)
Costs of disposals	(240)
Gain on sale before income tax	1,612
Income tax expense	-
Gain on sale after income tax	1,612
Onerous lease expense	(1,201)
Net gain on disposal of the discontinued operation	411

As part of the sale agreement of the PORSE companies, the Group retained the lease of the office formerly used as the PORSE head office. An onerous lease provision was established in the previous period for the assessed future liability through to the end of the lease term. This was included within the onerous lease provision within trade and other payables (refer Note 16). With the adoption of NZ IFRS 16: Leases from 1 April 2019, the remaining onerous lease liability is now incorporated in the right-of-use asset.

The carrying amounts of assets and liabilities of PORSE at the date of sale were:

	30 NOVEMBER 2018
\$'000	
Cash and cash equivalents	6,580
Other current assets	230
Property, plant and equipment	97
Deferred tax assets	332
Intangible assets	102
Total Assets	7,341
Trade and other payables	(2,035)
Funding received in advance	(3,325)
Current income tax liability	(158)
PORSE GST settlement payable	(410)
Employee entitlements	(1,030)
Total Liabilities	(6,958)

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2020

5. Discontinued Operations and Non-current Assets Held for Sale (continued)

a) Discontinued operations (continued)

The carrying amounts of the divested assets of APL at the date of sale were:

31 JANUARY 2019

\$'000	
Other current assets	23
Property, plant and equipment	49
Intangible assets	126
Total Assets	198

b) Assets and liabilities held for sale

There were four centres held for sale as at 31 March 2019. Of these, one centre was closed, another two sold and the remaining centre withdrawn from sale during the year ended 31 March 2020. No additional assets were classified as held for sale during the year. As a result, there are no assets held for sale as at 31 March 2020.

The following assets and liabilities were classified as held for sale:

As at 31 March 2019

ECE centres

\$'000	
Property, plant and equipment	266
Deferred tax assets	37
Intangible assets	369
Assets classified as held for sale	672
Trade and other payables	(3)
Funding received in advance	(231)
Liabilities classified as held for sale	(234)

6. Revenue

\$'000	YEAR	YEAR
	31 MARCH 2020	31 MARCH 2019
Revenue from continuing operations:		
Childcare fees	54,408	46,079
Other revenue	-	652
Total revenue from contracts with customers	54,408	46,731
NZ Ministry of Education funding	86,199	90,446
	140,607	137,177

Notes to the Consolidated Financial Statements
FOR THE YEAR ENDED 31 MARCH 2020

7. Disclosure of Items in the Consolidated Statement of Comprehensive Income

Other Expenses

\$'000	Note	YEAR 31 MARCH 2020	YEAR 31 MARCH 2019
Included in other expenses are:			
Audit fees	29	410	247
Directors' fees	28	415	472
NZ IFRS 16 remeasurement adjustments	2	(916)	-
Other items		4,385	3,559
Total other expenses		4,294	4,278

Other items includes corporate and support office costs not already disclosed separately.

Building occupancy expenses

In the previous period, building occupancy expenses of \$23.5 million included \$21.5 million of expenditure in relation to minimum operating lease payments. For the current period, lease payments are now accounted for under NZ IFRS 16 (refer Note 18). The remaining building occupancy costs comprise rates and insurance.

Employee benefits expense

\$'000	YEAR 31 MARCH 2020	YEAR 31 MARCH 2019
Wages and salaries	82,899	77,735
Kiwisaver contributions	1,959	1,961
Superannuation fund contributions	510	-
Payments to agency contractors	4,795	2,416
Share-based payment	18	-
Government wage subsidy	(801)	-
Other employee benefits expense	424	1,406
Total employee benefits expense	89,804	83,518

As the NZ ECE centres had to close during level 4 of the Covid-19 response, and had much reduced attendance during level 3, no revenue from parental fees was earned during this period. The Group therefore met all the qualification criteria for the Government wage subsidy scheme. A total subsidy of \$12.0 million was received in early April, covering the period from 26 March to 17 June. The subsidy has been recognised as a deduction from employee benefits expense on a straight-line basis over the period the subsidy covers. The Group has continued to pay all employees in full during this period. The Group has not applied for the wage subsidy extension as it does not meet the new criteria.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2020

7. Disclosure of Items in the Consolidated Statement of Comprehensive Income (continued)

Net finance costs

\$'000	Note	YEAR	YEAR
		31 MARCH 2020	31 MARCH 2019
Interest received			
Bank deposits		439	143
Total finance income		439	143
Interest expense			
Interest on borrowings		(2,681)	(2,908)
Interest on lease liabilities	2	(16,904)	-
Total finance costs		(19,585)	(2,908)
Net finance costs		(19,146)	(2,765)

8. Taxation

Income tax expense

The major components of income tax expense on continuing operations for the year are:

\$'000	YEAR	YEAR
	31 MARCH 2020	31 MARCH 2019
Current income tax:		
Current income tax expense	541	2,359
Prior year adjustments	(660)	73
	(119)	2,432
Deferred tax:		
Relating to origination and reversal of temporary differences	(4,074)	(516)
Prior year adjustments	63	(146)
	(4,011)	(662)
Total income tax (benefit)/expense on continuing operations	(4,130)	1,770

Reconciliation of tax expense

Tax expense is reconciled to accounting profit as follows:

\$'000	YEAR	YEAR
	31 MARCH 2020	31 MARCH 2019
(Loss) before income tax from continuing operations	(17,430)	(100,629)
At the statutory income tax rate of 28%	(4,880)	(28,176)
Non-assessable income and non-deductible expenses for tax purposes:		
Difference in overseas tax rate	(116)	-
Impairment of goodwill	1,197	29,999
Non-deductible expenses	266	20
Prior year adjustments	(597)	(73)
Total income tax expense on continuing operations	(4,130)	1,770

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2020

8. Taxation (continued)

Deferred tax

Deferred tax relates to the following:

	31 MARCH 2020		31 MARCH 2019	
	Consolidated Statement of Comprehensive Income	Consolidated Statement of Financial Position	Consolidated Statement of Comprehensive Income	Consolidated Statement of Financial Position
\$'000				
Property, plant and equipment	117	1,558	26	1,430
Intangible assets	(4)	(893)	(62)	(913)
Right-of-use assets	(3,567)	(50,681)	-	-
Lease liabilities	7,485	60,301	-	-
Employee entitlement provisions	218	1,053	126	823
Other temporary differences	(238)	588	572	805
Deferred tax benefit	4,011		662	
Net deferred tax assets		11,926		2,145

Net deferred tax assets increased to \$11.9 million at 31 March 2020 primarily as a result of the adjustment on adoption of NZ IFRS 16 of \$5.7 million (refer to Note 2) and the overall amount charged to profit or loss of \$4.0 million.

The movement on net deferred tax assets in the previous period included amounts from both continuing and discontinued operations.

Imputation credits

Imputation credits available for use in subsequent reporting periods are \$11.3 million (2019: \$11.3 million), including imputation credits that will arise from the payment of the amount of the provision for income tax. No dividends are provided for or receivable that would affect the available imputation credits at 31 March 2020. There are not yet any Australian franking credits available.

9. Cash and Cash Equivalents

	AS AT	AS AT
	31 MARCH 2020	31 MARCH 2019
\$'000		
Cash at banks and on hand	15,064	572
Short-term deposits	23,984	24,702
Total cash and cash equivalents	39,048	25,274

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the relevant short-term deposit rates.

Refer to Note 24 for details of amendments to bank facility terms during the year, and Note 20 for changes in share capital, which have impacted the amount of cash and cash equivalents held.

10. Other Current Assets

	Note	AS AT	AS AT
		31 MARCH 2020	31 MARCH 2019
\$'000			
Trade receivables		1,138	293
Government wage subsidy receivable	7	12,009	-
Prepayments and sundry receivables		614	2,094
Total other current assets		13,761	2,387

The NZ Government wage subsidy was received in early April.

Notes to the Consolidated Financial Statements
FOR THE YEAR ENDED 31 MARCH 2020

11. Property, Plant and Equipment

31 March 2020		Land	Buildings	Plant and Equipment	Office Furniture and Fittings	Leasehold Improvements	Motor Vehicles	Work in Progress	Total
\$'000	Note								
Cost									
Opening balance		-	-	831	6,968	4,220	128	984	13,131
Additions/Transfers		-	-	361	772	2,406	96	827	4,462
Acquisition of businesses	13	-	-	-	205	-	-	-	205
Reclassified as no longer held for sale		-	-	42	79	238	-	-	359
Disposals		-	-	(75)	(341)	(367)	(96)	(641)	(1,520)
Closing balance		-	-	1,159	7,683	6,497	128	1,170	16,637
Depreciation and impairment									
Opening balance		-	-	(450)	(5,081)	(1,697)	(79)	-	(7,307)
Depreciation for the year		-	-	(203)	(786)	(1,299)	(17)	-	(2,305)
Reclassified as no longer held for sale		-	-	(19)	(35)	(108)	-	-	(162)
Impairment expense		-	-	(27)	(79)	(333)	-	(70)	(509)
Disposals		-	-	45	281	76	27	-	429
Closing balance		-	-	(654)	(5,700)	(3,361)	(69)	(70)	(9,854)
Net book value		-	-	505	1,983	3,136	59	1,100	6,783

31 March 2019		Land	Buildings	Plant and Equipment	Office Furniture and Fittings	Leasehold Improvements	Motor Vehicles	Work in Progress	Total
\$'000	Note								
Cost									
Opening balance		725	2,195	715	9,034	3,226	213	371	16,479
Additions/Transfers		-	-	203	838	1,765	27	613	3,446
Classified as held for sale	5b	-	-	(55)	(228)	(281)	(16)	-	(580)
Disposals		(725)	(2,195)	(32)	(2,676)	(490)	(96)	-	(6,214)
Closing balance		-	-	831	6,968	4,220	128	984	13,131
Depreciation and impairment									
Opening balance		-	(18)	(308)	(6,206)	(1,237)	(124)	-	(7,893)
Depreciation for the year		-	-	(180)	(1,478)	(1,008)	(29)	-	(2,695)
Classified as held for sale	5b	-	-	25	151	131	7	-	314
Disposals		-	18	13	2,452	417	67	-	2,967
Closing balance		-	-	(450)	(5,081)	(1,697)	(79)	-	(7,307)
Net book value		-	-	381	1,887	2,523	49	984	5,824

In the previous year ended 31 March 2019, centre land and buildings with a book value of \$2.9 million were sold for \$3.3 million, resulting in a gain on sale of \$0.4 million, included within other operating expenses. There were no land and buildings owned or sold during the current year. Disposals arise either when individual assets are no longer required or become obsolete, or when a centre has been closed or sold.

Depreciation for the previous period included amounts for both continuing and discontinued operations.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2020

12. Group Information

Information about subsidiaries

The consolidated financial statements of the Group include:

Name	Principal Activities	Country of Incorporation	Balance Date	Equity Interest
Evolve Education Group 1 Limited	ECE centre owner	NZ	31 March	100%
Evolve Education Group 2 Limited	ECE centre owner	NZ	31 March	100%
Evolve Education Group 3 Limited	ECE centre owner	NZ	31 March	100%
Evolve Education Group 4 Limited	ECE centre owner	NZ	31 March	100%
Evolve Education Group 5 Limited	ECE centre owner	NZ	31 March	100%
Evolve Education Group 6 Limited	Non-trading	NZ	31 March	100%
Evolve Management Group Limited	Investment Company	NZ	31 March	100%
Evolve ECEM Limited (formerly ECE Management Limited)	Management services	NZ	31 March	100%
Lollipops Educare Holdings Limited	Investment company	NZ	31 March	100%
Lollipops Educare Limited	Evolve corporate office	NZ	31 March	100%
Lollipops Educare Centres Limited	ECE centre owner	NZ	31 March	100%
Lollipops Educare (Hastings) Limited	ECE centre owner	NZ	31 March	100%
Lollipops Educare (Birkenhead) Limited	ECE centre owner	NZ	31 March	100%
Evolve Home Day Care Limited	Investment company	NZ	31 March	100%
Au Pair (Evolve) Limited (formerly Au Pair Link Limited) *	Home-care provider	NZ	31 March	100%
Evolve Early Education Pty Ltd	ECE centre owner	Australia	31 March	100%

* the assets and operations of these businesses were sold during the previous year ended 31 March 2019, and these companies have been wound down (refer Note 5).

Porse In Home Childcare (NZ) Limited, Porse Franchising (NZ) Limited, Porse Education and Training (NZ) Limited and For Life Education & Training (NZ) Limited were sold on 3 December 2018 (refer Note 5).

13. Business Combinations

During the year ended 31 March 2020, the Group acquired ten ECE centres from four separate vendors across Queensland and Victoria, Australia, for a total consideration of \$21.6 million. Total net liabilities acquired were \$0.9 million resulting in goodwill on acquisition of \$22.5 million. No cash was acquired. There have been no material adjustments to the provisional values of these acquisitions. A summary of the net liabilities acquired is included in the following table.

Notes to the Consolidated Financial Statements
FOR THE YEAR ENDED 31 MARCH 2020

13. Business Combinations (continued)

Assets and liabilities acquired and consideration paid	\$'000
Assets	
Property, plant and equipment	205
	205
Liabilities	
Employee entitlements	(705)
Other current liabilities	(396)
	(1,101)
Total identifiable net liabilities at fair value	(896)
Goodwill arising on acquisition	22,542
Purchase consideration transferred	21,646
Purchase consideration	
Cash paid	21,441
Contingent consideration	205
Total consideration	21,646

The goodwill of \$22.5 million predominantly comprises the future earnings potential of bringing together a group of ECE centres under one centrally managed group. Goodwill is allocated to each of the group of CGUs identified in Note 2(e), as appropriate.

Assessment of the businesses acquired did not identify any separable intangible assets other than goodwill.

Acquisitions from related parties are disclosed in Note 28.

As at 31 March 2020, the acquisitions have contributed revenue of \$9.7 million and a net profit before tax of \$0.3 million to the Group's results before allowing for upfront acquisition expenses of \$0.7 million and impairment expenses.

Refer to Note 15 regarding testing for impairment. An impairment expense of \$5.4 million has been recognised at 31 March 2020.

Contingent Consideration

As part of the purchase agreements with previous owners, a portion of the consideration was determined to be contingent, based on the performance of the acquired businesses.

The following table outlines the additional amounts payable to the previous owners if the specified performance conditions are met.

31 March 2020	Conditions	Total potential contingent consideration payable \$'000	Carrying value \$'000
Acquisition of 7 centres	12 months performance hurdles based on EBIT	1,950	205
		1,950	205

The potential contingent consideration payable in cash is recognised in the carrying value if the conditions for the additional amount have been met as at 31 March 2020.

Notes to the Consolidated Financial Statements
FOR THE YEAR ENDED 31 MARCH 2020

13. Business Combinations (continued)

Movement in Contingent Consideration

A reconciliation of the fair value of the contingent consideration liability is provided below.

	AS AT 31 MARCH 2020
	\$'000
Contingent consideration for new acquisitions	205
Total contingent consideration payable as at 31 March 2020	205

14. Intangible Assets

31 March 2020	Customer Lists	Syllabus Material	Management Contracts	Software	Brands	Goodwill	Total	
\$'000	Note							
Cost								
Opening balance		141	-	372	1,338	3,104	203,381	208,336
Additions		-	-	-	54	-	-	54
Acquisition of businesses		-	-	-	-	-	22,571	22,571
Closing balance		141	-	372	1,392	3,104	225,952	230,961
Amortisation and impairment								
Opening balance		(141)	-	(372)	(1,118)	-	(108,095)	(109,726)
Amortisation expense		-	-	-	(161)	-	-	(161)
Impairment expense	15	-	-	-	-	-	(3,992)	(3,992)
Closing balance		(141)	-	(372)	(1,279)	-	(112,087)	(113,879)
Net book value		-	-	-	113	3,104	113,865	117,082
31 March 2019								
\$'000	Note							
Cost								
Opening balance		301	200	372	3,077	4,787	214,868	223,605
Additions		-	-	-	149	-	-	149
Classified as held for sale	5b	-	-	-	-	-	(369)	(369)
Disposal of businesses		(160)	(200)	-	(1,888)	(1,683)	(11,118)	(15,049)
Closing balance		141	-	372	1,338	3,104	203,381	208,336
Amortisation and impairment								
Opening balance		(277)	(200)	(310)	(2,409)	(1,683)	(11,556)	(16,435)
Amortisation expense		(24)	-	(62)	(347)	-	-	(433)
Disposal of businesses		160	200	-	1,638	1,683	10,600	14,281
Impairment expense:	15							
Assets held for sale		-	-	-	-	-	(3,850)	(3,850)
ECE centres		-	-	-	-	-	(103,289)	(103,289)
Closing balance		(141)	-	(372)	(1,118)	-	(108,095)	(109,726)
Net book value		-	-	-	220	3,104	95,286	98,610
Goodwill classified as held for sale	5b	-	-	-	-	-	369	369

Amortisation expense includes amounts for both continuing and discontinued operations.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2020

15. Impairment

Impairment assessment of CGUs excluding indefinite useful life intangible assets

The impairment assessment of CGUs concluded that an impairment indicator existed as a result of Covid-19 prevention measures imposed by the government as described in Note 2. The CGUs were tested for impairment by calculating the recoverable amount. CGUs which were loss-making were fully impaired. A total of \$8.3 million was calculated as an impairment and recorded in profit or loss. The discount rate used to perform the assessment was a pre-tax rate of 13.9%. The calculated impairment was allocated to the following asset classes by reportable segment:

31 March 2020	New Zealand	Australia	Total
\$'000			
Impairment expense - right-of-use assets	6,393	1,447	7,840
Impairment expense - property, plant and equipment	509	-	509
	<u>6,902</u>	<u>1,447</u>	<u>8,349</u>

Impairment assessment of indefinite useful life intangible assets

31 March 2020	New Zealand	Australia	Total
\$'000			
Goodwill	95,286	18,579	113,865
Brands with indefinite useful lives	3,104	-	3,104
	<u>98,390</u>	<u>18,579</u>	<u>116,969</u>

31 March 2019	NZ ECE Centres	Home-based ECE	Total
\$'000			
Goodwill	95,286	-	95,286
Brands with indefinite useful lives	3,104	-	3,104
	<u>98,390</u>	<u>-</u>	<u>98,390</u>

New Zealand

The New Zealand indefinite useful life intangible assets balance of \$98.4 million has been tested for impairment as at 31 March 2020.

The recoverable amount of the group of NZ CGUs to which indefinite useful life intangible assets has been allocated was determined using a value-in-use discounted cash flow methodology using Board approved cash flow forecasts covering a five-year period. Forecasts have been revised to reflect the uncertainty arising from the Covid-19 pandemic and its aftermath.

No impairment has been recognised in the year ended 31 March 2020, however reasonably possible changes in the key assumptions could result in an impairment.

Australia

The carrying amount of the four Australian CGUs including a goodwill balance of \$22.6 million has also been tested for impairment at 31 March 2020.

The recoverable amount of the four groups of Australian CGUs to which goodwill has been allocated was determined using a value-in-use discounted cash flow methodology. In view of the short trading history, acquisition forecasts were used as a basis for the five-year forecast period. These forecasts were adjusted to reflect the uncertainty arising from the Covid-19 pandemic and its aftermath, and approved by the Board.

An impairment of goodwill of \$4.0 million has been recognised in the year ended 31 March 2020, leaving a carrying value of \$18.6 million.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2020

15. Impairment (continued)

NZ ECE Centres - Goodwill

Key assumptions used in value-in-use calculations

The key "base" assumptions used in the calculation of value-in-use for NZ ECE Centres are:

- Revenue growth through the forecast period
- Wages growth through the forecast period
- Discount rates
- Growth rates used to extrapolate cash flows beyond the forecast period

The table below sets out the key assumptions for ECE NZ Centres:

	31 MARCH 2020 NZ Centres	31 MARCH 2019 NZ Centres
Revenue growth attributable to parental fee pricing (% per annum on average)	0.4%	1.4%
Revenue growth attributable to MOE funding rates (% per annum on average)	1.4%	1.1%
Revenue growth attributable to increase in occupancy (% per annum on average)	0.1%	0.8%
Total revenue growth (% per annum on average)	1.9%	3.3%
Wages growth (% per annum on average)	1.4%	1.8%
Pre-tax discount rates (%)	13.9%	15.4%
Long-term growth rate (%)	1.5%	2.0%

Revenue - Price. Revenue is received from the NZ Ministry of Education and parents/caregivers. It is assumed the Ministry of Education NZ continues to support early childhood education to the value of approximately 66% (2019: 66%) of ECE revenue earned. If the NZ Government were to reduce its funding of the sector, this would lead to an increased requirement for parents and caregivers to make up the difference. If NZ Government funding were to decrease, the Group would need to initiate appropriate responses to maintain profitability. The assumptions reflect the impact of future increases in funding that have been announced by the NZ Government (2.3% from 1 July 2020 and a further 1.6% from 1 January 2021), with subsequent annual increases in line with past experience (1.6% per year). In recognition of the economic challenges likely to be faced by parents due to the Covid-19 pandemic, no increase in parental fees has been assumed until July 2021. Thereafter prices are assumed to increase by 1.6% per year, in line with wage increases.

Revenue - Occupancy. Occupancy refers to the number of full-time equivalent children attending centres. A number of initiatives were put in place during the second half of the year to reverse the trend of declining occupancy. These involved both attracting new children as well as retaining existing ones and optimising their attendance. The focus on occupancy has redoubled with the re-opening of centres after the level 4 closure. However, occupancy projections used for impairment testing have been scaled back from the Group's expected level of 80% by 2025, due to the uncertainty regarding the impact of Covid-19. This projection assumes occupancy only regains its 2020 level of 72% by 2025. If occupancy were not to meet this level, the Group would need to initiate appropriate responses to maintain profitability.

Wages - Wages are assumed to increase at 1.6% per year, starting January 2021, based on historic wage increases.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2020

15. Impairment (continued)

Key assumptions used in value in use calculations (continued)

Pre-tax discount rates - The discount rates represent the current market assessment of the risks specific to the group of CGUs, taking into account the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the industry segment the Group is engaged in, and is derived from its weighted average cost of capital (WACC). The WACC takes into account both the cost of debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors using the capital asset pricing model. The cost of debt takes into account borrowing rates for both the Group and the market. The overall discount rate is independent of the Group's capital structure and the way the Group might finance the purchase of a business. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data. Adjustments to the discount rate are made to factor in the specific amount and timing of the future tax flows in order to reflect a pre-tax discount rate.

Long-term growth rate - This rate is based on current inflation rates in New Zealand and forecast or assumed increases in revenues from parents/caregivers and the Government. The rate has been reduced in the current period to reflect low inflation expectations and the uncertainty arising from Covid-19.

Adoption of NZ IFRS 16: Leases

The adoption of NZ IFRS 16: Leases from 1 April 2019 has been incorporated into the value-in-use calculation. Principally the right-of-use asset is now included in the carrying value of the CGU, as well as the intangible assets. A lease replacement cost, representing the present value of lease payments beyond the current lease term, is deducted from the recoverable amount. However, lease payments built in to the right-of-use asset are now excluded from the recoverable amount.

Sensitivity to changes in key assumptions

The most sensitive assumption in the calculation of value-in-use for the NZ ECE Centres CGU is revenue growth, followed by wage costs. The following summarises the amounts by which the key assumptions would need to change, with all other assumptions remaining constant, for the recoverable amount to equal the carrying amount:

	Headroom/ (Impairment)
\$'000	
Base assumption	4,521
Occupancy	-0.55%
Childcare fee growth	-0.78%
Ministry of Education funding growth	-0.35%
Wages growth	0.53%
Pre-tax discount rate	0.14%
Long-term growth rate	-0.19%

Notes to the Consolidated Financial Statements
FOR THE YEAR ENDED 31 MARCH 2020

15. Impairment (continued)

Sensitivity to changes in key assumptions (continued)

The following summarises the impairment or headroom that would have resulted had the noted changes in the "base" assumptions been made, with all other assumptions remaining constant:

\$'000	Headroom/ (Impairment)
Base assumption	4,521
Occupancy at 65% at the end of the period	(46,458)
Occupancy at 70% at the end of the period	(10,044)
Occupancy at 75% at the end of the period	26,369
MOE funding rate growth +1.0% above base	24,232
MOE funding rate growth -1.0% below base	(14,773)
Childcare fees growth +1.0% above base	16,348
Childcare fees growth -1.0% below base	(7,004)
Wages growth +1.0% above base	(16,104)
Wages growth -1.0% below base	24,537

Australian ECE Centres - Goodwill

Key assumptions used in value in use calculations

The key "base" assumptions used in the calculation of value-in-use for the Australian ECE Centres CGUs are:

- Revenue growth through the forecast period
- Wages growth through the forecast period
- Discount rates
- Growth rates used to extrapolate cash flows beyond the forecast period

The table below sets out the key assumptions for Australian ECE centres CGUs:

	31 MARCH 2020 Australia
Revenue growth attributable to price (% per annum on average)	2.0%
Revenue growth attributable to increase in occupancy (% per annum on average)	0.0%
Total revenue growth (% per annum on average)	2.0%
Wages growth (% per annum on average)	2.0%
Pre-tax discount rates (%)	14.3%
Long-term growth rate (%)	1.5%

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2020

15. Impairment (continued)

Australian ECE Centres - Goodwill (continued)

Sensitivity to changes in key assumptions

The most sensitive assumption in the calculation of value-in-use for is revenue growth, followed by wage costs. Revenue growth will be achieved through pricing, as occupancy is not assumed to grow, given the centres currently have good occupancy levels. The following summarises the amounts by which the key assumptions would need to change, with all other assumptions remaining constant, for the recoverable amount to equal the carrying amount:

	Headroom/ (Impairment)
\$'000	
Base assumption	(3,992)
Revenue growth	2.65%
Wages growth	-4.70%
Pre-tax discount rate	-1.03%
Long-term growth rate	1.29%

The following summarises the impairment or headroom that would have resulted had the noted changes in the "base" assumptions been made, with all other assumptions remaining constant:

	Headroom/ (Impairment)
\$'000	
Base assumption	(3,992)
Revenue growth +2.0% above base	(572)
Revenue growth -5.0% below base	(18,111)
Wages growth +2.0% above base	(6,554)
Wages growth -2.0% below base	(2,050)

The changes used are based on an assessment of reasonably-likely variations in the assumptions.

The negative revenue growth scenario was selected as a possible outcome of a prolonged and severe downturn resulting from Covid-19.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2020

16. Trade and Other Payables

\$'000	Note	AS AT 31 MARCH 2020	AS AT 31 MARCH 2019
Trade payables		504	339
Goods and services tax payable		3,642	4,243
Onerous lease provision		-	1,531
Wage subsidy relating to the following financial year	7	11,208	-
Other payables		3,819	4,181
Total trade and other payables		19,173	10,294

Trade payables are unsecured and are usually paid within 30 days of recognition. The carrying amount of trade and other payables are considered to be the same as their fair value, due to their short-term nature. The onerous lease provision related to the office formerly used as the Porse Head office (refer Note 5a). This has now been incorporated in the right-of-use asset (refer Note 18).

17. Funding Received in Advance

Funding from NZ Ministry of Education

Represents NZ Ministry of Education funding received in advance net of amounts owing but not received. The amount is shown as a current liability consistent with the period the funding covers. Funding is received three times a year on 1 March, 1 July and 1 November. Each funding round includes 75% of the estimated funding for the four months ahead, as well as payment of the remaining 25% payable for the previous funding period, adjusted for any changes in occupancy and other criteria. At 31 March 2020 funding received in advance relates to April to June 2020. Funding receivable relates to the remaining 25% of funding, adjusted for any changes in occupancy and other criteria, in respect of February and March 2020.

\$'000	AS AT 31 MARCH 2020	AS AT 31 MARCH 2019
Funding received in advance	14,956	15,971
Funding receivable	(3,152)	(3,346)
Total funding received in advance	11,804	12,625

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2020

18. Right-of-use Assets and Lease Liabilities

The right-of-use assets and lease liabilities have arisen upon adoption of NZ IFRS 16: *Leases* from 1 April 2019. Refer Notes 2 and 3 for further information.

a) Right-of-use assets

	Leased properties	Leased motor vehicles	Total
\$'000			
Adjustment on adoption of NZ IFRS 16	167,643	359	168,002
Additions	29,192	104	29,296
Depreciation and impairment	(18,875)	(185)	(19,060)
Closing net book value	177,960	278	178,238
Cost	196,835	463	197,298
Accumulated depreciation	(11,035)	(185)	(11,220)
Impairment expense	(7,840)	-	(7,840)
As at 31 March 2020	177,960	278	178,238

Included in accumulated depreciation is a reversal of \$0.3 million for lease termination.

b) Lease liabilities

	AS AT 31 MARCH 2020	AS AT 1 APRIL 2019
\$'000		
Current lease liabilities	10,495	5,805
Non-current lease liabilities	201,973	184,036
Total lease liabilities	212,468	189,841

c) Amounts recognised in the statement of comprehensive income

The statement of comprehensive income shows the following amounts relating to leases:

	AS AT 31 MARCH 2020	AS AT 1 APRIL 2019
\$'000		
Depreciation charge of right-of-use assets		
Properties	11,358	-
Motor vehicles	185	-
	11,543	-
Interest expense (included in finance cost)	16,904	-
Expense relating to short-term leases (included in building occupancy expenses)	171	-
Expense relating to leases of low-value assets that are not shown above as short-term leases (included in Direct expenses of providing services)	270	-

The total cash outflow for leases during the year was \$23.1 million.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2020

18. Right-of-use Assets and Lease Liabilities (continued)

d) Impairment testing of right-of-use assets

As detailed in Notes 3(l) and 3(m), non-financial assets including right-of-use assets are reviewed annually for indicators of impairment. Where there is an indicator of impairment, the carrying value of the asset is compared to its recoverable amount. Refer to Note 15. An impairment expense of \$7.8 million has been recognised at 31 March 2020.

19. Employee Entitlements

\$'000	Note	AS AT	AS AT
		31 MARCH 2020	31 MARCH 2019
Employee leave provisions		3,159	2,654
Accrued wages and salaries		2,897	3,012
Other employee entitlements		274	286
Total employee entitlements		6,330	5,952

20. Issued Capital

Authorised shares

	31 MARCH 2020		31 MARCH 2019	
	Number	\$'000	Number	\$'000
Ordinary shares authorised, issued and fully paid				
Opening balance	180,278,557	159,598	179,457,596	159,149
<i>Ordinary shares issued:</i>				
Issue of shares, net of transaction costs	938,325,436	78,378	-	-
Issue of shares in relation to dividend reinvestment plan ("DRP")	-	-	820,961	457
Less share issue costs relating to shares issued under DRP	-	-	-	(8)
Closing balance	1,118,603,993	237,976	180,278,557	159,598

The Group concluded a pro-rata accelerated rights entitlement offer capital raise in June 2019, issuing an additional 793,225,436 shares, with proceeds of \$63.4 million being received. The capital raise comprised a placement of \$30.5 million to eligible institutional shareholders and \$32.9 million to eligible retail shareholders. Incremental directly attributable issue costs of \$3.8 million were incurred and have been netted off against the proceeds of the capital raising.

In December 2019, the Group completed another capital raising through placement to institutional shareholders, issuing an additional 145,000,000 shares, with proceeds of A\$18.9 million being received. Incremental directly attributable issue costs of \$0.9 million were incurred and have been netted off against the proceeds of the capital raising.

The net proceeds of the capital raisings were utilised by the Group to pay down bank borrowings, fund the acquisition of ECE centres for expansion in Australia and provide increased flexibility to implement performance improvements in New Zealand.

On 8 November 2019, share-based payment of \$18,000 comprising 100,000 ordinary shares of the Company were allotted to a former Chief Executive Officer of the Group under the terms of the Group's share based payment scheme.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2020

21. Capital Management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence, and to sustain future development of the business. Capital consists of share capital, accumulated net earnings/deficits of the Group, as well as available cash and cash equivalents and borrowings. The Board of Directors monitors the return on capital as well as the level of cash and dividends to ordinary shareholders.

The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of any financial covenants. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

Dividend Policy

The current dividend policy of the Group is to pay dividends between 40% and 60% of net profit after tax of the preceding period, but at the Board's discretion based on the Group's available financial resources.

Financial Covenants

The Group's capital management policy, amongst other things, aims to ensure that it meets its financial covenants attached to any interest bearing loans and borrowings that support capital structure requirements. The specific covenants relating to financial ratios the Group is required to meet are:

- Gearing ratio (i.e. net debt to EBITDA)
- Fixed cover charges ratio (i.e. EBIT plus lease expense to lease expenses plus net interest)

Breaches of the financial covenants could permit the lender to immediately call loans and borrowings. There have been no breaches of the financial covenants of any interest-bearing loans and borrowings in the current or prior period.

22. Dividends

Dividends paid during the current year

No dividend was paid during the year ended 31 March 2020.

Dividends paid during the previous year

	2019	2019
	Cents per share	\$'000
Final dividend for the year ended 31 March 2018	2.00	3,590
	2.00	3,590

Policies

Dividends are paid in cash in accordance with the dividend policy of the Group. Dividends paid during the previous year were fully imputed.

Supplementary dividends

In 2019, supplementary dividends of \$0.1 million were paid to shareholders who are not tax resident in New Zealand, for which the Company received a foreign investor tax credit entitlement.

Dividend reinvestment plan

Under the Company's dividend reinvestment plan, holders of ordinary shares may elect to reinvest the net proceeds of cash dividends payable or credited to acquire further fully paid ordinary shares in the Company. In respect of the previous year ended 31 March 2019, 820,961 shares with a total value of \$0.5 million were issued in lieu of cash dividends.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2020

23. Earnings Per Share (EPS)

Basic and diluted EPS amounts are calculated by dividing the profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year. The number of shares outstanding for the current and previous years are adjusted for the effect of the share issues during the current year (refer Note 20). The following reflects the income and share data used in the basic and diluted EPS computations:

	YEAR 31 MARCH 2020	YEAR 31 MARCH 2019
(Loss)/profit after income tax from continuing operations (\$'000s)	(13,300)	(102,399)
(Loss) after income tax attributable to the shareholders of the Company (\$'000s)	(13,300)	(101,554)
Weighted average number of ordinary shares for basic and diluted EPS	924,079,125	393,168,819
Basic (and diluted) EPS from continuing operations (cents per share)	(1.4)	(26.0)
Basic (and diluted) EPS attributable to the shareholders of the Company (cents per share)	(1.4)	(25.8)

There have been no other transactions involving ordinary shares or potential ordinary shares during the current or previous years.

24. Financial Assets and Liabilities

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 level of financial risk is not significant and risk management is carried out by senior finance executives and the Board of Directors.

Market risk

Foreign currency risk

The New Zealand operations is not exposed to any significant foreign currency risk, other than from the Australian operations acquired during the current year.

The Group now has operations in Australia and is exposed to foreign currency risk associated with the Australian dollar ("AUD"). Foreign currency risk arises from future commercial transactions and from recognised assets and liabilities denominated in a currency that is not the Company's functional currency.

The foreign currency risk associated with the Australia operations is managed through a natural hedge as the cash flows from the Australian operations are denominated in Australian dollars.

The carrying amount of the Group's financial assets and liabilities that are denominated in other foreign currencies are set out below.

	AS AT 31 MARCH 2020
\$'000	AUD
Cash and cash equivalents	1,708
Funding receivable	328
Other current assets	368
Trade payables	(652)
Employee entitlements	(1,382)
	370

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2020

24. Financial Assets and Liabilities (continued)

Market risk (continued)

Foreign currency risk (continued)

During the year, the following foreign currency related amounts were recognised in other comprehensive income.

\$'000	AS AT
	31 MARCH 2020
	AUD
Translation of foreign operations	1,174

Sensitivity

As shown in the table above, as at 31 March 2020, the Group has financial assets and liabilities that are denominated in AUD. However, these AUD financial assets and liabilities are denominated in the functional currency of the foreign subsidiary. Any translation gains or losses arising from changes in NZD/AUD exchange rates are recognised in the foreign currency translation reserve not profit or loss.

Price risk

The Group is not currently exposed to any significant price risk.

Interest rate risk

The Group's main interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The effective interest rate for the current year is 7.7% (2019: 6.0%). The effective interest rate has increased in the current year as a result of inclusion of remeasurement losses arising from the adoption of NZIFRS 9: Financial Instruments (refer Note 25). The effect of an increase or decrease of $\pm 1\%$ in interest rates on the cash flow interest rate risk will result in a $\pm \$284,000$ (2019: $\pm \$485,000$) movement on profit or loss before tax.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of cash and cash equivalents as well as the use of loans. At balance date, the Group had drawn \$17.4 million (2019: \$55.4 million) of the Group's \$17.4 million (2019: \$63.9 million) lending facilities exposing the Group to interest rate risk. Exposure to interest rate risk is reduced by investing surplus cash in on-call savings accounts or term deposits.

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 maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provision for impairment of those assets, as disclosed in the Consolidated Statement of Financial Position and Notes to the Consolidated Financial Statements. The Group has no significant credit risk exposure. The Standard & Poors credit ratings of the banks where the Group holds cash are all AA- (sources: www.rbnz.govt.nz and Standard & Poors).

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.

Notes to the Consolidated Financial Statements
FOR THE YEAR ENDED 31 MARCH 2020

24. Financial Assets and Liabilities (continued)

Market risk (continued)

Financing arrangements

The Group's financing arrangements comprise the following facilities:

- **Senior revolving facility** - provided by ASB totalling \$8.5 million for general corporate and working capital purposes. The facility is currently undrawn. The facility expires on 30 April 2022.
- **Acquisition facility** - provided by ASB totalling \$55.4 million at the beginning of the year for funding of acquisitions. A total of \$38.0 million of this facility was repaid during the year, and the facility reduced to \$17.4 million. The facility expires on 30 April 2022.
- **Lease guarantee facility** - provided by ASB for \$2.5 million for guarantees required for certain leasehold properties.
- **Lease guarantee facility** - provided by NAB for A\$1.4 million for guarantees required for certain leasehold properties in Australia. This facility is cash-backed by a term deposit held with NAB.

The ASB facilities are secured by way of a first ranking general security agreement over all present and future assets and undertakings of the Group, together with an all obligations cross guarantee and indemnity. The Group was in compliance with all bank covenants throughout the current and previous periods. Refer to Note 25 for details of amendments to the facilities during the current period.

Amounts drawn against the senior revolving and acquisition facilities are:

\$'000	AS AT 31 MARCH 2020	AS AT 31 MARCH 2019
Facility Limits		
Senior revolving facility	8,500	8,500
Acquisition facility	17,359	55,359
Total lending facilities	25,859	63,859
Utilisation		
Acquisition facility	17,359	55,359
Total unused facilities	8,500	8,500

Remaining contractual maturities

The contractual maturity for the Group's financial instrument liabilities (that is, trade payables) is disclosed in Note 16. The acquisition facility was reduced during the year by repayment of \$38.0 million. The remaining principal amount (\$17.4 million) is repayable in April 2022. Interest payments on borrowings are projected to be \$0.75 million in the year ending 31 March 2021 and \$0.75 million in the year ending 31 March 2022.

Lease liabilities of \$212.5 million are now recognised (refer Notes 2 and 18). Including renewal rights expected to be exercised, the maturities of these leases are spread over the period to November 2054.

Fair value of financial instruments

The carrying value of financial assets and financial liabilities presented represent a reasonable approximation of fair value.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2020

25. Net Debt Reconciliation

Movements on net debt comprise:

31 March 2020	Cash and cash equivalents	Borrowings	Lease liabilities	Total
\$'000				
Net debt as at 1 April 2019	25,274	(55,359)	-	(30,085)
Adoption of NZ IFRS 16 (Note 18)	-	-	(189,841)	(189,841)
Bank borrowings repaid	-	38,000	-	38,000
Modification loss	-	(307)	-	(307)
Additions	-	-	(43,953)	(43,953)
Interest on lease liabilities	-	-	(16,828)	(16,828)
Repayment of lease liabilities	-	-	22,814	22,814
Other movements on lease liabilities	-	-	15,340	15,340
Cash flows	13,774	-	-	13,774
Net debt as at 31 March 2020	39,048	(17,666)	(212,468)	(191,086)
Due within one year	39,048	-	(10,495)	28,553
Due in more than one year	-	(17,666)	(201,973)	(219,639)
	39,048	(17,666)	(212,468)	(191,086)

Certain terms of the borrowing facilities were renegotiated and amended in May 2019. \$30 million of the loan was repaid by 30 June 2019, certain covenant conditions were revised, and acquisitions of centres in Australia up to \$25 million were permitted. The changes to the terms were not considered substantial, and as a result a modification loss of \$0.3m was recognised within finance costs. The carrying value of the bank facility has also been adjusted at the date of modification by the same amount. This modification loss is amortised over the remaining term of the loan, so that the carrying value at the end of the term represents the actual amount repayable.

Net debt as defined in the financial covenants (Note 21) includes any amounts utilised under the Group's lease guarantee facility (Note 24) and net funding in advance from the NZ Ministry of Education (Note 17), but excludes lease liabilities (Note 18).

31 March 2019	Cash and cash equivalents	Borrowings	Lease liabilities	Total
\$'000				
Net debt as at 1 April 2018	5,362	(32,300)	-	(26,938)
Bank borrowings drawn	-	(92,247)	-	(92,247)
Bank borrowings repaid	-	69,188	-	69,188
Cash flows	19,912	-	-	19,912
Net debt as at 31 March 2019	25,274	(55,359)	-	(30,085)
Due within one year	25,274	(30,000)	-	(4,726)
Due in more than one year	-	(25,359)	-	(25,359)
	25,274	(55,359)	-	(30,085)

Notes to the Consolidated Financial Statements
FOR THE YEAR ENDED 31 MARCH 2020

26. Reconciliation of (Loss) After Tax to Net Operating Cash Flows

	YEAR 31 MARCH 2020	YEAR 31 MARCH 2019
\$'000		
(Loss) after income tax	(13,300)	(101,554)
Adjustments for non cash items:		
Depreciation and amortisation	14,009	3,128
Employee benefits expense - share-based payments	18	-
Impairment expense	12,341	107,139
(Gain)/loss on disposal of property, plant and equipment	144	(293)
Remeasurement of lease liabilities	(916)	-
(Gain)/loss on sale and closure of businesses	483	(1,357)
Deferred tax	(9,781)	(509)
Adjustments for items classified as investing or financing activities:		
Finance costs	19,585	2,908
Working capital movements relating to operating activities:		
Increase/(decrease) in funding received in advance	(821)	(1,683)
(Increase)/decrease in other current assets	(10,751)	(1,474)
Increase/(decrease) in trade and other payables	12,453	2,721
(Increase)/decrease in current income tax receivables	(152)	(519)
Increase/(decrease) in PORSE GST settlement payable	-	(1,090)
Increase/(decrease) in employee entitlements	378	146
Net cash flows from operating activities	23,690	7,563

Working capital movements in the previous year were adjusted to reflect the disposal of discontinued operations.

27. Commitments and Contingencies

Operating lease commitments - Group as lessee

Commercial leases of property and motor vehicles are accounted for under NZIFRS 16 from 1 April 2019. Future minimum rentals of office equipment not subject to NZIFRS 16 at 31 March 2020 are:

	YEAR 31 MARCH 2020	YEAR 31 MARCH 2019
\$'000		
Within one year	370	22,248
After one year but not more than five years	338	63,504
More than five years	-	45,892
Total	708	131,644

Guarantees

A total of \$2.3 million (2019: \$2.3 million) of the lease guarantee facility disclosed in Note 24 has been utilised. For the Australian operation, a total of \$1.2 million (2019: \$0) of bank lease guarantees have been utilised.

Contingencies

There are no material contingent liabilities at 31 March 2020.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2020

28. Related Party Transactions

Identity of Related Parties

Related parties of the Group are:

- The Board of Directors comprising Hamish Stevens (appointed 29 July 2019), Adrian Fonseca (appointed 19 September 2019), Chris Scott, Chris Sacre, Kim Campbell (appointed 19 September 2019), Alistair Ryan (retired 15 June 2019), Norah Barlow (retired 19 September 2019) and Grainne Troute (retired 6 September 2019).
- On 16 August 2019, Chris Scott was appointed as Managing Director and Chris Sacre was appointed as Australia Country Manager. Both were appointed as Directors on 28 November 2018.
- On 3 October 2019, Timothy Wong was appointed as Chief Executive Officer of the New Zealand operations of the Group.
- J47 Pty Limited, a company of which Chris Scott is the sole director and shareholder.
- Upton124 Pty Limited, a company of which Chris Sacre is a director.
- Sovana Child Care Pty Limited, a company of which Adrian Fonseca is the sole director and shareholder, and is a trustee of Sovana Child Care Trust.
- Lai Wong Pty Limited, a company of which Timothy Wong has the ability to control.

Related party relationships that have ceased during the current year or in the prior year are:

- Alistair Ryan ceased his directorship on 15 June 2019.
- Norah Barlow ceased her directorship on 19 September 2019.
- Grainne Troute ceased her directorship on 6 September 2019.
- Anthony Quirk ceased his directorship on 28th November 2018.
- Lynda Reid ceased her directorship on 28th November 2018.

Related party transactions arising during the year:

- Transactions between the Company and its Directors, members of its key management and certain employees can be summarised as follows:
 - **Directors' remuneration** - The Directors' fees pool is currently \$500,000 per annum (plus GST, if any), with the amount of fees paid during the period disclosed in the table below. The Board has elected to take a 16.7% reduction in Directors' fees, effective from December 2019, as a contribution to the Group's efforts to improve profitability. The Directors are also entitled to be paid for reasonable travel, accommodation and other expenses incurred by them in connection with their attendance at Board or Shareholder meetings, or otherwise in connection with the Group's business.

	YEAR 31 MARCH 2020	YEAR 31 MARCH 2019
\$'000		
Hamish Stevens	78	-
Chris Scott	75	27
Chris Sacre	75	27
Kim Campbell	43	-
Adrian Fonseca	38	-
Alistair Ryan	28	135
Norah Barlow	40	80
Grainne Troute	38	90
Anthony Quirk	-	60
Lynda Reid	-	53
Total Directors' Remuneration	415	472

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2020

28. Related Party Transactions (continued)

Related party transactions arising during the year (continued):

- **Directors' indemnity and insurance** - the Company has entered into a Deed of Indemnity and Access by Deed Poll under which it has granted indemnities in favour of, and maintains insurance for, its present and future directors (and directors of related companies) and certain employees of the Company, in each case to the extent permitted by the Companies Act 1993, the Securities Act 1978 and the Financial Markets Conduct Act 2013.
- **Other transactions with parties related to the Directors of the Group:**
 - During the year, J47 Pty Limited increased its shareholdings from 34,186,061 shares to 209,820,113 shares.
 - During the year, Upton 124 Pty Limited acquired 65,026,654 shares in the Company.
 - During the year, Sovana Child Care Trust acquired 17,250,000 shares in the Company.
 - During the year, Lai Wong Pty Limited acquired 7,000,000 shares in the Company.
 - During the year, Kim Campbell acquired 30,000 shares in the Company.
 - On 13 September 2019, the Group completed the acquisition of a childcare centre in Melbourne, Australia from Sovana Child Care Pty Limited for a total purchase price of A\$2.9 million. This was prior to Adrian Fonseca becoming a Director and acquiring shares in the Company on 19 September 2019. Subsequent to that in October 2019, the Group completed the acquisition of another childcare centre in Melbourne, Australia from Sovana Child Care Pty Limited for an initial purchase price of AU\$2.45 million. A further A\$0.4m is potentially payable if specified performance criteria are met. Sovana provides an Operations personnel who visits these two centres occasionally for a period of 12 months commencing from the completion dates of the acquisitions. This service is provided free of charge by Sovana and the value to the Group has been determined by the Board to be not material.
 - In November 2019, the Group completed the acquisition of five childcare centres across Queensland and Victoria, Australia from companies in which Timothy Wong is a minority shareholder, for a total initial consideration of \$A7.65 million. A further A\$1.5m is potentially payable if specified performance criteria are met.
- **Compensation of key management personnel of the Group:**

\$'000	AS AT 31 MARCH 2020	AS AT 31 MARCH 2019
Short-term employee benefits	1,624	809
Share-based payments	18	-
Total compensation paid to key management personnel	1,642	809

The amounts disclosed in the table are the amounts recognised as an expense during the reporting period related to key management personnel.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2020

28. Related Party Transactions (continued)

Related party transactions arising during the year (continued):

- Shareholding interests of Directors and key management of the Company are:

	AS AT 31 MARCH 2020	AS AT 31 MARCH 2019
Units of shares		
Chris Scott	209,820,113	34,186,061
Chris Sacre	65,026,654	-
Adrian Fonseca	17,250,000	-
Kim Campbell	30,000	-
Norah Barlow	-	93,412
Alistair Ryan	-	93,412
Timothy Wong	7,000,000	-
	299,126,767	34,372,885

29. Auditor's Remuneration

During the year the following fees were paid or payable for services provided by the Group's auditor, PricewaterhouseCoopers:

	YEAR 31 MARCH 2020	YEAR 31 MARCH 2019
\$'000		
Assurance services:		
Audit and review of the consolidated financial statements	410	237
Other assurance engagements	-	10
Total assurance services	410	247
Other services provided by PricewaterhouseCoopers:		
Taxation compliance services	43	33
Other non-assurance services	7	18
Total other services	50	51

Other non-assurance services in the current year relate to benchmarking of Directors' fees, and in the previous year were primarily an agreed-upon procedures service in respect of the working capital calculation for a prior acquisition.

30. Events After the Reporting Period

Change of Balance Date

On 6 April 2020, NZ Inland Revenue approved the Group's application to change its balance date from 31 March to 31 December. The change is to align the Group's balance date to its international investors, retail shareholders and financial institutions. It will take effect after the end of the current year ended 31 March 2020.

Covid-19 impact

As discussed in Note 2, the rapid rise of Covid-19 has had a significant global impact. While the short-term financial position of the Group has not been materially impacted, there remains inherent uncertainty regarding the longer-term impact. At the time of approving these financial statements, there are no known material adverse impacts on the Group.



Independent auditor's report

To the shareholders of Evolve Education Group Limited

We have audited the consolidated financial statements which comprise:

- the consolidated statement of financial position as at 31 March 2020;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies.

Our opinion

In our opinion, the accompanying consolidated financial statements of Evolve Education Group Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 31 March 2020, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

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

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Group in the areas of taxation compliance services and benchmarking of directors' fees. The provision of these other services has not impaired our independence as auditor of the Group.

Key audit matters

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

Key audit matter

Impairment assessment of non-financial assets

As at 31 March 2020, the Group had non-financial assets relating to property, plant and equipment of \$6.8 million (refer to note 11), right-of-use assets of \$178.2 million (refer to note 18) and intangible assets of \$117.1 million (refer to note 14).

Accounting standards require an entity to assess at the end of each reporting period whether there is any indication that an asset may be impaired. The Group has identified impairment indicators which required management to perform an impairment assessment in addition to the requirement to perform an annual impairment assessment of goodwill and other indefinite life intangible assets.

This is a key focus of our audit due to the significance of the impairment expense amounting to \$12.3 million recognised in the consolidated financial statements, the inherent judgement in assessing impairments and the impact of COVID-19 on the assumptions that the Group's assessment is based on.

In respect of the Australian Group of cash-generating units (CGU) an impairment of \$4.0 million and \$1.4 million relating to goodwill and right-of-use assets, respectively, was recorded.

In respect of the New Zealand Group of CGU's, an impairment of \$6.4 million in relation to right-of-use assets and \$0.5 million of property, plant and equipment was recorded as a result of the impairment assessments of individual ECE centres.

In relation to the New Zealand goodwill, the recoverable amount exceeds the carrying amount however reasonably possible changes in the key assumptions could result in an impairment.

How our audit addressed the key audit matter

To address the risk of impairment of assets, our audit procedures included the following:

- considered the appropriate composition of each cash-generating unit (CGU);
- gained an understanding of the Group's impairment assessments and held discussions with management to understand the basis of determining key assumptions used in the impairment models;
- considered whether the methodology applied was appropriate and whether changes as a result of the adoption of IFRS 16 had been correctly incorporated into the impairment assessments;
- for the New Zealand CGU's, we compared actual to forecast performance for the past three financial years and assessed the impact on forecast earnings. Given that the Australian CGU's were recently acquired, we compared the forecast cash flows included within the purchase price valuation model to actual performance and assessed the impact on forecast earnings;
- assessed the appropriateness of key assumptions used by management to develop cash flow forecasts including adjustments for the potential impact of COVID-19, by analysing the Group's performance, key trends and interrelationships of key assumptions and benchmarking information to market data where relevant and available;
- tested the mathematical accuracy of the models;
- engaged our auditor's valuation expert to assess key assumptions including discount rates and terminal growth rates and assist in developing a point estimate; and
- considered whether the disclosures in the consolidated financial statements were in compliance with the requirements of the accounting standards.

In respect of the Australia CGU's, acquisition forecasts adjusted to reflect the uncertainty arising from the Covid-19 pandemic and its aftermath were used as a basis for the impairment testing. With the assistance of the auditor's valuation expert, we developed an independent point estimate with cash flow forecast assumptions which were based on our assessment of

Key audit matter

Based on a value-in-use methodology, the key assumptions used in management's discounted cash flow model are the following:

- revenue growth;
- wage growth;
- discount rate; and
- long-term growth rate

The above key assumptions and sensitivities to changes in certain assumptions are disclosed in note 15 of the consolidated financial statements.

Adoption of NZ IFRS 16, Leases

The Group adopted NZ IFRS 16 Leases on 1 April 2019. The new standard resulted in almost all leases, where the Group is a lessee, being recognised in the consolidated statement of financial position. On the date of adoption, a right-of-use asset of \$168.0 million and a lease liability of \$189.8 million was recognised by the Group.

As outlined in notes 2 and 3, a number of judgements and estimates have been made by management in establishing these opening balances. These comprise:

- incremental borrowing rates at the time of adoption;
- lease terms, including any rights of renewal expected to be exercised; and
- application of practical expedients in respect of low value assets and short term lease exemptions.

This was considered an area of focus for the audit due to the magnitude of the balance recognised on adoption of the new standard, number of leases involved, and significant effort required during the audit.

The impact on adoption of the new standard is disclosed in note 2 of the consolidated financial statements.

How our audit addressed the key audit matter

forecast earnings and external market evidence. Our independent point estimate supported the amount of impairment recognised for the Australia CGU's.

We performed the following audit procedures:

- held discussions with management to understand the implementation process, including the basis for the judgements and estimates used in the calculation of opening balances;
- obtained an understanding of the practical expedients applied and considered the appropriateness of applying these expedients based on what is permitted in the standard;
- checked assumptions used to determine the lease term, including rights of renewal, and assessed whether they were supported by past practice and current business plans;
- performed testing, on a sample basis, of the accuracy of information included in the calculations by comparing the inputs to the terms in the underlying lease contracts;
- tested completeness of the identified lease contracts by checking that leased centres and other major leased assets were included in the calculation;
- recalculated the right-of-use asset and lease liability for individual leases on a sample basis;
- engaged our internal valuation expert to assess the reasonableness of the incremental borrowing rates adopted and comparing this against management's rates; and
- considered the appropriateness of disclosures in the financial statements.



Key audit matter	How our audit addressed the key audit matter
<p data-bbox="304 479 794 539"><i>Forecast compliance with loan facility financial covenants</i></p> <p data-bbox="304 555 794 674">In the interim financial statements to 30 September 2019, the Group disclosed a material uncertainty with regard to going concern.</p> <p data-bbox="304 689 794 808">As described in note 2 to the consolidated financial statements, the Group's operating cash flow remained positive for the financial year.</p> <p data-bbox="304 824 794 1010">The Board has considered the impact of COVID-19 on the financial position of the Group and its cash flows. The key assumptions underpinning these cash flows are disclosed in note 2 to the consolidated financial statements.</p> <p data-bbox="304 1025 794 1178">This was considered an area of focus for the audit due to the significance of the impact of non-compliance on the financial statements and the judgements included in the key assumptions.</p>	<p data-bbox="810 479 1441 573">We have gained an understanding of the loan facility agreement including the recent amendment to that agreement.</p> <p data-bbox="810 589 1441 741">We obtained the Group's forecast financial covenant compliance calculation for the next 12 months from the date of the approval of the consolidated financial statements and performed the following audit procedures:</p> <ul data-bbox="810 757 1441 1301" style="list-style-type: none"><li data-bbox="810 757 1441 817">• agreed the cash flow forecast to the risk adjusted forecast approved by the Board;<li data-bbox="810 824 1441 907">• reperformed the Group's calculation of compliance with financial covenants at each compliance date;<li data-bbox="810 913 1441 1099">• assessed the reasonableness of the forecast cash balances and covenant compliance calculation to assess the level of forecasting risk, including consideration of the impact of COVID-19 to the business (such as occupancy levels and government's responses) and the forecast;<li data-bbox="810 1106 1441 1160">• considered the Group's ability to repay the loan facility if financial covenants were breached; and<li data-bbox="810 1167 1441 1301">• reviewed the disclosures in note 2 of the consolidated financial statements to ensure they accurately reflect our understanding of the assumptions and uncertainties that underpin the forecast compliance calculation.

Our audit approach

Overview



An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

Overall Group materiality: \$1,050,000, which represents approximately 0.75% of revenue.

Given the volatility in profit before income tax over the previous years and the Group currently being in an expansion phase, in our judgement, revenue provides a more appropriate benchmark for calculating materiality.

As indicated above, we have determined that there are three key audit matters:

- Impairment assessment of non-financial assets
- Adoption of NZ IFRS 16, *Leases*
- Forecast compliance with loan facility financial covenants

Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

Audit scope

We designed our audit by assessing the risks of material misstatement in the consolidated financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Information other than the consolidated financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the consolidated financial statements does not cover the other information included in the annual report and we do not and will not express any form of assurance conclusion on the other information. At the time of our audit, there was no other information available to us.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.



If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact.

Responsibilities of the Directors for the consolidated financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements, as a whole, are 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 ISAs (NZ) and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the External Reporting Board's website at:

<https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/>

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Indumin Senaratne (Indy Sena).

For and on behalf of:

Chartered Accountants
26 June 2020

Auckland