evolve
education group

Annual Report 2018

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Evolve's Story

Remember as a child the excitement of a new discovery? The irrepressible sense of hope and possibility, that the world was a mystery and an adventure to explore? Remember that freedom?

We do.

That thrill of discovery, recalling the magic of the world through a child's point of view, is the ethos that runs through every touchpoint in the Evolve Education Group.

Whether we're nurturing young minds in one of our centres, or educating in-home, we share a common objective - capturing that sense of unbridled possibility. Shaping this possibility for our children by helping nurture happy, caring, independent-thinking, purposeful souls to be their best is our ultimate goal.

We pride ourselves on being welcoming and respecting the rich diversity of culture, tradition, people and circumstance that Evolve children represent. These influences are vital to us, part of our lifeblood, just as their whanau are part of our wider family.

Respect is at the heart of our interaction with our children. Every child is an individual with a voice, every child will respond to some learning styles better than others. We understand that, and offer a variety of teaching methods and philosophies to help any child flourish.

We are proud to count some of New Zealand's most trusted early childhood professionals among our numbers. These educators have a deep and genuine passion for helping children realise their potential. Through ongoing vocational guidance, we invest in their futures too, to help them to continue to deliver industry-leading teaching and care.

Every parent who entrusts their child to our care can be sure that their child's safety, happiness and personal development is going to be at the forefront of everything we do.

But more than that, as a leader in early childhood education (ECE) in New Zealand, it's vital that our parents and children feel our passion to support and celebrate their children's learning, and that we share their thrill at those moments of understanding and inspiration.

Our delight is the ability to equip our children with the knowledge and skills to face their next challenges with confidence, and embrace a life-long learning journey.

Evolve. The joy of learning lives here.

Vision and Values

Evolve Education Group is comprised of 129 ECE centres across New Zealand, as well as the PORSE and Au Pair Link networks.

Our Vision:

Evolve will be acclaimed and respected as an authority within ECE. Proud owners of superior, well-resourced learning centres and high quality 'in home' education services. Evolve children are identifiable for their love of learning, and age appropriate life skills.

Evolve will be admired as the undisputed leaders in ECE, recognised practitioners and advocates for best practice within the ECE industry, and as a result, staff will view Evolve as the premier ECE employer of choice.

Our Evolve brand: bright, uplifting and irrepressible

We wanted our logo to embody the irrepressible sense of hope and thrill of discovery of the world through the eyes of a child. Capturing the beginning of change; the evolving young mind is entranced by a world filled with light and movement. A logo that carries a sense of wonder, and is broad enough to speak to the diverse ECE communities across New Zealand that the Evolve Education Group serves.

Our logo represents our passion for learning, for illumination, our quest for those bright points of inspiration, whether they're new ideas or the passionate individuals delivering fresh insight and innovation. Our Evolve bubbles give it an effervescent and optimistic feel.

Bright, uplifting and irrepressible, it's a logo that delivers on the personification of our promise: 'The joy of learning lives here'.

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Our Values: Family values are our high ground

Ethics and Integrity

Trust is everything
Parents are trusting us with the most precious thing in their lives - their children. It's a privilege that we honour with the highest standards of ethical behaviour, and honesty and transparency in our interactions. If we don't have this, we have nothing.

Nurture

The right learning environment
Evolve is a nurturing environment.

For our children: we teach, observe and monitor, ensuring they are happy, stimulated and engaged. With their well-being nurtured, they are free to expand their minds and express themselves.

For our staff: it's about providing the opportunity to fulfil their potential.

Respect

Every child, each other, and our planet
We respect our childrens' culture, ethnicity, personality and individuality. We teach and show respect, and our children respect one another. We extend this respect to our planet by connecting with the natural world and fostering love and stewardship to the environment we live in.

Sustainability

Our critical pillars
Economic and social development, as well as environmental protection are inextricably linked to our alignment with our 'New Zealandness' and the promotion of clean, green and healthy values.

Community

Stronger together
Our wider community is important to us: stakeholders, family, staff, supporters, partners. We welcome them into our family and their support makes us stronger. We're all on the same team.

Passion

We have a mission
We are passionate about quality ECE. We're fully engaged. We stand by our principles and our sights are firmly fixed on great outcomes for our children.
It's why we exist, and nothing less will do.

Our Culture Statement

Within our walls, we live the values Evolve stands for, and we champion those across the ECE industry.

For our children and each other, that's about respecting individuality, recognising our children as people, hearing their voice, allowing them to feel valued and understood. That goes for our day-to-day interactions with each other too. Genuine respect is at the heart of our organisation.

So we celebrate individual achievements, remember birthdays, laud the effort that goes above and beyond; we care about each other.

We encourage our young enquiring minds, we share their joy of discovery, and bolster their confidence to explore and learn more.

We are a collaborative team, wherever possible sharing our knowledge across the Evolve Group, leveraging our diverse skills, supporting our pioneering spirit in the pursuit of improvement.

Alistair Ryan
Chair's Report

Dear Shareholders,

Over the past year, Evolve Education has continued to pursue its vision of being a highly regarded and respected authority within New Zealand's early childhood education (ECE) sector, through the operation of superior, well-resourced learning centres and high quality 'in-home' education services. While we have made good progress in a number of areas towards this vision, the past year has proved difficult for the company, with a change of CEO mid-year and an environment that has provided significant challenge and headwind.

Ministry of Education funding was frozen at the same levels as applied three years ago in an environment where our cost base (rents, salaries and wages) came under inflationary pressure, coupled with an increasing challenge in terms of teacher availability, particularly in Auckland. Small movements in revenues (through lower occupancy rates, for instance) have magnified impacts on earnings as it takes time to adjust the cost base to reflect these movements. Rents continue to apply unchanged and staffing ratios cannot adjust easily to small changes in attendance levels. At the same time, Evolve, as a relatively new organisation, has needed to invest in infrastructure to relieve the burden on centre management in respect of recruitment, property management and other overhead type tasks unrelated to the direct provision of learning services to children, while also ensuring that Ministry of Education requirements are met and exceeded.

The past financial year has seen marginal reductions in occupancies across a significant number of centres in our network, while at the same time, other centres have been able to increase occupancies. We are encouraged that assistance to those centres which are having difficulty maintaining occupancies should be able to improve their financial performance but this is proving to be a task that requires consistent focus and is not achieved overnight.

We are very pleased to be welcoming Rosanne Graham as Chief Executive Officer from 2 July. Rosanne has an excellent skill set and a high level of energy and enthusiasm for tackling our revenue and operational challenges and for improving our corporate infrastructure to allow staff to focus on their core roles and to make Evolve a highly regarded place to work. The enthusiasm of satisfied and motivated teachers then rubs off on parents and children who will prefer our centres over the alternatives.

The board wishes to acknowledge and thank Mark Finlay for his sterling efforts as CEO between September last year and now. Mark filled in at short notice following the resignation of Alan Wham and has got to grips well with the key issues and challenges facing the company. We are fortunate that we will be able to continue to tap into Mark's considerable experience in ECE as Mark will continue to work with Evolve on an advisory basis.

The board has a clear understanding of what needs to be done to achieve success; the appointment of Rosanne as our CEO is the first step in strengthening the enterprise and making it more robust in what will continue to be a challenging environment. All of this will take some time to turnaround and rebuild and we respectfully ask for some patience from shareholders as the board and management take on the tasks ahead of us.

Evolve remains a strong long-term investment proposition. We are New Zealand's second largest ECE operator with 129 centres, most of which are performing well. Our centres are well-located, well-built and we have some excellent managers and teachers working for us throughout the country. We put our families and children first and we know that this is the driving force behind quality services and a successful business over time.

The board wishes to thank the staff of Evolve for their commitment and professionalism over the past year. We particularly recognise the efforts of our 2,290 employees who help us to deliver the highest quality education for our children, and positive outcomes for our families and broader communities. It is through their dedication that we are able to strive towards our vision of being New Zealand's leading early childhood educator.

Financial Result

Net profit after tax and before non-recurring items for the financial year ended 31 March 2018 was $12.0 million. This was in-line with guidance provided in February, but lower than our forecast at the annual shareholders' meeting (August 2017) of $14 million to $15 million. This compares with $15.9 million recorded in the prior year. In addition, we recorded non-recurring expense items of $16.2 million after tax in the year, and this resulted in a net loss after tax of $4.2 million.

Non-recurring items were the cost of the settlement reached with the Inland Revenue Department on the historical PORSE GST issue ($3.0 million), and the after-tax impairment expense of $13.2 million relating to the home-based division and the closure of one ECE centre.

Earnings included $0.5 million of start-up losses on three new development centres, two of which commenced operations during the year.

Total revenue of $159 million increased by $7.3 million or 4.8% on the prior year. This was driven by new centre acquisitions and the development of new centres, partly offset by a decline in enrolments in both Centres and Home-Based divisions. Occupancy in the Centres division was 2% lower, on average, on a comparable basis, and enrolments in the Home-Based division were also lower than the prior year.

Government Funding

In the May 2018 Budget, the Government announced a 1.6% increase for ECE centre universal funding, beginning in January 2019. This was a welcome increase, given that funding has been fixed for the past four years, although we were disappointed that there was no recovery of the four years of backlog. Government funding is an important revenue stream for our industry and our parents and teaching staff. We are encouraged that the new Government has recognised that the early childhood sector has been underfunded for some time and is signalling an intention to provide better support in the future. It is clearly in New Zealand's best interests to have an early childcare education system that is appropriately funded and is able to attract and retain qualified and talented teachers.

Dividend

The final dividend for the year was 2.0 cents per share, compared with 2.5 cents per share paid as a final dividend in the 2017 financial year. This brings the total dividend for the 2018 financial year to 4.5 cents per share compared with 5.0 cents per share for the prior year. The dividend will be fully imputed for New Zealand taxation purposes and will be paid on 28 June 2018. We have been able to pay a dividend, despite recording a net loss for the year, due to the non-cash nature of the impairment expense. The total dividend represents a payout ratio of 67% of net profit after tax before non-recurring items.

Balance Sheet

We have continued to maintain a conservative balance sheet with the underlying gearing ratio, expressed as Net Debt to EBITDA, of 1.24 times as at 31 March 2018. Following the year-end our core debt facility was renewed to provide a $70 million acquisition facility and $25 million working capital facility through to April 2022, representing an overall increase of $5 million in funding lines. $60 million of the acquisition facility has been utilised to date, leaving $10 million available for acquisitions over and above retained cash.

Settlement of PORSE GST Issue

During the year we finalised agreement with the Inland Revenue Department (IRD) in respect of various historical taxation matters relating to the PORSE in-home childcare business. The settlement agreement required Evolve to pay $3.0 million to IRD and has ensured that all current areas of discussion are closed off. Payment of the settlement amount was funded by Evolve's existing cash reserves.

Review of Asset Carrying Values

Evolve currently has $207 million of intangible assets on its balance sheet, mainly comprising goodwill arising from ECE centre acquisitions. These assets are tested for impairment twice a year.

The results for 2018 included an impairment charge of $12.9 million reflecting the write off of the non-current assets (primarily intangible assets) of the Home-Based division. This was due principally to the decline in enrolments since PORSE was acquired which have reduced the revenue and profitability of that division.

A further $1.0 million of goodwill associated with the Centres division was written off following the merger of two centres.

Strategy & Outlook

While the 2018 financial year has proved to be a challenging one for Evolve, our goals remain largely unchanged from those that were established at the time of the company's formation:

- To be leader in the strong demand ECE sector in New Zealand,
- To achieve the competitive benefits of a large-scale operator in a fragmented industry,
- To continue to expand through the measured acquisition of centres, and
- To undertake new purpose-built, purpose-located centre developments.

In undertaking these activities, our aim is to maintain a level of profitability that provides a strong flow of funds for reinvestment in the business, whilst maintaining a 40%-60% dividend return to shareholders.

We remain confident that the Evolve management team can improve the performance of the business in the medium term but full maturity of our service offering will take several years to be fully achieved. Driving enrolments and lifting overall centre occupancy remain the key drivers for the business.

We will continue our focus on attracting and retaining qualified teachers, as this is a critical element in maintaining high quality ECE services, enrolments and occupancy levels.

For the 2019 financial year, we have identified a number of key milestones which we will be looking to achieve as we build a stronger business for the future:

- Lifting overall occupancy from 78% to 79%,
- Opening four new development centres,
- Reversing the recent trend of rises in the ratio of staff costs to revenue,
- Improving employee engagement and retention, and
- Turning around (or divesting) the centres that are currently trading unprofitably.

Alistair Ryan
Board Chair

Operational Review

Centres

Evolve had a total of 129 centres in operation as at 31 March 2018, up from 121 at the end of the prior year.

In the first half of the year seven centres were acquired and, in addition, two new centres were developed and opened with occupancy rates lifting in line with the business plan.

We have adopted a cautious approach to centre acquisitions and no new centres were acquired in the second half of the year. After several years of significant growth through the acquisition of ECE centres, we have been consolidating our operations. Acquiring existing ECE centres requires management attention following each transaction and the growth through acquisition of existing centres has stretched management resources at times. While we remain open to further acquisitions, vendor pricing expectations remain inflated, although have shown some signs of reducing. We expect that the acquisition market will re-set and this should allow further opportunities for expansion in the medium term.

In the meantime, we have continued to see good opportunities to invest in the development of new centres in selected geographies where the demand profile is strong. In the past eighteen months we have developed and opened 3 new centres. With these new developments, we are able to ensure that they are well-located, purpose-built facilities that are attractive to parents and teachers alike. While newly developed centres take longer to come on stream than they generate positive returns more quickly as there is no goodwill payment. The early results from our own centre developments have been encouraging. Two of the three centres have exceeded 50% occupancy and are anticipated to generate a monthly profit imminently.

In the 2019 financial year we will be developing and opening a further four centres in Papakura, Mt Wellington, Helensville and Napier.

Key to the development of new centres is a strong brand strategy. We have rationalised the many brands we had down to seven, and new brand signage has now been rolled out across most centres. Each of our seven brands has clear points of differentiation and a distinctive learning philosophy. Underpinning each is a commitment to delivering what families want: quality ECE through caring and nurturing staff and a good learning environment that lifts child enjoyment every day.

Occupancy

Overall, occupancy was 2% lower compared with a year ago, and this had a negative impact on our earnings performance. There was a wide disparity in the performance of the company's centres around the country. More than half of our ECE centres continued to have occupancy levels in excess of 80%, but 14 centres had occupancy rates below 60%, and 11 centres generated an operating loss totaling $0.5 million in the 2018 financial year.

We have seen growth in the number of competing new centres being brought into the market by property developers and this has impacted occupancy in some areas. Scaling back our centre acquisition programme has enabled us to focus on endeavouring to lift the performance of our existing portfolio. One centre was merged with another subsequent to balance date, to address persistent low occupancy challenges of both sites. The others have been reviewed, the causes of low occupancy pin-pointed, and remediation plans have been initiated.

We have a number of initiatives in train which we are confident will lift performance in the medium to long term. We have established a central enrolments team to co-ordinate the enrolment process and ensure that all leads are followed up. This team handles all in-bound enquiries for our ECE centres, and offers a seamless, consistent level of service for enrolment enquiries. We are ensuring that we price competitive in areas of high competition. Coupled with this we have increased investment in a coordinated digital marketing strategy.

Home-based

The market for home-based ECE services continued to attract new participants. Consequently, while both PORSE and Au Pair Link hold segment-leading positions, enrolment levels declined 15% in 2018 over the year. It was not possible to maintain EBITDA through cost savings in the face of the 15% reduction in revenues and EBITDA declined to $0.9 million in 2018 versus $2.6 million in 2017.

We have commenced a sale process for the PORSE in-home childcare business. This decision follows a strategic review of PORSE and its fit with Evolve's core activity of centre-based ECE. The review has shown that the two businesses are serving quite different and distinct markets, with limited overlap between the two activities. Consequently, potential synergies between centre-based and home-based ECE have been limited. PORSE accounts for less than 5% of Evolve earnings. We will retain ownership of our other home-based business, Au Pair Link, which serves a different market and is trading well.

Costs

In the 2018 financial year, wages as a percentage of revenue, on a like for like basis, increased from 51.4% to 53.8% as we held required staffing levels despite the reduction in occupancy in anticipation of higher enrolments. Cost margins have been impacted by the lack of any increase in Government per child funding for ECE and rising employee and facility costs, which have in turn been further compounded by a shortage of qualified early childhood educators in some regions.

In the year ahead, we will be working to re-balance costs back to our historical levels. We will also be evaluating and implementing a teacher rostering system that is easy to use and configured to the requirements of a multi-centre New Zealand ECE group. In addition, we are seeking to improve management of our existing internal pool of relieving staff and will use Staff Sync software to provide improved reliever options to centre managers, thereby reducing the need to use expensive agency-provided staff.

People and Culture

Our success depends fundamentally on the engagement and retention of our teaching staff and centre management teams. As a scale operator, Evolve has a unique opportunity to differentiate itself as an employer in the ECE sector and thus improve retention and build engagement. Over the coming year we will be targeting specific actions to lift employee engagement, including:

- Further developing a targeted professional and career development programme for centre managers and teachers,
- Using our scale to improve the working experience of our teachers and centre managers. We will establish a property maintenance management function to assume this responsibility on behalf of our centre staff,
- Providing greater support from the corporate office around functions such as recruitment and staff deployment, and building capex, repairs and maintenance, and
- Improving the quality and focus of internal communications.

Mark Finlay
CEO
(until 2 July 2018)

Rosanne Graham
CEO's Letter

I am delighted to have been appointed CEO of Evolve Education Group and am greatly looking forward to taking up the role in July.

Evolve takes the responsibility of educating our young children very seriously. ECE nurtures children's growth and development and sets them up for future success in the schooling system. It also enables parents to entrust their children to us, safe in the knowledge that they are being cared for by highly trained, caring, professional educators in well-resourced facilities.

As one of the largest operators in ECE in New Zealand, Evolve is able to provide a consistent, high-quality learning experience for all young children. In addition, I believe that the company has a real point of difference to offer its staff, through providing them with the best opportunities in the industry for personal development and career advancement. In joining Evolve, I can see a clear opportunity to build on the foundation that exists today and to grow a strong, resilient, future-focused organisation.

My success will be measured by the satisfaction of all of our stakeholders, but it all starts with the children and families that we serve and the positive engagement of our staff.

Rosanne Graham
CEO
(effective 2 July 2018)


The
Boss.

Operational Highlights

Revenue

4.8%

Centre License Places

9,178
March 2018

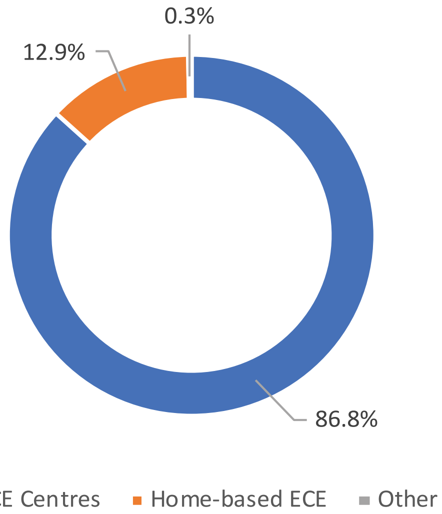
8,274
March 2017

Number of Centres

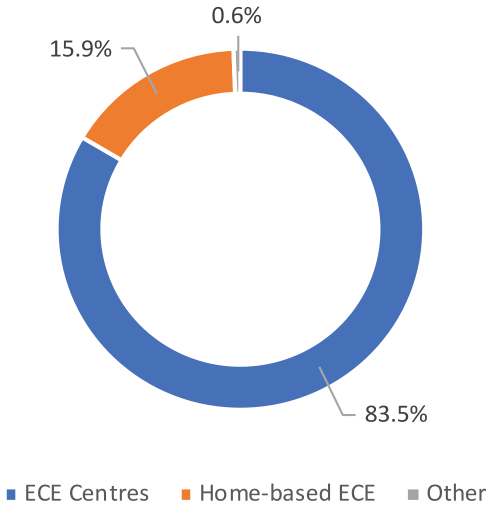
129
March 2018

121
March 2017

Group Revenue FY18
$159.0m



Group Revenue FY17
$151.4m



Board Profile

Evolve Education has an experienced and balanced Board with a diverse range of skills, including industry and business knowledge, and corporate governance experience. The Board currently comprises an independent Chair and four independent non-executive Directors.

Alistair Ryan

Chair
(Independent)

MCom, FCA.
Appointed as Director
13 November 2014

Alistair is an experienced company Director and corporate executive. In addition to Evolve, he is currently Chair of Kingfish Limited, Barramundi Limited and Marlin Global Limited. Other current board positions include Kiwibank Limited, Metlifecare Limited, and Christchurch Casinos Limited. Alistair is also a member of FMA's Audit Oversight Committee.

Alistair was a senior executive of SKYCITY Limited from pre-opening (1995) until he retired as CFO in June 2011. Prior to SKYCITY, Alistair was a Corporate Services Partner with international accounting firm EY, in Auckland.

Alistair is a member of Evolve's Audit and Risk Committee.

Norah Barlow

Non-Executive Director
(Independent)

BCA, CA.
Appointed as Director
13 November 2014

Norah is the Managing Director and CEO of Estia Health Limited, an ASX listed company providing aged care in Australia. Norah is an accountant by profession, having operated her own partnership for a number of years, prior to becoming the Group Accountant, and then CEO of NZX and ASX listed Summerset Group. Norah retired from that role in April 2014 remaining on the Board as a non-executive Director until 2016, when she was appointed to Estia. Norah is also a Ministerial appointee to the National Advisory Council for the Employment of Women. In 2014 she was awarded an ONZM for services to business.

Norah is a member of both Evolve Education's Remuneration and People Committee and the Audit and Risk Committee.

Anthony Quirk

Non-Executive Director
(Independent)

BCA (Hons), INFINZ (Fellow), AFA.
Appointed as Director
2 August 2017

Anthony is an experienced financial services sector professional with over 30 years executive experience in the sector. He now has a varied portfolio of governance interests with an emphasis on areas that improve communities.

In addition to Evolve Education Group Anthony is currently a Director of the NZ Local Government Funding Agency and Milford Asset Management. He is also Chair of New Zealand Water Polo, Deputy Chair of Compass Housing NZ (a social housing organisation) and a Trustee on the Graeme Dingle Foundation Board in Wellington. Anthony was previously a Director and Chair of the Institute of Finance Professionals and is a Fellow of that organisation.

Anthony is Chair of Evolve Education's Audit and Risk Committee.

Lynda Reid

Non-Executive Director (Independent)

ONZM, BA, TTC.
Appointed as Director
2 August 2017

As former CEO of St Cuthbert's College in Auckland, Lynda adds strong technical, social and business diversity to the Evolve board. In addition to excellent sector expertise coupled with robust executive leadership and governance experience.

As St Cuthbert's CEO, Lynda was involved with a wide range of stakeholder groups, people and organisations including the school board, parents, teachers, students, Ministry of Education and the education community generally, and commercial organisations.

Lynda is an Officer of the New Zealand Order of Merit (2017) and a recipient of the Independent Schools of New Zealand Distinguished Service Award (2016), along with many other distinguished service awards and recognitions, and regular membership of important sector forums.

Lynda is a member of the Remuneration and People Committee.

Gráinne Troute

Non-Executive Director (Independent)

GradDipBusStuds (HRM)
CMInstD.
Appointed as Director
1 May 2017

Gráinne has extensive experience as a corporate executive and in board and charitable trust governance roles.

She is currently a Director of Investore Property Limited, NZX-listed companies Tourism Holdings Limited and Summerset Group Holdings Limited. She was General Manager, Corporate Services at SKYCITY Entertainment Group for 8 years and earlier held senior executive roles at McDonald's Restaurants for 14 years, for the last three of which she was Managing Director, New Zealand.

Gráinne also served for many years as a trustee and chair in the not-for-profit sector, including having been Chair of Ronald McDonald House Charities NZ for five years.

Gráinne is Chair of Evolve Education's Remuneration and People Committee.

Investing in Our People

Our staff are passionate about their work with children and they love what they do. Critical to success is having an engaged workforce that can make a difference to the development of the children in our care. To ensure that we attract and retain the best people in our industry, we will continue to proactively invest in our people. It is our goal to support our team values and culture at centre level, continuing to develop a high degree of encouragement and camaraderie.

Each of our ECE centres extends the brand and Evolve's approach to teaching and learning. Our approach encourages relevance, innovation, and development for our staff and the children within the professional framework established groupwide. Retention and valuing our staff are key drivers for Evolve even amidst the scarcity of ECE trained educators and professionals. Evolve continues to invest in additional support and extended training, such as safeguarding children training, professional development to support strategic goals, first aid, supporting teacher registration costs, leveraging our scale advantages to provide discount arrangements for our staff in banking, health care and other areas of benefit for staff.

All staff are involved in professional appraisal and performance development. This supports our approach to continuous improvement, as well as raising the quality of learning for children. Our approach to professional development is designed to move the whole team forward as well as strengthening and leveraging the attributes of individuals. This approach allows both team-based and individual development so that personal and business outcomes can complement each other.

We actively invest in team leadership and development days at all levels of the business. This involves reaching our staff at all ends of the country. This work includes providing mentorships, head teacher training days, coaching support days for home-based staff, leadership development for centre management staff, and skills development in critical areas such as social competency and people management. Career paths have been developed and are being refined for both qualified and non-qualified staff. Our approach values on-the-job learning, as well as formal education development, together with effective mentoring and coaching of our staff as they develop.

Health and Safety

Evolve places paramount importance on health, safety, and wellness. The Company has established a group wide Health and Safety Steering Group that provides input for policy assessment and formulation, ongoing process improvements and incident tracking.

The Steering Group has established an infrastructure and technology platform for better reporting, and root cause analysis that enables the business to better understand, prevent and manage key organisational, and business-specific risks. We also provide staff access to Employee Assistance Programme (EAP) services to provide them with support and counsel as required.

Policy reviews are continuous, ensuring we are up to date with the latest requirements and best practice, as well as staff input to ensure ongoing improvement.

Centre Business Update

Three and a half years on, the focus remains to embed high quality teaching practice, strong policies and processes to support staff and to entrench a positive staff culture in all the centres. The core driver in the centres has been to lift the focus on quality learning environments and practice, operational processes and quality engagement. In FY19, we are shifting to further lift our professional support to teacher learning and career growth, as well as leadership. Within the last year, the centre support structure continued to be improved and extended, to ensure alignment with the values, vision and goals for the company. Our centres are supported with operational leadership and guidance, as well as our professional teaching and learning development management team. This team ensures the centres continue to strive to be sustainable across all areas, through continuous focus on the core purpose, and positive quality outcomes for children. This is achieved through the provision of high quality care and learning for each child at every developmental stage and to each child's potential.

The past year has seen an evolution of the brand strategy into a more deeply embedded cultural positioning around brands, or kaupapas. Our kaupapas are the essence and life force of what we do in each centre, with distinct philosophies and cultures, embraced and supported in each individual service, alongside a core value system and curriculum designed for each kaupapa.

Evolve has recently introduced a family enrolment team to further assist centres with enrolments from web and phone enquiries. This is the next key step post-establishing the digital presence and establishing measurable engagement online. Childcare CRM continues to be used across the centres to ensure a more efficient process for families to enquire, book centre visits and enrol with Evolve. The system also enhances workflows and is fully integrated with the support systems in the centres.

We continue to seek ways to improve the benefits that come with scale and reach. The scale that Evolve offers now has improved supplier arrangements, procurement efficiencies and ultimately increased professional support to the centres across New Zealand. Evolve has implemented a fully customised HR support system, MyPeople, which ensures that processes, policies and procedures in engaging staff, managing staff and support are consistently applied.

The centre business has grown further with the acquisition of six Little Wonders centres in the South Island. There was also the acquisition of Lollipops Paraparaumu, a well-performing purpose-built centre with strong community support in Kapiti.

Three new development centres have opened in the past 12 months. Active Explorers Kaiapoi opened in June 2017 in the Canterbury region. Lollipops Lynfield opened in January 2018, and Active Explorers Papakura opened in May 2018. Both new Auckland centres opened to strong interest and enrolments. Developments continue to expand, with four new centres, including Active Explorers Papakura, planned to open over the course of FY19.

Looking ahead, it is anticipated that the business objectives and management strategies around operational excellence, service, learning and care will continue to lift Evolve's performance and positioning in New Zealand. Evolve is entrenching its centres as highly functioning places of learning where the "joy of learning" can be tangibly felt and experienced by all our children, their families and the wider community.


New York

Education Quality in Our Centres

Evolve centres employ well over a thousand qualified teachers, who are deeply engaged with the purpose of providing positive learning environments and outcomes for all the children in our care. The teaching and curriculum management structure is embedded with clear processes in place, ensuring focus on core developmental learning strategies, teacher practice, and leading curricula by extending Te Whāriki for all our centres. Te Whāriki is a curriculum guideline first published in 1996, revised in 2017 by the New Zealand Ministry of Education. It outlines the curriculum that the Ministry requires every early childhood service in NZ to follow if it is to retain its license to operate, care for and educate children.

The focus on each developmental stage ensures the curriculum offered is developmentally appropriate and is critical to lifting the quality of learning and care in each of our centres, as well as aligning ourselves with best practice and the latest research in ECE. This is achieved through a focused strategic plan for the next three years to develop distinct frameworks for learning outcomes across all age groups, stages of development and key areas such as literacy and numeracy. FY19 goals include a focus on infancy and the early years and school readiness. In addition, we will be developing and rolling out a programme to enhance children's social competence and resilience, which is proven to be a vital requirement for improving long term outcomes for children well into adulthood.

The teaching and learning team has redesigned the policy and systems for monitoring and improving quality at centre level. This ensures that we are doing what we say we do and makes it evident to families attending our centres. This will focus on aspects such as effective educational mentoring to improve teacher practice and high quality internal evaluation which focuses on documenting the continual improvement of outcomes for children at each centre. Our centres focus on each child's developmental and learning stage and aim to communicate with whanau and parents as to their progress and enjoyment through Storypark and in one to one engagements.

All Evolve centres use Storypark which is a safe and easy-to-use platform that helps teachers and families record and share children's learning and development. It is a key goal for Evolve to ensure that all our families have the comfort of knowing that each child has a positive and enhancing learning experience aligned with their individual potential.

There is increased engagement with whanau, with a clear focus on provision of superior quality learning, care and differentiated experiences through the newly positioned centre kaupapas (brands).

Our Learning Pillars

Each of our brands has a distinct learning philosophy that is based on Te Whāriki and extended with specific frameworks per brand along with global best practice for early childhood development. These will set expectations for the learning programme provided in each centre, and are deliberately different for each kaupapa, allowing parents to choose a philosophy of learning which is best-suited to their own. Along with the overall focus, we are developing a specific curriculum for school readiness, run across all our centres to ensure that every child will be prepared, confident and ready to face the challenges and new chapter on their learning journey.

Each Kaupapa's Teaching Philosophy

Active Explorers has been developed on an enquiry-based learning philosophy to increase problem-solving and creative thinking. The practice encourages seeking out solutions, curiosity, experimentation and active learning.

Lollipops has a philosophy centred on the principles of Ako (reciprocal learning between teacher and child) and experiential-based learning philosophy, inspired by Reggio Emilia. Learning is child-led with inspirational and varied provocation stations that lead to creative exploration by every child.

Pascals focuses on learning extension, experiential and enquiry-based learning philosophy in centres of excellence further inspired by leading research in ECE.

Little Earth Montessori is grounded in the widely practiced Montessori philosophy, with extensive engagement with each learner structured across accepted milestones but anchored on the foundation of Te Whāriki.

Learning Adventures is a community kaupapa, inspiring curiosity through inspiration and guidance, blended learning philosophy anchored in the community with a focus on participation, health and social development and parenting support.

Little Wonders is a family-centric kaupapa, with the focus on learning through play. By offering a wide range of open-ended resources which value children's independent choices and provide provocations to entice creative play, children are encouraged to express and explore their working theories.

Little Lights has Christian values and beliefs woven into all aspects of daily interactions and learning.

Our Teaching Team

We have structured the team to include four teaching and learning development managers across New Zealand to lift the practice and learning outcomes for all our children. The focus for this team is to further develop a team of fully certificated, skilled practitioners, with experience in facilitation and communication to extend the curriculum goals and guidelines for Evolve. They will be active researchers in particular areas to enable them to remain current and up-to-date with legislation and to feed this to the broader team. Our teaching and learning development team will ensure that this is structured and that clear frameworks are developed.

We aim to support all our teaching staff on planning, assessment and evaluation, model best practice and complete observations to support teacher appraisal processes. We actively monitor and facilitate professional development on all aspects of teaching and learning to ensure that there is consistency in delivery across all our services.

Evolve seeks to continuously improve and deliver high quality learning and care to all children throughout the centres. In support of this objective we will work to further extend the teaching and learning team with curriculum champions.

Childcare Options Provided by Evolve

Enquiry-based learning

Our Active Explorers centres are a group of family-orientated, high quality vibrant and stimulating ECE centres where creative thinking is celebrated through enquiry-based learning.

Here the love of learning is genuinely lived out. The busy, vibrant hum that greets you when you enter an Active Explorers learning centre tells you you're in a place where children are engaged and absorbed and loving it.

Find us online: www.activeexplorers.co.nz
or on Facebook: @ActiveExplorers

Community-based learning

Learning Adventures are community-based, value-orientated ECE centres. These centres offer a warm, caring environment where children's well-being comes first. Here the children are loved and nurtured, and learning is adventurous and experiential.

These centres are a vital link in the communities they serve, places where we respect the diversity of children, backgrounds and ethnicity, and where whanau are very welcome.

Learning Adventures is where we come together, and the children learn to be confident adventurers, with a strong connection to Aotearoa.

Find us online: www.learningadventures.co.nz
or on Facebook: @learningadventuresnz

Montessori-based learning

Our warm and welcoming Little Earth Montessori centres follow the teaching principles of Maria Montessori, helping nurture learners who are socially, academically and emotionally well-developed and ready for life's challenges.

Each of our centres is an appealing, purpose-built environment. We support our highly qualified teachers by resourcing each centre with high quality, carefully selected Montessori materials that support our children's holistic learning experience.

Find us online: www.littleearth.co.nz
or on Facebook: @LittleEarthMontessoriNZ

Christian philosophy

At Little Lights our Christian philosophy forms the foundation of who we are and what we do. Christian values and beliefs are woven into all aspects of our daily interactions and learning. We aim to create a caring and fun environment where each child feels secure, loved and respected.

Find us online: www.littlelights.co.nz

Partnership-based learning

Little Wonders welcomes you and your child to what we trust will be an extension of your home. By working together we provide an environment that promotes quality childcare and education. We take great pride in our high quality care, facilities and the positive outcomes we generate for children.

Our childcare centres provide excellent facilities, quality educational equipment and programmes and well-qualified and caring teaching staff.

Find us online: www.littlewonders.nz
or on Facebook: @Littlewondersnz

Child-led learning

Lollipops is a family-centred brand. These are high quality centres, with a natural theme. This is a uniquely New Zealand experience where your children blossom in partnership with our dedicated teachers, learning through Ako principles.

Ako is inspired by the 'Reggio' teaching philosophy, which has the natural development of a child as its key pillar. With Reggio, children must have some control over the direction of their learning in partnership with their teacher and be able to learn through experiences observation and exploration, rather than simply receive instruction. It's a relationship of mutual respect.

Find us online: www.lollipopseducare.co.nz
or on Facebook: @LollipopsEducare

Research-led learning

Pascals are inspirational places of learning for your child. These are Evolve's centres of excellence, where we implement and lead research into best practice ECE. Pascals pioneers the very best enquiry-based learning; here we nurture our innovators and thinkers of tomorrow!

Pascals uses the internationally acclaimed and forward thinking New Zealand early education curriculum Te Whariki as the basis for our interaction and teaching.

Find us online: www.pascalselc.co.nz
or on Facebook: @Pascalselc

The joy of learning lives here.

Evolve Education Group Limited

Consolidated Financial Statements
For the Year Ended 31 March 2018

The Directors present the Consolidated Financial Statements of Evolve Education Group Limited, for the year ended 31 March 2018

The Consolidated Financial Statements presented are signed for and on behalf of the Board and were authorised for issue on 28 May 2018

Alistair Ryan	**Anthony Quirk**
Chair	Chair of Audit and Risk Committee
28 May 2018	28 May 2018

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 MARCH 2018

$'000	Note	YEAR 31 MARCH 2018	YEAR 31 MARCH 2017
Revenue		158,953	151,439
Other income		-	184
Total income		**158,953**	**151,623**
Expenses			
Employee benefits expense	5	(92,173)	(82,675)
Building occupancy expenses	5	(22,961)	(20,332)
Direct expenses of providing services		(18,070)	(16,467)
Acquisition expenses	11	(102)	(714)
Integration expenses	11	(39)	(624)
Depreciation	9	(2,622)	(2,027)
Amortisation	12	(619)	(602)
Impairment expense	9, 12,13	(13,890)	-
PORSE GST settlement	6	(3,000)	-
Other expenses	5	(4,118)	(4,558)
Total expenses		**(157,594)**	**(127,999)**
Profit before net finance expense and income tax		**1,359**	**23,624**
Finance income	5	47	104
Finance costs	5	(1,641)	(1,366)
Net finance expense	5	(1,594)	(1,262)
(Loss)/ Profit before income tax		**(235)**	**22,362**
Income tax expense	7	(3,978)	(6,489)
(Loss)/ Profit for the year		**(4,213)**	**15,873**
Other comprehensive income		-	-
Total comprehensive (loss)/income attributed to the owners of the Company		**(4,213)**	**15,873**
Earnings per share			
Basic (and diluted) earnings per share (cents)	20	(2.4)	8.9

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

Consolidated Statement of Movements in Equity

FOR THE YEAR ENDED 31 MARCH 2018

$'000	Note	ISSUED SHARE CAPITAL	RETAINED (DEFICIT)/ EARNINGS	TOTAL
As at 31 March 2016		**157,364**	**3,369**	**160,733**
Total comprehensive income		**-**	**15,873**	**15,873**
Shares issued under Dividend Re-investment Plan	17	655	-	**655**
Share issue costs relating to shares issued	17	(12)	-	**(12)**
Executive share based payment	17	99	-	**99**
Dividends paid	19	-	(8,677)	**(8,677)**
As at 31 March 2017		**158,106**	**10,565**	**168,671**
Total comprehensive loss		**-**	**(4,213)**	**(4,213)**
Shares issued under Dividend Re-investment Plan	17	1,058	-	**1,058**
Share issue costs relating to shares issued	17	(15)	-	**(15)**
Dividends paid	19	-	(8,926)	**(8,926)**
As at 31 March 2018		**159,149**	**(2,574)**	**156,575**

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

Consolidated Statement of Financial Position

AS AT 31 MARCH 2018

$'000	Note	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
Current assets			
Cash and cash equivalents	8, 22	5,362	4,095
Current income tax receivable		552	-
Other current assets		1,788	1,924
Total current assets		**7,702**	**6,019**
Non-current assets			
Property, plant and equipment	9	8,586	5,742
Deferred tax asset	7	1,636	840
Intangible assets	12	207,170	212,121
Total non-current assets		**217,392**	**218,703**
Total assets		**225,094**	**224,722**
Current liabilities			
Trade and other payables	14	10,019	10,376
Current income tax liabilities		-	841
Funding received in advance	15	17,864	18,052
PORSE GST settlement payable	6	1,500	-
Employee entitlements	16	6,836	6,582
Total current liabilities		**36,219**	**35,851**
Non-current liabilities			
Borrowings	21, 22	32,300	20,200
Total non-current liabilities		**32,300**	**20,200**
Total liabilities		**68,519**	**56,051**
Net assets		**156,575**	**168,671**
Equity			
Issued share capital	17	159,149	158,106
Retained (deficit)/earnings		(2,574)	10,565
Total equity		**156,575**	**168,671**

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

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 MARCH 2018

$'000	Note	YEAR 31 MARCH 2018	YEAR 31 MARCH 2017
Cash flows from operating activities			
Receipts from customers (including Ministry of Education funding)		159,186	151,889
Payments to suppliers and employees		(137,219)	(123,114)
PORSE GST settlement	6	(1,500)	-
Taxes paid		(6,198)	(6,329)
Interest received		47	104
Net cash flows from operating activities	23	**14,316**	**22,550**
Cash flows from investing activities			
Payments for purchase of businesses	11	(9,892)	(21,678)
Payments for release of retentions		(203)	(115)
Receipts from sale of joint venture		-	1,628
Receipts from sale of business		100	-
Payments for software, property, plant and equipment		(5,630)	(1,872)
Net cash flows from investing activities		**(15,625)**	**(22,037)**
Cash flows from financing activities			
Share issue costs	17	(15)	(12)
Interest paid on borrowings		(1,641)	(1,343)
Bank borrowings drawn	22	117,500	198,340
Bank borrowings repaid	22	(105,400)	(224,005)
Dividends paid	19	(7,868)	(8,022)
Net cash flows from financing activities		**2,576**	**(35,042)**
Net cash flows	22	**1,267**	**(34,529)**
Cash and cash equivalents at beginning of period	8	4,095	38,624
Cash and cash equivalents at end of period	8	**5,362**	**4,095**

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

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Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

1. Reporting Entity

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

The Group's principal activities are to invest in the provision and management of a high quality ECE service which currently gives parents and caregivers the option of which service best suits their child's learning and care needs (see Note 4, Segment Information). Information on the Group's structure is provided in Note 10.

2. Basis of Preparation

Statement of Compliance

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

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

The financial statements for the year ended 31 March 2018 were approved and authorised for issue by the Board of Directors on 28 May 2018.

Going Concern

The financial statements have been prepared on a going concern basis. From time to time and mainly due to funding received in advance from the Ministry of Education and employee entitlements the current liabilities may exceed current assets. The Group has funding arrangements in place (as per Note 21) with its bank to meet all its current obligations. Accordingly, the preparation of the financial statements on a going concern basis is appropriate.

Basis of Measurement

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

Functional and Presentation Currency

These financial statements are presented in New Zealand Dollars ($) which is the Group's functional and presentation currency. Unless otherwise stated, financial information has been rounded to the nearest thousand dollars ($'000).

2. Basis of Preparation (continued)

Estimates and Judgements

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

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

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

Business combinations
As discussed in note 3(a), business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the Group taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

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

- Brand valuations require an assessment of the appropriate valuation methodology and in the case of the Group the expected life of the brand names, the forecast sales for comparable branded services if available or, if not, branded sales for “proxy” industries, an appropriate royalty rate and discount factors to be applied to the forecast royalty stream.
- Fixed life intangible assets (for example, software, customer lists) require an assessment of the appropriate valuation methodology and depending on the methodology adopted the Group must make assessments including likely replacement costs, estimated useful lives of the assets, relevance of customer databases to the Group and the price the Group is willing to pay per customer/contract.

Goodwill and other indefinite life intangible assets
The Group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in notes 3(h) and 3(l) below. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows. Further detail on the assumptions applied are included in Note 13.

2. Basis of Preparation (continued)

Identification of Cash Generating Units
In order to complete the impairment review referred to above, the Group must identify the individual cash generating units ("CGUs") that best represent the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Goodwill in particular does not generate cash flows in its own right and therefore it must be allocated to a CGU for goodwill impairment testing purposes. Identifying CGUs requires judgement and must be at the lowest level to minimise the possibility that impairments of one asset or group will be masked by a high-performing asset. The Group has considered all factors and assessed that the operating segments identified at Note 4 best represent the CGU's for impairment testing purposes.

Recovery of deferred tax assets
Deferred tax assets are recognised for deductible temporary differences only if the Group considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses (refer Note 7).

New Standards and Interpretations Not Yet Adopted

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

A number of new standards, amendments to standards and interpretations have been approved but are not yet effective and have not been adopted by the Group for the period ended 31 March 2018. The Group's assessment and expected impact of these Standards is set out below:

NZ IFRS 9: Financial Instruments

Nature of change
NZ IFRS 9 addresses the classification, measurement and recognition of financial assets and liabilities. The standard introduces new rules for hedge accounting and a new impairment model for financial assets. The NZ IFRS 9 impairment requirements are based on an expected credit loss model, replacing the incurred loss methodology under the current standard (NZ IAS 39).

Potential impact

- There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities.
- The new hedge accounting rules are not applicable given the Group does not have any hedging relationships.
- The Group intends to apply the simplified approach to recognise lifetime expected credit losses for its trade receivables. Based on the assessment undertaken to date, the Group anticipates that only parental debtors (held at amortised cost) will be impacted. It is anticipated that the application of the expected credit loss model will result in an immaterial transition adjustment that will be recognised in opening retained earnings as permitted by the standard. It is not expected that there will be an impact to future earnings as a result of implementation of IFRS 9.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

Date of adoption
NZ IFRS 9 is effective for reporting periods beginning on or after 1 January 2018. The Group will apply the new rules from 1 April 2018 (i.e. effective for the financial year ending 31 March 2019), with the practical expedients permitted under the standard.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

2. Basis of Preparation (continued)

New Standards and Interpretations Not Yet Adopted (continued)

NZ IFRS 15: Revenue from Contracts with Customers

Nature of change

NZ IFRS 15 replaces the current revenue recognition guidance in NZ IAS 18 Revenue which covers contracts for the sale of goods and services and NZ IAS 11 Construction Contracts.

The new standard is based on the principle that revenue is recognised to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services . The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Potential impact

Management are currently completing their assessment of the impact of this standard. The assessment to date has focused on segregating the different revenue streams that exist within the Group. Based on the assessment performed to date, the Group expects adoption of the new standard to have the following impact:

- No impact on ECE Centre Ministry of Education funding or Childcare fees (refer note 3(c) for description of the current accounting for revenue streams).
- Management are assessing the full impact of the new standard on its Home-Based ECE revenue streams, specifically education income. However, given the nature of these revenue streams, it is expected that there will be no significant impact on the consolidated financial statements from the adoption of NZ IFRS 15. Management are still reviewing the appropriate classification within the Consolidated Statement of Comprehensive Income of certain Home-Based revenue streams.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures.

Date of adoption

NZ IFRS 15 is effective for reporting periods beginning on or after 1 January 2018. The Group intends to adopt the standard for the year ended 31 March 2019 using the modified retrospective approach. This means that the cumulative impact of the adoption (if any) will be recognised in retained earnings as of 1 April 2018 and that comparatives will not be restated.

NZ IFRS 16: Leases

Nature of change

NZ IFRS 16 replaces all existing lease requirements in NZ IAS 17 Leases. It will result in almost all leases, where the Group is a lessee, being recognised in the Consolidated Statement of Financial Position, as the distinction between operating and finance leases is removed. Under the new standard, a lessee is required to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The income statement will also be impacted by the recognition of an interest expense and a depreciation expense and the removal of the current rental expense currently recognised within 'building occupancy expenses'.

The standard includes two recognition exemptions for lessees, short-term (those with a term of 12 months or less) and low-value leases (such as leases of laptops).

Potential impact

The standard will affect the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of $139m, see note 24. The Group is in the process of identifying the current operating lease contracts that will be in the scope of NZ IFRS 16 at transition by reviewing and analysing the terms of these contracts. The Group has not quantified the effect of the new standard, however the following impacts are expected:

- the total assets and liabilities on the Consolidated Statement of Financial Position will increase with a decrease in total net assets, due to the reduction of capitalised asset being on a straight-line basis whilst the liability is reduced by the principal amount of repayments. Net current assets will show a decrease due to an element of the liability being disclosed as current liability;

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

2. Basis of Preparation (continued)

New Standards and Interpretations Not Yet Adopted (continued)

NZ IFRS 16: Leases (continued)

Potential impact (continued)

- interest expense will increase due to the unwinding of the effective interest rate implicit in the lease. Interest expense will be greater earlier in a lease life due to the higher principal value causing profit variability over the course of a lease's life. This effect may be partially mitigated due to number of leases held in the Group at different stages of the lease's term; and
- operating cash flows will be higher as repayment of the principal portion of all lease liabilities will be classified as financing activities. There will be no cash effect on the Group and the change is for financial reporting purposes only.

Date of adoption

NZ IFRS 16 is effective for reporting periods beginning on or after 1 January 2019. At this stage, the Group intends to adopt the simplified transition approach in the year ending 31 March 2020.

3. Significant Accounting Policies

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

(a) Basis of Consolidation

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as:

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

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

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

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

3. Significant Accounting Policies (continued)

(a) Basis of Consolidation (continued)

Business combinations (continued)

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

Business combinations are initially accounted for on a provisional basis. The Group retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

Subsidiaries

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

Assets held for sale

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

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

Transactions eliminated on consolidation

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

3. Significant Accounting Policies (continued)

(b) Determination of Fair Values

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

Intangible assets

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

The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

(c) Revenue

Revenues are recognised when the amount of revenue can be reliably measured, it is probable that the future economic benefits will flow to the Group, and specific criteria have been met for each of the Group's activities as described below. In all cases, the Group assesses revenue arrangements against specific criteria to determine if it is acting as the principal or agent in a revenue transaction. In an agency relationship only a portion of the revenue received on the Group's own account is recognised as revenue.

Ministry of Education funding

Ministry of Education funding 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. Income receivable from the Ministry of Education by way of a wash-up payment is recognised as an asset, and is netted off against the income received in advance.

Childcare fees

Fees paid by government (childcare benefit) or parents are recognised as and when a child attends, or was scheduled to attend, a childcare facility or receives home-based care.

Education income

Revenue from the provision of tertiary education is recognised as the service is rendered.

Interest income

Interest income is recognised in the Consolidated Statement of Comprehensive Income using the effective interest method.

3. Significant Accounting Policies (continued)

(d) Taxation

Tax expense

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

Current tax

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

Deferred tax

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

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

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

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

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

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

(e) Foreign Currency Transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date.

Foreign exchange gains and losses resulting from the settlement of the above are recognised in the Consolidated Statement of Comprehensive Income.

3. Significant Accounting Policies (continued)

(f) Dividends

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

(g) Property, Plant and Equipment

Recognition and measurement

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

Depreciation

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

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

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

(h) Intangible Assets

Goodwill

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

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

Other intangible assets

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

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

3. Significant Accounting Policies (continued)

(h) Intangible Assets (continued)

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the Consolidated Statement of Comprehensive Income as incurred.

(i) Leased Assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and are not recognised in the Consolidated Statement of Financial Position.

(j) Financial Instruments

Non-derivative financial assets

The Group initially recognises loans and receivables on the date that they are originated.

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

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period; these are classified as non-current assets.

Loans and receivables comprise cash and cash equivalents and trade and other receivables, included in other current assets.

Cash and cash equivalents

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

Non-derivative financial liabilities

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

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Financial liabilities comprise borrowings, bank overdrafts, trade and other payables and PORSE GST settlement payable.

3. Significant Accounting Policies (continued)

(j) Financial Instruments (continued)

Non-derivative financial liabilities (continued)

Trade and other payables

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

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

(k) Share capital

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

(l) Impairment

Non-derivative financial assets

A financial asset not carried at fair value through profit and loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that the loss event(s) had an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor and adverse changes in the payment status of debtors.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and indefinite-life intangible assets are tested annually for impairment. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount, refer to note 13.

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

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

3. Significant Accounting Policies (continued)

(m) Employee Benefits

Short-term employee benefits

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

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

The liabilities for wages and salaries and annual leave expected to be settled within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Defined contribution plan (KiwiSaver)

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

(n) Expenses

Operating lease payments

Payments made under operating leases are recognised in the Consolidated Statement of Comprehensive Income on a straight-line basis over the term of the lease. Lease incentives received are recognised in the Consolidated Statement of Comprehensive Income over the lease term as an integral part of the total lease expense.

Finance expenses

Finance expenses comprise interest expense on borrowings and establishment fees. All borrowing costs are recognised in the Consolidated Statement of Comprehensive Income using the effective interest method.

Share issue costs

Certain costs have been incurred in relation to the issue of shares. These costs are directly attributable to the Group issuing equity instruments and include amounts paid to legal, accounting and other professional advisers. These costs have been accounted for as a deduction from equity.

(o) Consolidated Statement of Cash Flows

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

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

3. Significant Accounting Policies (continued)

(p) Segment Reporting

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

(q) Earnings Per Share

Basic and diluted earnings per share

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

(r) Share Based Payments

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

The cost of equity-settled transactions is recognised, together with a corresponding increase to the share based payments reserve within equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the best estimate of the number of equity instruments that will ultimately vest. The expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

(s) Goods and Services Tax

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

(t) Comparative balances

Comparative balances within the Consolidated Statement of Comprehensive Income, Consolidated Statement of Cash Flows and its related notes have been reclassified to conform with changes in presentation and classification adopted in the current period. The impact of these changes were not material.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

4. Segment Information

The Group has two reportable operating segments, as described below, which are the strategic business models the Group invests in within the early childhood education ("ECE") industry in New Zealand. The Group operates entirely within New Zealand. Each segment is managed separately. For each of the segments, the Group's Chief Executive Officer ("CEO" and the "Chief Operating Decision Maker") reviews internal management reports at least on a monthly basis. The following summary describes the current operations in each of the Group's reportable segments:

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

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

No operating segments have been aggregated to form the above reportable operating segments. The Group accounting policies are applied consistently to each reporting segment.

Other operations include ECE Management, a non-reportable segment, whereby the Group provides management and back-office expertise to ECE centres but it does not own the centre. This activity does not meet any of the quantitative thresholds for determining reportable segments and as such it has been included as an unallocated amount. Unallocated amounts also represent other corporate support services, acquisition and integration costs.

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.

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

Underlying EBITDA reflects a number of adjustments that are defined as:

- **Acquisition expenses** – in acquiring the businesses and net assets in Note 11 the Group incurred certain expenses directly related to those acquisitions including agents' commissions, legal fees, financing fees and financial, tax and operational due diligence fees.
- **Integration expenses** – third party costs associated with the integration of the businesses acquired. In 2017, they included the employment costs of the Group's acquisition and integration team. As fewer centres have been acquired in 2018, no employment costs have been allocated to integration expenses for this year.
- **Material non-recurring items** – one off or non recurring in nature. These are items that have not occurred in the recent years and are not forecast to occur in the future, such as impairment expense and PORSE GST settlement.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

4. Segment Information (continued)

31 March 2018	Note	ECE Centres $'000	Home-based ECE $'000	Unallocated $'000	Consolidated $'000
Revenue		137,999	20,558	396	158,953
Total income		**137,999**	**20,558**	**396**	**158,953**
Operating expenses		**(109,994)**	**(19,677)**	**(7,651)**	**(137,322)**
Underlying EBITDA		**28,005**	**881**	**(7,255)**	**21,631**
Acquisition expenses		-	-	(102)	(102)
Integration expenses		-	-	(39)	(39)
Material non-recurring items:					
PORSE GST Settlement	6	-	(3,000)	-	(3,000)
Impairment expense	9,12,13	(957)	(12,933)	-	(13,890)
EBITDA		**27,048**	**(15,052)**	**(7,396)**	**4,600**
Depreciation	9	(2,373)	(173)	(76)	(2,622)
Amortisation	12	(60)	(218)	(341)	(619)
Earnings before interest and tax		**24,615**	**(15,443)**	**(7,813)**	**1,359**
Net finance expense		-	-	(1,594)	(1,594)
Reportable segment profit/(loss) before tax		**24,615**	**(15,443)**	**(9,407)**	**(235)**
Total assets		**218,364**	**3,289**	**3,441**	**225,094**
Total liabilities		**(22,947)**	**(9,289)**	**(36,283)**	**(68,519)**

Included within Revenue is revenue from the Ministry of Education totalling $108.0m for the year (2017: $104.5m).

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

4. Segment Information (continued)

31 March 2017	Note	ECE Centres $'000	Home-based ECE $'000	Unallocated $'000	Consolidated $'000
Total revenue		**126,495**	**24,060**	**884**	**151,439**
Other income		24	-	160	184
Total income		**126,519**	**24,060**	**1,044**	**151,623**
Operating expenses		**(95,542)**	**(21,449)**	**(7,041)**	**(124,032)**
Underlying EBITDA		**30,977**	**2,611**	**(5,997)**	**27,591**
Acquisition expenses		-	-	(714)	(714)
Integration expenses		-	-	(624)	(624)
EBITDA		**30,977**	**2,611**	**(7,335)**	**26,253**
Depreciation	9	(1,715)	(249)	(63)	(2,027)
Amortisation	12	(60)	(244)	(298)	(602)
Earnings before interest and tax		**29,202**	**2,118**	**(7,696)**	**23,624**
Net finance expense		-	-	(1,262)	(1,262)
Reportable segment profit/(loss) before tax		**29,202**	**2,118**	**(8,958)**	**22,362**
Total assets		**204,561**	**16,819**	**3,342**	**224,722**
Total liabilities		**(22,491)**	**(10,369)**	**(23,191)**	**(56,051)**

Other income for the year ended March 2017 includes $160k from the reversal of a contingent consideration provision relating to the acquisition of an ECE centre in 2015.

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

Other expenses

$'000	Note	YEAR 31 MARCH 2018	YEAR 31 MARCH 2017
Included in other expenses are:			
Audit fees	26	213	205
Directors' fees	25	479	385
Other items		3,426	3,968
Total other expenses		**4,118**	**4,558**

Other items includes corporate and support office costs not already disclosed separately. They include travel expenses, legal costs not relating to the acquisition of businesses in Note 11, consultancy costs and general office expenses.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

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

Building occupancy expenses

Building occupancy expenses of $23.0m (2017: $20.3m) include $21.1m (2017: $18.6m) of expenditure in relation to minimum operating lease payments.

Employee benefits expense

	YEAR 31 MARCH 2018	YEAR 31 MARCH 2017
$'000		
Wages and salaries	87,078	78,078
Kiwisaver contributions	2,205	1,946
Payments to agency contractors	1,612	1,029
Other employee benefits expense	1,278	1,622
Total employee benefits expense	**92,173**	**82,675**

Net finance expense

	YEAR 31 MARCH 2018	YEAR 31 MARCH 2017
$'000		
Interest received		
Bank deposits	47	104
Total interest received	**47**	**104**
Interest expense		
Interest on borrowings	(1,641)	(1,366)
Total interest expense	**(1,641)**	**(1,366)**
Net finance expense	(1,594)	(1,262)

6. PORSE GST Settlement

During the year the Group reached formal agreement with the Inland Revenue Department (IRD) in respect of various taxation matters relating to the Group's wholly owned PORSE In Home Childcare business (PORSE).

The settlement agreement with the IRD requires PORSE to pay $3.0 million to the IRD and ensures that all current areas of discussion between IRD and the Group are closed off.

The Group previously reported this matter as a contingent liability as at 31 March 2017, then recorded a $3.0 million provision in the Consolidated Statement of Financial Position in its interim report for the six months ended 30 September 2017. $1.5m of the total amount payable has been paid as at 31 March 2018, with the remaining balance due in the year to 31 March 2019.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

7. Taxation

Income tax expense

The major components of income tax expense for the period are:

$'000	YEAR 31 MARCH 2018	YEAR 31 MARCH 2017
Current income tax:		
Current income tax expense	4,988	6,609
Prior year adjustments	(214)	(184)
	4,774	6,425
Deferred tax:		
Relating to origination and reversal of temporary differences	(943)	(106)
Prior year adjustments	147	170
	(796)	64
Total income tax expense	**3,978**	**6,489**

Reconciliation of tax expense

Tax expense is reconciled to accounting profit as follows:

$'000	YEAR 31 MARCH 2018	YEAR 31 MARCH 2017
Profit before income tax	(235)	22,362
At statutory income tax rate of 28%	**(66)**	**6,261**
Non-assessable income and non-deductible expenses for tax purposes:		
Impairment of goodwill	3,236	-
PORSE GST settlement	840	-
Non-deductible expenses	35	242
Prior year adjustments	(67)	(14)
Total income tax expense	**3,978**	**6,489**

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

7. Taxation (continued)

Deferred tax

Deferred tax relates to the following:

	31 MARCH 2018			31 MARCH 2017		
	Consolidated Statement of Comprehensive Income	Arising from Aquisition of Businesses	Consolidated Statement of Financial Position	Consolidated Statement of Comprehensive Income	Arising from Aquisition of Businesses	Consolidated Statement of Financial Position
$'000						
Property, plant and equipment	80	-	1,363	(48)	118	1,283
Intangible assets	587	-	(942)	66	-	(1,529)
Employee entitlement provisions	26	-	921	58	-	895
Other timing differences	103	-	294	(140)	-	191
Deferred tax benefit/ (expense)	**796**	**-**		**(64)**	**118**	
Net deferred tax assets			**1,636**			**840**

Imputation credits

Imputation credits available for use in subsequent reporting periods is $11,111,764 (2017: $9,053,076), including imputation credits that will arise from the payment of the amount of the provision for income tax. No dividends are provided for or receivable at balance date that would affect the available imputation credits at balance date.

8. Cash and Cash Equivalents

	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
$'000		
Cash at banks and on hand	3,647	1,968
Short-term deposits	1,715	2,127
Total cash and cash equivalents	**5,362**	**4,095**

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and 3 months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

9. Property, Plant and Equipment

31 March 2018		Land	Buildings	Plant and Equipment	Office Furniture and Fittings	Leasehold Improve-ments	Motor Vehicles	Work in Progress	Total
$'000	**Note**								
Cost									
Opening balance		-	-	453	7,796	1,939	313	278	10,779
Additions/Transfers		725	2,195	208	689	1,301	17	93	5,228
Acquisition of businesses	11	-	-	66	642	54	-	-	762
Disposals		-	-	(12)	(93)	(68)	(117)	-	(290)
Closing Balance		**725**	**2,195**	**715**	**9,034**	**3,226**	**213**	**371**	**16,479**
Depreciation and impairment									
Opening balance		-	-	(165)	(4,332)	(444)	(96)	-	(5,037)
Depreciation charge for period		-	(18)	(148)	(1,763)	(636)	(57)	-	(2,622)
Disposals		-	-	5	63	9	68	-	145
Impairment expense	13	-	-	-	(174)	(166)	(39)	-	(379)
Closing balance		**-**	**(18)**	**(308)**	**(6,206)**	**(1,237)**	**(124)**	**-**	**(7,893)**
Net book value		**725**	**2,177**	**407**	**2,828**	**1,989**	**89**	**371**	**8,586**

In the current year, $2.9m of centre land and buildings were acquired. The land and buildings were previously leased by the Group for centre operational purposes.

31 March 2017		Land	Buildings	Plant and Equipment	Office Furniture and Fittings	Leasehold Improve-ments	Motor Vehicles	Work in Progress	Total
$'000	**Note**								
Cost									
Opening balance		-	-	276	6,996	931	419	371	8,993
Additions/Transfers		-	-	92	655	1,100	44	(137)	1,754
Acquisition of businesses		-	-	90	466	19	21	44	640
Disposals		-	-	(5)	(321)	(111)	(171)	-	(608)
Closing Balance		**-**	**-**	**453**	**7,796**	**1,939**	**313**	**278**	**10,779**
Depreciation and impairment									
Opening balance		-	-	(72)	(3,094)	(153)	(172)	-	(3,491)
Depreciation charge for period		-	-	(94)	(1,502)	(364)	(67)	-	(2,027)
Disposals		-	-	1	264	73	143	-	481
Closing balance		**-**	**-**	**(165)**	**(4,332)**	**(444)**	**(96)**	**-**	**(5,037)**
Net book value		**-**	**-**	**288**	**3,464**	**1,495**	**217**	**278**	**5,742**

A $1.6m reclassification adjustment between cost and accumulated depreciation has been made to the opening balances in the comparative period. There is no impact to the overall net book value of property, plant and equipment.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

10. Group Information

Information about subsidiaries

The consolidated financial statements of the Group include:

Name	Principal Activities	Country of Incorporation	Balance Date	Equity Interest
Evolve Education Group 1 Limited	ECE centre owner	NZ	31 March	100%
Evolve Education Group 2 Limited	ECE centre owner	NZ	31 March	100%
Evolve Education Group 3 Limited	ECE centre owner	NZ	31 March	100%
Evolve Education Group 4 Limited	ECE centre owner	NZ	31 March	100%
Evolve Education Group 5 Limited	ECE centre owner	NZ	31 March	100%
Evolve Education Group 6 Limited	Non-trading	NZ	31 March	100%
Evolve Management Group Limited	Investment company	NZ	31 March	100%
ECE Management Limited	Management services	NZ	31 March	100%
Lollipops Educare Holdings Limited	Investment company	NZ	31 March	100%
Lollipops Educare Limited	Evolve corporate office	NZ	31 March	100%
Lollipops Educare Centres Limited	ECE centre owner	NZ	31 March	100%
Lollipops Educare (Hastings) Limited	ECE centre owner	NZ	31 March	100%
Lollipops Educare (Birkenhead) Limited	ECE centre owner	NZ	31 March	100%
Evolve Home Day Care Limited	Investment company	NZ	31 March	100%
Au Pair Link Limited	Home-care provider	NZ	31 March	100%
PORSE In Home Childcare (NZ) Limited	Home-care provider	NZ	31 March	100%
PORSE Franchising (NZ) Limited	Provides services to PORSE franchisees	NZ	31 March	100%
PORSE Education & Training (NZ) Limited	Education and training provider	NZ	31 March	100%
For Life Education & Training (NZ) Limited	Education and training provider	NZ	31 March	100%

11. Business Combinations

During the 12 months ended 31 March 2018 the Group acquired 7 ECE centres from several separate vendors, for a combined purchase price of $9.9m. Total net assets acquired were $1.0m resulting in goodwill on acquisition of $8.9m. Total acquisition costs incurred during the period were $102k and these are included in the Statement of Comprehensive Income and cash flows from operating activities in the Statement of Cash Flows. No cash was acquired. A summary of the net assets acquired is included in the following table.

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FOR THE YEAR ENDED 31 MARCH 2018

11. Business Combinations (continued)

Asset and liabilities acquired and consideration paid	$'000
Assets	
Other current assets	7
Property, plant and equipment	762
Software	3
Funding receivable	398
	1,170
Liabilities	
Employee entitlements	(15)
Other current liabilities	(118)
	(133)
Total identifiable net assets at fair value	**1,037**
Goodwill arising on acquisition	8,855
Purchase consideration transferred	**9,892**
Purchase consideration	**9,892**

The goodwill of $8.9m predominantly comprises the future earnings potential of bringing together a group of ECE centres under one centrally managed group. Goodwill is allocated to each of the segments identified at Note 13, as appropriate.

At balance date, the acquisitions have contributed revenue of $7.2m and a net profit after tax of $465k to the Group's results before allowing for upfront acquisition expenses and integration costs. As the acquisitions were made at different times during the year it is anticipated these acquisitions would have contributed revenue of $9.5m and a net profit after tax of $665k (excluding upfront and non-recurring acquisition costs of $102k and integration expenses of $39k, but including interest on the purchase price) had they all been acquired on 1 April 2017.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

12. Intangible Assets

31 March 2018 $'000	Note	Customer Lists	Syllabus Material	Management Contracts	Software	Brands	Goodwill	Total
Cost								
Opening balance		301	200	372	1,576	4,787	206,094	213,330
Additions		-	-	-	402	-	-	402
Acquisition of businesses	11	-	-	-	3	-	8,855	8,858
Disposals		-	-	-	-	-	(81)	(81)
Closing Balance		**301**	**200**	**372**	**1,981**	**4,787**	**214,868**	**222,509**
Amortisation and impairment								
Opening balance		(175)	(117)	(217)	(700)	-	-	(1,209)
Amortisation for period		(75)	(50)	(93)	(401)	-	-	(619)
Disposals		-	-	-	-	-	-	-
Impairment expense	13	(27)	(33)	-	(212)	(1,683)	(11,556)	(13,511)
Closing balance		**(277)**	**(200)**	**(310)**	**(1,313)**	**(1,683)**	**(11,556)**	**(15,339)**
Net book value		**24**	**-**	**62**	**668**	**3,104**	**203,312**	**207,170**

31 March 2017 $'000	Note	Customer Lists	Syllabus Material	Management Contracts	Software	Brands	Goodwill	Total
Cost								
Opening balance		301	200	372	1,458	4,787	184,346	191,464
Additions		-	-	-	118	-	-	118
Acquisition of businesses		-	-	-	-	-	21,748	21,748
Closing Balance		**301**	**200**	**372**	**1,576**	**4,787**	**206,094**	**213,330**
Amortisation and impairment								
Opening balance		(100)	(67)	(124)	(316)	-	-	(607)
Amortisation for period		(75)	(50)	(93)	(384)	-	-	(602)
Disposals		-	-	-	-	-	-	-
Closing balance		**(175)**	**(117)**	**(217)**	**(700)**	**-**	**-**	**(1,209)**
Net book value		**126**	**83**	**155**	**876**	**4,787**	**206,094**	**212,121**

13. Impairment Testing of Goodwill and Intangible Assets With Indefinite Lives

Goodwill and brands acquired through business combinations with indefinite lives have been allocated, for impairment testing, to the cash generating units ("CGUs") below, which are also the operating segments. Brands are also assessed for impairment separately.

31 March 2018	ECE Centres	Home-based ECE	ECE Management	Total
$'000				
Goodwill	202,646	-	666	203,312
Brands with indefinite useful lives	3,104	-	-	3,104

31 March 2017	ECE Centres	Home-based ECE	ECE Management	Total
$'000				
Goodwill	194,828	10,600	666	206,094
Brands with indefinite useful lives	3,104	1,683	-	4,787

Impairment expense

In the current year the Group recognised an impairment expense of $13.9m.

The expense recognised the full impairment of Home-based ECE's brands ($1.6m), goodwill ($10.6m), other intangible assets ($0.3m) and property, plant and equipment ($0.4m), totalling $12.9m and was calculated using the value in use basis (using a discount rate of 15.4%). Declining enrolments have reduced the revenue and profitability of this division since the date of acquistion by the Group. Subsequent to year end the Company decided to commence a sales process for the PORSE business unit, which comprises the majority of the Home-based ECE division. It is anticipated that some part of the impaired asset value may be recovered upon completion of a successful sales process.

In addition, an impairment of $1.0m was recognised in respect of the ECE Centres division. Prior to year end, the Group decided to close the operation of a centre.

ECE Centres - Goodwill

The Group performed its annual impairment test at balance date. The recoverable amount of a cash generating unit (CGU) is determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets covering a five year period.

13. Impairment Testing of Goodwill and Intangible Assets With Indefinite Lives (continued)

Key assumptions used in value in use calculations

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

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

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

	31 MARCH 2018 Centres	31 MARCH 2017 Centres
Revenue growth attributable to price (% per annum on average)	1.5%	
Revenue growth attributable to increase in enrolment (% per annum on average)	0.7%	
Total revenue growth (% per annum on average)	2.2%	1.0%
Expense growth (% per annum on average)	2.1%	1.0%
Pre-tax discount rates (%)	15.4%	15.4%
Long term growth rate (%)	2.0%	2.0%

Revenue - Revenue is received from the Ministry of Education and parents/caregivers, which in turn is based on occupancy. It is assumed the Ministry of Education continues to support ECE to the value of approximately 65% of ECE revenue earned. If the Government reduces its funding it could lead to the increased requirement of parents and caregivers to make up the difference. If Government funding was to decrease, management would need to initiate appropriate responses to maintain profitability. The assumptions reflect the impact of future increases in funding as announced by the Government.

Expenses - The estimate of percentage growth in expenses includes the weighted average of expected increase in wages and other operating expenses such as operating lease costs. Management forecasts other expenses based on the current structure of business, adjusting for inflationary increases and expected increases in occupancy but not reflecting any further cost savings measures.

Pre-tax discount rates – The discount rates represent the current market assessment of the risks specific to the CGU, taking into account the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital (WACC). The WACC takes into account both the cost of debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors using the capital asset pricing model. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data. Adjustments to the discount rate are made to factor in the specific amount and timing of the future tax flows in order to reflect a pre-tax discount rate.

Long term growth rate – This rate is based on current inflation rates in New Zealand and forecast or assumed increase in revenues from parents/caregivers and the Government. The rate used is not inconsistent with the long term growth rate experienced industry-wide. Management are not aware of any information to suggest that the growth assumptions are at risk.

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13. Impairment Testing of Goodwill and Intangible Assets With Indefinite Lives (continued)

Sensitivity to changes in key assumptions

ECE Centres - Goodwill

The recoverable amount of the ECE centres CGU is $211m (2017: $234m). This exceeds the carrying amount of the CGU as at 31 March 2018 by $7.9m (2017: $39.1m)

The most sensitive assumption in the calculation of value in use for the ECE Centres CGU is revenue growth. The following summarises the effect of a change in the revenue "base" assumptions, with all other assumptions remaining constant:

$'000	Headroom/ (Impairment)
Enrolment growth +0.5% above base	25,800
Enrolment growth -0.5% under base	(3,480)
Price growth +0.5% above base	33,170
Price growth -0.5% below base	(16,972)

ECE Centres - Brands

The recoverable amount of the ECE Centres was $4.7m (2017: $3.7m) at balance date. The increase in headroom is primarily attributable to an increase in the number of centres trading under the Lollipops brand. The assessment is based on the discounted estimated royalty payments that have been avoided as a result of the brands being owned ("relief from royalty method") using revenue projections from the Group's financial forecasts covering a 12-month period. The pre-tax discount rate applied to cash flow projections is 15.4% (2017: 15.4%) and cash flows beyond the one year period are extrapolated using a 2% (2017: 2%) terminal growth rate that is not inconsistent with the long term growth rate experienced industry-wide. As the recoverable value was in excess of the carrying value management did not identify an impairment for these brands.

The calculation of relief from royalty for ECE Centres brands is most sensitive to the following assumptions:

- Revenue growth - as above, revenue is received from the Ministry of Education and parents/caregivers.
- Royalty rate - the relief from royalty method assumes a royalty rate of 1%.
- Discount rates – the assumptions relating to discount rates are discussed above.
- Long term growth rate – terminal growth rates have been discussed above.

The recovery amount of brands will equal its carrying amount if any one of the key assumptions change to the following, under the assumption that all other factors remain constant:

Revenue growth (% per annum on average)	-34.50%
Royalty rate (% per annum on average)	0.70%
Pre-tax discount rates (%)	22.30%
Long term growth rate (%)	-2.80%

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14. Trade and Other Payables

$'000	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
Trade payables	1,506	877
Amounts accrued in respect of business combinations	-	203
Goods and services tax payable	5,550	5,324
Other payables	2,963	3,972
Total trade and other payables	**10,019**	**10,376**

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 same as their fair values, due to their short term nature.

15. Funding Received in Advance

Represents 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 per year on 1 March, 1 July and 1 November. Each funding round includes 75% of the estimated funding for the four months ahead. At 31 March 2018 funding received in advance relates to April to June 2018. Funding receivable relates to the remaining 25% of funding, adjusted for any changes in occupancy levels, in respect of February and March 2018.

$'000	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
Funding received in advance	21,474	21,853
Funding receivable	(3,610)	(3,801)
Total funding received in advance	**17,864**	**18,052**

16. Employee Entitlements

$'000	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
Employee leave provisions	3,069	2,999
Accrued wages and salaries	3,547	3,363
Other employee entitlements	220	220
Total employee entitlements	**6,836**	**6,582**

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

17. Issued Capital

Authorised shares

	31 MARCH 2018		31 MARCH 2017	
	Number	$'000	Number	$'000
Ordinary shares authorised, issued and fully paid				
Opening balance	178,281,256	158,106	177,579,018	157,364
Ordinary shares issued:				
Issue of shares in relation to dividend reinvestment plan ("DRP")	1,179,340	1,058	702,238	655
Less share issue costs relating to shares issued under DRP	-	(15)	-	(12)
Executive share based payment	-	-	-	99
Closing balance	**179,460,596**	**159,149**	**178,281,256**	**158,106**

18. Capital Management

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

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

Dividend Policy

The current dividend policy of the Group is to pay dividends between 40% and 60% of net profit after tax in respect of the preceding period subject to the discretion of the Board.

Financial Covenants

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

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

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

19. Dividends

Dividends paid during the year

	2018	2017	2018	2017
	Cent per share	Cent per share	$'000	$'000
Interim dividend for the year ended 31 March 2018	2.50		4,455	
Final dividend for the year ended 31 March 2017	2.50		4,471	
Interim dividend for the year ended 31 March 2017		2.50		4,451
Final dividend for the year ended 31 March 2016		2.38		4,226
	5.00	4.88	8,926	8,677

19. Dividends (continued)

Policies

Dividends are paid in cash in accordance with the dividend policy of the Group. The dividends paid were fully imputed.

Supplementary dividends

Supplementary dividends of $0.4m (2017: $0.6m) were paid to shareholders not tax resident in New Zealand on which the Company received a foreign investor tax credit entitlement.

Dividend reinvestment plan

Under the Company's dividend reinvestment plan, holders of ordinary shares may elect to reinvest the net proceeds of cash dividends payable or credited to acquire further fully paid ordinary shares in the Company. In respect of the year ended 31 March 2018, 1,179,340 shares with a total value of $1.1m were issued in lieu of cash dividends (2017: $0.7m).

20. Earnings Per Share (EPS)

Basic and diluted EPS amounts are calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year. The following reflects the income and share data used in the basic and diluted EPS computations:

	YEAR 31 MARCH 2018	YEAR 31 MARCH 2017
(Loss)/Profit attributed to ordinary equity holders of the parent ($'000s)	(4,213)	15,873
Weighted average number of ordinary shares for basic and diluted EPS	178,948,343	178,007,882
Basic (and diluted) earnings per share (expressed as cents per share)	(2.4)	8.9

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of these financial statements.

21. Financial Assets and Liabilities

Financial risk management objectives

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Group's overall level of financial risk is minimal and risk management is carried out by senior finance executives and the Board of Directors.

Market risk

Foreign currency risk
The Group is not exposed to any significant foreign currency risk.

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

21. Financial Assets and Liabilities (continued)

Interest rate risk

The Group's main interest rate risk arises from short-term and long-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The effective interest rate for the current year is 4.06% (2017: 4.42%). An increase or decrease of ±1% in interest rates will result in a ±$405K (2017: ±$309K) effect on profit/ loss before tax.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of cash and cash equivalents as well as the use of loans. At balance date the Group had drawn $32.3m (2017: $20.2m) of the Group's $90.0m lending facilities exposing the Group to interest rate risk. Exposure to interest rate risk is reduced by applying surplus cash against borrowings until such time that the cash is required. This significantly reduces the company's average drawn debt balance during the year.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provision for impairment of those assets, as disclosed in the Consolidated Statement of Financial Position and Notes to the Consolidated Financial Statements. The Group has no significant credit risk exposure. The Standard & Poors credit ratings of the banks where the Group holds cash are all [AA-] (source: www.rbnz.govt.nz).

Liquidity risk

Liquidity risk management requires the Group to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The Group manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Financing arrangements

The Group's financing arrangements comprise the following facilities:

- **Senior revolving facility** - provided by ASB totalling $30.0 million for general corporate and working capital purposes. The facility expires on 30 April 2019. Subsequent to balance date, this facility has been amended and extended to 30 April 2022 (Note 27).
- **Acquisition facility** - provided by ASB totalling $60.0 million for funding of future acquisitions. It expires on 30 April 2019. Subsequent to balance date, this facility has been amended and extended to 30 April 2022 (Note 27).
- **Lease guarantee facility** - provided by ASB for $3.0 million for bonds required for certain leasehold properties.

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 during the period.

21. Financial Assets and Liabilities (continued)

Amounts drawn against the senior revolving and acquisition facilities are:

$'000	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
Facility Limits		
Senior revolving facility	30,000	30,000
Acquisition facility	60,000	60,000
Total lending facilities	**90,000**	**90,000**
Utilisation		
Senior revolving facility	-	-
Acquisition facility	32,300	20,200
Total borrowings	**32,300**	**20,200**
Total unused facilities	**57,700**	**69,800**

The terms of the acquisition facility allow the Group to temporarily apply surplus cash against drawings under the facility to ensure efficient use of cash during the working capital cycle. Cash applied against the facility in this manner is available to be redrawn.

Remaining contractual maturities

The contractual maturity for the Group's financial instrument liabilities (that is, trade payables) is disclosed at Note 14 and in terms of bank borrowings, above. The contractual maturities are based on the undiscounted cash flows of financial liabilities based on the expiry of the facility.

Fair value of financial instruments

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

22. Net Debt Reconciliation

This sets out an analysis of net debt movement for the current year:

$'000	Cash and cash equivalents	Borrowings due after 1 year	Total
Net debt as at 1 April 2017	**4,095**	**(20,200)**	**(16,105)**
Bank borrowings drawn	-	(117,500)	(117,500)
Bank borrowings repaid	-	105,400	105,400
Cash flows	1,267	-	1,267
Net debt as at 31 March 2018	**5,362**	**(32,300)**	**(26,938)**

Net debt as defined in the financial covenants (note 18) also includes any amounts utilised under the Group's lease guarantee facility (note 24).

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

$'000	YEAR 31 MARCH 2018	YEAR 31 MARCH 2017
(Loss)/Profit after tax	(4,213)	15,873
Adjustments for:		
Depreciation and amortisation	3,241	2,629
Impairment expense	13,890	-
Loss on disposal	134	-
Finance expense	1,641	1,366
Deferred tax	(796)	64
Changes in operating assets and liabilities:		
Working capital movements:		
Increase/(decrease) in funding received in advance	(188)	1,734
(Increase)/decrease in other current assets	136	(611)
Increase/(decrease) in trade and other payables	(357)	1,963
(Increase)/decrease in current income tax receivables	(552)	-
Increase/(decrease) in current income tax liabilities	(841)	(445)
Increase/(decrease) in PORSE GST settlement payable	1,500	-
Increase/(decrease) in employee entitlements	254	510
Other items:		
Business combination payment classified as investing	467	(533)
Net cash flows from operating activities	**14,316**	**22,550**

24. Commitments and Contingencies

Operating lease commitments - Group as lessee

The Group has entered into commercial leases on its premises, motor vehicles and IT equipment. Future minimum rentals payable under non-cancellable leases at balance date are:

$'000	YEAR 31 MARCH 2018	YEAR 31 MARCH 2017
Within one year	21,224	20,500
After one year but not more than five years	63,583	62,004
More than five years	53,880	51,179
Total	**138,687**	**133,683**

Guarantees

$2,385,870 (2017: $2,325,915) of the lease guarantee facility disclosed in Note 21 has been utilised.

Notes to the Consolidated Financial Statements

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25. Related Party Transactions

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 Norah Barlow, Alistair Ryan, Gráinne Troute (appointed 1st May 2017), Anthony Quirk (appointed 2nd August 2017), Lynda Reid (appointed 2nd August 2017) and Mark Finlay (ceased his directorship 17th August 2017).
- Mark Finlay was appointed Chief Executive Officer on 1st November 2017 and had been acting in this capacity since 25th August 2017.
- LEP Limited, LEDC Limited, LEP Construction Limited, LEP1 Limited, LEP2 Limited, LEDC1 Limited, Little Wonders Childcare (Aoraki) Limited, Little Wonders Childcare (Timaru) Limited, Little Wonders Childcare (Cromwell) Limited, Little Wonders Childcare (St Kilda) Limited, Little Wonders Childcare (Roslyn) Limited, Little Wonders Childcare (Oamaru) Limited, and Wildfire Consultants Limited, companies that are all associated with Mark Finlay.

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

- Greg Kern ceased his directorship on 17th August 2017.
- Kern Group (Paddington) Pty Limited and Kern Group NZ Limited, companies associated with Greg Kern.
- Alan Wham resigned as Chief Executive Officer on 15th September 2017.
- Shares issued pursuant to the Company's dividend reinvestment plan to Alan Wham (2018: 14,056 shares valued at $13,714, 2017: 27,214 shares valued at $25,857)
- Vivek Singh ceased to be key management personnel in June 2016.

Related party transactions arising during the year:

- Transactions between the Company and its Directors, members of its key management and certain employees can be summarised as follows:
  - **Directors' remuneration** - The Directors' fees pool is currently $500,000 per annum (plus GST, if any), with the amount of fees paid during the period disclosed in the table below. The Directors are also entitled to be paid for reasonable travel, accommodation and other expenses incurred by them in connection with their attendance at Board or Shareholder meetings, or otherwise in connection with the Group's business. Mark Finlay, the Group's Chief Executive Officer, no longer receives directors' fees following his cessation of his directorship on 17th August 2017.

$'000	YEAR 31 MARCH 2018	YEAR 31 MARCH 2017
Alistair Ryan	128	90
Norah Barlow	90	135
Gráinne Troute	82	-
Anthony Quirk	56	-
Lynda Reid	53	-
Greg Kern	37	80
Mark Finlay	33	80
Total Directors' Remuneration	**479**	**385**

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25. Related Party Transactions (continued)

Related party transactions arising during the year (continued):

- **Directors' indemnity and insurance** – the Company has entered into a Deed of Indemnity and Access by Deed Poll under which it has granted indemnities in favour of, and maintains insurance for, its present and future directors' (and directors' of related companies) and certain employees of the Company, in each case to the extent permitted by the Companies Act 1993, the Securities Act 1978 and the Financial Markets Conduct Act 2013.

- **Other transactions with parties related to the Directors' of the Group**:

  - Companies associated with Mark Finlay are the landlord of the Group's head office and fourteen of the Group's ECE centres. Rent of $2,208,000 (2017: $1,161,000 relating to six ECE centres and the head office) has been paid by the Group to the companies associated with Mark Finlay during the period. To facilitate the acquisition of six centre businesses in the year ended 31 March 2018, Mark Finlay and associated interests, acquired the premises out of which these businesses operate and lease these premises to the Group. A further commitment to make future rent payments of $24,235,000 (2017: $3,942,00) over the next 2 to 12 years (depending on the term of each lease) is included in Note 24.
  - Management fee income received from centres related to Mark Finlay of $17,500 (2017: $72,698).
  - Fees for services other than rent paid to various companies related to Mark Finlay were $68,872 (2017: $74,516).
  - Dividends of $1,067,000 (2017: $1,042,000) were paid to Mark Finlay.
  - Shares were issued pursuant to the company's dividend reinvestment plan to Alan Wham (14,056 shares valued at $13,714), Alistair Ryan and Norah Barlow (4,641 shares each valued at $4,038 each).
  - On 1 September 2017, the Group acquired one centre from LEDC Limited, a company that Mark Finlay is a director of and shareholder in, for $1,600,000.
  - As at balance date, the Group had committed to the lease of two new development centres where LEP2 Limited, a company associated to Mark Finlay, will be the landlord.

- **Compensation of key management personnel of the Group**:

$'000	YEAR 31 MARCH 2018	YEAR 31 MARCH 2017
Short-term employee benefits	1,000	865
Total compensation paid to key management personnel	**1,000**	**865**

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

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25. Related Party Transactions (continued)

Related party transactions arising during the year (continued):

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

	AS AT 31 MARCH 2018	AS AT 31 MARCH 2017
Units of shares		
Mark Finlay	21,347,382	21,347,382
Norah Barlow	90,390	85,749
Alistair Ryan	90,390	85,749
Kern Group NZ Limited & Gregory Kern	-	2,347,808
Alan Wham	-	589,518
Vivek Singh	-	321,555
	21,528,162	**24,777,761**

During the year Norah Barlow and Alistair Ryan increased their shareholdings via electing to receive shares under the Group's dividend reinvestment plan.

26. Auditor's Remuneration

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

	YEAR 31 MARCH 2018	YEAR 31 MARCH 2017
$'000		
Audit services:		
Audit of Group consolidated financial statements	183	175
PORSE assurance engagements	30	30
Total audit services	**213**	**205**
Other services provided by PricewaterhouseCoopers:		
Taxation compliance services	40	43
Consultancy services	-	8
Total other services	**40**	**51**

In the prior year, consultancy services relate to advice regarding executive remuneration.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

27. Events After the Reporting Period

Dividend

On 28 May 2018 the Board approved a fully imputed final dividend of $3.6m or 2.0 cents per share in respect of the year ended 31 March 2018. The dividend is payable on 28 June 2018.

Sale of PORSE

Subsequent to balance date, the Company decided that it will commence a sale process for the Company's wholly-owned PORSE in-home childcare and training business.

Financing Arrangements

Subsequent to balance date the terms of the financing arrangements provided by ASB were amended. The key changes are as follows:

- The Senior Revolving facility totalling $30.0m was amended to $25.0m.
- The Acquisition facility totalling $60.0m was amended to $70.0m.
- The expiry date of the facilities was extended from 20 April 2019 to 30 April 2022.

CEO Appointment

On 27 May 2018 Roseanne Graham was appointed to the position of Chief Executive Officer of the Company, replacing Mark Finlay at a date to be agreed.

Independent auditor's report

To the shareholders of Evolve Education Group Limited

The consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 March 2018;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of movements in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements of Evolve Education Group Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 31 March 2018, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

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

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

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

Our firm carries out other services for the Group in the areas of other audit related assurance engagements, agreed procedures over prudential financial reporting and tax compliance services. The provision of these other services has not impaired our independence as auditor of the Group.

PricewaterhouseCoopers, 188 Quay Street, Private Bag 92162, Auckland 1142, New Zealand
T: +64 9 355 8000, F: +64 9 355 8001, pwc.co.nz

Our audit approach

Overview

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

Overall group materiality: $1.0 million, which represents approximately 5% of a 3-year average profit before tax adjusted for impairment and the Porse GST settlement in the year ended 31 March 2018.

We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users. We have excluded impairment losses recognised and the one-off Porse GST settlement, as these are non-recurring items that are not part of normal business operations. We applied a 3-year average of profit before tax due to the volatility experienced in the Group's earnings over this time, arising from acquisition activity and fluctuations in operational performance.

We have determined that there is only one key audit matter being the impairment assessment of goodwill.

Materiality

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

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

Audit scope

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

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

Key audit matter

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

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of goodwill As disclosed in Note 12, the Group has goodwill of $203.3 million as at 31 March 2018, which was recognised on business acquisitions in the current and prior years. Of this balance, $202.6 million relates to the ECE Centres cash-generating unit (CGU). During the year, the Group fully impaired the goodwill balance of $10.6 million in the Home-based ECE business due to underperformance and a continued decline in child enrolments for this CGU. Our audit focused on assessing the carrying value of the goodwill in the ECE Centres CGU due to the judgements and estimates that are involved in determining whether the recoverable amount of the CGU exceeds the carrying value of the CGU's assets and liabilities. In determining the recoverable amount management use a discounted cash flow model on a value-in-use basis. Management considers the recoverable amount calculations are most sensitive to the following key assumptions: • Revenue growth from enrolment and price changes through the forecast period; • Expense growth through the forecast period; • Discount rate; and • Growth rates used to extrapolate cash flows beyond the forecast period. Refer to note 13 of the consolidated financial statements where impairment testing of goodwill is discussed, including the impact on the recoverable amount from small changes in the enrolment and price growth assumptions.	The assessment of goodwill involves significant judgement. We tested management's value-in-use calculations including the inputs and mathematical accuracy of the model and compared it to the relevant net asset value of the CGU. We also assessed the key estimates and assumptions made by management as follows: • Gained an understanding of the business process applied by management in determining whether there are any indicators of impairment in the value of goodwill; • Obtained an understanding of management's forecasting and budgeting process and reviewed the past years' actual performance against budget performance to determine the rigor and accuracy of the budgeting process; • Where appropriate, we understood the key changes between the performance for the year to 31 March 2018 and the budget for the year ending 31 March 2019, in particular key movements in revenue and expenses. We considered these based on: past performance; subsequent changes that have been made within the business; and the increased levels of ECE funding announced by the New Zealand Government on 17 May 2018, effective from 1 January 2019; • Reviewed management's sensitivity analysis over the key assumptions and also considered alternative possible scenarios and their potential impact; • Engaged our internal valuation expert to assess the terminal growth rates and discount rates used against those used by similar market participants and determine whether the rates were within a reasonable range, and • Considered whether the disclosures in the consolidated financial statements were in compliance with the requirements of the accounting standards. Based on the results of our procedures we have nothing to report.

Information other than the financial statements and auditor's report

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact.

Responsibilities of the Directors for the consolidated financial statements

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

This description forms part of our auditor's report.

PwC

pwc

Who we report to

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

The engagement partner on the audit resulting in this independent auditor's report is Richard Day.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants | Auckland
28 May 2018

PwC

Corporate Governance and Statutory Information

Corporate Governance

Evolve Education Group Limited (the "Company") is a New Zealand based and incorporated owner and provider of ECE services whose fully paid ordinary shares are listed on the NZX Main Board and ASX. The Company trades under the ticker EVO on both the NZX and ASX.

The acquisition of securities in the Company may be limited under New Zealand law by the Takeovers Code (which restricts the acquisition of control rights of more than 20% of the Company other than via a takeover offer under the Code) or the effect of the Overseas Investment Act 2005 (which restricts the acquisition of New Zealand assets by overseas persons).

The Company's Board is committed to upholding the highest standards in corporate governance, business behaviour and accountability in order to promote investor confidence. Consistent with this, the Board has adopted and complied with the Corporate Governance Code set out in the NZX Listing Rules except as noted below under Principle 3, and, from listing, has approved various corporate governance policies and charters.

To promote high standards of corporate governance and ethical business conduct, the Company has a clear vision, a set of overarching values, and a range of key policies and procedures to guide the actions of the Company, its Board, senior management and its employees in all areas of the business. Copies of key policies are available on the Company's website (www.evolveeducation.co.nz).

On 31 May 2016, the Company changed its listing category on the ASX to that of an ASX Foreign Exempt Listing and, as a result, it is exempt from complying with the majority of the ASX Listing Rules. Instead the Company is required to primarily comply with the NZX Listing Rules as its home exchange, including in relation to corporate governance.

Principle 1 – Code of Ethical Behaviour

Recommendation 1.1: The board should document minimum standards of ethical behaviour to which the issuer's directors and employees are expected to adhere.

Code of Conduct

The Board recognises the need to observe the highest standards of corporate practice and business conduct. Accordingly, the Board has adopted a formal Code of Conduct to be followed by all directors, senior management and employees. The key aspects of this code are to:

- act with honesty, integrity and fairness and in the best interests of the Company and in the reasonable expectations of shareholders;
- act in accordance with all applicable laws, regulations, policies and procedures;
- have responsibility and accountability; and
- use the Company's resources and property properly.

Recommendation 1.2: An issuer should have a financial product dealing policy which applies to employees and directors.

Share Ownership

The Company's Securities Trading Policy details the Company's policy on, and rules for, dealing in shares and other securities in the Company. The Securities Trading Policy applies regardless of whether the Company's securities are quoted on NZX or ASX and provides that insider trading is prohibited at all times. The policy applies to all directors, officers and employees of the Company, with further more specific and stringent rules also applying to trading in the Company's securities by directors and certain senior employees, or employees performing certain functions.

Corporate Governance and Statutory Information

The Policy also prescribes certain 'black-out' periods in which it is not permissible, subject to a limited number of exceptions, for any officer or employee of the Company to deal in the Company's securities.

The table of directors' shareholdings is included in the Disclosures section page 87.

Principle 2 – Board Composition and Performance

Recommendation 2.1: The Board and issuer should operate under a written charter which sets out the roles and responsibilities of the board. The board charter should clearly distinguish and disclose the respective roles and responsibilities of the board and management.

Board Charter

The Board has adopted a Board Charter which is to be read in conjunction with the constitution of the Company, the Companies Act 1993, the NZX Listing Rules, and the ASX Listing Rules as they apply to entities listed in the ASX Foreign Exempt category.

The Board Charter specifies that the Board is the ultimate decision-making body of the Company and is responsible for setting the tone which determines the culture to permeate the Company's relationships with shareholders, investors, employees, customers, suppliers and the local and business communities. Further, the Board is responsible for setting the strategic direction of the Company and it is responsible for selecting a Chief Executive Officer who is charged with operating the business. The Board also advises, oversees and counsels the CEO, and is ultimately responsible for monitoring the performance of the Company on behalf of all shareholders.

The Board Charter provides guidance on a number of other areas for the Board, including values, Board responsibilities and delegated authorities, responsibilities of individual directors, conflicts of interest, independent advice and compliance with laws and policies.

Role of the Board

The Board has ultimate responsibility for ensuring that the Company is properly managed and to protect and enhance shareholders' interests. The Board's key responsibilities include setting and overseeing the execution of the Company's strategy and supervising management in the operation of the Company's business. In addition to this, the Board is responsible for:

- monitoring the financial performance of the Company, including approving its dividend policies and financial forecasts;
- approving transactions relating to acquisitions and divestments and capital expenditure above delegated authority limits;
- monitoring the Company's compliance and risk management systems;
- providing a specific governance focus on risks relating to the Company's physical operations, health and safety policy, and risk mitigation programmes;
- adopting reporting and disclosure policies and procedures, and monitoring the integrity of such procedures;
- establishing and overseeing succession plans for senior management; and
- providing timely and complete communications to shareholders.

Corporate Governance and Statutory Information

Delegation

The Board has delegated authority for the operations and administration of the Company to the Chief Executive Officer, assisted by senior management. The CEO manages the Company in accordance with the strategy, plans and delegations approved by the Board.

The Board will ensure that, at all times, it has implemented appropriate procedures for the assessment of senior management's performance. All policies and delegated limits of authority are reviewed on a regular basis.

Performance Management

The Board has established a Remuneration and People Committee which is responsible for evaluating the performance of the CEO, and makes recommendations to the Board in relation to remuneration and incentive arrangements for the CEO. During the reporting period, a formal review of the senior management team performance was undertaken by the CEO. The CEO's conclusions and recommendations were then reviewed by the Remuneration and People Committee, and were taken into consideration when setting remuneration and incentive arrangements for the senior management team.

The performance of the Company's CEO and senior management is measured against set criteria including the Company's financial performance, the Company's accomplishment of its strategic objectives and other non-quantitative objectives as determined by the Board and Remuneration and People Committee at the beginning of the year.

Recommendation 2.2: Every issuer should have a procedure for the nomination and appointment of directors to the board.

Composition of the Board

The Company's constitution provides for the Board to consist of a minimum of three directors and a maximum of eight directors. The current composition of the Board and details of the skills, qualifications, experience, expertise and special responsibilities of each current Director is disclosed under the Board of Director profiles.

Selection and Role of Chairperson

The Chair of the Board will be appointed by the directors from time to time, and the terms of office will be at the Board's discretion. The Chair must be an Independent Director.

The role and responsibilities of the Chair include:

- providing leadership to the Board and to the Company;
- ensuring the efficient organisation and conduct of the Board;
- monitoring Board performance annually;
- facilitating Board discussions to ensure core issues facing the Company are addressed;
- briefing all directors in relation to issues arising at Board meetings;
- facilitating the effective contribution and on-going development of all directors;
- promoting consultative and respectful relations between Board members and between the Board and management; and
- chairing Board and shareholder meetings.

Director Independence

The Company's constitution specifies the minimum number of independent directors to be two or, if there are eight or more directors, three or one-third of the total number of directors.

Norah Barlow, Lynda Reid, Anthony Quirk, Gráinne Troute and Alistair Ryan are independent directors, within the meaning of the NZX Listing Rules.

Corporate Governance and Statutory Information

While the Board believes that all boards need to exercise independent judgement, it also recognises that the need for independence is to be balanced with the need for relevant skills, industry experience and a workable board size. The Board believes that it has recruited directors with the skills, experiences and characters necessary to discharge the Board's duties.

Conflicts of Interest

The Company's Conflict of Interest Policy provides guidance regarding the impartial conduct of directors, and identifying and impartially managing any conflicts of interest. Where a Director has a conflict of interest, the Director is obliged to disclose their conflict to the Board, and enter it in the Interests Register, in accordance with the Board Charter. The Conflict of Interest Policy also addresses the extent to which an interested Director may participate in and be present at meetings when the conflict matter is being dealt with.

Nomination and Appointment

The procedures for the appointment and removal of directors are ultimately governed by the Company's constitution. The Board has established a Remuneration and People Committee whose role is to identify and recommend to the Board individuals for nomination as members of the Board taking into account such factors as it deems appropriate, including experience, qualifications, judgement and the ability to work with other directors.

The Board recognises the importance of succession planning and this is considered by the Board and Remuneration and People Committee on an ongoing basis.

Recommendation 2.3: An issuer should enter into written agreements with each newly appointed director establishing the terms of their appointment.

On appointment, each new director signs a written agreement that outlines the terms of their appointment. The agreement covers: expected time commitments, the role of the Board, remuneration, independence requirements, disclosure requirements, shareholding qualification requirements, confidentiality obligations, indemnity and insurance provisions, intellectual property rights and cessation of appointment.

Evolve also has written agreements with executives that set out the terms of their employment.

Recommendation 2.4: Every issuer should disclose information about each director in its annual report or on its website, including a profile of experience, length of service, independence and ownership interests.

Evolve's Director biographies can be found on page 14.

Evolve Director ownership interests can be found on page 87 of this annual report.

Corporate Governance and Statutory Information

Recommendation 2.5: An issuer should have a written diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving diversity (which, at a minimum, should address gender diversity) and to assess annually both the objectives and the entity's progress in achieving them. The issuer should disclose the policy or a summary of it.

Diversity Policy

The Company has adopted a diversity policy and is committed to being an inclusive workplace that embraces and values diversity while always upholding the principle of meritocracy.

The Board believes that embracing diversity in its workforce contributes to the achievement of its corporate objectives (including optimising financial performance in a competitive labour market) and enhances its reputation. It assists the Company to recruit and retain the right people from a diverse pool of talented candidates, which in turn should assist the Company to:

- make more informed and innovative decisions, drawing on the wide range of ideas, experiences, approaches and perspectives that employees from diverse backgrounds, with differing skill sets, bring to their roles; and
- better represent the diversity of its stakeholders and markets.

In order to have a properly-functioning diverse workplace, discrimination, harassment, vilification, dishonesty, inappropriate behaviour and victimisation will not be tolerated within the Company.

Gender Diversity

As noted above, the Board is responsible for monitoring the Company's performance in meeting objectives set out in the Diversity Policy. Information relating to the current representation of female employees of the Company, including holding senior executive positions and on the Board is as follows:

	As at 31 March 2018		As at 31 March 2017	
Position	Women	Men	Women	Men
Board	3 (60%)	2 (40%)	1 (20%)	4 (80%)
Senior Management*	3 (43%)	4 (57%)	3 (43%)	4 (57%)
Company-wide	>96%	<4%	>96.5%	<3.5%

*Senior management includes the CEO and employees who report directly to the CEO. As at 31 March 2018 the senior management team consisted of seven positions.

At balance date the Group employs 2,187 women which represents 96% of the workforce (FY17: 2,406 women which represented 96.5% of the workforce).

Recommendation 2.6: Directors should undertake appropriate training to remain current on how to best perform their duties as directors of an issuer.

Board Access to Information and Advice

All directors have access to the senior management team to discuss issues or obtain information on specific areas in relation to items to be considered at Board meetings or other areas as considered appropriate. Key executives and managers are invited to attend and participate in appropriate sessions at Board meetings. Directors have unrestricted access to the Company's records and information.

Corporate Governance and Statutory Information

Directors are entitled to have access to external auditors, without management present, to seek explanations or additional information and to seek independent professional advice with the Chair's consent, which will not be unreasonably withheld or delayed, and which will be at the Company's expense, to assist them in carrying out their responsibilities.

Director Education

Directors are responsible for ensuring that they remain current in understanding their duties as directors and sector issues.

Recommendation 2.7: The board should have a procedure to regularly assess director, board and committee performance.

The Chair discusses individual performance with directors, while the Board and Board sub-committees self-evaluate their performance against their charter responsibilities, with a commitment to identifying any opportunities for improvement.

Recommendation 2.8: The Chair and the Chief Executive should be different people

The positions of Chair and Chief Executive of Evolve are held by different people.

Principle 3 – Board Committees

The Board has established two sub-committees to assist with the execution of the Board's responsibilities – the Audit and Risk Committee and the Remuneration and People Committee. These committees review and analyse detailed information, policies and strategies which fall within their areas of responsibility and, where appropriate, make recommendations to the full Board. The Committees do not take action or make decisions on behalf of the Board unless specifically authorised to do so by the Board.

The Board may establish additional committees of directors as required.

Recommendation 3.1: An issuer's audit committee should operate under a written charter. Membership on the audit committee should be majority independent and comprise solely of non-executive directors of the issuer. The chair of the audit committee should not also be the chair of the board.

Audit and Risk Committee

The Audit and Risk Committee is responsible for overseeing the risk management, treasury, insurance, accounting and audit activities of the Company, reviewing the adequacy and effectiveness of internal controls, reviewing the performance of external auditors, reviewing the consolidated financial statements, and making recommendations on financial and accounting policies.

The current members of the Audit and Risk Committee are Norah Barlow, Anthony Quirk (Chair appointed October 2017) and Alistair Ryan. The Board is of the belief that the Audit and Risk Committee is appropriately constituted having regard to the scale and complexity of the Company's business and the particular expertise and experience of each current member.

Recommendation 3.2: Employees should only attend audit committee meetings at the invitation of the audit committee.

Under the Audit & Risk Committee Charter, the Chief Executive, Chief Financial Officer and other employees attend committee meetings by invitation.

Corporate Governance and Statutory Information

Recommendation 3.3: An issuer should have a remuneration committee which operates under a written charter (unless this is carried out by the whole board). At least a majority of the remuneration committee should be independent directors. Management should only attend remuneration committee meetings at the invitation of the remuneration committee.

Remuneration and People Committee

The Remuneration and People Committee is responsible for considering new appointments to the Board, overseeing management succession planning, establishing employee incentive plans, reviewing and approving remuneration arrangements for employees, recommending to the Board the remuneration of directors and seeing that the Company and the Board have in place, and follow, policies, procedures and practices with the objective that all laws, rules and requirements applicable to the Company and the directors are complied with.

Under the Remuneration and People Committee charter, the CEO, other executive staff, or such other parties may be asked to attend any meeting of the Committee as considered necessary to provide appropriate information, explanation and assistance as required. No individual employee is permitted to be present when their performance and/or remuneration arrangements are being discussed. The Committee may ask any party to withdraw from any part of any meeting.

The current members of the Remuneration and People Committee are Gráinne Troute (Chair appointed 19 May 2017), Lynda Reid, and Norah Barlow. (Greg Kern Chair until 19 May 2017).

Recommendation 3.4: An issuer should establish a nomination committee to recommend director appointments to the board (unless this is carried out by the whole board), which should operate under a written charter. At least a majority of the nomination committee should be independent directors.

Evolve does not have a separate nomination committee as its functions are carried out by the full Board in line with the responsibilities under the Evolve Board Charter. The procedures for director removals and appointments are governed by the company's constitution and the requirements of the NZX Listing Rules.

Recommendation 3.5: An issuer should consider whether it is appropriate to have any other board committees as standing board committees. All committees should operate under written charters. An issuer should identify the members of each of its committees, and periodically report member attendance.

The board does not consider it necessary to have any other standing board committees.

Board and Committee Meetings

The Board has established a regular schedule of board and committee meetings in order to carry out its obligations under its Board Charter. A summary of the directors' attendances at each of the Board and Committee meetings between 1 April 2017 and the date of approving the financial statements (that is, 28 May 2018), as compared to the number of scheduled meetings that each Director was eligible to attend (in brackets) is shown in the table below.

	Board	Audit and Risk Committee	Remuneration and People Committee
Norah Barlow	12 (12)	5 (5)	3 (3)
Mark Finlay	4 (4)	-	1 (1)
Greg Kern	4 (4)	2 (2)	1 (1)
Alistair Ryan	12 (12)	5 (5)	-
Alan Wham	4 (4)	-	-
Gráinne Troute	11 (11)	-	2 (2)
Anthony Quirk	8 (8)	3 (3)	-
Lynda Reid	8 (8)	-	2 (2)

In addition to scheduled Board meetings, the Board also held other meetings and teleconferences to discuss other company matters as required.

Recommendation 3.6: The board should establish appropriate protocols that set out the procedure to be followed if there is a takeover offer for the issuer including any communication between insiders and the bidder. It should disclose the scope of independent advisory reports to shareholders. These protocols should include the option of establishing an independent takeover committee, and the likely composition and implementation of an independent takeover committee.

In the event of a takeover, the board may form a subcommittee, comprised of non-interested directors which will have the authority to make biding decisions in respect of the process, including:

- retaining legal and financial advisers,
- appointing an independent adviser for the purposes of the Takeovers Code, and
- approving any announcements or communications relating to the potential transaction.

Evolve is in the process of adopting more formal takeovers protocol to document this and expects to be able to confirm full compliance as at 31 March 2019.

Principle 4 – Reporting and Disclosure

Recommendation 4.1: An issuer's board should have a written continuous disclosure policy.

The Board has adopted a Continuous Disclosure Policy to seek to ensure that timely and balanced disclosures are communicated to the market in accordance with the Company's continuous disclosure obligations under the NZX and ASX Listing Rules. The Company changed its ASX listing category from a Standard Listing to an ASX Foreign Exempt Listing effective from the commencement of trading on 31 May 2016. As an ASX Foreign Exempt Listing, the Company is required to immediately provide ASX with all of the information that it provides to NZX that is, or is to be, made public.

Recommendation 4.2: An issuer should make its code of ethics, board and committee charters and the policies recommended in the NZX Code, together with any other key governance documents, available on its website.

Key governance documents are available to investors and stakeholders on Evolve's website. They include the Continuous Disclosure Policy, Conflicts of Interest Policy, Trading Policy and Guidelines, Diversity Policy, Risk Management Policy, Shareholders Communications Policy, Dividend Policy and Board and Committee Charters.

Recommendation 4.3: Financial reporting should be balanced, clear and objective. An issuer should provide non-financial disclosure at least annually, including considering material exposure to environmental, economic and social sustainability risks and other key risks. It should explain how it plans to manage those risks and how operational or non-financial targets are measured.

Evolve publishes audited interim and full-year financial statements that are prepared in accordance with relevant financial standards.

Each year, non-financial information is disclosed in the annual report. Material risks are discussed (including how those risks are managed and how non-financial targets are measured) and are also covered in this Corporate Governance Statement (see Principle 6).

Corporate Governance and Statutory Information

In addition to interim and full-year financial statements, and annual reporting, Evolve regularly publishes investor presentations, including six-monthly result announcements. These presentations provide readers with regular updates on the progress against Evolve's strategy, areas of the company's environmental, social and governance performance and longer-term sector developments.

The Company considers that it does not currently have any material exposure to environmental, economic or social sustainability risks.

Principle 5 – Remuneration

Recommendation 5.1: An issuer should recommend director remuneration to shareholders for approval in a transparent manner. Actual director remuneration should be clearly disclosed in the issuer's annual report.

The Chairperson receives $135,000 per annum. The non-executive directors each receive $80,000 per annum. The Chair of the Audit and Risk Committee and Remuneration and People Committee receives an additional $10,000 per annum. The directors' fees currently total $475,000 per annum.

However, the Company has set the Director fee pool for all directors at $500,000 per annum in aggregate to allow further payments to be made to directors should additional work be required and allow for some level of increase and for Committee work, if appropriate. The directors are also entitled to be paid for reasonable travel, accommodation and other expenses incurred by them in connection with their attendance at Board or shareholder meetings, or otherwise in connection with the Company's business.

Director Remuneration Statement

The Company's directors holding office during the year ended 31 March 2018 are listed below. Pursuant to section 21(1)(f) of the Companies Act 1993, the total amount of remuneration and other benefits received by each Director during the year ended 31 March 2018 are provided below.

($000's)	Directors' Fees	Cash Salary and Other Payments	Total
Alistair Ryan	128	-	**128**
Norah Barlow	90	-	**90**
Gráinne Troute	82	-	**82**
Anthony Quirk	56	-	**56**
Lynda Reid	53	-	**53**
Greg Kern	37	-	**37**
Mark Finlay	33	-	**33**
Alan Wham	-	718	**718**
Total	**479**	**718**	**1,197**

Directors of Subsidiary Companies

The remuneration of employees acting as directors of subsidiaries is disclosed in the relevant banding of remuneration set out under the heading "Employee Remuneration" below. During the year ended 31 March 2018 employees did not receive additional remuneration for acting as directors of subsidiary companies.

Corporate Governance and Statutory Information

Recommendation 5.2: An issuer should have a remuneration policy for remuneration of directors and officers, which outlines the relative weightings of remuneration components and relevant performance criteria.

Overall Remuneration Philosophy

The Board is committed to an executive remuneration framework that is focused on achieving a high performance culture and linking executive pay to the achievement of the Company strategy and business objectives which, ultimately, create sustainable long-term value for shareholders.

As part of ensuring that management is motivated to create and deliver sustainable shareholder wealth, the Board utilises a Remuneration and People Committee which operates under the delegated authority of the Board.

The Committee ensures that rewards for executives are strongly aligned with the Company's performance. The Company is committed to ensuring clarity and transparency about its remuneration policy and practice. The objectives of the Committee are to:

- establish a clear framework for oversight and management of the Company's remuneration structures, policies, procedures and practices;
- consider and recommend new appointments to the Board and oversee management succession planning;
- fairly and responsibly reward directors and senior management and other employees of the Company having regard to the performance of the Company, the performance of these officers and employees and the general pay environment; and
- implement policies, procedures and practices for the Company and Board to ensure compliance with all laws, rules and regulations which are applicable to the Company and the directors, including the Companies Act 1993 (Companies Act), the Constitution, the NZX Listing Rules, and the ASX Listing Rules as they apply to entities listed in the ASX Foreign Exempt category.

The number of committee meetings and attendance records of committee members is specified on page 78.

The performance of all directors and senior management is reviewed periodically in accordance with the terms of the Remuneration and People Committee Charter.

Executive Remuneration

The Company's total remuneration policy for the senior management team provides the opportunity for them to be paid, where performance merits, at the market median for equivalent market-matched roles. In determining an executive's total remuneration, external benchmarking is undertaken to ensure comparability and competitiveness, along with consideration of an individual's performance, skills, expertise and experience.

The Remuneration and People Committee reviews and approves annual performance appraisal outcomes for all members of the senior management team reporting to the CEO and utilises market information and trends when considering and confirming remuneration arrangements. External benchmarking may be conducted independently, to provide industry specific data to assist the Remuneration and People Committee in approving appropriate levels of remuneration for these executives.

The annual remuneration review process requires "one over one" approval (approval from a higher authority than the person or committee recommending the remuneration). This means that approval of the Board is required for any changes to the CEO's remuneration, on recommendation by the Remuneration and People Committee. Further, recommendations from the CEO in relation to remuneration of the senior management team require Remuneration and People Committee approval.

Corporate Governance and Statutory Information

Total executive remuneration may incorporate fixed and variable components. Executive remuneration may contain any or all of the following:

- fixed remuneration;
- performance-based remuneration;
- equity-based remuneration; and
- termination payments.

The Company has adopted a performance share rights long-term executive incentive scheme for the CEO and the senior management.

Recommendation 5.3: An issuer should disclose the remuneration arrangements in place for the CEO in its annual report. This should include disclosure of the base salary, short term incentives and long term incentives and the performance criteria used to determine performance based payments.

CEO Remuneration

Alan Wham held the position of CEO and Managing Director until 15 September 2017. He had a base salary of $450,000 per annum (gross) and was entitled to the use of a mobile telephone, laptop and car park. Mr Wham received a payment of $451,625 at the end of his employment. Mr Wham received a short term incentive payment of $25,000 and was granted a long term incentive to a value of $110,000 which lapsed upon cessation of his employment. Mark Finlay held the position of CEO from 15 September 2017 and was entitled to the use of a mobile telephone, laptop and car park. As a substantial shareholder in the Company Mr Finlay elected to have nil base salary during the period to 31 March 2018. Subsequent to this date Mr Finlay's base salary is $320,000 per annum with no short or long term incentive. The Company reimburses the CEO for any expenses reasonably incurred by him in the performance of his duties under his employment agreement. There is no prescribed limit on the expenses that can be reimbursed to the CEO, but all expenses must be incurred in accordance with expense policies authorised by the Board.

Employee Remuneration

The number of employees or former employees (including employees holding office as directors of subsidiaries, but not including Alan Wham who was a Director of the Company) who received remuneration and other benefits (including share-based payments) valued at or exceeding $100,000 during the year ended 31 March 2018 are specified below.

Remuneration Band	Total
$100,001 - $110,000	3
$110,001 - $120,000	2
$120,001 - $130,000	1
$130,001 - $140,000	2
$140,001 - $150,000	1
$150,001 - $160,000	1
$180,001 - $190,000	1
$200,001 - $210,000	1
$230,001 - $240,000	1
$280,001 - $290,000	1
Total	**14**

In the case of businesses acquired, the employee remuneration details above relates to remuneration and benefits paid from the date the Company acquired those businesses.

Corporate Governance and Statutory Information

Principle 6 – Risk Management

Recommendation 6.1: An issuer should have a risk management framework for its business and the issuer's board should receive and review regular reports. A framework should also be put in place to manage any existing risks and to report the material risks facing the business and how these are being managed.

The Company views effective risk management as key to achieving and maintaining its operational and strategic objectives. The directors of the Company are responsible for reviewing and ratifying the risk management structure, processes and guidelines which are to be developed, maintained and implemented by management. The active identification of risks and implementation of mitigation measures is a primary responsibility of management.

The Board has delegated certain activities to the Audit and Risk Committee and has adopted a Risk Management Policy.

The Audit and Risk Committee is responsible for ensuring there are adequate policies in relation to risk management, compliance and internal control systems. The committee monitors the Company's risk management by overseeing management's actions in the evaluation, management, monitoring and reporting of material operational, financial, compliance and strategic risks.

Management reports on risk management at each meeting of the Board and the Audit and Risk Committee.

The Company does not have an internal audit function, but through the steps outlined above, the Board ensures the Company is reviewing, evaluating and continually improving the effectiveness of its risk management and internal control processes.

Recommendation 6.2: An issuer should disclose how it manages its health and safety risks and should report on their health and safety risks, performance and management.

As a leading provider of ECE the safety of our employees and children is paramount. As is best practice, appropriate governance structures have been established at the Board level to ensure that matters such as health and safety risk for staff, contractors and our children is effectively governed and managed. The Board has adopted measures that will allow the Company to monitor and affect proactive identification of risks and events to ensure continuous improvement, and ultimately, a reduction in the rate of accidents. A group wide Health and Safety Management system which accommodates all aspects of the Company's health and safety requirements has been implemented.

Principle 7 – Auditors

Recommendation 7.1: The board should establish a framework for the issuer's relationship with its external auditors.

The Audit and Risk Committee is also responsible for considering the independence of the external auditor and any potential conflicts of interest. The Audit and Risk Committee reviews policies for the provision of non-audit services by the external auditor and, where applicable, the framework for pre-approval of audit and non-audit services. Under the Audit and Risk Committee Charter, the Committee is responsible for recommending the appointment and assessing the performance of the external auditor. Further information about the non-audit services provided during the year ended 31 March 2018 is set out in note 26 of the financial statements included in this annual report.

Corporate Governance and Statutory Information

In combination with the establishment of the Audit and Risk Committee, the Board has approved a Risk Management Policy because the Company views effective risk management as key to achieving and maintaining its operational and strategic objectives. The Risk Management Policy is available on the Company's website (www.evolveeducation.co.nz).

Recommendation 7.2: The external auditor should attend the issuer's Annual Meeting to answer questions from shareholders in relation to the audit.

Evolve's external auditor is invited to the annual shareholder meetings. The Chair of the Board announces the auditor's attendance and shareholders can ask questions of them should they wish.

Recommendation 7.3: Internal audit functions should be disclosed.

The company has not established an internal audit function.

Principle 8 – Shareholder Rights and Relations

Recommendation 8.1: An issuer should have a website where investors and interested stakeholders can access financial and operational information and key corporate governance information about the issuer.

Key investor information can be found at www.evolveeducation.co.nz/investor-relations/investor-information.

Recommendation 8.2: An issuer should allow investors the ability to easily communicate with the issuer, including providing the option to receive communications from the issuer electronically.

The Board recognises the importance of keeping investors informed by communicating information in a timely, clear and accurate way, whether positive or negative.

The Company is committed to providing a high standard of communication to its shareholders so that they have sufficient information to make informed assessments of the Company's value and prospects. The Board has adopted a Shareholder Communications Policy to promote effective communication with shareholders and encourage effective participation at general meetings.

The Shareholder Communications Policy requires the Company to:

- ensure its website (www.evolveeducation.co.nz) is maintained and updated within a reasonable timeframe;
- ensure Shareholder communications are distributed in accordance with the Companies Act 1993 and the NZX Listing Rules, and the ASX Listing Rules as they apply to entities listed in the ASX Foreign Exempt category; and
- ensure it will use available channels and technologies to communicate widely and promptly to shareholders.

The Shareholder Communications Policy outlines specific requirements and guidelines relating to the communication of and access to the Company's annual meetings including access to the external auditor, annual report, share registry access, communication of full-year and half-year results, corporate governance, media releases, and investor and analyst briefings.

The Company's Shareholder Communications Policy is designed to ensure that communications with shareholders and all other stakeholders are managed efficiently.

Corporate Governance and Statutory Information

The Company currently keeps shareholders informed through:

- the Annual Report;
- the Interim Report;
- the Annual Meeting of shareholders;
- disclosure to the NZX and ASX in accordance with the Company's Shareholder Communications Policy and Continuous Disclosure Policy; and
- the Investor Announcements section on the Company website.

The Chair, CEO and CFO are the points of contact for shareholders.

The Board considers the Annual Report to be an essential opportunity for communicating with shareholders. The Company publishes its annual and interim results and reports electronically on the Company's website. Investors may also request a hard copy of the Annual Report by contacting the Company's share registrar, Link Market Services Limited. Contact details for the registrar appear at the end of this report.

The Company considers the Annual Meeting to be a valuable element of its communications programme. The meeting will provide an opportunity for shareholders to raise questions about the governance, operations, and management of the Company. The Company's external auditors will also attend the annual meeting, and are available to answer questions relating to the conduct of the external audit and the preparation and content of the Auditor's Report.

Recommendation 8.3: Shareholders should have the right to vote on major decisions which may change the nature of the company in which they are invested

Evolve is committed to timely and balanced disclosure, which includes advising shareholders on any major decisions. Evolve follows the mandatory listing rule requirements relating to change in the essential nature of the business, including major transactions under the Companies Act 1993.

Recommendation 8.4: Each person who invests money in a company should have one vote per share of the company they own equally with other shareholders.

Evolve conducts voting at its annual shareholder meetings by way of poll and on the basis of one share, one vote.

Recommendation 8.5: The board should ensure that the annual shareholders notice of meeting is posted on the issuer's website as soon as possible and at least 28 days prior to the meeting.

Evolve's Notice of Meeting will be made available at least 28 days prior to the meeting.

Corporate Governance and Statutory Information

Disclosure of Directors' Interests

Section 140(1) of the New Zealand Companies Act 1993 requires a Director of a company to disclose certain interests. Under subsection (2) a Director can make disclosure by giving a general notice in writing to the company of a position held by a Director in another named company or entity. Details of directors' general disclosures entered in the relevant Interests Register for the Company during the year to 31 March 2018 are as follows:

Director	Position	Company
Anthony Quirk	Director	Milford Asset Management
	Chairman	New Zealand Water Polo
	Trustee	Graeme Dingle Foundation Wellington Board
	Deputy Chairman	Compass Housing New Zealand
	Director	New Zealand Local Government Funding Agency
Gráinne Troute	Director	Tourism Holdings Limited
	Director	Summerset Group Holdings Limited
Alistair Ryan	Director-ceased	Lewis Road Creamery Limited
	Director-ceased	New Zealand Racing Board
	Director	Kiwibank Limited

There were no entries in the Interests Register for Norah Barlow and Lynda Reid during the year.

Disclosure of Directors' Interests in share transactions

Directors disclosed the following acquisitions and disposals of relevant interests in shares during the year ended 31 March 2018:

Norah Barlow:

- Issue of 2,045 shares by the Company on 21 June 2017 under the Company's dividend reinvestment plan.
- Issue of 2,596 shares by the Company on 20 December 2017 under the Company's dividend reinvestment plan.

Alistair Ryan:

- Issue of 2,045 shares by the Company on 21 June 2017 under the Company's dividend reinvestment plan.
- Issue of 2,596 shares by the Company on 20 December 2017 under the Company's dividend reinvestment plan.

Alan Wham:

- Issue of 14,056 shares by the Company on 21 June 2017 under the Company's dividend reinvestment plan.

Greg Kern:

- Sale of 2,286,495 shares in the Company on 25 May 2017.

Anthony Quirk, Gráinne Troute, and Lynda Reid:

- Nil

Corporate Governance and Statutory Information

Disclosure of Directors' Interests in Shares

Directors disclosed the following relevant interests in shares as at 31 March 2018:

Director	Number of Shares in which a relevant interest is held
Norah Barlow	90,390
Alistair Ryan	90,390

Indemnities and Insurance

The Company has entered into a Deed of Indemnity and Access by Deed Poll under which it has granted indemnities in favour of, and maintains insurance for, its present and future directors (and directors of related companies) and certain employees of the Company, in each case to the extent permitted by the Companies Act 1993.

Company Disclosures

Stock Exchange Listings

The Company is listed on both the New Zealand and Australian stock exchanges. ASX approved a change in the Company's ASX admission category from a Standard Listing to an ASX Foreign Exempt Listing, effective from the commencement of trading on 31 May 2016. The Company continues to have a full listing on the NZX Main Board, and the Company's shares remain listed on the ASX. The Company is primarily regulated by the NZX, complies with the NZX Listing Rules, and is exempt from complying with most of the ASX Listing Rules (based on the principle of substituted compliance).

Dividend Policy

Dividends and other distributions with respect to the Shares are made at the discretion of the Board and depend on a number of factors, including:

- current and anticipated profitability;
- current and medium-term capital expenditure requirements;
- working capital requirements;
- current capital structure, having regard to the risks presented by short and medium term economic and market conditions and estimated financial performance;
- available imputation credits; and
- solvency requirements.

The payment of dividends is not guaranteed and the Company's dividend policy may change. No guarantee can be given about future dividends or the level of imputation of such dividends (if any) as these matters will depend upon future events including the profitability, growth opportunities, and financial and taxation position of the Company, and the Board's discretion.

For the financial year ended 31 March 2018, the Company authorised the following dividends:

- an interim dividend of 2.50 cents per share paid on 20 December 2017; and
- a final dividend of 2.00 cents per share to be paid on 28 June 2018.

The last date for the receipt of an election notice to participate in the Company's dividend reinvestment plan is 5:00pm on the business day following the record date for a dividend.

Net Tangible Assets

The Company's net tangible assets as at 31 March 2018 were ($0.29) per share (31 March 2017 ($0.25) per share). Due to the nature of the Company's business, intangible assets are a major component of total assets. Accordingly the net assets per security is considered a more useful measure and as at 31 March 2018 it was $0.87 (2017: $0.95).

Corporate Governance and Statutory Information

Donations

The Company made donations of $2,732 during the year ended 31 March 2018 (31 March 2017 $2,671).

Credit Rating

The Company has no credit rating.

NZX and ASX Waivers

On 9 December 2016, NZX Regulation granted Evolve a waiver from NZX Main Board Listing Rule 8.1.7 in respect of the Evolve Group Performance Share Rights Plan (the *Plan*) to allow Evolve to change the number of underlying securities under the Plan in certain circumstances. The waiver was granted on the conditions that:

- the Plan is submitted to NZX Regulation for approval under Listing Rules 6.1.1 and 6.1.2(e); and
- if it is necessary to make an adjustment to the number of underlying securities under the Plan, then:
  - Evolve will provide NZX Regulation with at least 10 Business Days' notice prior to the adjustment that sets out a description of the circumstances giving rise to the adjustment, the proposed adjustment to the share rights, and a copy of advice from an independent party that the adjustment is fair and reasonable to Evolve and its shareholders; and
  - the directors of Evolve certify to NZX Regulation that they are satisfied with the advice from the independent party and, in their opinion, the proposed amendment to the share rights is fair and reasonable to Evolve and its shareholders.

Annual Meeting

The Company's Annual Meeting of shareholders will be held in Auckland on 31 July 2018 at 3 pm.

Shareholder Information

Analysis of Shareholding at 30 April 2018

Size of holding	Number of Shareholders	%	Number of Shares	Holding Quantity %
1 to 1,000	122	8.24	75,427	0.04
1,001 to 5,000	354	23.92	1,121,059	0.62
5,001 to 10,000	328	22.16	2,632,871	1.47
10,001 to 100,000	591	39.94	18,053,950	10.07
100,001 and over	85	5.74	157,577,289	87.80
Total	**1,480**	**100**	**179,460,596**	**100.00**

Twenty Largest Shareholders at 30 April 2018

Name	Number of Shares	% of Shares
New Zealand Central Securities Depository Limited	53,518,163	29.82
Leveraged Equities Finance Limited	22,619,257	12.60
FNZ Custodians Limited	13,639,773	7.60
JBWERE (Nz) Nominees Limited	10,089,202	5.62
Forsyth Barr Custodians Limited	8,874,031	4.94
Scottfin Ece Limited	6,105,450	3.40
Mark Finlay & Geoffrey Hosking	4,938,542	2.75
Brispot Nominees Pty Ltd	4,835,608	2.69
Merrill Lynch (Australia) Nominees Pty Limited	2,473,866	1.38
J P Morgan Nominees Australia Limited	2,316,349	1.29
Citicorp Nominees Pty Limited	2,178,028	1.21
Russell Thompson & Geoffrey Hosking	1,942,069	1.08
UBS Nominees Pty Ltd	1,692,861	0.94
FNZ Custodians Limited	1,660,754	0.93
Custodial Services Limited	1,550,000	0.86
Mark Finlay & Mark Dobson Trustee Company Limited	1,208,840	0.67
JBWERE (Nz) Nominees Limited	982,431	0.55
Millar Capital Fund Limited	800,000	0.45
Kevin Glen Douglas & Michelle Mckenney Douglas	785,000	0.44
Alan Hugh Wham & Fiona Elizabeth Wham & Hauraki Independent Tr Svcss Ltd	603,574	0.34
Total - twenty largest shareholders	**142,813,798**	**79.58%**
Total number of shares on issue	**179,460,596**	

Shareholder Information

New Zealand Central Securities Depository Limited (NZCSD) provides a custodian depository service that allows electronic trading of securities to its members and does not have a beneficial interest in these shares. As at 30 April 2018, the shareholdings in the Company held through NZCSD were:

Name	Number of Shares Held by NZCSD	% of NZCSD Shares
HSBC NOMINEES (NEW ZEALAND) LIMITED	15,564,165	29.08
JPMORGAN CHASE BANK	11,042,964	20.63
ACCIDENT COMPENSATION CORPORATION	8,469,274	15.83
NATIONAL NOMINEES NEW ZEALAND LIMITED	8,436,956	15.76
BNP PARIBAS NOMINEES NZ LIMITED	6,839,130	12.78
CITIBANK NOMINEES (NZ) LIMITED	2,109,310	3.94
TEA CUSTODIANS LIMITED	852,228	1.59
HSBC NOMINEES (NEW ZEALAND) LIMITED	138,982	0.26
PRIVATE NOMINEES LIMITED	65,154	0.13
Total - shares held by NZCSD	**53,518,163**	**100.00%**

Substantial Shareholders

According to notices given under the Financial Markets Conduct Act 2013, the following persons were substantial shareholders in the ordinary shares of the Company (being the only class of quoted voting products) at the balance date in respect of the number of shares set opposite their names.

Name	Number of Shares	% of Shares
Geoffrey Hosking*	23,395,611	13.12
Mark Finlay**	21,347,382	11.97
Regal Funds Management Pty Limited	29,827,904	16.62
National Australia Bank Limited	13,162,417	7.30
Paradice Investment Management Pty Limited	10,505,000	5.89
Salt Funds Management Limited	19,649,333	10.95
Accident Compensation Corporation	9,298,562	5.18
Total number of shares on issue	**179,460,596**	

* Geoffrey Hosking as trustee of the Mark Finlay Investment No. 2 Trust together with the other trustee (Mark Finlay) are the registered holders and beneficial owners of 20,138,542 shares. Geoffrey Hosking as trustee of the 111 Investment Trust together with the other trustee (Russell Thompson) are the registered holders and beneficial owners of 3,257,069 shares.

**Mark Finlay as trustee of the Mark Finlay Investment No. 2 Trust together with the other trustee (Geoffrey Hosking) are the registered holders and beneficial owners of 20,138,542 shares. Mark Finlay as trustee of the HR Finlay Family Trust together with the other trustee (Mark Dobson Trustee Company Limited) are the registered holders and beneficial owners of 1,208,840 shares.

Subsidiary Company Directors

The following persons held office as Directors of the Company's subsidiaries during the year ended 31 March 2018 or, in the case of acquired subsidiaries, from the date of acquisition:

Company Name	Directors
Evolve Group 1 Limited	Alan Wham (ceased 15 September 2017) Stephen Davies Fay Amaral (appointed 26 June 2017)
Evolve Group 2 Limited	Alan Wham (ceased 15 September 2017) Stephen Davies Fay Amaral (appointed 26 June 2017)
Evolve Group 3 Limited	Alan Wham (ceased 15 September 2017) Stephen Davies Fay Amaral (appointed 26 June 2017)
Evolve Group 4 Limited	Alan Wham (ceased 15 September 2017) Stephen Davies Fay Amaral (appointed 26 June 2017)
Evolve Group 5 Limited	Alan Wham (ceased 15 September 2017) Stephen Davies Fay Amaral (appointed 26 June 2017)
Evolve Group 6 Limited	Alan Wham (ceased 15 September 2017) Stephen Davies Fay Amaral (appointed 26 June 2017)
Evolve Management Group Limited	Alan Wham (ceased 15 September 2017) Stephen Davies Fay Amaral (appointed 26 June 2017)
ECE Management Limited	Alan Wham (ceased 15 September 2017) Stephen Davies Fay Amaral (appointed 31 August 2017)
Lollipops Educare Holdings Limited	Alan Wham (ceased 15 September 2017) Stephen Davies Fay Amaral (appointed 31 August 2017)
Lollipops Educare Limited	Alan Wham (ceased 15 September 2017) Stephen Davies Fay Amaral (appointed 31 August 2017)
Lollipops Educare Centres Limited	Alan Wham (ceased 15 September 2017) Stephen Davies Fay Amaral (appointed 31 August 2017)
Lollipops Educare (Hastings) Limited	Alan Wham (ceased 15 September 2017) Stephen Davies Fay Amaral (appointed 31 August 2017)
Lollipops Educare (Birkenhead) Limited	Alan Wham (ceased 15 September 2017) Stephen Davies Fay Amaral (appointed 31 August 2017)
Evolve Home Day Care Limited	Alan Wham (ceased 15 September 2017) Stephen Davies Fay Amaral (appointed 26 June 2017)
Au Pair Link Limited	Alan Wham (ceased 15 September 2017) Stephen Davies Fay Amaral (appointed 26 June 2017)

Subsidiary Company Directors

PORSE In-home Childcare (NZ) Limited	Alan Wham (ceased 15 September 2017) Stephen Davies Fay Amaral (appointed 26 June 2017)
PORSE Franchising (NZ) Limited	Alan Wham (ceased 15 September 2017) Stephen Davies Fay Amaral (appointed 26 June 2017)
PORSE Education & Training (NZ) Limited	Alan Wham (ceased 15 September 2017) Stephen Davies Fay Amaral (appointed 26 June 2017)
For Life Education & Training (NZ) Limited	Alan Wham (ceased 15 September 2017) Stephen Davies Fay Amaral (appointed 26 June 2017)

Disclosure of Subsidiary Directors Interests

Section 140(1) of the New Zealand Companies Act 1993 requires a director of a company to disclose certain interests. Under subsection (2) a director can make disclosure by giving a general notice in writing to the company of a position held by a director in another named company or entity.

In addition to the directorships in the Company and in fellow subsidiary companies (as applicable) referred to above, there were no directors' general disclosures entered in the relevant Interests Register for the Company's subsidiaries during the year to 31 March 2018.

Corporate Directory

Evolve Education Group Limited Registered Office
Level 2
54 Fort Street
Auckland 1010
New Zealand
Phone: +64 9 377 8700

Contact Details in Australia
C/- Minter Ellison Rudd Watts
Level 40, Governor Macquarie Tower
1 Farrer Place
Sydney, New South Wales 2000
Phone: +61 2 9921 8888

Directors
Alistair Ryan (Chair, since 1 June 2017)
Norah Barlow (Chair, until 31 May 2017)
Anthony Quirk (appointed 2 August 2017)
Lynda Reid (appointed 2 August 2017)
Gráinne Troute (appointed 1 May 2017)

Senior Management Team
Mark Finlay – Chief Executive Officer
Stephen Davies – Chief Financial Officer
Paul Matthews – Chief Information Officer
Fay Amaral – Chief Operating Officer
Kerry Henderson – General Manager, PORSE
Morgan Holyoake - General Manager, Au Pair Link

Solicitors
Chapman Tripp
Level 35, ANZ Centre
23 – 29 Albert Street
Auckland 1010
Phone: +64 9 357 9000

Auditor
PricewaterhouseCoopers
188 Quay Street
Auckland 1142
Phone: +64 9 355 8000

New Zealand Share Registrar
Link Market Services Limited
Level 11, Deloitte Centre
80 Queen Street
Auckland 1010
Phone: +64 9 375 5998

Australian Share Registrar
Link Market Services Limited
Level 12
680 George Street
Sydney, New South Wales 2000
Phone: +61 1300 554 474

Banker and Lender
ASB Bank Limited
12 Jellicoe Street
Auckland 1140
Phone: +64 9 337 4819