G8 Education[ltd]

Appendix 4D

Name of Entity:	G8 Education Ltd
ABN:	95 123 828 553
Current Financial Period Ended:	Half-Year ended 30 June 2019
Previous Corresponding Reporting Period	Half-Year ended 30 June 2018

Results for Announcement to the Market

	Percentage change Up or Down	%		$'000
Revenue from ordinary activities	Up	9%	to	429,878
Profit from ordinary activities after tax attributable to members*	Down	20%	to	18,989
Profit for the period attributable to members*	Down	20%	to	18,989

	June 2019	June 2018
Net Tangible Assets (Liabilities) per Security*	**(79) Cents**	**(54) Cents**

***The current period has been impacted by the first-time adoption of the new accounting standard AASB 16 *Leases* but the comparative has not been adjusted.**

Dividends	**Amount per Security**	**Franked amount per security**
Final Dividend – Current Reporting Period		
March 2019	8.00 Cents	100%

Record date for determining entitlements to dividends	15 March 2019
Date dividend payable	5 April 2019
Details of any dividend reinvestment plan in operation	Dividend reinvestment plan is in operation

Subsequent to the half year the Group declared a 4.75 cent fully franked dividend on 24 August 2019, to be paid on 3 October 2019.

Shares issued under the DRP were issued at a 2% discount to the daily volume weighted average market price for all GEM shares sold on the ASX during the 10 trading day period starting 5 trading days preceding and inclusive of the record date and ending after the 4 trading days immediately following the record date.

Brief explanation of any figures reported above necessary to enable the figures to be understood

Refer to attached Directors report.

Compliance Statement

This report is based on the interim financial report that has been reviewed by our external auditors.

Gary Carroll

Gary Carroll
Managing Director
24 August 2019

G8 Education ltd

INTERIM FINANCIAL REPORT

2019

BAMBINO'S
KINDERGARTEN

buggles
early learning and kindy

Casa Bambini
Early Education Centre

Community KIDS

Creative Garden
Early Learning

Early Learning Services
Committed to Child Care

FirstGrammar
Early Education Centre

GREAT BEGINNINGS
EARLY EDUCATION FOR LIFE

GREENWOOD
Early Education Centres

headstart
EARLY LEARNING CENTRES

jellybeans
Child Care & Kindy

Kinder Haven
Committed to growing the whole child

Kindy Patch Kids

koolkids
early learning centres

NurtureOne
"Nurturing Enquiring Minds"

Pelican Childcare
Early Learning Centres
CHILDCARE WITH A CONSCIENCE™

PELICANS
LEARNING FOR LIFE

Penguin Childcare
Early Learning Centres
BETTER BEGINNINGS · BETTER FUTURES

Sandcastles

THE LEARNING SANCTUARY
A safe place for children to grow

World of Learning

Contents

Directors' Report

Your Directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of G8 Education Limited (G8 Education) and the entities it controlled at the end of, or during, the half-year ended 30 June 2019.

Directors

The following persons were Directors of G8 Education during the whole of the period and up to the date of this report unless otherwise stated:

- M Johnson
- G Carroll
- B Bailison
- S Forrester, AM
- D Foster
- J Cogin
- M Zabel

Principal activities

The principal continuing activities of the Group during the half-year were:

- Operation of early education centres owned by the Group; and
- Ownership of early education centre franchises.

There has been no significant change to the Group's activities during the half-year ended 30 June 2019.

Review of operations

Delivery of the Group's strategic agenda remains on track with the focus during the half-year being the successful roll-out of the call centre for the network, the launch of enhanced Xplor modules (G8 Education's childcare management system) to improve communications for families and the commencement of the workforce management project. Initiatives relating to team engagement and retention resulted in positive improvements during the half-year in the turnover of key roles, being Centre Managers and Early Childhood teachers. The Group continued to maintain its focus on operational efficiencies and investing in people, systems and technology in line with strategic growth initiatives.

The benefit of growing occupancy, fee increases, and acquisitions contributed to total revenues of $430m, increasing by 9% on the prior comparative period. Like for like occupancy increased during the half by 1.5%pts on the prior comparative period (PCP) despite supply challenges continuing in areas of the network. During the half-year, improved wage performance resulted in employment expenses, as a percentage of revenue, decreasing compared to PCP.

The adoption of the new standard AASB 16 *Leases* on 1 January 2019 resulted in a substantial decrease in occupancy expenses and substantial increases in depreciation and finance costs. The resulting net profit after tax for the half year is $19m. The modified retrospective transition approach to adopt AASB 16 does not allow restatement of comparatives. This results in statutory EBIT being 34% higher than PCP and statutory profit after tax decreasing 20% on PCP.

Strong cash flow conversion, the repayment of the SGD$270m Singapore notes and the expected completion of the committed greenfield acquisition pipeline in the coming 6 months positions the Group with a strong balance sheet for continued future growth. The Group's portfolio of centres continued to be reviewed during the period with overall centres decreasing by 1 centre, with 7 centres acquired and 8 centres closed.

AASB 16 *Leases* impact

Given the pervasive effect the new accounting standard, AASB 16 *Leases,* has on the 2019 half year results and balance sheet at 30 June 2019, which is not reflected in the 2018 comparative period, the Directors have included the following tables which are considered to provide useful and meaningful information to G8's stakeholders. This is non-IFRS information which is unaudited.

AASB 16 *Leases* Impact on Consolidated Income Statement (Unaudited, Non IFRS)

Consolidated Half Year	30 June 2019 Statutory $'000	30 June 2019 AASB16 Adjustment $'000	30 June 2019 pre-AASB16 $'000	30 June 2018 pre-AASB16 (Statutory) $'000	pre-AASB16 % Change
Revenue	**430,881**	-	**430,881**	**396,607**	**8.6%**
Expenses					
Employment costs	(259,983)	-	(259,983)	(242,796)	7.1%
Occupancy	(5,624)	(52,632)	(58,256)	(52,491)	11.0%
Direct costs of providing services	(33,676)	-	(33,676)	(29,925)	12.5%
Depreciation	(48,478)	38,032	(10,446)	(8,030)	30.1%
Other expenses	(19,028)	(867)	(19,895)	(15,475)	28.6%
Finance costs	(36,242)	21,754	(14,488)	(13,724)	5.6%
Total expenses	**(403,031)**	**6,287**	**(396,744)**	**(362,441)**	**9.5%**
Profit before income tax	**27,850**	**6,287**	**34,137**	**34,166**	**(0.1%)**
Income tax expense	(8,861)	(1,955)	(10,816)	(10,417)	3.8%
Profit for the half year attributable to members of the parent entity	**18,989**	**4,332**	**23,321**	**23,749**	**(1.8%)**

AASB 16 *Leases* Impact on Consolidated Balance Sheet (Unaudited, Non IFRS)

Consolidated half-year	30 June 2019 Statutory $'000	30 June 2019 AASB16 Adjustment $'000	30 June 2019 pre-AASB16 $'000	31 December 2018 pre-AASB16 (Statutory) $'000
ASSETS				
Current assets				
Cash and cash equivalents	45,204	-	45,204	55,521
Trade and other receivables	33,061	409	33,470	36,502
Other current assets	8,794	-	8,794	14,120
Derivative financial instruments	-	-	-	10,837
Current tax asset	5,915	-	5,915	-
Total current assets	**92,974**	**409**	**93,383**	**116,980**
Non-current assets				
Property plant and equipment	93,069	9,065	102,134	91,710
Right of use assets	628,938	(628,938)	-	-
Deferred tax assets	48,801	(30,702)	18,099	17,856
Intangible assets	1,174,918	-	1,174,918	1,134,456
Other non-current assets	15,872	393	16,265	25,547
Total non-current assets	**1,961,598**	**(650,182)**	**1,311,416**	**1,269,569**
Total assets	**2,054,572**	**(649,773)**	**1,404,799**	**1,386,549**
LIABILITIES				
Current liabilities				
Trade and other payables	60,988	476	61,464	67,911
Contract liabilities	7,190	-	7,190	8,517
Current tax liability	-	-	-	700
Borrowings	-	-	-	279,566
Lease liabilities	65,461	(65,461)	-	-
Provisions	33,007	-	33,007	29,988
Total current liabilities	**166,646**	**(64,985)**	**101,661**	**386,682**
Non-current liabilities				
Other payables	718	4,620	5,338	5,260
Borrowings	396,610	-	396,610	92,188
Lease liabilities	662,158	(662,158)	-	-
Provisions	12,964	-	12,964	8,935
Total non-current liabilities	**1,072,450**	**(657,538)**	**414,912**	**106,383**
Total liabilities	**1,239,096**	**(722,523)**	**516,573**	**493,065**
Net assets	**815,476**	**72,750**	**888,226**	**893,484**
EQUITY				
Contributed equity	902,914	-	902,914	893,567
Reserves	39,615	4,217	43,832	56,530
Retained earnings	(127,053)	68,533	(58,520)	(56,613)
Total equity	**815,476**	**72,750**	**888,226**	**893,484**

AASB 16 *Leases* Impact on Consolidated Statement of Cash Flows (Unaudited, Non IFRS)

Consolidated half-year	30 June 2019 Statutory $'000	30 June 2019 AASB16 Adjustment $'000	30 June 2019 pre-AASB16 $'000	30 June 2018 pre-AASB16 (Statutory) $'000
Cash flows from operating activities				
Receipts from customers (inclusive of GST)	433,264	-	433,264	391,570
Payments to suppliers and employees (inclusive of GST)	(317,019)	(53,003)	(370,022)	(336,599)
Interest received	321	-	321	228
Interest paid	(36,682)	21,754	(14,927)	(11,093)
Income taxes paid	(16,798)	-	(16,798)	(13,796)
Net cash inflows from operating activities	**63,086**	**(31,248)**	**31,838**	**30,310**
Cash flows from investing activities				
Payments for acquisition of businesses (net of cash acquired)	(31,612)	-	(31,612)	(28,928)
Payments for divestments	(712)	-	(712)	(124)
Payments for property, plant and equipment	(15,871)	-	(15,871)	(17,002)
Net cash outflows from investing activities	**(48,195)**	**-**	**(48,195)**	**(46,054)**
Cash flows from financing activities				
Share issue costs	(12)	-	(12)	(47)
Debt issue costs	-	-	-	(229)
Dividends paid	(27,072)	-	(27,072)	(31,317)
Principal portion of lease payments	(31,248)	31,248	-	-
Repayment of corporate note	(269,892)	-	(269,892)	(50,000)
Inflows from borrowings	305,000	-	305,000	80,000
Outflows of borrowings	(2,007)	-	(2,007)	(453)
Net cash outflows from financing activities	**(25,231)**	**31,248**	**6,017**	**(2,046)**
Net decrease in cash and cash equivalents	(10,340)	-	(10,340)	(17,790)
Cash and cash equivalents at the beginning of half year	55,521	-	55,521	49,209
Effects of exchange rate changes on cash	23	-	23	73
Cash and cash equivalents at the end of half year	**45,204**	**-**	**45,204**	**31,492**

Underlying result (Unaudited, Non-IFRS)

The underlying financial performance in the first half of the year saw the Group return to underlying EBIT growth with underlying EBIT of $51.6m in line with market consensus and 7% higher than the PCP.

This growth was driven predominantly by the organic centre network where increased occupancy growth and wage efficiencies resulted in organic earnings growth of 14%. The contribution of incremental earnings from prior year acquisitions was offset by current year acquisitions.

The increased investment in support office resources from the prior year flowed in to the first half of 2019 with the team now in place to deliver better outcomes for centre-based teams.

A temporary increase in finance costs due to duplication of costs between establishing the new syndicated facility and repayment of the Singapore bonds was evident in the period. The resulting underlying net profit after tax of the Group increased 2% on prior comparative period.

The table below illustrates the reconciliation of reported NPAT and EBIT to underlying NPAT and EBIT:

Underlying Net Profit After Tax Reconciliation (Unaudited, Non IFRS)

Consolidated half-year	30 June 2019 $'000	30 June 2018 $'000
Revenue[1]	430,560	396,419
Expenses	(366,789)	(348,717)
Net financing cost	(35,921)	(13,536)
Net profit before tax	**27,850**	**34,166**
Net profit after tax	**18,989**	**23,749**
Add/(less) AASB 16 adjustments	4,332	-
Add/(less) non-operating transactions:		
Contingent consideration not paid	(681)	(1,343)
Acquisition related expenses[2]	2,840	1,064
Borrowing cost expense[3,4]	1,646	1,094
Loss on disposal of assets/closure of centres	1,092	691
Foreign currency translation gain/loss[3,4]	(1,971)	389
Underlying net profit after tax	**26,247**	**25,644**
Underlying EPS (cents per share)	**5.75**	**5.68**
Earnings before interest and tax	**63,771**	**47,702**
Add/(less) AASB 16 adjustments	(15,467)	-
Add/(less) non-operating transactions:		
Contingent consideration not paid	(681)	(1,343)
Acquisition related expenses[2]	2,840	1,064
Loss on disposal of assets/closure of centres	1,092	691
Underlying earnings before interest and tax	**51,555**	**48,114**

[1] Excludes interest income of $0.32m from revenue and included in financing costs (2018: $0.19m)
[2] Includes stamp duty, legal fees, establishment costs and abandoned acquisition costs
[3] These items will cease to be removed from underlying from CY20 onwards following the repayment of the SGD bonds
[4] These items have been adjusted for tax

Non-IFRS financial information

The 2019 half-year report contains certain non-IFRS financial measures of historical financial performance, balance sheet or cash flows that are used by management and the Directors as the primary measures of assessing the financial performance of the Group. Non-IFRS financial measures are financial measures other than those defined or specified under all relevant accounting standards and may not be directly comparable with other companies' measures but are common practice in the industry in which G8 Education operates. Non-IFRS financial information should be considered in addition to, and is not intended to be a substitute for, or more important than, IFRS measures.

The presentation of non-IFRS measures is in line with Regulatory Guide 230 issued by Australian Security and Investments Commission (ASIC) in December 2011 to promote full and clear disclosure for investors and other users of financial information and minimise the possibility of being misled by such information. Non-IFRS measures are not subject to audit or review.

Matters subsequent to the end of the half-year

Subsequent to the half-year the Group:

- Completed the acquisition of 3 centres for $5.4m and closed 2 centres.
- The Board declared a 4.75 cent fully franked dividend on 24 August 2019 to be paid on 3 October 2019.

Significant changes in the state of affairs

Significant changes in the state of affairs of the Group during the half-year were as follows:

- Acquired an additional 7 centres and closed 8 centres;
- Repayment of SGD$270m corporate notes on 18 May 2019 through the utilisation of current facilities.

Rounding amounts

The amounts contained in this report and in the financial report have been rounded to the nearest $1,000 (unless otherwise stated) under the option available to the Company under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Company is an entity to which the legislative instrument applies.

Auditor

Ernst & Young were appointed as auditor on 25 May 2016 and continue in office in accordance with section 237 of the *Corporations Act 2001*.

Auditor's independence declaration

A copy of the Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 10.

This report is made in accordance with a resolution of Directors.

Gary Carroll

Gary Carroll
Managing Director
24 August 2019

Ernst & Young
111 Eagle Street
Brisbane QLD 4000 Australia
GPO Box 7878 Brisbane QLD 4001

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Fax: +61 7 3011 3100
ey.com/au

Auditor's Independence Declaration to the Directors of G8 Education Limited

As lead auditor for the review of the financial report of G8 Education Limited for the half-year ended 30 June 2019, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review*;* and

b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of G8 Education Limited and the entities it controlled during the financial period.

Ernst & Young

Ric Roach
Partner
24 August 2019

A member firm of Ernst & Young Global Limited
Liability limited by a scheme approved under Professional Standards Legislation

Consolidated Income Statement
For the half-year ended 30 June 2019

	Notes	Consolidated 30 June 2019 $'000	Consolidated 30 June 2018 $'000
Revenue	1	429,878	393,060
Other income	2	1,003	3,547
Total		**430,881**	**396,607**
Expenses			
Employment costs		(259,983)	(242,796)
Occupancy		(5,624)	(52,491)
Direct costs of providing services		(33,676)	(29,925)
Depreciation	5,6	(48,478)	(8,030)
Other expenses		(19,028)	(15,475)
Finance costs		(36,242)	(13,724)
Total expenses		**(403,031)**	**(362,441)**
Profit before income tax		**27,850**	**34,166**
Income tax expense		(8,861)	(10,417)
Profit for the half year attributable to members of the parent entity		**18,989**	**23,749**
		Cents	**Cents**
Basic earnings per share		4.16	5.26
Diluted earnings per share		4.15	5.26

The above Consolidated Income Statement should be read in conjunction with the accompanying notes. The Directors note that the 2019 period results include the impact of accounting for AASB 16 *Leases*, whilst the 2018 period results were prepared under the previous lease accounting standard requirements; refer notes 6 and 18 for further explanations.

Consolidated Statement of Comprehensive Income
For the half-year ended 30 June 2019

	Consolidated 30 June 2019 $'000	Consolidated 30 June 2018 $'000
Profit for the half year	18,989	23,749
Other comprehensive income, net of income tax		
Items that are or may be reclassified to profit or loss:		
Exchange differences on translation of foreign operations	391	1,060
Effective portion of changes in fair value of cash flow hedges	(1,885)	537
Total other comprehensive income	**(1,494)**	**1,597**
Total comprehensive income for the half year	**17,495**	**25,346**

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

Consolidated Balance Sheet
As at 30 June 2019

	Notes	Consolidated 30 June 2019 $'000	Consolidated 31 December 2018 $'000
ASSETS			
Current assets			
Cash and cash equivalents	3	45,204	55,521
Trade and other receivables		33,061	36,502
Other current assets	4	8,794	14,120
Derivative financial instruments		-	10,837
Current tax asset		5,915	-
Total current assets		**92,974**	**116,980**
Non-current assets			
Property plant and equipment	5	93,069	91,710
Right of use assets	6	628,938	-
Deferred tax assets		48,801	17,856
Intangible assets	8	1,174,918	1,134,456
Other non-current assets	4	15,872	25,547
Total non-current assets		**1,961,598**	**1,269,569**
Total assets		**2,054,572**	**1,386,549**
LIABILITIES			
Current liabilities			
Trade and other payables		60,988	67,911
Contract liabilities		7,190	8,517
Current tax liability		-	700
Borrowings	10	-	279,566
Lease liabilities	6	65,461	-
Provisions		33,007	29,988
Total current liabilities		**166,646**	**386,682**
Non-current liabilities			
Other payables		718	5,260
Borrowings	10	396,610	92,188
Lease liabilities	6	662,158	-
Provisions		12,964	8,935
Total non-current liabilities		**1,072,450**	**106,383**
Total liabilities		**1,239,096**	**493,065**
Net assets		**815,476**	**893,484**
EQUITY			
Contributed equity	11	902,914	893,567
Reserves		39,615	56,530
Retained earnings		(127,053)	(56,613)
Total equity		**815,476**	**893,484**

The above Consolidated Balance Sheet should be read in conjunction with the accompanying notes. The Directors note that the 30 June 2019 balance sheet includes the impact of accounting for AASB 16 *Leases*, whilst the 31 December 2018 balance sheet was prepared under the previous lease accounting standard requirements; refer notes 6 and 18 for further explanations.

Consolidated Statement of Changes in Equity
For the half-year ended 30 June 2019

Consolidated	Notes	Contributed Equity $'000	Hedging Reserves $'000	Cost of Hedging Reserve $'000	Translation Reserve $'000	Share Based Payment Reserve $'000	Profits Reserve $'000	Retained Earnings $'000	Total $'000
Balance 1 January 2018		**876,394**	**879**		**5,548**	**131**	**37,994**	**(55,611)**	**865,335**
Profit for the half year		-	-		-	-	25,230	(1,481)	23,749
Other comprehensive income		-	537		1,060	-	-	-	1,597
Total comprehensive income for the half year		**-**	**537**	**-**	**1,060**	**-**	**25,230**	**(1,481)**	**25,346**
Adjustment on adoption of AASB 9		**-**	**-**	**(620)**	**-**	**-**	**-**	**620**	**-**
Transactions with owners in their capacity as owners:									
Contributions of equity, net of transaction cost		13,496	-		-	-	-	-	13,496
Dividends provided for or paid	12	-	-		-	-	(44,853)	-	(44,853)
		13,496	**-**	**-**	**-**	**-**	**(44,853)**	**-**	**(31,357)**
Balance 30 June 2018		**889,890**	**1,416**	**(620)**	**6,608**	**131**	**18,371**	**(56,472)**	**859,324**
Balance 1 January 2019		**893,567**	**1,615**	**270**	**8,326**	**131**	**46,188**	**(56,613)**	**893,484**
Adjustment on adoption of AASB 16	18	**-**	**-**		**-**	**-**	**-**	**(68,420)**	**(68,420)**
Profit for the half year		-	-	-	-	-	21,009	(2,020)	18,989
Other comprehensive income		-	(1,615)	(270)	391	-	-	-	(1,494)
Total comprehensive income for the half year		**-**	**(1,615)**	**(270)**	**391**	**-**	**21,009**	**(2,020)**	**17,495**
Transactions with owners in their capacity as owners:									
Contributions of equity, net of transaction cost	11	9,347	-	-	-	-	-	-	9,347
Dividends provided for or paid	12	-	-	-	-	-	(36,430)	-	(36,430)
		9,347	**-**	**-**	**-**	**-**	**(36,430)**	**-**	**(27,083)**
Balance 30 June 2019		**902,914**	**-**	**-**	**8,717**	**131**	**30,767**	**(127,053)**	**815,476**

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

Consolidated Statement of Cash Flows
For the half-year ended 30 June 2019

	Notes	Consolidated 30 June 2019 $'000	Consolidated 30 June 2018 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		433,264	391,570
Payments to suppliers and employees (inclusive of GST)		(317,019)	(336,599)
Interest received		321	228
Interest paid		(36,682)	(11,093)
Income taxes paid		(16,798)	(13,796)
Net cash inflows from operating activities		**63,086**	**30,310**
Cash flows from investing activities			
Payments for acquisition of businesses (net of cash acquired)		(31,612)	(28,928)
Payments for divestments		(712)	(124)
Payments for property, plant and equipment		(15,871)	(17,002)
Net cash outflows from investing activities		**(48,195)**	**(46,054)**
Cash flows from financing activities			
Share issue costs	11	(12)	(47)
Debt issue costs		-	(229)
Dividends paid		(27,072)	(31,317)
Principal portion of lease payments		(31,248)	-
Repayment of corporate note		(269,892)	(50,000)
Inflows from borrowings		305,000	80,000
Outflows of borrowings		(2,007)	(453)
Net cash outflows from financing activities		**(25,231)**	**(2,046)**
Net decrease in cash and cash equivalents		(10,340)	(17,790)
Cash and cash equivalents at the beginning of half year		55,521	49,209
Effects of exchange rate changes on cash		23	73
Cash and cash equivalents at the end of half year	3	**45,204**	**31,492**

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes. The Directors note that the 2019 period results include the impact of accounting for AASB 16 *Leases*, whilst the 2018 period results were prepared under the previous lease accounting standard requirements; refer notes 6 and 18 for further explanations.

Index to Notes to the Financial Statements

Note 1: Segment information

(a) Description of segments

The Executive Team (the Chief Operating Decision maker) considers the business as one Group of centres and regularly reviews operating results at this level in order to assist and make decisions about the allocation of resources. The Executive Team has therefore identified one operating segment, being the management of childcare centres. All revenue in this report was derived from external customers and relates to the single operating segment and the segment disclosure has not altered from the last Annual Report.

	Australia $'000	Foreign Country $'000	Total $'000
30 June 2019			
Revenue from external customers	422,521	7,357	429,878
Non-current assets*	1,872,539	40,258	1,912,797
30 June 2018			
Revenue from external customers	385,244	7,816	393,060
Non-current assets*	1,186,277	32,463	1,218,740

Timing of revenue recognition	Australia $'000	Foreign Country $'000	Total $'000
30 June 2019			
Revenue recognised at a point in time	413,051	7,357	420,408
Total revenue from contracts with customers	**413,051**	**7,357**	**420,408**
Other revenue	9,470	-	9,470
Total revenue	**422,521**	**7,357**	**429,878**
30 June 2018			
Revenue recognised at a point in time	378,191	7,816	386,007
Total revenue from contracts with customers	**378,191**	**7,816**	**386,007**
Other revenue	7,053	-	7,053
Total revenue	**385,244**	**7,816**	**393,060**

*Non-current assets exclude deferred tax assets and derivative financial instruments.

(b) Seasonality

The childcare industry has a distinct seasonal pattern. A large group of children leave childcare to commence school at the beginning of the year and then revenue increases with new enrolments as the calendar year progresses. As such, historically the second half of the year delivers significantly more than half of the annual reported revenue and profit.

Note 2: Profit for the half-year

Profit for the half-year includes the following items that are unusual because of their nature, size or incidence:

	Consolidated	
	30 June 2019 $'000	30 June 2018 $'000
Expenses		
Legal expenses, stamp duty and other costs relating to acquisitions	2,840	1,064
Loss on disposal of assets/closure of centres	1,092	691
Amortisation of finance facility establishment costs	2,351	1,563
Translation expense on revaluation of notes issued in Singapore dollars and hedge FX movement	(2,815)	555
Income		
Interest income	321	188
Contingent consideration write back	681	1,343
Licence and other fees	-	2,000
Gain on sale of assets	1	16
Total	**1,003**	**3,547**

Note 3: Current assets - cash and cash equivalents

	Consolidated	
	30 June 2019 $'000	31 December 2018 $'000
Cash at bank and in hand	36,648	38,437
Deposits at call	8,556	17,084
Total cash and cash equivalents	**45,204**	**55,521**

Note 4: Current assets – other

	Consolidated	
	30 June 2019 $'000	31 December 2018 $'000
Current		
Prepayments	4,505	7,062
Inventory	2,938	5,698
Deposits	1,351	1,360
Total other current assets	**8,794**	**14,120**
Non-current		
Deposits on acquisitions	13,039	24,200
Prepayments	545	692
Inventory	1,762	-
Deposits	526	655
Total other non-current assets	**15,872**	**25,547**
Total other current and non-current assets	**24,666**	**39,667**

Note 5: Non-current assets – property, plant and equipment

	Buildings	Vehicles	Furniture, fittings and equipment	Make good	Total
	$'000	$'000	$'000	$'000	$'000
Consolidated					
At 31 December 2018					
Cost	5,046	1,412	145,778	5,250	157,486
Accumulated depreciation	(1,052)	(1,029)	(63,161)	(534)	(65,776)
Net book amount	**3,994**	**383**	**82,617**	**4,716**	**91,710**
Half-year ended 30 June 2019					
Opening net book amount	3,994	383	82,617	4,716	91,710
Transfer to ROU-Asset (AASB16)	-	-	-	(4,716)	(4,716)
Additions through business combinations (refer note 7)	-	-	918	-	918
Additions - other	-	-	16,065	-	16,065
Disposals	-	(6)	(701)	-	(707)
Depreciation charge	(75)	(48)	(10,083)	-	(10,206)
Effect of foreign exchange on depreciation	-	-	5	-	5
Closing net book amount	**3,919**	**329**	**88,821**	**-**	**93,069**
At 30 June 2019					
Cost	5,046	1,406	162,065	-	168,517
Accumulated depreciation	(1,127)	(1,077)	(73,244)	-	(75,448)
Net book amount	**3,919**	**329**	**88,821**	**-**	**93,069**

Leasehold improvements

Furniture, fittings and equipment includes the following amounts that are leasehold improvements:

	Consolidated	
	30 June 2019	31 December 2018
	$'000	$'000
Cost	90,291	91,681
Accumulated depreciation	(33,925)	(30,908)
Net book amount	**56,366**	**60,773**

Note 6: Right of use assets and lease liabilities

The right of use assets and lease liabilities have arisen upon adoption of AASB 16 *Leases* from 1 January 2019. Refer to note 18 for further information.

(a) Right of use assets

	Leased property $'000	Leased vehicle $'000	Total $'000
Adjustment on adoption of AASB16	**610,993**	**1,947**	**612,940**
Additions through business combinations	39,794	-	39,794
Additions - other	5,746	177	5,923
Disposals	(427)	-	(427)
Depreciation charge	(37,456)	(816)	(38,272)
Modification to lease terms	176	802	978
Variable lease payments reassessment	7,937	-	7,937
Effects of exchange rate changes	65	-	65
Closing net book amount	**626,828**	**2,110**	**628,938**
Cost	664,821	2,926	667,747
Accumulated depreciation	(37,993)	(816)	(38,809)
As at 30 June 2019	**626,828**	**2,110**	**628,938**

	Consolidated	
	30 June 2019 $'000	1 January 2019 $'000
(b) Lease liabilities		
Current lease liabilities	65,461	63,584
Non-current lease liabilities	662,158	644,491
Total lease liabilities	**727,619**	**708,075**

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.

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 currently does not have any short-term leases.

The Group applies the low-value assets recognition exemption to leases of office equipment that are considered of low value (AUD10,000 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.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as 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, or 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. That is, 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.

Note 7: Business combinations

The acquisitions below have increased the Group's size and are expected to reduce costs per centre through economies of scale. The goodwill is attributable to the future profitability of the acquired businesses.

During the half-year the Group purchased 7 centres from various vendors as outlined below:

Number of centres	3	1	2	1	7
State	**NSW/VIC**	**NSW**	**VIC**	**VIC**	**TOTAL**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Purchase consideration					
Cash consideration	4,714	10,614	14,324	10,813	40,465
Purchase price adjustments (to cash)	(58)	(536)	(324)	(179)	(1,097)
Contingent consideration	722	-	-	-	722
Total purchase consideration	**5,378**	**10,078**	**14,000**	**10,634**	**40,090**
Assets and liabilities acquired at fair value					
Property, plant & equipment	35	284	599	-	918
Right of use assets	7,622	9,767	13,936	8,469	39,794
Lease liabilities	(7,622)	(9,767)	(13,936)	(8,469)	(39,794)
Employee benefit liabilities	(27)	-	-	-	(27)
Net identifiable assets/(liabilities) acquired	8	284	599	-	891
Goodwill	5,370	9,794	13,401	10,634	39,199
	5,378	**10,078**	**14,000**	**10,634**	**40,090**
Revenue and profit contribution from the date of acquisition to period ended 30 June 2019					
Revenue	2,193	91	8	26	2,318
Profit/(loss) before tax	(164)	(466)	(573)	(231)	(1,434)

Revenue and contribution to the Group results from 1 January 2019 would be materially the same as from the date of acquisition.

Acquisition costs of $2,839,970 (2018: $1,063,449) are included in other expenses in the consolidated income statement.

As at 30 June 2019, accounting for 2019 acquisitions are provisional in nature due to the finalisation of determining the fair value of all assets and liabilities acquired.

During the half-year, accounting adjustments were made to provisional amounts recognised in 2018 as outlined below:

	2018 Adjustments Australia
	$'000
Purchase consideration	
Purchase price adjustments	20
Contingent consideration	871
Total purchase consideration	**891**
Goodwill	**891**

The above amounts relate to accounting adjustments for assets and liabilities taken on at acquisition date but not finalised at 31 December 2018.

Contingent consideration

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

The following table outlines the additional cash payments payable to the previous owners upon meeting specified performance conditions:

At 30 June 2019	Total potential contingent consideration payable	Carrying value	Conditions
	$'000	$'000	
Acquisition of 1 centre*	722	722	24 month performance hurdle based on EBIT
Acquisition of 1 centre*	411	411	24 month performance hurdle based on EBIT
Acquisition of 1 centre	1,050	801	19 years occupancy hurdle based on licence capacity
Total	**2,183**	**1,934**	

*The Group has assessed these hurdles will be reached within 12 months and accordingly have recorded these amounts as current.

Movement in contingent consideration

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

	Consolidated	
	6 months ended 30 June 2019	12 months ended 31 December 2018
	$'000	$'000
Financial liability for contingent consideration as at 31 December	2,687	14,301
Write back of contingent consideration to P&L performance condition not met - other income (refer note 2)	(681)	(2,199)
Increase / (write back) of contingent consideration to Goodwill performance condition not met	693	(805)
Fair value adjustments	82	38
Contingent consideration paid	(1,569)	(14,902)
Contingent consideration for new acquisitions	722	6,254
Total contingent consideration payable	**1,934**	**2,687**

Accounting policy

The acquisition method of accounting is used to account for all business combinations. Cost is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange.

Acquisition costs paid by the Company are expensed.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

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

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability that are subsequently not required to be paid at the end of the earn out period are recognised as other income.

Note 8: Non-current assets - intangibles

	Consolidated			
	6 months ended 30 June 2019			12 months ended 31 December 2018
	Goodwill	Intellectual property	Total	Total
	$'000	$'000	$'000	$'000
Opening net book amount	1,131,206	3,250	1,134,456	1,087,969
Additions	39,199	-	39,199	45,480
Adjustments in respect of prior year acquisitions	891	-	891	(1,617)
Exchange differences	372	-	372	2,624
Closing net book amount	**1,171,668**	**3,250**	**1,174,918**	**1,134,456**
			-	
Cost	1,182,720	3,250	1,185,970	1,145,508
Accumulated impairment	(11,052)	-	(11,052)	(11,052)
Net book amount	**1,171,668**	**3,250**	**1,174,918**	**1,134,456**

The Group closed 8 centres during the period ended 30 June 2019. No goodwill was attributed to closed centres.

(a) Impairment tests for goodwill

Goodwill is monitored and tested for impairment on an operating segment level. The recoverable amount of the childcare centre assets is determined based on value-in-use calculations. These calculations use cash flow projections based on forecasts for 2019 and then extrapolated using estimated growth rates. The growth rate does not exceed the long-term average growth rate for the business. For the purposes of goodwill impairment testing, the recoverable amount is compared to the carrying amount of the assets of the Group, which aside from goodwill and intellectual property, also includes the fixed assets of the childcare centres and working capital.

(b) Impairment

There are no indicators of impairment and no significant changes to the underlying assumptions used in the impairment testing from 31 December 2018. As a result, management have determined no impairment was required.

Note 9: Fair value measurements

Contractual maturities of financial liabilities

	Consolidated 30 June 2019 $'000						
	0 to 6 months	6 to 12 months	Between 1 and 2 years	Between 2 and 5 years	>5years	Total contractual cash flows	Carrying amount
Non-derivatives							
Syndicated debt facilities	7,539	9,211	18,421	387,189	59,199	481,559	405,000
Contingent consideration	1,208	-	75	225	675	2,183	1,934
Trade and other payables	25,584	-	-	-	-	25,584	25,584
Lease liabilities	54,780	54,218	108,051	314,625	469,763	1,001,437	727,619

	Consolidated 31 December 2018 $'000						
	0 to 6 months	6 to 12 months	Between 1 and 2 years	Between 2 and 5 years	>5years	Total contractual cash flows	Carrying amount
Non-derivatives							
Corporate note	278,693	-	-	-	-	278,693	280,678
Syndicated debt facilities	3,390	3,838	7,675	75,840	64,634	155,377	100,000
Contingent consideration	411	651	1,057	225	675	3,019	2,687
Trade and other payables	36,733	-	-	-	-	36,733	36,733
Derivatives							
Net settled (FX hedge)	(10,587)	-	-	-	-	(10,587)	(10,837)

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement.

Fair value classifications

The following table presents the Group's assets and liabilities measured and recognised at fair value on a recurring basis at 31 December 2018 and 30 June 2019:

At 30 June 2019 **$'000**	**Level 1**	**Level 2**	**Level 3**	**Total**
Asset				
Deposit on acquisitions*	-	-	13,039	13,039
Liabilities				
Contingent consideration (refer note 7)	-	-	1,934	1,934

At 31 December 2018 **$'000**	**Level 1**	**Level 2**	**Level 3**	**Total**
Asset				
Derivatives used for hedging	-	10,837	-	10,837
Deposit on acquisitions*	-	-	24,200	24,200
Liabilities				
Contingent consideration (refer note 7)	-	-	2,687	2,687

*Deposits on acquisitions are fully refundable

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. The fair value of the financial instrument equals the carrying value.

Specific valuation techniques used to value financial instruments include:

- The use of quoted market prices or dealer quotes for similar instruments;
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves; and
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

(i) Cross currency swap

During the prior period the fair value movement on the principal repayment was treated as a fair value hedge with all movements being recorded through finance costs. The coupon payments associated with the corporate notes were designated as a cash flow hedge with all movements being recorded in other comprehensive income.

(ii) Foreign exchange option

On 18 May 2016, the Group purchased an AUD/SGD call option with a notional value of SGD$270m with a strike price of $1.175 and maturity date of 18 May 2019. The foreign exchange option was not designated as a hedge instrument and was purchased as an additional layer of counterparty security that ultimately eliminated collateral posting requirements. The movement in the value of this option was recognised through the income statement. This option was closed on 18 May 2019.

Note 10: Current and non-current liabilities - borrowings

	30 June 2019			31 December 2018		
	Current $'000	Non-current $'000	Total $'000	Current $'000	Non-current $'000	Total $'000
Unsecured						
Corporate notes (a)	-	-	-	280,678	-	**280,678**
Total unsecured borrowings	**-**	**-**	**-**	**280,678**	**-**	**280,678**
Secured						
Syndicated debt facilities (b)	-	405,000	**405,000**	-	100,000	**100,000**
Total secured borrowings	-	**405,000**	**405,000**	-	**100,000**	**100,000**
Borrowing costs	-	(8,390)	**(8,390)**	(1,112)	(7,812)	**(8,924)**
Total borrowings	**-**	**396,610**	**396,610**	**279,566**	**92,188**	**371,754**

(a) Corporate notes

G8 Education repaid the following Corporate Notes during the period:

Issue date	Face value in issue currency $000	Issue currency	Repayment date	Interest rate %	Floating or fixed
18 May 2016	270,000	SGD	18 May 2019	5.5%*	Fixed

*SGD bonds were fully hedged at a fixed interest rate of 6.54% on AUD$269m

(b) Syndicated debt facilities

The Group had $405m drawn from the $500m syndicated debt facilities as at 30 June 2019.

(c) Fair value

Carrying value is equal to fair value for all borrowings.

Note 11: Contributed equity

(a) Share capital

	Consolidated		Consolidated	
	June 2019 Shares	December 2018 Shares	June 2019 $'000	December 2018 $'000
Ordinary shares fully paid	458,397,398	455,379,630	902,914	893,567

(b) Movements in ordinary share capital

Details	Number of Shares '000	$'000
31 December 2017 balance	**448,496**	**876,394**
Dividend reinvestment plan	6,843	17,129
Equity placement	41	139
Transaction costs of shares issued	-	(47)
Deferred tax credit recognised directly in equity	-	(48)
31 December 2018 balance	**455,380**	**893,567**
31 December 2018 balance	**455,380**	**893,567**
Dividend reinvestment plan	3,018	9,359
Transaction costs of shares issued	-	(12)
30 June 2019 balance	**458,398**	**902,914**

Note 12: Dividends

	CPS	Total dividend $'000
Ordinary shares		
2018 interim dividend (paid on 23 March 2018)	10.0	44,853
2018 final dividend (paid on 5 April 2019)	8.0	36,430

Note 13: Commitments and contingencies

(a) Capital commitments

There is no capital expenditure unconditionally contracted for at the reporting date but not recognised as a liability. The Group has contracted arrangements that give the Group the ability to acquire centres conditional on various hurdles and criteria that the vendors must meet.

(b) Contingent liabilities

The Group had no contingent liabilities as at 30 June 2019 (2018: Nil).

Note 14: Events occurring after the balance sheet date

The following material matters have taken place subsequent to year end:

- Completed the acquisition of 3 centres for $5.4m and closed 2 centres.
- The Board declared a 4.75 cent fully franked dividend on 24 August 2019 to be paid on 3 October 2019.

Note 15: Share–based payments

G8 Education Executive Incentive Plan (GEIP)

The Company has established the GEIP to assist with the retention and motivation of executives of G8 Education (Participants). It is intended that the Performance Rights will enable the Company to retain and attract skilled and experienced executives and provide them with the motivation to enhance the success of the Company.

Performance rights vest on achievement of the following performance and service conditions by the vesting date.

Performance Conditions – Earnings per Share (EPS) Compound Annual Growth Rate (CAGR)	The percentage of Performance Rights that vest for each % EPS CAGR is based on the vesting schedule below:	
	EPS CAGR	Percentage of Performance Rights that vest
	Less than 10%	0%
	10% to 15%	50% - 100% (pro-rata)
	> 15%	100%
Service Condition	Holders of Performance Rights must be continuously employed by the Company from the Grant Date to the Vesting Date.	
Retesting	Awards are not retested.	
Dividend Policy	Holders of Performance Rights are not entitled to receive dividends prior to vesting.	

504,964 performance rights were issued to Key management personnel (KMP) during the period ended 30 June 2019, the table below lists the inputs used in the model:

	Tranche 5 **30-Jan-19**	**Tranche 6** **10-May-19**
Share price on grant date	$3.06	$2.83
Share price volatility	34%	34%
Risk free rate	1.82%	1.28%
Time to maturity	2.08 years	2.81 years
Annual dividend yield	5.56%	5.79%
Model used	Black Scholes	Black Scholes

No share-based payment expense has been recorded in the period ended 30 June 2019 (30 June 2018: $nil).

Note 16: Related party transactions

(a) Parent entity

The parent entity within the Group is G8 Education Limited.

(b) Key management personnel

For details of share based payment transactions that KMP and their related entities had with the Group during the year, refer note 15.

There was nil outstanding at the reporting date in relation to transactions with related parties. There were no related party transactions in the half-year period.

Note 17: Other significant accounting policies

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The consolidated financial statements are for the consolidated entity consisting of G8 Education and its subsidiaries.

(a) Basis of preparation

This consolidated interim financial report for the half-year reporting period ended 30 June 2019 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the C*orporations Act 2001*. Compliance with AASB 134 ensures compliance with IAS 134 *Interim Financial Reporting*.

This consolidated interim financial report does not include all notes of the type normally included in an annual financial report. Accordingly, it is to be read in conjunction with the annual report for the year ended 31 December 2018 and any public announcements made by G8 Education during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and the ASX listing rules.

Note 18: Changes in accounting policies

(a) Accounting standards and interpretations applied from 1 January 2019

The accounting policies adopted in the preparation of the interim consolidated financial report are consistent with those followed in the preparation of the Group's annual report for the year ended 31 December 2018, except for the adoption of new standards effective as of 1 January 2019.

The Group adopted AASB 16 *Leases* using the modified retrospective method from 1 January 2019, and has not restated comparatives for the 2018 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 January 2019.

Adjustments recognised on adoption of AASB 16

On adoption of AASB 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of AASB117 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 6.18%.

	2019 $'000
Operating lease commitments as at 31 December 2018	**754,050**
Discounted using the incremental borrowing rate	540,753
Add:	
Payments in optional extension periods not recognised as at 31 December 2018	167,322
Lease liabilities recognised as at 1 January 2019	**708,075**

The associated right-of-use assets for leases were measured on a retrospective basis as if the AASB 16 standard had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate at the date of initial application.

In accordance with AASB 16(53)(j) the recognised right-of-use assets relate to the following types of assets:

	Consolidated	
	30 June 2019 $'000	1 January 2019 $'000
Leased property	626,828	610,993
Leased vehicles	2,110	1,947
Total right of use of assets	**628,938**	**612,940**

The effect of adoption AASB 16 as at 1 January 2019 (increase/(decrease)) is as follows:

	1 January 2019 $'000
Assets	
Right of use assets	612,940
Property, plant and equipment	(4,716)
Deferred tax assets	28,747
Trade and other receivables	(3,160)
Total assets	**633,811**
Liabilities	
Lease liabilities	708,075
Other payables	(5,844)
Total liabilities	**702,231**
Equity	
Retained earnings	68,420
Total adjustment on equity	**68,420**

(i) Impact on earnings per share

Earnings per share decreased by 0.95 cents for the six months to 30 June 2019 as a result of the adoption of AASB 16.

(ii) Practical expedients applied

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

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases. The Group currently does not have any short-term leases.
- the accounting for operating leases with a cost value of AUD10,000 or less as low value leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset 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.

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

The Group leases childcare centres, vehicles and 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 January 2019, leases of property and equipment were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to the income statement, within occupancy expenses.

From 1 January 2019, the Group applied a single recognition and measurement approach for all leases of which it is the lessee, except for low-value assets. The Group recognised lease liabilities to make lease payments and right of use assets representing the right to use the underlying assets. Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between 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
- 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, 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
- 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 comprise of office equipment.

Going concern

The Group has recognised a net profit after tax of $19.0m and net cash inflows from operating activities of $63.1m for the half-year ended 30 June 2019 and as at that date, current liabilities exceed current assets by $73.7m, of which $65.5m is the current portion of lease liabilities arising from the implementation of the AASB 16 *Leases* standard. Management expect the working capital shortfall will be met out of operating cash flows or from long term finance facilities.

The Directors have concluded that there are reasonable grounds to believe that the going concern basis is appropriate, and that assets are likely to be realised, and liabilities are likely to be discharged, at the amounts recognised in the financial statements in the ordinary course of business.

Directors' Declaration

In the Directors' opinion:

(a) the financial statements and notes set out on pages 11 to 31 are in accordance with the *Corporations Act 2001*, including:

(i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

(ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2019 and of its performance for the half-year ended on that date;

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

This declaration is made in accordance with a resolution of the Directors.

Gary Carroll
Managing Director
24 August 2019

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Independent Auditor's Review Report to the Members of G8 Education Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of G8 Education Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated balance sheet as at 30 June 2019, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2019 and of its consolidated financial performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 30 June 2019 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

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Independence

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

Ernst & Young

Ernst & Young

Ric Roach
Partner
Brisbane
24 August 2019

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Corporate Directory

Directors

M Johnson, Chairman

G Carroll, Managing Director

B Bailison, Non-Executive Director

S Forrester, Non-Executive Director, AM

D Foster, Non-Executive Director

J Cogin, Non-Executive Director

M Zabel, Non-Executive Director

Company Secretary

T Wood

Principal registered business office in Australia

G8 Education Limited is a Company limited by shares, incorporated, and domiciled in Australia. Its registered office and principal place of business is:

159 Varsity Parade, Varsity Lakes
Telephone: 07 5581 5300
Facsimile: 07 5581 5311
www.g8education.edu.au

Share registry:

Link Market Services Limited
Level 21, 10 Eagle Street
Brisbane QLD 4001

Auditor:

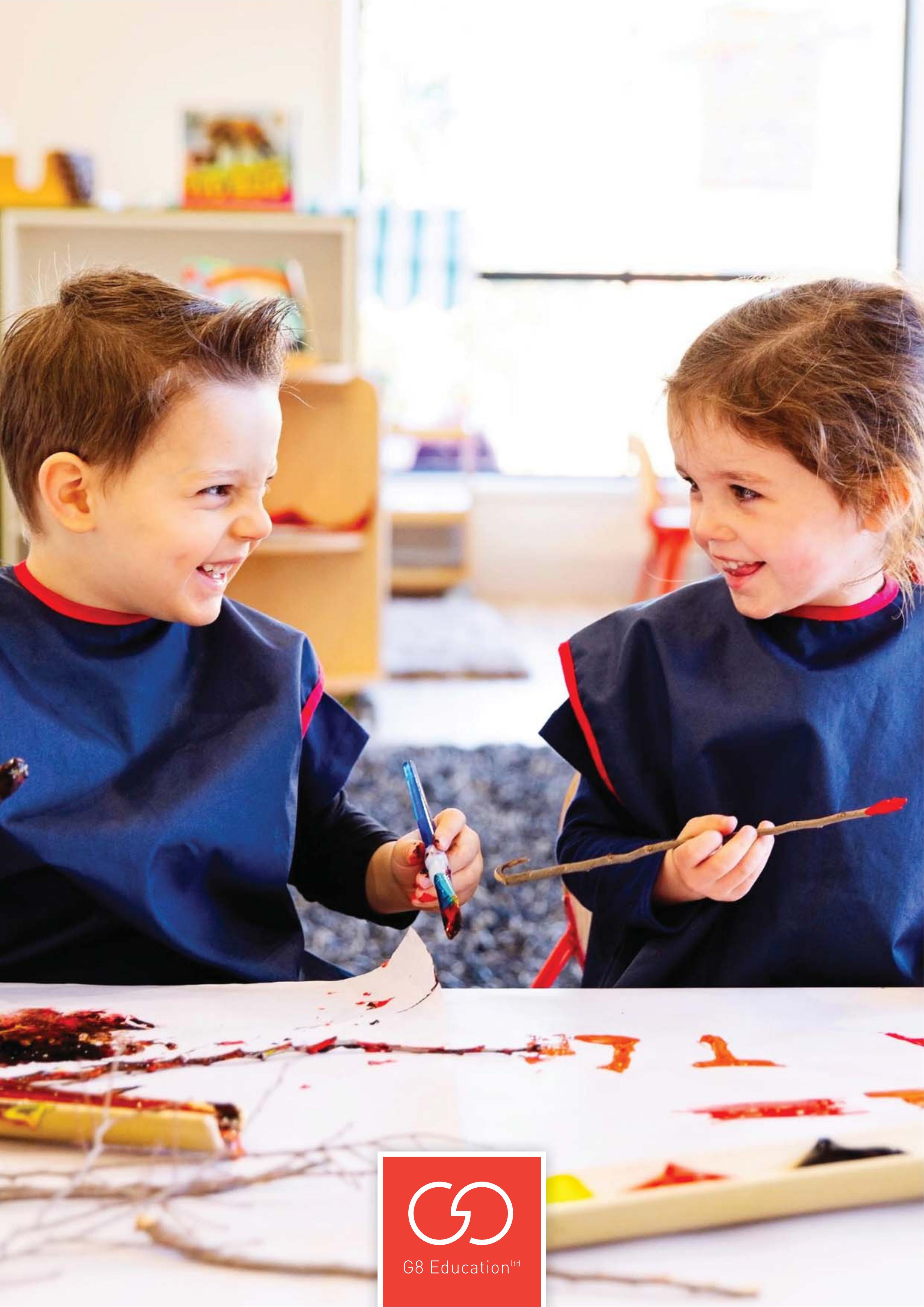
Ernst & Young
111 Eagle Street
Brisbane QLD 4001

Lawyers:

Allens
480 Queen Street,
Brisbane QLD 4001

Securities exchange listing:

G8 Education Limited shares are listed on the Australian Securities Exchange under the ticker code GEM



G8 Education ltd