NZX
NEW ZEALAND'S EXCHANGE
TE PAEHOKO O AOTEAROA

Results announcement

(for Equity Security issuer/Equity and Debt Security issuer)

Results for announcement to the market		
Name of issuer	Evolve Education Group Limited	
Reporting Period	6 months to 30 September 2020	
Previous Reporting Period	6 months to 30 September 2019	
Currency	NZD	
	Amount (000s)	**Percentage change**
Revenue from continuing operations	$65,206	(5.8%)
Total Revenue	$65,206	(5.8%)
Net profit/(loss) from continuing operations	$6,230	533.2%
Total net profit/(loss)	$6,230	533.2%
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	($0.02)	($0.02)
A brief explanation of any of the figures above necessary to enable the figures to be understood	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 30 September 2020 this was NZ$0.10 (2019: NZ$0.10). This results announcement should be read in conjunction with the unaudited interim financial statements and interim results presentation, which have been released along with this announcement.	
Authority for this announcement		
Name of person authorised to make this announcement	Edmund Mah, CFO/Company Secretary	
Contact person for this announcement	Edmund Mah	
Contact phone number	+64 9 869 2495	
Contact email address	edmund.mah@eeg.co.nz	
Date of release through MAP	27 November 2020	

Unaudited financial statements accompany this announcement.

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27 November 2020

EVO announces its interim results for six months ended 30 September 2020

Evolve Education Group Limited (NZX/ ASX: EVO) has today released its interim financial statements for the six months period ended 30 September 2020.

EVO's net profit after tax (after IFRS 16) for the six months to 30 September 2020 was NZ$6.23m which was a significant turnaround from the loss of NZ$1.44m for the same period last year.

Revenue for the six months to 30 September 2020 was 6% lower than the prior year attributable mainly to the effects of closure of, and disruptions to, centres arising from Covid-19 and responses by the authorities in New Zealand and Australia.

Underlying EBITDA* for six months of NZ$12.4m (Apr-Sep 2019: NZ$3.9m) was recorded despite slightly lower revenue, reflecting operational improvements and efficiencies achieved both at centres as well as at the support office. The 10 Australian centres acquired in calendar year 2019 have traded well.

The underlying EBITDA for six months ended 30 September 2020 is in line with the underlying EBITDA guidance range of NZ$14.4m and NZ$14.8m for the period January-September 2020 provided in the Shareholder Update on 9 November 2020.

The "green shoots" seen in the New Zealand operations, the performance of the Australian centres and a stronger overall financial position provide a firm platform for EVO to recommence its acquisition activities.

Chris Scott

Managing Director

Evolve Education Group Limited

E-mail: cscott@evolveedu.com.au

*Pre-IFRS 16 and before non-underlying or non-operational items. Please refer to Note 2 (Segment Information) for reconciliation of underlying EBITDA to EBITDA.

Evolve Education Group Limited

Interim Financial Statements

For the Six Month Period Ended 30 September 2020

The Directors present the Interim Financial Statements of Evolve Education Group Limited for the six month period ended 30 September 2020.

The Interim Financial Statements presented are signed for and on behalf of the Board and were authorised for issue on 27 November 2020.

Hamish Stevens
Chair
27 November 2020

Adrian Fonseca
Chair of the Audit and Risk Committee
27 November 2020

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Consolidated Statement of Comprehensive Income

For the six month period ended 30 September 2020

$'000	Note	UNAUDITED 6 MONTHS 30 SEPTEMBER 2020	UNAUDITED 6 MONTHS 30 SEPTEMBER 2019
Childcare fees	3	16,175	23,686
Government funding	3	49,031	45,501
Total revenue		**65,206**	**69,187**
Expenses			
Employee benefits expenses		(31,635)	(44,926)
Building occupancy expenses		(1,115)	(976)
Direct expenses of providing services		(6,315)	(7,024)
Depreciation		(7,289)	(6,865)
Amortisation		(40)	(90)
Other expenses		(1,553)	(2,306)
Total expenses		**(47,947)**	**(62,187)**
Profit before net finance expense and income tax		**17,259**	**7,000**
Finance income		99	296
Finance costs		(8,533)	(9,368)
Net finance expense		(8,434)	(9,072)
Profit/(Loss) before income tax		**8,825**	**(2,072)**
Income tax (expense)/benefit		(2,595)	634
Profit/(Loss) after income tax attributable to shareholders of the Company		**6,230**	**(1,438)**
Other comprehensive income			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		1,630	(2)
Total comprehensive income/(loss) attributable to the shareholders of the Company		**7,860**	**(1,440)**

All amounts are from continuing operations

Earnings per share	**Cents**	**Cents**
Basic and diluted earnings/(loss) per share from continuing operations	0.7	(0.2)
Basic and diluted earnings/(loss) per share attributable to the shareholders of the Company	0.7	(0.2)

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

Consolidated Statement of Movements in Equity

For the six month period ended 30 September 2020

$'000	ISSUED SHARE CAPITAL	FOREIGN CURRENCY TRANSLATION RESERVE	RETAINED (DEFICIT)/ EARNINGS	TOTAL
As at 31 March 2019 (restated) (audited)	**159,598**	**-**	**(122,724)**	**36,874**
Total comprehensive loss	-	(2)	(1,438)	(1,440)
Issue of share capital (net of costs) for cash	59,583	-	-	59,583
As at 30 September 2019 (restated) (unaudited)	**219,181**	**(2)**	**(124,162)**	**95,017**
As at 31 March 2020 (audited)	**237,976**	**(1,174)**	**(136,024)**	**100,778**
Total comprehensive income	-	1,630	6,230	7,860
As at 30 September 2020 (unaudited)	**237,976**	**456**	**(129,794)**	**108,638**

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

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Consolidated Statement of Financial Position

As at 30 September 2020

$'000	Note	UNAUDITED AS AT 30 SEPTEMBER 2020	AUDITED AS AT 31 MARCH 2020	UNAUDITED AS AT 30 SEPTEMBER 2019
Current assets				
Cash and cash equivalents		39,334	39,048	34,033
Funding receivable	6	-	-	1,305
Current tax assets		-	1,381	1,204
Other current assets		2,169	13,761	1,749
Total current assets		**41,503**	**54,190**	**38,291**
Non-current assets				
Property, plant and equipment		7,129	6,783	6,369
Right-of-use assets	7	172,996	178,238	169,598
Deferred tax assets		12,796	11,926	8,660
Intangible assets	5	117,995	117,082	101,521
Total non-current assets		**310,916**	**314,029**	**286,148**
Total assets		**352,419**	**368,219**	**324,439**
Current liabilities				
Trade and other payables	8	4,503	19,173	3,899
Current income tax liabilities		2,071	-	-
Funding received in advance	6	2,266	11,804	-
Borrowings	9	17,593	-	-
Lease liabilities	7	11,259	10,495	20,687
Employee entitlements		8,057	6,330	6,359
Total current liabilities		**45,749**	**47,802**	**30,945**
Non-current liabilities				
Borrowings	9	-	17,666	25,359
Lease liabilities	7	198,032	201,973	173,221
Total non-current liabilities		**198,032**	**219,639**	**198,580**
Total liabilities		**243,781**	**267,441**	**229,525**
Net assets		**108,638**	**100,778**	**94,914**
Equity				
Issued share capital		237,976	237,976	219,181
Foreign currency translation reserve		456	(1,174)	(2)
Retained (deficit)/earnings		(129,794)	(136,024)	(124,265)
Total equity		**108,638**	**100,778**	**94,914**

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

Consolidated Statement of Cash Flows

For the six month period ended 30 September 2020

$'000	Note	UNAUDITED 6 MONTHS 30 SEPTEMBER 2020	UNAUDITED 6 MONTHS 30 SEPTEMBER 2019
Cash flows from operating activities			
Receipts from childcare fees		16,921	23,686
Receipts from government funding		39,493	31,571
Wage subsidy received		11,810	-
Payments to suppliers and employees		(54,669)	(59,032)
Income taxes paid		-	(22)
Interest received		99	296
Net cash flows from operating activities	11	**13,654**	**(3,501)**
Cash flows from investing activities			
Payments for purchase of businesses	4	-	(3,111)
Proceeds from sale of businesses		-	319
Proceeds from sale of plant and equipment		67	4
Payments for software, property, plant and equipment		(1,860)	(1,997)
Net cash flows from investing activities		**(1,793)**	**(4,785)**
Cash flows from financing activities			
Proceeds from issue of shares		-	59,583
Interest paid on borrowings		(317)	(1,646)
Repayment of borrowings	9	-	(30,000)
Payment of lease liabilities		(11,352)	(10,892)
Net cash flows from financing activities		**(11,669)**	**17,045**
Net increase in cash and cash equivalents		**192**	**8,759**
Foreign currency translation adjustment		94	-
Cash and cash equivalents at beginning of period		39,048	25,274
Cash and cash equivalents at end of period		**39,334**	**34,033**

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

Notes to the Consolidated Interim Financial Statements

For the six month period ended 30 September 2020

1. Basis of Presentation and Accounting Policies

(a) 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 15, 16 Kingston 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 across New Zealand and Australia (see Note 2, Segment Information).

(b) Basis of Preparation

The consolidated interim financial statements of the Group ("the Group interim financial statements") have been prepared in accordance with the requirements of the NZX and ASX Listing Rules, New Zealand Equivalent to International Accounting Standard 34: Interim Financial Reporting and New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). The interim financial statements are for the Evolve Education Group Limited Group. The Group financial statements comprise the Company and its subsidiaries. The Group is a profit-oriented entity for financial reporting purposes.

These Group interim financial statements are unaudited and have been prepared using the same accounting policies, methods of computation, significant judgements, estimates and assumptions as the financial statements and related notes included in the Group's audited financial statements for the financial year ended 31 March 2020. Accordingly, these Group interim financial statements are to be read in conjunction with those audited financial statements.

Effective from 1 April 2020, the Group's reporting date changed from 31 March to 31 December.

These Group interim financial statements were approved for issue on 27 November 2020.

(c) Going Concern

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

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 1(g). While operations have been curtailed as a result of the Government responses in both New Zealand and Australia, the supportive actions of both Governments mitigated these negative effects. Accordingly, the short-term financial position of the Group has not been materially impacted by Covid-19.

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.

The Group was profitable and operating cash flow remained positive for the period. Forecasts also indicate that debt covenants will continue to be met for the foreseeable future and the Group will have sufficient cash to discharge its liabilities as they fall due.

Having regard to 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.

Notes to the Consolidated Interim Financial Statements

For the six month period ended 30 September 2020

1. Basis of Presentation and Accounting Policies (continued)

(d) New and Amended Standards Adopted by the Group

NZ IFRS 3: Business Combinations - definition of a business

The Group has adopted the amendments to NZ IFRS 3: Business Combinations prospectively from 1 April 2020.

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

Adopting these amendments did not result in significant changes in disclosure for the Group's interim financial statements.

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

(e) 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).

(f) Comparatives

The comparative period is for the six months ended 30 September 2019.

The 30 September 2019 opening retained earnings has been restated with NZ IFRS 16 Leases adjustments which were made at year end. These adjustments are not material.

(g) 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 resulted in closure of centres in New Zealand during alert level 4 which took place between 26 March 2020 and 27 April 2020. The Group’s centres in New Zealand re-opened with limited capacity on 29 April 2020 under Covid-19 alert level 3 and were able to resume operating with full licenced capacity on 14 May 2020 when the country moved to Covid-19 alert level 2. Due to a further Covid-19 outbreak, Auckland moved to alert level 3 again from 12 August 2020 to 30 August 2020. No parental childcare fees were charged during alert levels 4 or 3, but resumed upon the move to level 2.

The NZ Ministry of Education maintained its funding at full levels throughout the funding period to 30 June 2020, including a 2.3% increase in subsidy rates from 1 July 2020. In addition, receipt of the Government wage subsidy enabled the Group to retain all staff on full pay.

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 12 July 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. In addition to CCS, the Government paid 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 ceased on 20 July 2020.

Notes to the Consolidated Interim Financial Statements

For the six month period ended 30 September 2020

1. Basis of Presentation and Accounting Policies (continued)

(g) Covid-19 (continued)

Further relief measures have been provided in response to the second stage 4 lockdown in Victoria from 3 August 2020 to 27 September 2020:

- 25% transition payment increased to 30% for centres in Melbourne (4 centres);
- Government has temporarily provided an extra 30 allowable absence days, where the CCS will continue to be paid to providers even if the children do not attend;
- 25% payment of fee revenue (based on the reference fortnight) as part of the recovery package for child care services in Victoria (6 centres). This began 28 September 2020 and will end 31 January 2021.

While there is uncertainty about the longer term impact of Covid-19 on both economies, 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.

The key components of the financial statements potentially impacted by Covid-19 are intangible assets, right-of-use assets and property, plant and equipment. These areas rely upon forecasts of future profitability as a basis for the carrying value of assets, and therefore potential impairment. More detail is provided in Note 5 and 7.

2. Segment Information

In the previous six months ended 30 September 2019, the Group had acquired a childcare centre in Melbourne, Australia. The centre's contribution to Group results did not meet the threshold for determining reportable segments therefore was not reported. In the following six month period ended 31 March 2020, a further nine childcare centres were acquired across Queensland and Victoria, Australia. As a result of these acquisitions, the Group reports operating segments by geographical location, namely New Zealand and Australia.

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, operating expenses, 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. Operating expenses, 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.

Operating expenses and 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. Operating expenses and 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.

The segment information for the six months ended 30 September 2019 and 2020 is presented in the following tables.

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Notes to the Consolidated Interim Financial Statements

For the six month period ended 30 September 2020

2. Segment Information (continued)

UNAUDITED 30 SEPTEMBER 2020	Note	New Zealand ECE centres $'000	Australia ECE centres $'000	Support and Corporate functions $'000	Consolidated $'000
Childcare fees	3	14,689	1,486	-	16,175
Government funding	3	41,365	7,666	-	49,031
Total income		**56,054**	**9,152**	**-**	**65,206**
Operating expenses		(43,058)	(5,179)	(4,552)	(52,789)
Underlying EBITDA		**12,996**	**3,973**	**(4,552)**	**12,417**
NZ IFRS 16 rental expense adjustment		10,560	1,392	136	12,088
NZ IFRS 16 remeasurement gains		213	-	-	213
Non-underlying or non-operational items:					
Acquisition expenses		-	(33)	-	(33)
Loss on sale or closure of businesses		(97)	-	-	(97)
EBITDA		**23,672**	**5,332**	**(4,416)**	**24,588**
Depreciation		(6,279)	(825)	(185)	(7,289)
Amortisation		-	-	(40)	(40)
Earnings before interest and tax		**17,393**	**4,507**	**(4,641)**	**17,259**
Net finance expense		(6,648)	(1,594)	(192)	(8,434)
Profit/(Loss) before income tax from continuing operations		**10,745**	**2,913**	**(4,833)**	**8,825**
Total assets		**237,024**	**61,639**	**53,756**	**352,419**
Total liabilities		**(178,196)**	**(45,101)**	**(20,484)**	**(243,781)**

UNAUDITED 30 SEPTEMBER 2019	Note	ECE centres $'000	Support and Corporate functions $'000	Consolidated $'000
Childcare fees	3	23,672	14	23,686
Government funding	3	45,501	-	45,501
Total income		**69,173**	**14**	**69,187**
Operating expenses		(59,712)	(5,620)	(65,332)
Underlying EBITDA (restated)		**9,461**	**(5,606)**	**3,855**
NZ IFRS 16 rental expense adjustment (restated)		10,810	82	10,892
Non-underlying or non-operational items:				
Development centre operating losses		(60)	-	(60)
Loss on sale or closure of businesses		(306)	-	(306)
Restructuring costs		(426)	-	(426)
EBITDA		**19,479**	**(5,524)**	**13,955**
Depreciation		(6,774)	(91)	(6,865)
Amortisation		(90)	-	(90)
Earnings before interest and tax		**12,615**	**(5,615)**	**7,000**
Net finance expense		(7,708)	(1,364)	(9,072)
Profit/(Loss) before income tax from continuing operations		**4,907**	**(6,979)**	**(2,072)**
Total assets		**285,936**	**38,503**	**324,439**
Total liabilities		**(202,417)**	**(27,108)**	**(229,525)**

Notes to the Consolidated Interim Financial Statements

For the six month period ended 30 September 2020

2. Segment Information (continued)

Reconciliation of total expenses and operating expenses

$'000	UNAUDITED 6 MONTHS 30 SEPTEMBER 2020	UNAUDITED 6 MONTHS 30 SEPTEMBER 2019
Total expenses per Statement of Comprehensive Income	**47,947**	**62,187**
Less:		
Depreciation	(7,289)	(6,865)
Amortisation	(40)	(90)
NZ IFRS 16 rental expense adjustment	12,088	10,892
NZ IFRS 16 remeasurement gains	213	-
Non-underlying or non-operational items:		
Acquisition expenses	(33)	-
Loss on sale or closure of businesses	(97)	(306)
Development centre operating losses	-	(60)
Restructuring costs	-	(426)
Operating expenses	**52,789**	**65,332**

3. Revenue

Accounting Policy

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. The performance obligations are satisfied over time as the child simultaneously receives and consumes the benefits.

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 childcare services are provided. 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.

Australian Government funding

Australian Government funding relates to fees paid under the Child Care Subsidy and are recognised over time when there is reasonable assurance that the funding will be received. Australian Government funding is received in arrears.

$'000	UNAUDITED 6 MONTHS 30 SEPTEMBER 2020	UNAUDITED 6 MONTHS 30 SEPTEMBER 2019
Revenue from continuing operations:		
Childcare fees	16,175	23,576
NZ Ministry of Education funding	41,365	45,435
Australian Government funding	7,666	66
Other revenue	-	110
Total revenue	**65,206**	**69,187**

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Notes to the Consolidated Interim Financial Statements

For the six month period ended 30 September 2020

4. Business Combinations

During the six months ended 30 September 2019, the Group acquired one centre for a purchase price of $3.1 million. Total net assets acquired was $0.1 million resulting in goodwill on acquisition of $3.0 million. No cash was acquired. A summary of the net assets acquired is included in the following table.

$'000	UNAUDITED 6 MONTHS 30 SEPTEMBER 2019
Assets	
Other current assets	118
Total identifiable net assets at fair value	**118**
Goodwill arising on acquisition	2,993
Purchase consideration transferred	**3,111**
Purchase consideration	
Cash paid	3,111
Total consideration	**3,111**

A further nine ECE centres across Queenland and Victoria were acquired in the six months ended 31 March 2020, bringing the total to ten centres for the financial year. Consideration paid for the ten centres totalled $21.6 million and total net liabilities acquired of $0.9 million, resulting in goodwill on acquisition of $22.5 million. There were no business combinations for the six months ended 30 September 2020.

5. Intangible Assets

$'000	UNAUDITED AS AT 30 SEPTEMBER 2020	AUDITED AS AT 31 MARCH 2020	UNAUDITED AS AT 30 SEPTEMBER 2019
Goodwill	114,755	113,865	98,221
Brands	3,104	3,104	3,104
Others	136	113	196
Total Intangible assets (net book value)	**117,995**	**117,082**	**101,521**
Movements in goodwill			
Balance at the beginning of the period	113,865	95,286	95,286
Acquisition of businesses	-	22,571	2,993
Disposal of businesses	-	-	(58)
Impairment expense - ECE centres	-	(3,992)	-
Foreign exchange movements	890	-	-
Balance at the end of the period	**114,755**	**113,865**	**98,221**

Impairment Testing of Goodwill

In the financial year ended 31 March 2020, the Group recognised an impairment expense of $4 million in respect of the four Australian ECE centres cash generating units (CGUs). No impairment was recognised for the group of New Zealand CGUs.

The carrying amount of the New Zealand and Australian CGUs to which indefinite useful life intangible assets are allocated has been tested for impairment at 30 September 2020 using value-in-use discounted cash flow methodology. The calculations use cash flow projections based on financial forecasts covering a five-year period. These forecasts were adjusted to reflect the uncertainty arising from the Covid-19 pandemic and its aftermath. No impairment was recognised for the six months ended 30 September 2020.

6. Funding Receivable and Funding Received in Advance

$'000	UNAUDITED AS AT 30 SEPTEMBER 2020	AUDITED AS AT 31 MARCH 2020	UNAUDITED AS AT 30 SEPTEMBER 2019
Funding received in advance	(6,270)	(14,956)	(5,691)
Funding receivable	4,004	3,152	6,996
Total funding receivable/(received in advance)	**(2,266)**	**(11,804)**	**1,305**

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 30 September 2020 funding received in advance relates to October 2020. Funding receivable relates to the remaining 25% of funding, adjusted for any changes in occupancy levels, in respect of June to September 2020.

7. Right-of-use Assets and Lease Liabilities

Accounting Policy

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 testing of right-of-use assets

Right-of-use assets are reviewed annually at each reporting date for indicators of impairment. Where there is an indicator of impairment, the carrying value of the asset is compared to its recoverable amount.

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 if 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 lease 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.

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.

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

a) Right-of-use assets

$'000	Leased properties	Leased motor vehicles	Total
As at 31 March 2020 (audited)	177,960	278	**178,238**
Additions	201	17	**218**
Depreciation	(5,862)	(96)	**(5,958)**
Lease remeasurements	(1,536)	-	**(1,536)**
Foreign exchange movements	2,034	-	**2,034**
Closing net book value	**172,797**	**199**	**172,996**
Cost	197,572	480	**198,052**
Accumulated depreciation	(16,935)	(281)	**(17,216)**
Impairment	(7,840)	-	**(7,840)**
As at 30 September 2020 (unaudited)	**172,797**	**199**	**172,996**

b) Lease liabilities

$'000	UNAUDITED AS AT 30 SEPTEMBER 2020	AUDITED AS AT 30 MARCH 2020
Current lease liabilities	11,259	10,495
Non-current lease liabilities	198,032	201,973
Total lease liabilities	**209,291**	**212,468**

8. Trade And Other Payables

$'000	UNAUDITED AS AT 30 SEPTEMBER 2020	AUDITED AS AT 31 MARCH 2020	UNAUDITED AS AT 30 SEPTEMBER 2019
Trade payables	260	504	154
Goods and services tax payable	-	3,642	-
Wage subsidy relating to the following financial year	-	11,208	-
Other payables	4,243	3,819	3,745
Total trade and other payables	**4,503**	**19,173**	**3,899**

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 timing of Ministry of Education funding, as disclosed at Note 6, affects the timing of goods and services tax (“GST”) payable. GST on funding received in March remains payable at the end of March, whereas no GST on funding is payable at September as the GST relating to July funding is paid in August. As at 30 September 2020, a GST receivable of $50,737 has been included in other current assets in the Consolidated Statement of Financial Position.

Notes to the Consolidated Interim Financial Statements

For the six month period ended 30 September 2020

9. Borrowings

The Group's financing arrangements comprise the bank facilities summarised below. The 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.

	UNAUDITED AS AT 30 SEPTEMBER 2020	AUDITED AS AT 31 MARCH 2020	UNAUDITED AS AT 30 SEPTEMBER 2019
$'000			
Facility Limits			
Senior revolving facility	8,500	8,500	8,500
Acquisition facility	17,359	17,359	25,359
Total lending facilities	25,859	25,859	33,859
Utilisation			
Acquisition facility	17,359	17,359	25,359
Total borrowings	17,359	17,359	25,359
Total unused facilities	8,500	8,500	8,500

Amortisation of modification loss totalling $73,299 was recognised during the period.

10. Commitments and Contingencies

There has been no material change in commitments and contingencies during the period.

11. Reconciliation of Profit/(Loss) After Tax to Net Operating Cash Flows

	UNAUDITED 6 MONTHS 30 SEPTEMBER 2020	UNAUDITED 6 MONTHS 30 SEPTEMBER 2019
$'000		
Profit/(loss) after income tax	6,230	(1,438)
Adjustments for non cash items:		
Depreciation and amortisation	7,329	6,955
Loss on disposal of property, plant and equipment	82	17
Remeasurement of lease liabilities	(213)	-
Loss on sale of businesses	-	289
Deferred tax	(870)	(681)
Adjustments for items classified as investing or financing activities:		
Finance expense	8,533	9,368
Working capital movements relating to operating activities:		
Increase/(decrease) in funding received in advance	(9,538)	(13,930)
(Increase)/decrease in other current assets	11,592	803
Increase/(decrease) in trade and other payables	(14,670)	(5,316)
(Increase)/decrease in current income tax receivables	3,452	25
Increase/(decrease) in employee entitlements	1,727	407
Net cash flows from operating activities	**13,654**	**(3,501)**

As disclosed in Note 6, Ministry of Education ("MOE") funding is received by Evolve every four months. In the six months to 30 September 2020, MOE funding was received on 1 July 2020 only.

Notes to the Consolidated Interim Financial Statements

For the six month period ended 30 September 2020

12. Related Parties

Parent entity

Evolve Education Group Limited is the parent entity.

Identity of Related Parties

Related parties of the Group are:

- The Board of Directors comprising Hamish Stevens, Adrian Fonseca, Chris Scott, Chris Sacre, and Kim Campbell.
- Timothy Wong, Chief Executive Officer of the New Zealand operations of the Group.
- J 47 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.
- Vasona Pty Limited, a company of which Adrian Fonseca is a director and sole shareholder.
- Lai Wong Pty Limited, a company of which Timothy Wong has the ability to control.

Related party transactions arising during the period:

In addition to salaries paid to certain key personnel of the Group the following related party transactions occurred between 1 April 2020 and 30 September 2020:

- Directors' fees paid of $201,023 (30 September 2019: $218,774).
- During the period, Sovana Child Care Pty Limited transferred 17,250,000 shares in the Company to Vasona Pty Limited.

13. Events after the Reporting Period

Financing Arrangements

In November 2020, the Company's wholly owned subsidiary Evolve Early Education Pty Limited launched the offer of five year, senior secured notes ("Notes") to wholesale investors with a fixed interest rate of 7.50% per annum, payable quarterly in arrears. Evolve Early Education Pty Limited is seeking to raise between A$30 million and A$35 million to refinance the Group's existing bank debt facility and to fund further acquisitions of childcare centres in Australia. The Notes are guaranteed by the Company and its subsidiaries.

Covid-19 Impact

As discussed in Note 1(g), 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.