ANNUAL REPORT 2019

This Annual Report of Evolve Education Group Limited is dated 21 June 2019 and is signed by the Board of Directors by:

Norah Barlow
Acting Chair of the Board

Gráinne Troute

Contents

"The Evolve Group has supported the centre well by providing a number of new initiatives and improved systems and practices that promote positive outcomes for children. The centre has a good framework to ensure internal evaluation is happening at all levels. The strategic plan gives a clear direction for the future and alignment can be seen through all internal evaluation processes."

Education Review Office (ERO)

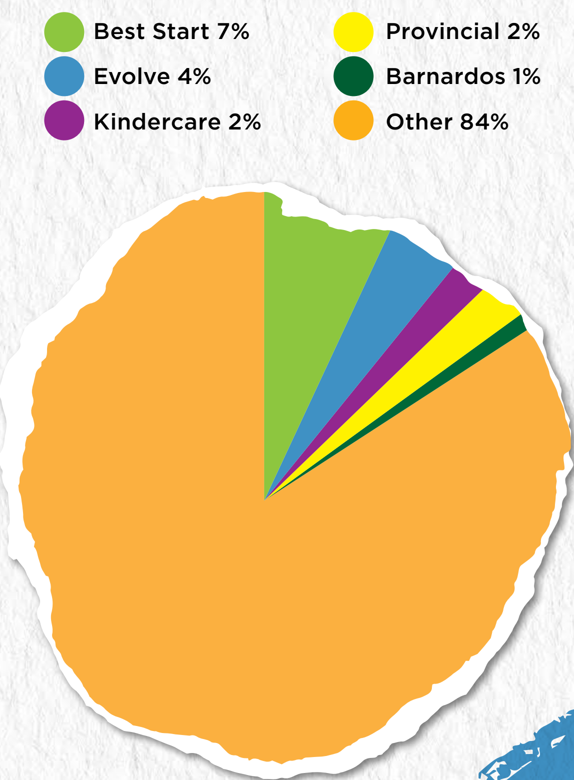
About Evolve Education Group

A snapshot of Evolve's New Zealand network as at 31 March 2019

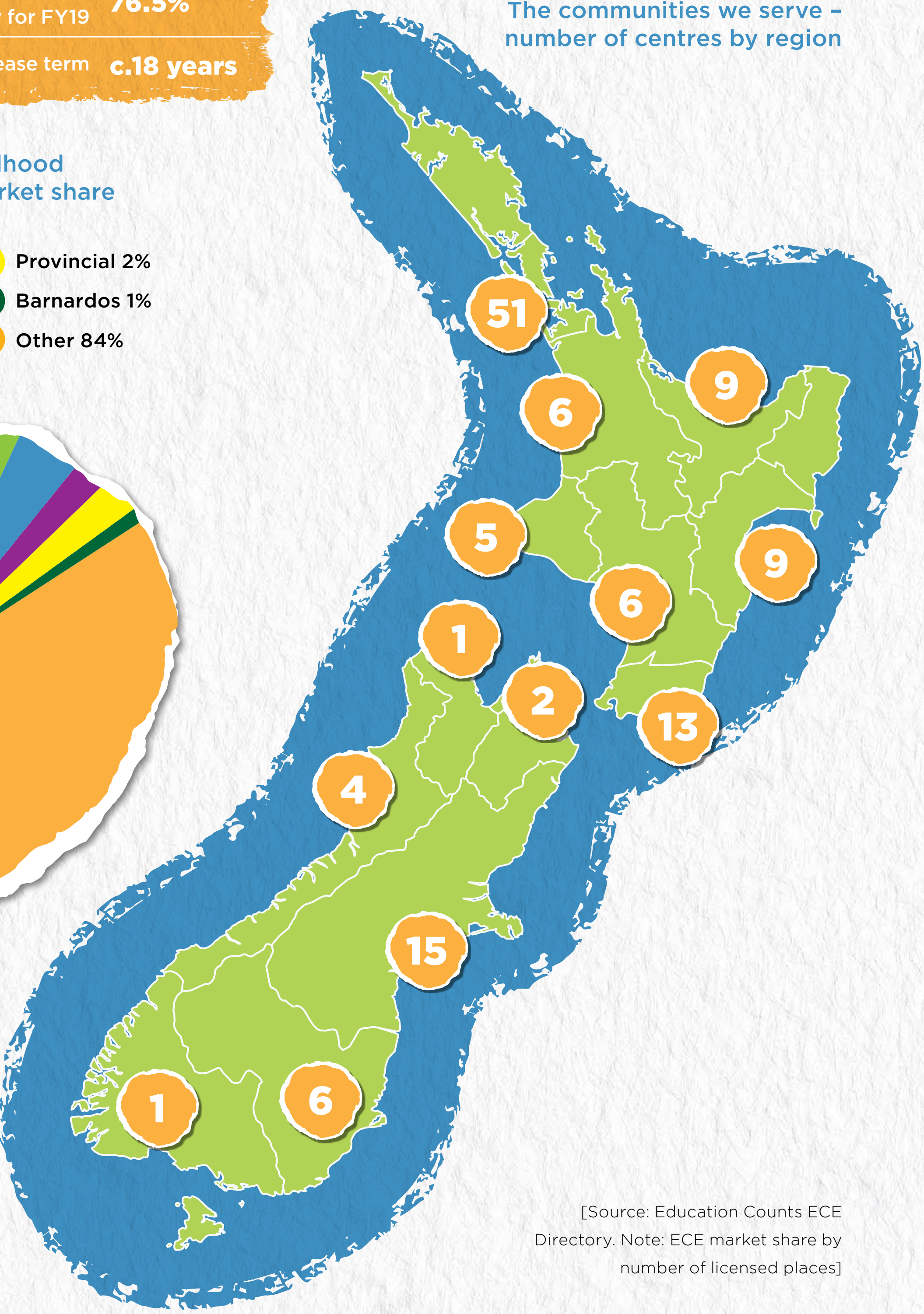
Number of early childhood centres	128
Number of licensed child care places	9,218
Number of staff	2,244
Average number of children per centre	74
Average annual mature centre occupancy for FY19	76.5%
Average centre lease term	c.18 years

Evolve is one of New Zealand's leading providers of early childhood education. The organisation operates centre-based early childhood education facilities throughout New Zealand under brands that include Lollipops, Active Explorers, Learning Adventures, Little Earth Montessori, Little Lights, Little Wonders and Pascals. More than 85% of Evolve's centres are well-established in their communities, serving 50 or more children and their families.

New Zealand early childhood education sector by market share



The communities we serve – number of centres by region



[Source: Education Counts ECE Directory. Note: ECE market share by number of licensed places]

Alistair Ryan
Chair
Evolve Education Group Limited
(until 15 June 2019)

Chair's Report

Welcome to Evolve's fifth annual report. We are reporting on what has been a year of considerable change and development for Evolve Education Group.

In July 2018, Rosanne Graham commenced as CEO. Her initial focus was to refresh the senior management team and to develop a turnaround plan for the New Zealand business. That new executive team is now in place and is implementing the plan which involves considerable re-investment in the organisation.

In November 2018 Anthony Quirk and Lynda Reid retired from the board and were replaced by Chris Scott and Chris Sacre. Chris Scott had acquired the 19% shareholding previously held by interests associated with Mark Finlay, former director and then CEO, in August 2018.

Chris Scott and Chris Sacre bring extensive knowledge and expertise of the early childcare and education sector to the board and specific expertise relating to the Australian sector which will, following the company's capital raising completed in June 2019, allow Evolve to investigate the Australian opportunity alongside its New Zealand operations.

The company's recapitalisation by way of a 4.4:1 accelerated rights entitlement offer was announced in early May 2019 and completed in early June, raising $63.5 million of additional equity. The rights issue was designed as an AREO (accelerated rights entitlement offer) to ensure all shareholders were treated equally. The new capital raised has been deployed to reduce bank debt with $30m repaid to ASB Bank. $25m will be invested in the acquisition of 10-12 existing childcare centres in Australia, with further acquisitions subject to the results achieved in the initial phase. Chris Scott and Chris Sacre will identify the acquisition opportunities for board review and approval and will act as executive directors of the Australian operating subsidiary. The balance of the capital raise will be applied to increased working capital and the costs of the issue.

The initial phase in Australia broadens the strategic options of the business and offers an opportunity to boost earnings concurrently with the New Zealand turnaround effort. The initial phase will involve the acquisition of up to 12 centres and Evolve will prove up the Australian expansion over the course of FY20. This phase will be led by Chris Sacre and Chris Scott, who will be supported by a team of professionals, all of whom have extensive Australian childcare sector experience.

The successful completion of the capital raise places the company on a much improved footing for the future and the board acknowledges the support of existing and new shareholders in supporting the company's recapitalisation.

As signalled in our offer announcement, I am retiring from the board on 15 June. I have considered this role a significant responsibility and am pleased that the company has the capital and the plan to address the issues facing the business and to move positively forward into its next (recovery and expansionary) phase.

The recruitment for a new Chair has inevitably been somewhat on hold pending the conclusion of the capital raise but the board is now moving to conclude an appointment as soon as practicable. In the meantime, the board is grateful to Norah Barlow for agreeing to fill in as Acting Chair on a short-term basis until the new Chair is appointed.

As outlined in the information provided in support of the rights offer, Evolve NZ still has a lot of hard work to do to improve its financial results, and the year ahead will be one of continued re-investment and operational improvement which the Board is confident will lead to improved financial results heading into FY21 and beyond.

The Board wishes to acknowledge the contribution of Lynda and Anthony during their respective tenures.

On behalf of the board, my thanks to shareholders for your support of the capital raise and to the team at Evolve for your hard work and commitment to change and improvement as Evolve seeks to best serve children and families throughout New Zealand and, at the same time, to develop a successful operation in Australia.

Rosanne Graham

Chief Executive Officer
Evolve Education Group Limited

CEO's Report

The financial year ending 31 March, 2019, has been a significant one for Evolve Education Group. It has marked the beginning of our re-investment programme to address issues that have been holding back the business from reaching its full potential as New Zealand's leading provider of early childhood education.

I joined Evolve in July last year, and shortly thereafter outlined the challenges facing the business. We then developed a turnaround plan to address these issues. In the second half of the year, we have made considerable progress on the implementation of the plan towards transforming and rejuvenating our organisation.

What the turnaround plan addresses

The turnaround plan was developed to address falling occupancy across Evolve's nationwide network of early childhood centres, which is impacting our financial performance. As at year end we had 123 mature centres, compared to 126 at the end of the last financial year. These centres served 8,825 licensed places for children, compared to 8,929 the year before. Our average annual occupancy was 76.5% compared to 78.6% for the FY18 financial year. With lower occupancy, our costs rise in a relative sense: our ratio of annual employee expenses to revenue was 56.1%, compared to 54.6% the previous year, and our ratio of annual rent expenses to revenue was 15.4% compared to 14.4% for FY18. Our underlying EBITDA margin for our mature centres in FY19 was 17.3% compared to 20.8% a year prior.

With a fixed cost network like ours, any fall in occupancy has a significant impact, so our priority is to arrest this decline, and then work towards rebuilding occupancy back to at least the industry average, and beyond this as our centres become first choice destinations for families seeking quality early childhood education for their children. The upside is that, as we improve our performance and build a solid platform, the business is as capable of strong positive growth from a fixed cost base, providing an opportunity to provide significantly improved returns.

Progress on the NZ business turnaround plan

The turnaround plan has a three-year execution timeframe. We are now well into our initiatives to establish a sound and sustainable operational platform to halt the decline in occupancy and then start to rebuild it. Once we have done this, we can move to growing from this base, using our new platform to achieve greater scale and improved earnings.

In November, 2018 and February, 2019, we welcomed Kirsten Long, General Manager Centre Operations and Karen Shields, General Manager Quality Assurance & Professional Learning, to our executive leadership team. This completed the refresh of our senior management team (see page 13), having appointed new General Manager of People & Talent, Bev Davies, and General Manager of Marketing, Ru Wilkie, in the first half of the year. As we move to the next level of organisational improvement, we are continuing to invest in our people to ensure we have the skills and capabilities we need.

Key Areas of focus

We have four key areas of focus to deliver on our eight strategic goals.

Areas of focus	Strategic goals
People	Retaining staff – reducing turnover levels
	Investing in the support office operations
Delivery of quality services	Delivering the highest quality outcomes for our children
	Retaining children and families
Property	Lifting the presentation and appeal of Evolve's centres
	Improving the portfolio of centres
Marketing	Growing revenue from the existing base
	Attracting new families

People

Our organisation is very much a people business. We will deliver the best service to children and families if our people feel recognised, rewarded and valued. In terms of our people focus, our plan identifies three key areas: capacity, capability and culture. **Capacity** means ensuring we have all the people we need to deliver the quality and range of services we require. **Capability** addresses the range of skills and experience that we need, from teachers, to those who run and support the facilities, to specialist resources we deploy to create great ECE facilities. **Culture** highlights our efforts to foster a strong and positive culture of success so that the outcomes we achieve for our children and families are second to none, and this in turn improves our organisational performance. We have completed a people strategy and engaged a number of internal and external providers to deliver professional training and education to our people.

Delivering a quality service

New Zealand's Te Whariki curriculum for early childhood education provides a world class platform for the work we undertake. Evolve is lifting its focus to invest in all aspects of the curriculum so that we can deliver this in the best possible way, to engage children in our care and to achieve positive outcomes for our children and families. We are reviewing our priority areas for quality assurance and professional learning and implementing a centre blueprint to support consistent high performance across all our centres. We have introduced a real time customer survey tool, and we have begun training nationally on engagement and retention. Centres that are experiencing high customer turnover have been identified and are being supported to implement strategies to reduce turnover.

Property

To offer a high-quality early childhood education service, we need great facilities and premises for our teachers and our children. Investing in our facilities is a priority under our plan to provide a platform for the great work that our teachers and educators do every day. We have expanded our property team to support a centralised, more professional, repairs and maintenance capability as well as improved lease management and capital expenditure planning and delivery. More than 30 centres have been re-painted. We have made considerable progress on improving our portfolio, with significant upgrades planned to the portfolio over the next three years.

Marketing

As we build this quality platform, we need to communicate what Evolve has to offer families. We need to be child and family focused in terms of how we go to market. This means understanding and meeting the needs of individual communities from Invercargill to Warkworth (and many places in between). Our centres are deeply embedded in these communities, and we need this local community focus in everything we do. This year we have redesigned and updated all 128 centre websites and introduced digital marketing with a pleasing increase in enquiries to our contact centre. We have also focused on basic marketing priorities like improved signage as well as optimising advertising, strengthening direct sales engagement with centres and working to improve conversion rates at each point of the customer journey.

Re-focusing the business – divestment

In what has been a year of consolidation and investment, a major focus has been rationalising our portfolio of assets to re-focus the business on early childhood education centres. This has meant divestment of our assets in the home care space – Porse and Au Pair Link – as well as the sale of ECE Management. We have also identified five centres for divestment of which one sale was completed in the financial year, and one sale was completed following the financial year, with marketing ongoing for the remaining centres.

The year ahead

While we have forecast a lower EBITDA in the coming financial year, we do expect to see our investment beginning to achieve results in terms of organisational performance, including stemming our decline in occupancy, and starting to rebuild occupancy levels to fuller potential. Our focus will continue to be executing phase one of our plan to ensure we have the people and facilities to deliver the highest quality outcomes for children.

My thanks to all our staff at Evolve already on this journey, working hard to fulfil the enormous potential of this organisation in setting up future generations of children to reach their full potential in life.

Our Vision

Every staff member excelling so that every child fulfils their potential

Our Values

Belonging

Nurturing

Learning

Respectful

Playful

Our Mission

Understand the needs and aspirations of our children and families and exceed their expectations.

Create an environment and team culture that supports every staff member to excel and feel valued for their achievements.

Take a leadership position in the ECE sector for delivering the highest quality early childhood education.

Provide a healthy, happy, safe and inclusive environment for all our children and staff.

Contribute to the development and success of the communities that we serve.

Deliver value to all Evolve stakeholders by growing a strong and sustainable organisation.

Our People

Evolve is a people business, and this is very clearly articulated in our new vision; ***every staff member excelling so that every child fulfils their potential***.

We know that one of the key decision-making factors for parents choosing ECE services is the centre team – the people who bring the vision, values and practices to life for our children and families.

Our staff come to work every day to make a positive difference in the lives of the children who attend our centres. Therefore, FY19 has seen Evolve invest heavily in our people. We have developed a People Strategy, a key foundation document outlining Evolve's Employee Value Proposition (EVP); what we offer our people in return for the commitment and dedication they bring to their roles each day.

One of the many advantages of being an Evolve staff member is the support and expertise available to all our centre staff, by a team of ECE specialists within the support office. There are also a wide range of career development opportunities for centre staff to grow and develop the skill set required to support a number of centres, or to pursue a career in the professional learning and quality assurance team.

In order to stay relevant and competitive in the face of nationwide teacher shortages, Evolve needs a strong EVP to attract and retain the highest calibre of talent.

Evolve's People Strategy is a three-year plan, based around the achievement of five key people goals:

- Valuing our people
- Growing capability and confidence
- Building careers
- Transforming our culture
- Being easy to work with and for

Some of the priority workstreams underpinning the People Strategy have been completed, and others are underway. Significant achievements to date include:

- The review and rebuild of the Senior Leadership Team (SLT), and the building of strong connections between SLT, business operations and individual centre teams.
- The review and strengthening of the shared services teams within Evolve's Support Office, and particularly the property team, the marketing team, the people and talent team (including the central careers team), and the quality assurance team.
- The development and launch of Evolve's new vision, mission and values, which has given the organisation a clear focus and strong operational direction – this work will now continue on throughout the organisation to centre level.
- The development of a range of professional development programmes for staff, including leadership development programmes.
- A review of Evolve's performance appraisal system, with training to support the effective rollout of an improved process across the organisation.

Building on this initial work, the ongoing implementation of the People Strategy will continue to strengthen Evolve as an employer with one clear objective – to establish ourselves as the leading ECE career destination in New Zealand.

Educational Quality in our Centres

If children are secure and happy, they'll learn and develop to their full potential. Evolve centres are more than just childcare. Our children enjoy a well prepared, carefully designed curriculum encompassing Te Whāriki 2017, New Zealand's early childhood curriculum. From this holistic base, we bring learning to life under the guidance of well trained teachers and open ended play. We encourage a lifelong love of learning, setting children up for school and beyond.

Curriculum

The educational theories that form the basis of our curriculum delivery include:

- Te Whāriki - New Zealand's early childhood curriculum
- Howard Gardner's 'Theory of Multiple Intelligences'
- The principles of Pikler and RIE (Resources for Infant Educarers)
- The principles of Ako (reciprocal learning between teacher and child)
- Experiential based learning inspired by Reggio Emilia
- Enquiry based learning to strengthen problem solving and creative thinking
- Extended project work for older children
- Montessori philosophy - extensive engagement with each learner is structured across accepted milestones but anchored on the foundation of Te Whāriki

We partner with parents and children on their learning journey, teaching skills for life through experience and play. Problem solving, determination and empathy are interwoven with the essential building blocks of literacy and numeracy - all within a caring and encouraging environment.

"Teachers have positive, sensitive and responsive relationships with children and their whānau. Families are welcomed and children have a strong sense of belonging in the centre. Children are confident explorers and make independent choices about their play. They use their experiences and the resources provided to build on their imaginative play to develop their creativity."

ERO

Professional learning, passionate teachers

Our teachers are passionate and committed. We take pride in providing exceptional professional development and learning opportunities, ensuring staff have outstanding skills and are kept up-to-date with the latest research and new Ministry of Education requirements. Most of our teaching staff hold early childhood education degrees, and all staff are Police checked.

During FY19, Evolve centres have focused on further implementation of the revised Te Whāriki ECE curriculum. Teachers partner with parents to document children's learning, and we share this journey electronically through StoryPark, an online tool enabling parents to share their child's experiences and extend their learning at home.

Striving for excellence and continuous improvement

Continuous improvement is provided through leadership from experienced Centre Managers, support staff, Area Managers, Regional Managers and the Executive Team.

We strive for ratios better than the minimum standards outlined by the Ministry of Education, and group sizes that optimise quality for individual age groups. Qualified teachers are supported by administration and additional staff as required.

The development of a Quality Assurance and Professional Learning team has given teachers extra support and a new focus on curriculum and teaching and learning. This team has been strengthened with new provision for six positions nationally and will provide targeted centre support to ensure children achieve optimal learning outcomes. The appointment of two Quality Assurance Managers will ensure consistent practices and quality across all Evolve centres.

Transitions into the centre, between rooms and school readiness are stages that children are well prepared for and centres continue to evaluate to ensure this is shared with parents/whanau.

Bicultural practice is celebrated, and children recognise the importance of Te tiri o Waitangi and our cultural heritage. Environments reflect our bicultural heritage, equipment and displays enhance who we are and celebrate cultural diversity. Evolve regularly evaluates strategies that further support centres in this area.

Meanwhile, strong links with our communities and families ensure ongoing consultation on key policy development and better understanding of our unique centre communities. Staff reflect and evaluate regularly to make sure planning and development responds to the needs of children and best captures learning progress.

Case Study

The Clark family – Active Explorers Leeston

The teachers at Active Explorers Leeston feel like family to Tess and Craig Clark, busy parents to Harper (5) and Frankie (2). In fact, the special connection their family has forged with the centre team runs deeper than most.

"As a family we have developed a bond that will last forever," says Tess. "For example, one of the teachers who taught Harper and then Frankie when they were in the nursery, also taught me at playcentre when I was their age! I feel like this continuity is very special and unique."

The couple enrolled Harper at the centre when she was 8 months old, and they have never looked back.

"At the time we chose Active Explorers Leeston because of their age intake and educational programme. I was heading back to work part-time, and they took children under 2 which was perfect."

It was an excellent decision.

"The teachers and carers were incredible and nurtured all aspects of Harper's development right through from 8 months to when she turned 5. They gave her the social and academic foundations and tools that she would need going forward in a fun, interactive and effective way."

After this positive experience, enrolling Frankie was "a no brainer". She started at the centre when she was 6 months old and is now almost 3.

"Frankie loves it. She loves sitting around the kai table and eating with her friends. She's always got some kind of role play dress ups going on, and she's always singing a new song that she's learnt. It's definitely a weight off our chests knowing she is sorted and happy and that her social and educational needs are being met."

The Clark's are strong advocates of the centre's educational programme which encourages children to be themselves and learn in a way that is best for them.

"This is noticeably seen in the many learning activities that are always set up and being offered every morning when we arrive."

Tess has now embarked on full-time study and adds that the support the centre has provided their family has been invaluable.

"They've been so helpful and accommodating in making sure it works for us and our girls. Knowing our children are being provided with a safe learning environment where their own individual needs and personalities are being nurtured has given us the peace of mind to be able to go to work, upskill and attend full-time study.

"It means the world to know that both our kids are getting an experience on par to what they would be getting at home with us, with the added bonus of socialisation and creating special bonds with their Kaiako."

Centre Operations

Our ongoing commitment to achieve the highest quality outcomes for our children has seen Evolve Education Group cement its position as a leader in early childcare education.

This year, we were voted New Zealand's most trusted kindergarten provider in the Reader's Digest Trusted Brands awards, testament to the great work being carried out by the 2000-plus staff within our organisation, across more than 120 centres.

Evolve's vision is to ensure every staff member excels so that every child fulfils their potential – and FY19 has seen us work tirelessly to bring this vision to life. We know that the only way to achieve the very best outcomes for our children and families is to attract high calibre people and develop them to their full potential. Over the past year we've recruited a large number of passionate and dedicated staff who share our vision and who, like us, strive to deliver unrivalled care and education to children all over the country. We have a new management team, and new Area Managers focussed on supporting our centres.

Professional development opportunities have been bolstered, with the introduction of a range of external and internal PD modules that support the educational and business performance of our teams and centres. A key focus at Centre Manager level aims to enhance customer service and boost engagement and positive and proactive communication with families.

In addition, we have introduced a real time survey tool to find out how families feel about our service to determine what steps can be made to improve our offer. This work has been supported by a reinvigorated family enrolments team, who are an excellent first point of contact, and who strive to understand each family's needs to ensure they are matched with the most suitable centre.

Over the last 12 months Evolve's increased marketing focus on individual centres has seen the development of customised plans based on specific needs, refreshed websites, and upgraded centre presentation including new signage and uniforms. We have invested in specific centres to improve the environment for our children and our people, and will continue to do so to increase centre appeal for existing and new families.

The year ahead will see the organisation strengthening the leadership capabilities of our Area and Centre Managers through targeted external workshops, and engaging external expertise around internal evaluation and self-assessment and planning. This aims to complement our internal training modules around appraisals.

We are also adding to Evolve's existing portfolio of high quality early learning centres. Early in 2019 we launched a new development centre in Helensville under our Active Explorers brand, and plans are currently underway for the opening of a state-of-the-art centre in Mt Wellington.

Board Profile

Norah Barlow

Non-Executive Director (Independent)

Acting Chair from 15 June 2019. BCA, CA. Appointed as Director 13 November 2014

Norah is the CEO of Heritage Lifecare Limited which provides aged care in New Zealand. 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. 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.

Alistair Ryan

Chair (Independent)

MCom, FCA. Appointed as Director 13 November 2014. Retired 15 June 2019

Alistair is an experienced company director and corporate executive. He is currently Chairman of NZX listed investment companies Kingfish Limited, Barramundi Limited and Marlin Global Limited, a Director and Audit and Risk Committee Chair of listed company Metlifecare Limited. Alistair is a member of the FMA's Audit Oversight Committee.

Alistair retired as Chair of Evolve on 15 June 2019.

Chris Sacre

As at 31 March 2019: Non-Executive Director (Independent)

As at date of Annual Report: Executive Director (Non-Independent)

Appointed 28 November 2018

Chris Sacre is widely regarded and respected within the childcare industry. Chris developed a passion for the industry in early 2007 when he provided financial consultative services, as an Advisory Manager for PricewaterhouseCoopers to G8 Education (formally Early Learning Services) in the lead up to the public listing. After successfully floating the company in 2007, Chris joined G8 Education as Chief Financial Officer. During his time with G8 Education, Chris was instrumental to the growth of the company with over 400 childcare acquisitions, raising over $500 million in capital and increasing market cap. from $4 million to $1.3 billion.

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

Chris Scott

As at 31 March 2019: Non-Executive Director (Non-Independent)

As at date of Annual Report: Executive Director (Non-Independent)

Appointed 28 November 2018

Chris Scott has over 37 years experience in senior management positions. He has spent over 35 years in business in Singapore where he founded a number of successful businesses. Chris founded S8 Limited which listed on the ASX in 2001. S8 was an integrated travel Company that acquired 36 businesses over a 5 year period and was capitalised at $700 million. S8 Limited was the subject of a successful takeover bid in late 2006.

Chris was the Founder and, from 2010 to 2016, the Managing Director of ASX listed G8 Education which evolved into Australia's largest listed early education and child care provider. During this period, the G8 Education Limited portfolio grew from 38 to over 500 pre school education centres in Australia (plus 20 in Singapore). Chris was also instrumental in raising over $500 million in equity capital and more than $500 million in debt (including Singapore dollar bonds). G8 Education market capitalisation grew from $4 million in 2010 to a peak of approximately $1.9 billion

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 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.

Senior Management Team

Rosanne Graham

Chief Executive Officer

Rosanne is a senior executive with strong strategic and people leadership experience in the private education and telecommunication sectors. She is the Chair (previously Managing Director) of Ignite Colleges and prior to that was the CEO of private training provider New Zealand Management Academies (NZMA). The results Rosanne has delivered through her work in tertiary education demonstrate her ability to develop clear business programmes, build effective teams, drive improvements, create value and most importantly, deliver high quality education outcomes.

Prior to entering the education sector, Rosanne ran a consultancy business focussed on strategy and issues management and held senior telecommunications roles with Clear Communications and the Telecommunications Authority of Singapore, where she gained significant experience in strategy, government relations and competition law. She joined Evolve as CEO in July 2018.

Bev Davies

General Manager of People and Talent

Bev's key focus is effective people strategies - both leading and facilitating the creation of them and practically bringing them to life so they make a meaningful and sustainable difference to organisations and the people who work in them. She is highly skilled at delivering innovative and impactful people strategies that help shape workplace cultures and achieve exceptional results.

Directly prior to joining Evolve, Bev was the General Manager People and Capability for the Auckland Kindergarten Association, and she spent ten years as Director Human Resources and Organisational Development for New Zealand Management Academies (NZMA). Before moving into this field, she gained extensive experience in executive level research roles and senior marketing communications roles, all of which serve her well in the world of HR, OD and L&D.

Stephen Davies

Chief Financial Officer

A Chartered Accountant and experienced CFO, Stephen has held senior roles across KPMG (Scotland and Auckland), Rank Group and Metroglasstech. Stephen joined Evolve in September 2016. He is experienced in all aspects of operational and corporate financial management.

Kirsten Long

General Manager Centre Operations

Kirsten joined Evolve as General Manager Centre Operations in November 2018, driven by the opportunity to deliver exceptional outcomes for children through an empowered, highly functional team and streamlined systems and processes. A results-driven performer with a wealth of operations, sales and marketing expertise, Kirsten is focused on delivering to Evolve's three year plan.

She held senior leadership roles in the manufacturing and tourism sectors before moving into education in 2014 to better support growth opportunities for adults.

Paul Matthews

Chief Information Officer

Paul has three decades of IT experience and significant expertise in all aspects of strategic planning, systems integration, implementation and support. For the past 16 years he has been a CIO/IT Manager and Senior Leadership Team member for organisations including Avis Budget Group, Hyundai Motors NZ, PORSE In Home Childcare NZ and now, Evolve Education Group. He is highly skilled at leading and supporting teams to improve delivery and service levels across all areas of an organisation.

Karen Shields

GM Quality Assurance and Professional Learning

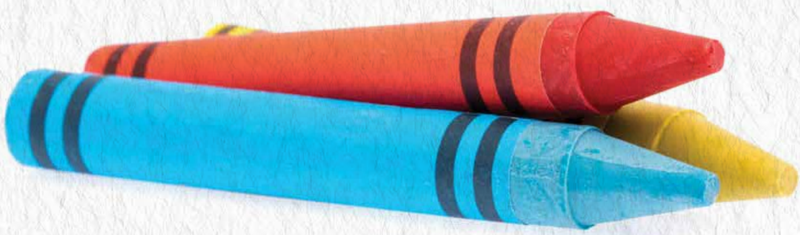
As a highly respected education professional, Karen has provided input at the highest levels in early learning in New Zealand. A former kindergarten teacher and fully registered teacher, she joined Evolve from the Counties Manukau Kindergarten Association, where she held the roles of General Manager, and more recently Chief Executive Officer. The Association operates both kindergartens and early learning education and care centres. Prior to this, Karen was a Senior Advisor with the Ministry of Education, where she was involved in the recently released Strategic Plan for ECE.

Ru Wilkie

General Manager Marketing

Ru has been a successful strategic marketing and sales consultant for 16 years, primarily in the corporate and medium to large organisation space, including Telecom (now Spark), Vodafone and New Zealand Post. Over the past nine years she has worked predominantly in the education sector, using her significant expertise to grow student enrolment numbers, drive sales and boost business outcomes.

She led the rebrands for NZMA and Aspire2's newly acquired business, created the Ignite Colleges brand from its inception, and has developed and implemented impactful sales and marketing strategies across both the domestic and international businesses of these organisations. She joined the team at Evolve in 2018.



Evolve Education Group Limited
Consolidated Financial Statements

Evolve Education Group Limited

Consolidated Financial Statements

For the Year Ended 31 March 2019

The Directors present the Consolidated Financial Statements of Evolve Education Group Limited, for the year ended 31 March 2019

The Consolidated Financial Statements presented are signed for and on behalf of the Board and were authorised for issue on 27 May 2019

Alistair Ryan
Chair
27 May 2019

Norah Barlow
Chair of Audit and Risk Committee
27 May 2019

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 MARCH 2019

$'000	Note	YEAR 31 MARCH 2019	YEAR 31 MARCH 2018
Revenue	6	**137,177**	**138,395**
Expenses			
Employee benefits expense	7	(83,518)	(80,341)
Building occupancy expenses	7	(23,521)	(21,848)
Direct expenses of providing services		(13,528)	(12,284)
Acquisition expenses		-	(102)
Integration expenses		-	(39)
Depreciation	11, 5a	(2,680)	(2,449)
Amortisation	14, 5a	(377)	(401)
Impairment expense	14, 15	(107,139)	(957)
Other expenses	7	(4,278)	(3,171)
Total expenses		**(235,041)**	**(121,592)**
(Loss)/Profit before net finance expense and income tax		**(97,864)**	**16,803**
Finance income	7	143	47
Finance costs	7	(2,908)	(1,641)
Net finance expense		(2,765)	(1,594)
(Loss)/Profit before income tax		**(100,629)**	**15,209**
Income tax expense	9	(1,770)	(4,372)
(Loss)/Profit after income tax from continuing operations		**(102,399)**	**10,837**
Profit/(Loss) after income tax from discontinued operations	5a	845	(15,050)
(Loss) after income tax attributable to the shareholders of the Company		**(101,554)**	**(4,213)**
Other comprehensive income		-	-
Total comprehensive (loss) attributable to the shareholders of the Company		**(101,554)**	**(4,213)**
Earnings per share		**Cents**	**Cents**
Basic (and diluted) (loss)/earnings per share from continuing operations	22	(31.7)	3.4
Basic (and diluted) (loss)/earnings per share attributable to the shareholders of the Company	22	(31.4)	(1.3)

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 2019

$'000	Note	ISSUED SHARE CAPITAL	RETAINED (DEFICIT)/ EARNINGS	TOTAL
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	19	1,058	-	**1,058**
Share issue costs relating to shares issued	19	(15)	-	**(15)**
Dividends paid	21	-	(8,926)	**(8,926)**
As at 31 March 2018		**159,149**	**(2,574)**	**156,575**
Change in accounting policy	2	**-**	**(203)**	**(203)**
As at 1 April 2018 (restated)		**159,149**	**(2,777)**	**156,372**
Total comprehensive (loss)		**-**	**(101,554)**	**(101,554)**
Shares issued under Dividend Re-investment Plan	19	457	-	**457**
Share issue costs relating to shares issued	19	(8)	-	**(8)**
Dividends paid	21	-	(3,590)	**(3,590)**
As at 31 March 2019		**159,598**	**(107,921)**	**51,677**

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 2019

$'000	Note	AS AT 31 MARCH 2019	AS AT 31 MARCH 2018
Current assets			
Cash and cash equivalents	10, 24	25,274	5,362
Current income tax receivable		1,229	552
Other current assets		2,387	1,788
Total current assets		**28,890**	**7,702**
Assets classified as held for sale	5b	672	-
Non-current assets			
Property, plant and equipment	11	5,824	8,586
Deferred tax assets	9	2,145	1,636
Intangible assets	14	98,610	207,170
Total non-current assets		**106,579**	**217,392**
Total assets		**136,141**	**225,094**
Current liabilities			
Trade and other payables	16	10,294	10,019
Funding received in advance	17	12,625	17,864
PORSE GST settlement payable	8	-	1,500
Borrowings	23, 24	30,000	-
Employee entitlements	18	5,952	6,836
Total current liabilities		**58,871**	**36,219**
Liabilities classified as held for sale	5b	234	-
Non-current liabilities			
Borrowings	23, 24	25,359	32,300
Total non-current liabilities		**25,359**	**32,300**
Total liabilities		**84,464**	**68,519**
Net assets		**51,677**	**156,575**
Equity			
Issued share capital	19	159,598	159,149
Retained (deficit)/earnings		(107,921)	(2,574)
		51,677	**156,575**

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 2019

$'000	Note	YEAR 31 MARCH 2019	YEAR 31 MARCH 2018
Cash flows from operating activities			
Receipts from customers (including Ministry of Education funding)		148,320	159,186
Payments to suppliers and employees		(136,526)	(137,219)
PORSE GST settlement paid	8	(1,090)	(1,500)
Income tax paid		(3,259)	(6,198)
Interest received		118	47
Net cash flows from operating activities	25	**7,563**	**14,316**
Cash flows from investing activities			
Payments for purchase of businesses	13	-	(9,892)
Payments for release of retentions		-	(203)
Receipts from sale of businesses		2,617	100
Cash balances transferred with businesses sold	5a	(6,580)	-
Receipts from sale of land and buildings	11	3,370	-
Payments for software, property, plant and equipment		(3,565)	(5,630)
Net cash flows from investing activities		**(4,158)**	**(15,625)**
Cash flows from financing activities			
Share issue costs	19	(8)	(15)
Interest paid on borrowings		(3,411)	(1,641)
Bank borrowings drawn	24	92,247	117,500
Bank borrowings repaid	24	(69,188)	(105,400)
Dividends paid	21	(3,133)	(7,868)
Net cash flows from financing activities		**16,507**	**2,576**
Net increase in cash and cash equivalents	24	**19,912**	**1,267**
Cash and cash equivalents at the beginning of the year	10	5,362	4,095
Cash and cash equivalents at the end of the year	10	**25,274**	**5,362**

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 2019

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Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2019

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 principal activities of the Company and its subsidiaries (the "Group") are to invest in the provision and management of high quality early childhood education centres. (See Note 4, Segment Information). Further information on the Group's structure is provided in Note 12.

2. Basis of Preparation

Statement of Compliance

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

These Group financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). The Group is a Tier 1 reporting entity. The Group financial statements comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards, as appropriate for 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 2019 were approved and authorised for issue by the Board of Directors on 27 May 2019.

Going Concern

The financial statements have been prepared on a going concern basis. From time to time, mainly due to funding received in advance from the Ministry of Education and employee entitlements, the Group's current liabilities may exceed its current assets. The Group has a funding arrangement in place (refer Note 23) with its bank to meet all its current obligations.

As noted in the Interim Financial Report for the six months ended 30 September 2018, the Group revised its debt facilities with ASB Bank Limited (ASB) in November 2018. This revision provided for relaxed financial covenants for the quarterly reporting periods through to September 2019. The revision also required the Group to agree a capital management strategy with ASB by 1 March 2019. In line with the capital management strategy, a fully underwritten $63.5 million capital raise was launched on 8 May 2019. In accordance with the capital raise timetable, $30.5m of proceeds were received from the Institutional Entitlement Offer and $29m repaid to the bank on 17 May 2019. The remaining $33.0 million retail offer, once complete, is expected to be received by 6 June 2019.

Subsequent to year end, the debt facilities were further renegotiated with ASB, which included some resetting of the financial covenants through to the end of the facility term.

Following completion of the capital raise, repayment of $29m of the acquisition facility and renegotiation of the funding facility, the material uncertainties in relation to the Group's ability to comply with financial covenants noted in the interim financial report for the six months ended 30 September 2018 have been addressed. The Directors forecast full compliance with the banking covenants. Accordingly, the preparation of the financial statements on a going concern basis is appropriate.

2. Basis of Preparation (continued)

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 ($) which is the Company's functional currency and Group's presentation currency. Unless otherwise stated, financial information has been rounded to the nearest thousand dollars ($'000).

Estimates and Judgements

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

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

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

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 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.

2. Basis of Preparation (continued)

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). 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 15.

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. As goodwill does not generate cash flows in its own right and therefore it must be allocated to a CGU or group of CGUs 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 groups of CGUs for impairment testing purposes.

Onerous leases

Provision is made for the assessed future liability in respect of property leases where the future lease costs will not be covered by future cash inflows generated from use of the leased property. Provision is made for the present value of anticipated future cash inflows and outflows up to the point of expiry of the lease (refer Notes 5a and 16).

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 9).

2. Basis of Preparation (continued)

New and Amended Standards Adopted by the Group

There were two new standards adopted during the year ended 31 March 2019:

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).

Impact from the adoption of the new standard on 1 April 2018:

- There is no impact on the Group's accounting for financial liabilities. 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 applied the simplified approach as permitted by NZ IFRS 9 to measure expected credit losses (ECL) for its trade receivables (parental debtors). This approach uses a lifetime expected loss allowance on the Group's parental debtors (measured at amortised cost). To measure the expected credit losses, parental debtors are grouped based on shared credit risk characteristics and the days past due. The application of the expected credit loss model has resulted in an increase of $203k to the opening impairment provision, which has been recognised in opening retained earnings as at 1 April 2018 as permitted by the standard. It is not expected that there will be a material impact to future earnings as a result of implementation of NZ IFRS 9. The Group's parental debtors and impairment provision are included in "other current assets" in the Consolidated Statement of Financial Position.

NZ IFRS 15: Revenue from Contracts with Customers

Nature of change

NZ IFRS 15 replaces the previous 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.

Impact from the adoption of the new standard on 1 April 2018:

- ECE Centres - No impact on measurement of childcare fees (refer Note 3(c) for accounting policies).
- Home-based ECE - The adoption of NZ IFRS 15, using the modified retrospective approach, has given rise to the reclassification of an immaterial rebate from operating expenses to revenue. The reclassification resulted in a decrease to revenue and operating expenses of $290k in the year ended 31 March 2019 (2018: $434k), with no impact to net profit and retained earnings. This reclassification is reflected in Note 5a - discontinued operations.

2. Basis of Preparation (continued)

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.

There are certain new standards, interpretations and amendments to existing IFRS that have been approved, but are not yet effective, and have not been adopted by the Group for the year ended 31 March 2019. The assessment and expected impact of those that are relevant to the Group are set out below:

NZ IFRS 16: Leases

Nature of change

NZ IFRS 16 replaces all existing lease accounting 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 Consolidated Statement of Comprehensive Income will also be impacted by the replacement of the rental expense currently recognised within building occupancy expenses by an interest expense on lease liabilities, and depreciation expense on the 'right-of-use asset''.

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

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 $131.6m (see Note 26). During the year, work has progressed regarding:

- Collating and validating the Group's portfolio of lease agreements
- Identifying the lease contracts that will be within the scope of NZ IFRS 16
- Sourcing and implementing an IT system solution to record and calculate the NZ IFRS 16 impact; and
- Calculating an incremental borrowing rate used to discount lease assets and liabilities.

The Group currently intends to adopt the simplified transition approach under IFRS 16, and will not restate comparative amounts for the period prior to first adoption.

Given the complexity of the judgments and calculations involved, finalisation of the impact of the standard is subject to the following:

- Final validation of the system generated calculations
- Finalisation of judgements and subsequent movements in the incremental borrowing rates (interest rates)
- Any new lease contracts entered into by the Group
- Consideration of tax implications, including deferred tax
- Any changes to existing lease contracts; and
- Change in management's judgement to exercise rights of renewals under lease arrangements.

2. Basis of Preparation (continued)

New Standards and Interpretations Not Yet Adopted (continued)

NZ IFRS 16: Leases (continued)

Management's process to date has focused on property leases, representing 98% of the Group's total lease portfolio. The potential impact is expected to be material to the Consolidated Statement of Financial Position on the date of adoption (being 1 April 2019). Under the simplified transition method, the following impacts are estimated upon transition in respect of property leases:

- under the simplified method, it is estimated that on adoption a right of use asset of approximately $218m will be recognised, and a lease liability of approximately $217m.

  The impact on the Consolidated Statement of Comprehensive Income for the year ending 31 March 2020 under the simplified transition method is estimated to resulted in:

- a decrease in building occupancy expenses (rental expense) of approximately $21m, replaced with a depreciation expense of approximately $13.8m and interest expense of approximately $13.3m due to the unwinding of the effective interest rate implicit in the lease, resulting in an increase in EBITDA. Interest expense is expected to be greater earlier in a lease's life due to the higher lease liability on which interest is calculated. This effect may be partially mitigated due to the number of leases held by the group, at varying stages of the lease terms; and
- operating cash flows will be higher as repayment of lease liabilities will be classified as financing activities. There will be no change in the cash position of the Group as a result of adopting NZ IFRS 16.

Date of adoption

NZ IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019. This standard will therefore be effective for the year ending 31 March 2020.

NZ IFRS 3: Business Combinations - definition of a business

Nature of the change

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

The amendments clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. It narrows the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs. It also removes the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs.

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

Potential impact

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

2. Basis of Preparation (continued)

NZ IFRS 3: Business Combinations - definition of a business (continued)

Date of adoption

The amendments to NZ IFRS 3 described above is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period. The amendments will therefore be effective for the year ending 31 March 2021.

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.

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

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

3. Significant Accounting Policies (continued)

(a) Basis of Consolidation (continued)

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

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

Transactions eliminated on consolidation

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

(b) Determination of Fair Values

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

Intangible assets

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

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

3. Significant Accounting Policies (continued)

(c) Revenue

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

Ministry of Education ("MOE") funding

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

Childcare fees

The Group provides early childhood education services for children's various learning and care needs. Revenue from childcare fees are recognised as and when a child attends, or was scheduled to attend, a childcare facility. The performance obligation is satisfied over time as the child simultaneously receives and consumes the benefit.

Interest income

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

(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.

3. Significant Accounting Policies (continued)

(d) Taxation (continued)

Deferred tax

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

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

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

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

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

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

(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.

(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.

3. Significant Accounting Policies (continued)

(g) Property, Plant and Equipment

Recognition and measurement

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

Depreciation

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

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

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

(h) Intangible Assets

Goodwill

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

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

Subsequent expenditure

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

3. Significant Accounting Policies (continued)

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

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

Financial assets at amortised cost

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

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

Cash and cash equivalents

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

Non-derivative financial liabilities

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

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

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.

3. Significant Accounting Policies (continued)

(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

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

Non-financial assets

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

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

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

(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.

3. Significant Accounting Policies (continued)

(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.

Direct costs of providing services

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

Finance 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 are 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.

(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.

3. Significant Accounting Policies (continued)

(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 in the Consolidated Statement of Financial Position.

(t) Comparative balances

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

The prior year comparative amounts in the Consolidated Statement of Comprehensive Income have been restated to present the results of discontinued operations as a single amount. Further analysis of discontinued operations are presented in Note 5a.

4. Segment Information

During the year, the Group had two reportable operating segments, as described below. 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 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.

As detailed in Note 5a, the Home-based ECE businesses have been sold during the current financial year. This segment meets the definition of a discontinued operation for the year ended 31 March 2019.

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 operation was sold during the year, with settlement on 28 March 2019. This operation did not meet any of the quantitative thresholds for determining reportable segments and as such it has been included as an unallocated amount. Unallocated amounts also represent other corporate support services, acquisition and integration costs.

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.

4. Segment Information (continued)

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.

- **Acquisition expenses** – in acquiring the businesses and net assets in the year ended 31 March 2018 (Note 13) 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. No employment costs have been allocated to integration expenses for the current or prior year.
- **Material non-recurring items** – one off or non-recurring in nature. These are items that have not occurred in recent years or are not forecast to occur in the future, such as impairment expense, gains or losses on the sale of businesses and the PORSE GST settlement

4. Segment Information (continued)

31 MARCH 2019 $'000	Note	ECE Centres $'000	Home-based ECE (Discontinued) $'000	Unallocated $'000	Consolidated $'000
Revenue		**136,825**	**13,003**	**352**	**150,180**
Operating expenses		(113,850)	(12,425)	(10,648)	(136,923)
Underlying EBITDA		**22,975**	**578**	**(10,296)**	**13,257**
Material non-recurring items:					
Gain on sale of assets		293	-	-	293
(Loss)/gain on sale and closure of businesses		(275)	1,612	20	1,357
Onerous lease expense	5a	(385)	(1,201)	-	(1,586)
Impairment expense	14,15	(107,139)	-	-	(107,139)
EBITDA		**(84,531)**	**989**	**(10,276)**	**(93,818)**
Depreciation	11	(2,582)	(15)	(98)	(2,695)
Amortisation	14	-	(56)	(377)	(433)
Earnings before interest and income tax		**(87,113)**	**918**	**(10,751)**	**(96,946)**
Net finance expense	7	-	-	(2,765)	(2,765)
Reportable segment profit/(loss) before income tax		**(87,113)**	**918**	**(13,516)**	**(99,711)**
Less: profit before income tax from discontinued operations	5a				(918)
(Loss) before income tax from continuing operations					**(100,629)**
Total assets		**109,537**	**-**	**26,604**	**136,141**
Total liabilities		**(25,006)**	**-**	**(59,458)**	**(84,464)**

Included within Revenue is revenue from the Ministry of Education totalling $102.0m for the year (2018: $108.0m), of which $90.4m (2018: $89.9m) relates to continuing operations.

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

4. Segment Information (continued)

31 MARCH 2018 $'000	Note	ECE Centres $'000	Home-based ECE (Discontinued) $'000	Unallocated $'000	Consolidated $'000
Revenue		**137,999**	**20,124**	**396**	**158,519**
Operating expenses		(109,994)	(19,243)	(7,650)	(136,887)
Underlying EBITDA		**28,005**	**881**	**(7,254)**	**21,632**
Acquisition expenses		-	-	(102)	(102)
Integration expenses		-	-	(39)	(39)
Material non-recurring items:					
PORSE GST Settlement	8	-	(3,000)	-	(3,000)
Impairment expense	11,14,15	(957)	(12,933)	-	(13,890)
EBITDA		**27,048**	**(15,052)**	**(7,395)**	**4,601**
Depreciation	11	(2,373)	(173)	(76)	(2,622)
Amortisation	14	(60)	(218)	(341)	(619)
Earnings before interest and income tax		**24,615**	**(15,443)**	**(7,812)**	**1,360**
Net finance expense	7	-	-	(1,594)	(1,594)
Reportable segment profit/ (loss) before income tax		**24,615**	**(15,443)**	**(9,406)**	**(234)**
Less: loss before income tax from discontinued operations	5a				15,443
Profit before income tax from continuing operations					**15,209**
Total assets		**218,364**	**3,289**	**3,441**	**225,094**
Total liabilities		**(22,947)**	**(9,289)**	**(36,283)**	**(68,519)**

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

a) Discontinued operations

In April 2018, the Group announced its intention to commence a sale process for the businesses within the home-based ECE operating segment. The Home-based ECE operating segment meets the definition of a discontinued operation under NZ IFRS 5: Non-current Assets Held for Sale and Discontinued Operations.

On 14 November 2018, an unconditional sale agreement was entered into for 100% of the shares in the four PORSE in-home childcare and training companies, with consideration received on 3 December 2018. On 31 October 2018 a sale agreement for the business and assets of Au Pair Link Limited (APL) went unconditional, with settlement occurring on 31 January 2019.

These disposals represent all of the businesses of the Home-based ECE operating segment, enabling the Group to now concentrate on its core business of centre-based early childhood education.

Financial information presented is for the period to 30 November 2018 for PORSE and to 31 January 2019 for APL.

The profit/(loss) for the year from the discontinued operation is analysed as follows:

$'000	Note	YEAR 31 MARCH 2019	YEAR 31 MARCH 2018
Revenue		13,003	20,124
Depreciation		(15)	(173)
Amortisation		(56)	(218)
Impairment expense		-	(12,933)
Porse GST settlement	8	-	(3,000)
Operating expenses		(13,626)	(19,243)
(Loss) before income tax		**(694)**	**(15,443)**
Income tax (expense)/benefit		(73)	393
(Loss) after income tax		**(767)**	**(15,050)**
Gain on sale of the discontinued operation after income tax		1,612	-
Profit/(loss) after income tax from the discontinued operation		**845**	**(15,050)**
Basic (and diluted) earnings/(loss) per share from discontinued operations (cents per share)		0.3	(4.7)

The cash flow for the year from the discontinued operation is analysed as follows:

$'000	YEAR 31 MARCH 2019	YEAR 31 MARCH 2018
Operating activities		
Net cash flows from operating activities	4,950	763
Investing activities		
Receipts from sale of businesses	2,550	-
Payments for software, property, plant and equipment	(249)	(206)
Cash transferred with businesses sold	(6,580)	-
Net cash flows from investing activities	(4,279)	(206)
Net increase in cash generated by the discontinued operation	**671**	**557**

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

a) Discontinued operations (continued)

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

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

As part of the disposal of PORSE, Evolve retained the lease of the office formerly used as the PORSE head office. An onerous lease provision has been established for the assessed future liability through to the end of the lease term. This is included within the onerous lease provision within trade and other payables (refer Note 16).

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

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

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

$'000	31 JANUARY 2019
Other current assets	23
Property, plant and equipment	49
Intangible assets	126
Total Assets	**198**

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

b) Assets and liabilities held for sale

During the first half of the year the Group classified six centres and an ancillary business, ECE Management Limited, as held for sale. One centre and ECE Management were sold during the second half of the year, and one centre has been closed. The assets and liabilities held for sale at 31 March 2019 relate to the remaining four ECE centres. These operations do not meet the definition of a discontinued operation.

A goodwill impairment expense of $3.9m, (see Note 14), being the difference between the carrying value and fair value less cost to sell of the six ECE centres and ECE Management has been recognised in the year to 31 March 2019.

A loss on the sales of one centre and ECE Management, and closure of one centre, totalling $0.3m has been included within other expenses in the year to 31 March 2019.

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

AS AT 31 MARCH 2019	ECE centres
$'000	
Property, plant and equipment	266
Deferred tax assets	37
Intangible assets	369
Assets classified as held for sale	**672**
Trade and other payables	(3)
Funding received in advance	(231)
Liabilities classified as held for sale	**(234)**

6. Revenue

The Group has adopted NZ IFRS 15: Revenue from contracts with customers from 1 April 2018 which resulted in changes in accounting policies. However, there were no measurement adjustments apart from a reclassification of an immaterial rebate from operating expenses to revenue in the discontinued Home-based ECE operations, as described in Note 2. There was no impact on opening retained earnings. Refer to Note 3(c) for specific accounting policies.

	YEAR 31 MARCH 2019	YEAR 31 MARCH 2018
$'000		
Revenue from continuing operations:		
Childcare fees	46,079	47,964
Other revenue	652	513
Total revenue from contracts with customers	**46,731**	**48,477**
MOE funding	90,446	89,918
Total revenue from continuing operations	**137,177**	**138,395**

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

Other Expenses

$'000	Note	YEAR 31 MARCH 2019	YEAR 31 MARCH 2018
Included in other expenses are:			
Audit fees	28	247	213
Directors' fees	27	472	479
Other items		3,559	2,479
Total other expenses		**4,278**	**3,171**

Other items includes corporate and support office costs not already disclosed separately. They include travel and legal costs not relating to the acquisition of businesses (refer Note 13), consultancy costs and general office expenses.

Building occupancy expenses

Building occupancy expenses of $23.5m (2018: $21.8m) include $21.5m (2018: $20.0m) of expenditure in relation to minimum operating lease payments.

Employee benefits expense

$'000	YEAR 31 MARCH 2019	YEAR 31 MARCH 2018
Wages and salaries	77,735	75,826
KiwiSaver contributions	1,961	1,918
Payments to agency contractors	2,416	1,604
Other employee benefits expense	1,406	993
Total employee benefits expense	**83,518**	**80,341**

Net finance expense

$'000	YEAR 31 MARCH 2019	YEAR 31 MARCH 2018
Interest received		
Bank deposits	143	47
Total interest received	**143**	**47**
Interest expense		
Interest on borrowings	(2,908)	(1,641)
Total interest expense	**(2,908)**	**(1,641)**
Net finance expense	**(2,765)**	**(1,594)**

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2019

8. Porse GST Settlement

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

The settlement agreement with the IRD required PORSE to pay $3.0 million to the IRD in monthly instalments, and ensured that all then- current areas of discussion between IRD and the Group were closed off.

$1.5m of the total amount payable had been paid by 31 March 2018. The Group had paid a further $1.1m by the date of sale of PORSE (refer Note 5a).

9. Taxation

Income tax expense

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

$'000	YEAR 31 MARCH 2019	YEAR 31 MARCH 2018
Current income tax:		
Current income tax expense	2,359	5,411
Prior year adjustments	73	(272)
	2,432	5,139
Deferred tax:		
Relating to origination and reversal of temporary differences	(516)	(868)
Prior year adjustments	(146)	101
	(662)	(767)
Total income tax expense on continuing operations	**1,770**	**4,372**

Reconciliation of tax expense

Tax expense is reconciled to accounting profit as follows:

$'000	YEAR 31 MARCH 2019	YEAR 31 MARCH 2018
(Loss)/profit before income tax from continuing operations	**(100,629)**	**15,209**
At the statutory income tax rate of 28%	(28,176)	4,258
Non-assessable income and non-deductible expenses for tax purposes:		
Impairment of goodwill	29,999	268
Non-deductible expenses	20	17
Prior year adjustments	(73)	(171)
Total income tax expense on continuing operations	**1,770**	**4,372**

9. Taxation (continued)

Deferred tax

Deferred tax relates to the following:

	31 MARCH 2019		31 MARCH 2018	
	Consolidated Statement of Comprehensive Income	Consolidated Statement of Financial Position	Consolidated Statement of Comprehensive Income	Consolidated Statement of Financial Position
$'000				
Property, plant and equipment	26	1,430	80	1,363
Intangible assets	(62)	(913)	587	(942)
Employee entitlement provisions	126	823	26	921
Other temporary differences	572	805	74	294
Deferred tax benefit	**662**		**767**	
Net deferred tax assets		**2,145**		**1,636**

The movement on net deferred tax assets includes amounts from both continuing and discontinued operations.

Imputation credits

Imputation credits available for use in subsequent reporting periods are $11.3m (2018: $11.1m), 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.

10. Cash and Cash Equivalents

$'000	AS AT 31 MARCH 2019	AS AT 31 MARCH 2018
Cash at banks and on hand	572	3,647
Short-term deposits	24,702	1,715
Total cash and cash equivalents	**25,274**	**5,362**

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

Refer to Note 23 for details of changes in bank facility terms that have impacted the amount of short-term deposits held.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2019

11. Property, Plant and Equipment

31 MARCH 2019 $'000	Note	Land	Buildings	Plant and Equipment	Office Furniture and Fittings	Leasehold Improve-ments	Motor Vehicles	Work in Progress	Total
Cost									
Opening balance		725	2,195	715	9,034	3,226	213	371	16,479
Additions/Transfers		-	-	203	838	1,765	27	613	3,446
Classified as held for sale	5b	-	-	(55)	(228)	(281)	(16)	-	(580)
Disposal of businesses		-	-	(6)	(2,484)	(385)	(42)	-	(2,917)
Disposals		(725)	(2,195)	(26)	(192)	(105)	(54)	-	(3,297)
Closing balance		**-**	**-**	**831**	**6,968**	**4,220**	**128**	**984**	**13,131**
Depreciation and impairment									
Opening balance		-	(18)	(308)	(6,206)	(1,237)	(124)	-	(7,893)
Depreciation for the year		-	-	(180)	(1,478)	(1,008)	(29)	-	(2,695)
Classified as held for sale	5b	-	-	25	151	131	7	-	314
Disposal of businesses		-	-	3	2,349	381	42	-	2,775
Disposals		-	18	10	103	36	25	-	192
Closing balance		**-**	**-**	**(450)**	**(5,081)**	**(1,697)**	**(79)**	**-**	**(7,307)**
Net book value		**-**	**-**	**381**	**1,887**	**2,523**	**49**	**984**	**5,824**

In the current year, centre land and buildings with a book value of $2.9m were sold for $3.3m, resulting in a gain on sale of $0.4m, included within other operating expenses.

31 MARCH 2018 $'000	Note	Land	Buildings	Plant and Equipment	Office Furniture and Fittings	Leasehold Improve-ments	Motor Vehicles	Work in Progress	Total
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		-	-	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 for the year		-	(18)	(148)	(1,763)	(636)	(57)	-	(2,622)
Disposals		-	-	5	63	9	68	-	145
Impairment expense	15	-	-	-	(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**

Depreciation for the year includes amounts for both continuing and discontinued operations.

12. Group Information

Information about subsidiaries

The consolidated financial statements of the Group include:

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

* the four Porse companies were sold with effect from 3 December 2018 (refer Note 5).

** the assets and operations of these businesses were sold during the year, these companies are being wound down (refer Note 5).

13. Business Combinations

During the 12 months ended 31 March 2019 the Group has not acquired any business operations. In the prior year to 31 March 2018, the Group acquired seven ECE centres from several separate vendors, for a combined purchase price of $9.9m. There were no material adjustments upon finalisation of these acquisitions.

14. Intangible Assets

31 MARCH 2019		Customer Lists	Syllabus Material	Management Contracts	Software	Brands	Goodwill	Total
$'000	**Note**							
Cost								
Opening balance		301	200	372	1,981	4,787	214,868	222,509
Additions		-	-	-	149	-	-	149
Classified as held for sale	5b	-	-	-	-	-	(369)	(369)
Disposal of businesses		(160)	(200)	-	(1,888)	(1,683)	(11,118)	(15,049)
Closing balance		**141**	**-**	**372**	**242**	**3,104**	**203,381**	**207,240**
Amortisation and impairment								
Opening balance		(277)	(200)	(310)	(1,313)	(1,683)	(11,556)	(15,339)
Amortisation expense		(24)	-	(62)	(347)	-	-	(433)
Disposal of businesses		160	200	-	1,638	1,683	10,600	14,281
Impairment expense:	15							
Assets held for sale		-	-	-	-	-	(3,850)	(3,850)
ECE centres		-	-	-	-	-	(103,289)	(103,289)
Closing balance		**(141)**	**-**	**(372)**	**(22)**	**-**	**(108,095)**	**(108,630)**
Net book value		**-**	**-**	**-**	**220**	**3,104**	**95,286**	**98,610**
Goodwill classified as held for sale	5b	**-**	**-**	**-**	**-**	**-**	**369**	**369**

31 MARCH 2018		Customer Lists	Syllabus Material	Management Contracts	Software	Brands	Goodwill	Total
$'000	**Note**							
Cost								
Opening balance		301	200	372	1,576	4,787	206,094	213,330
Additions		-	-	-	402	-	-	402
Acquisition of businesses		-	-	-	3	-	8,855	8,858
Disposal of businesses		-	-	-	-	-	(80)	(80)
Closing balance		**301**	**200**	**372**	**1,981**	**4,787**	**214,869**	**222,510**
Amortisation and impairment								
Opening balance		(175)	(117)	(217)	(700)	-	-	(1,209)
Amortisation expense		(75)	(50)	(93)	(401)	-	-	(619)
Impairment expense:	15							
Discontinued operations		(27)	(33)	-	(212)	(1,683)	(10,600)	(12,555)
ECE centres		-	-	-	-	-	(957)	(957)
Closing balance		**(277)**	**(200)**	**(310)**	**(1,313)**	**(1,683)**	**(11,557)**	**(15,340)**
Net book value		**24**	**-**	**62**	**668**	**3,104**	**203,312**	**207,170**

Amortisation expense includes amounts for both continuing and discontinued operations.

15. 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 groups of cash generating units ("CGUs") below, which are also the operating segments. Brands are also assessed for impairment separately.

31 MARCH 2019	ECE Centres	Home-based ECE	ECE Management	Total
$'000				
Goodwill	95,286	-	-	95,286
Brands with indefinite useful lives	3,104	-	-	3,104

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

Impairment expense

In the year ended 31 March 2018 the Group fully impaired the brands ($1.6m), goodwill ($10.6m), other intangible assets ($0.3m) and property, plant and equipment ($0.4m) of the Home-based ECE businesses. These businesses were sold during the current year (refer Note 5a).

As identified in Note 5b, six ECE centres and an ancillary business, ECE Management, were classified as held for sale during the current year. A goodwill impairment expense of $3.9m has been recognised in relation to these assets, leaving a recoverable amount of $0.4m. One centre and ECE Management have subsequently been sold, and one centre closed, resulting in a loss on sale of $0.3m (refer Note 5b).

The remaining ECE centres cash generating unit (CGU) goodwill balance of $198.6m has been tested for impairment as at 31 March 2019.

Declining enrolments in the 2019 financial year has reduced the current level of profitability of the portfolio of centres. Despite an improvement in the base assumptions used in the calculation of the value in use for ECE centres, overall the recoverable amount of the CGU has declined. As a result an impairment of $103.3m has been recognised in respect of the ECE centres CGU in the consolidated financial statements for the year ended 31 March 2019.

The recoverable amount of the ECE centres CGU as at 31 March 2019, $91.6m, 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.

The recoverable amount of the ECE centres CGU is lower than the carrying value of goodwill and brands as the recoverable amount includes a negative working capital component.

15. 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 2019 Centres	31 MARCH 2018 Centres
Revenue growth attributable to price (% per annum on average)	2.5%	1.5%
Revenue growth attributable to increase in enrolment (% per annum on average)	0.8%	0.7%
Total revenue growth (% per annum on average)	3.3%	2.2%
Expense growth (% per annum on average)	1.8%	2.1%
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 early childhood education to the value of approximately 66% (2018: 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 increase 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 group of CGUs, taking into account the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the industry segment the Group is engaged in, and is derived from its weighted average cost of capital (WACC). The WACC takes into account both the cost of debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors using the capital asset pricing model. The cost of debt takes in to account borrowing rates for both the Group and the market. The overall discount rate is independent of the Group's capital structure and the way the Group might finance the purchase of a business. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data. Adjustments to the discount rate are made to factor in the specific amount and timing of the future tax flows in order to reflect a pre-tax discount rate.

Long term growth rate – This rate is based on current inflation rates in New Zealand and forecast or assumed increase in revenues from parents/caregivers and the Government. The rate used is not inconsistent with the long term growth rate experienced industry-wide.

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

Sensitivity to changes in key assumptions

ECE Centres – Goodwill

The most sensitive assumption in the calculation of value in use for the ECE Centres CGU is revenue growth. The following summarises the impairment expense that would have been required had the noted changes in the "base" assumptions been made, with all other assumptions remaining constant:

$'000	Headroom/ (Impairment)
Base assumption	(103,289)
Enrolment growth +0.5% above base	(78,574)
Enrolment growth -0.5% under base	(127,186)
Price growth +0.5% above base	(79,001)
Price growth -0.5% below base	(126,773)

ECE Centres - Brands

The recoverable amount of the ECE Centres was $4.4m (2018: $4.7m) at balance date. The decrease is primarily attributable to a slight decline in financial performance of the 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% (2018: 15.4%) and cash flows beyond the one year period are extrapolated using a 2% (2018: 2%) terminal growth rate that is not inconsistent with the long-term growth rate experienced industry-wide. As the recoverable value is in excess of the carrying value, there is no impairment of this brand.

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 are discussed above.

The recoverable 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)	-29.0%
Royalty rate (% per annum on average)	0.7%
Pre-tax discount rates (%)	20.8%
Long-term growth rate (%)	-1.7%

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16. Trade and Other Payables

$'000	AS AT 31 MARCH 2019	AS AT 31 MARCH 2018
Trade payables	339	1,506
Goods and services tax payable	4,243	5,550
Onerous lease provision	1,531	-
Other payables	4,181	2,963
Total trade and other payables	**10,294**	**10,019**

Trade payables are unsecured and are usually paid within 30 days of recognition. The carrying amount of trade and other payables are considered to be the same as their fair value, due to their short-term nature.

Of the onerous lease provision of $1.5m, $1.1m relates to the office formally used as the Porse Head office (refer Note 5a).

17. 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 2019 funding received in advance relates to April to June 2019. Funding receivable relates to the remaining 25% of funding, adjusted for any changes in occupancy levels, in respect of February and March 2019.

$'000	AS AT 31 MARCH 2019	AS AT 31 MARCH 2018
Funding received in advance	15,971	21,474
Funding receivable	(3,346)	(3,610)
Total funding received in advance	**12,625**	**17,864**

18. Employee Entitlements

$'000	AS AT 31 MARCH 2019	AS AT 31 MARCH 2018
Employee leave provisions	2,654	3,069
Accrued wages and salaries	3,012	3,547
Other employee entitlements	286	220
Total employee entitlements	**5,952**	**6,836**

19. Issued Capital

Authorised shares

	31 MARCH 2019		31 MARCH 2018	
	Number	**$'000**	**Number**	**$'000**
Ordinary shares authorised, issued and fully paid				
Opening balance	179,457,596	159,149	178,278,256	158,106
Ordinary shares issued:				
Issue of shares in relation to dividend reinvestment plan ("DRP")	820,961	457	1,179,340	1,058
Less share issue costs relating to shares issued under DRP	-	(8)	-	(15)
Closing balance	**180,278,557**	**159,598**	**179,457,596**	**159,149**

20. Capital Management

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

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

Dividend Policy

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

Financial Covenants

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

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

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

21. Dividends

	2019 Cents per share	2018 Cents per share	2019 $'000	2018 $'000
Interim dividend for the year ended 31 March 2019	-		-	
Final dividend for the year ended 31 March 2018	2.00		3,590	
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
	2.00	**5.00**	**3,590**	**8,926**

Policies

Dividends are paid in cash in accordance with the dividend policy of the Group. Dividends paid during the current and prior period have been fully imputed.

Supplementary dividends

Supplementary dividends of $0.1m (2018: $0.4m) were paid to shareholders who are not tax resident in New Zealand, for which the Company received a foreign investor tax credit entitlement.

Dividend reinvestment plan

Under the Company's dividend reinvestment plan, holders of ordinary shares may elect to reinvest the net proceeds of cash dividends payable or credited to acquire further fully paid ordinary shares in the Company. In respect of the year ended 31 March 2019, 820,961 shares with a total value of $0.5m were issued in lieu of cash dividends (2018: 1,179,340 shares with a total value of $1.1m).

22. Earnings Per Share (EPS)

Basic and diluted EPS amounts are calculated by dividing the profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year. The number of shares outstanding for the current and prior year are adjusted for the effect of the rights issue in May 2019 (refer Note 29). The following reflects the income and share data used in the basic and diluted EPS computations:

$'000	YEAR 31 MARCH 2019	YEAR 31 MARCH 2018
(Loss)/profit after income tax from continuing operations ($'000s)	(102,399)	10,837
(Loss) after income tax attributable to the shareholders of the Company ($'000s)	(101,554)	(4,213)
Weighted average number of ordinary shares for basic and diluted EPS	323,504,713	321,474,643
Basic (and diluted) EPS from continuing operations (cents per share)	(31.7)	3.4
Basic (and diluted) EPS attributable to the shareholders of the Company (cents per share)	(31.4)	(1.3)

There have been no other transactions involving ordinary shares or potential ordinary shares during the current or prior year. Refer to Note 29 for details of transactions involving ordinary shares after 31 March 2019.

23. Financial Assets and Liabilities

Financial risk management objectives

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Group's overall level of financial risk is not significant and risk management is carried out by senior finance executives and the Board of Directors.

Market risk

Foreign currency risk

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

Price risk

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

Interest rate risk

The Group's main interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The effective interest rate for the current year is 6.0% (2018: 4.06%). The effect of an increase or decrease of ±1% in interest rates on the cash flow interest rate risk will result in a ±$485K (2018: ±$405K) movement on profit or loss before tax.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of cash and cash equivalents as well as the use of loans. At balance date the Group had drawn $55.4m (2018: $32.3m) of the Group's $63.9m (2018: $90.0m) lending facilities exposing the Group to interest rate risk. Exposure to interest rate risk is reduced by applying surplus cash against the revolving facility until such time that the cash is required. Any remaining cash after the revolving facility is reduced to zero is invested in term deposits. This reduces the company's average drawn net 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.

23. Financial Assets and Liabilities (continued)

Financing arrangements

The Group's financing arrangements comprise the following facilities:

- **Senior revolving facility** – provided by ASB totalling $8.5 million for general corporate and working capital purposes. The facility expires on 30 April 2022.
- **Acquisition facility** – provided by ASB totalling $55.4 million for funding of acquisitions. The facility expires on 30 April 2022. As described in Note 29, $29.0m of this facility was repaid on 17 May 2019, and the facility reduced by this amount.
  In the first part of the year, the terms of the acquisition facility allowed the Group to temporarily apply surplus cash against drawings under the facility to ensure efficient use of cash. From December onwards, surplus cash cannot be applied in this manner and is instead held on deposit until required.
- **Lease guarantee facility** – provided by ASB for $2.5 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.

Amounts drawn against the senior revolving and acquisition facilities are:

$'000	AS AT 31 MARCH 2019	AS AT 31 MARCH 2018
Facility Limits		
Senior revolving facility	8,500	30,000
Acquisition facility	55,359	60,000
Total lending facilities	**63,859**	**90,000**
Utilisation		
Senior revolving facility	-	-
Acquisition facility	55,359	32,300
	55,359	32,300
Total unused facilities	**8,500**	**57,700**

Remaining contractual maturities

The contractual maturity for the Group's financial instrument liabilities (that is, trade payables) is disclosed in Note 16. $29.0m of bank borrowings were repaid on 17 May, with a further $1.0m expected to be repaid by 30 June 2019. The remaining principal amount ($25.4m) is repayable in April 2022. Interest payments on net debt are projected to be $1.0m in the year ending 31 March 2020, $0.8m in the year ending 31 March 2021 and $0.7m in the year ending 31 March 2022.

Fair value of financial instruments

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

24. Net Debt Reconciliation

Movements on net debt comprise:

31 MARCH 2019	Cash and cash equivalents	Borrowings due within one year	Borrowings due after one year	Total
$'000				
Net debt as at 1 April 2018	**5,362**	**-**	**(32,300)**	**(26,938)**
Bank borrowings drawn	-	-	(92,247)	(92,247)
Bank borrowings repaid	-	-	69,188	69,188
Reclassified as current liability	-	(30,000)	30,000	-
Cash flows	19,912	-	-	19,912
Net debt as at 31 March 2019	**25,274**	**(30,000)**	**(25,359)**	**(30,085)**

31 MARCH 2018	Cash and cash equivalents	Borrowings due within one year	Borrowings due after one year	Total
$'000				
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 20) also includes any amounts utilised under the Group's lease guarantee facility (Note 26).

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

$'000	YEAR 31 MARCH 2019	YEAR 31 MARCH 2018
(Loss) after income tax	(101,554)	(4,213)
Adjustments for non cash items:		
Depreciation and amortisation	3,128	3,241
Impairment expense	107,139	13,890
(Gain)/loss on disposal of property, plant and equipment	(293)	134
(Gain)/loss on sale and closure of businesses	(1,357)	-
Deferred tax	(509)	(796)
Adjustments for items classified as investing or financing activities:		
Finance expense	2,908	1,641
Working capital movements relating to operating activities:		
Increase/(decrease) in funding received in advance	(1,683)	(188)
(Increase)/decrease in other current assets	(1,474)	136
Increase/(decrease) in trade and other payables	2,721	(357)
(Increase)/decrease in current income tax receivables	(519)	(552)
Increase/(decrease) in current income tax liabilities	-	(841)
Increase/(decrease) in PORSE GST settlement payable	(1,090)	1,500
Increase/(decrease) in employee entitlements	146	254
less business combination payment classified as investing	-	467
Net cash flows from operating activities	**7,563**	**14,316**

Working capital movements are adjusted to reflect the disposal of discontinued operations.

26. 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 2019	YEAR 31 MARCH 2018
Within one year	22,248	21,224
After one year but not more than five years	63,504	63,583
More than five years	45,892	53,880
Total	**131,644**	**138,687**

Guarantees

$2.3m (2018: $2.4m) of the lease guarantee facility disclosed in Note 23 has been utilised.

27. Related Party Transactions

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, retired 28 November 2018), Lynda Reid (appointed 2nd August 2017, retired 28 November 2018), Chris Scott (appointed 28 November 2018) and Chris Sacre (appointed 28 November 2018).
- J47 Pty Limited, a company associated with Chris Scott.
- The following companies are all associated with Mark Finlay (refer below for relationships): 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.

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

- Anthony Quirk ceased his directorship on 28th November 2018.
- Lynda Reid ceased her directorship on 28th November 2018.
- Greg Kern ceased his directorship on 17th August 2017.
- Alan Wham resigned as Chief Executive Officer on 15th September 2017.
- Mark Finlay was appointed Chief Executive Officer on 1st November 2017, having been acting in this capacity since 25th August 2017, and resigned from this role on 2nd July 2018. All amounts for the year ended 31 March 2019 disclosed below relate to the period 1 April 2018 to 2 July 2018 at which point Mark Finlay ceased to be a related party. He ceased to be a director on 17th August 2017.

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.

$'000	YEAR 31 MARCH 2019	YEAR 31 MARCH 2018
Alistair Ryan	135	128
Norah Barlow	80	90
Gráinne Troute	90	82
Anthony Quirk	60	56
Lynda Reid	53	53
Chris Scott	27	-
Chris Sacre	27	-
Greg Kern	-	37
Mark Finlay	-	33
Total Directors' Remuneration	**472**	**479**

27. 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 13 of the Group's ECE centres. Rent of $647,738 (2018: $2,208,000 relating to 14 ECE centres and the head office) has been paid by the Group to the companies associated with Mark Finlay during the period.
  - Management fee income received from centres related to Mark Finlay was $0 (2018: $17,500).
  - Payments for services other than rent paid to companies related to Mark Finlay were $3,691 (2018: $68,872).
  - Payments to Wildfire Consulting for CEO services provided by Mark Finlay were $80,000 (2018: $0)
  - Payments for capital expenditure to companies related to Mark Finlay were $45,646 (2018: $0)
  - Dividends of $426,000 (2018: $1,067,000) were paid to Mark Finlay and associated parties.
  - On 8 August 2018, J47 Pty Limited acquired 34,186,061 shares.
  - Shares were issued pursuant to the Company's dividend reinvestment plan to Alistair Ryan and Norah Barlow. 3,022 shares each valued at $1,682 each. (2018: 4,641 shares each valued at $4,038 each).

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

$'000	AS AT 31 MARCH 2019	AS AT 31 MARCH 2018
Short-term employee benefits	809	1,000
Total compensation paid to key management personnel	**809**	**1,000**

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

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

Units of shares	AS AT 31 MARCH 2019	AS AT 31 MARCH 2018
Norah Barlow	93,412	90,390
Alistair Ryan	93,412	90,390
Mark Finlay	-	21,347,382
Chris Scott	34,186,061	-
	34,372,885	**21,528,162**

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

The shareholding of Mark Finlay is not disclosed at 31 March 2019, as he is not a related party at this date.

28. Auditor's Remuneration

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

$'000	YEAR 31 MARCH 2019	YEAR 31 MARCH 2018
Assurance services:		
Audit and review of the consolidated financial statements	237	183
Porse assurance engagements	10	30
Total assurance services	**247**	**213**
Other services provided by PricewaterhouseCoopers:		
Taxation compliance services	33	40
Other non-assurance services	18	-
Total other services	**51**	**40**

Other non-assurance services are primarily an agreed-upon procedures service in respect of the working capital calculation for a prior acquisition.

29. Events After the Reporting Period

Director changes

The Company announced on 8 May that Alistair Ryan will retire as Chair, effective 15 June 2019, and that Norah Barlow intends to retire and not seek re-election at the Company's 2019 Annual Meeting.

Capital raising

On 8 May 2019, the Company announced a fully underwritten capital raising, raising $63.5 million through a fully underwritten 4.4 for 1 pro rata accelerated rights entitlement offer at $0.08 per share.

The funds will be applied to repay $30 million of bank borrowings by the end of June 2019, a permanent reduction of the acquisition facility, to fund an initial phase of Australian expansion ($25 million), to provide working capital ($5 million) and meet the costs of the offer ($3.5 million).

$29 million of net proceeds from the institutional element of the raise were received on 17 May 2019, and repaid to the bank, representing 381,791,638 shares issued, with the balance expected from the retail element of the raise by 6 June 2019.

Independent auditor's report

To the shareholders of Evolve Education Group Limited

We have audited the consolidated financial statements which comprise:

- the consolidated statement of financial position as at 31 March 2019;
- 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 a summary of significant accounting policies.

Our opinion

In our opinion, the accompanying consolidated financial statements of Evolve Education Group Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 31 March 2019, 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 assurance services, taxation compliance and other non-assurance 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: $0.7 million, which represents approximately 5% of a 3-year average of profit before income tax adjusted to exclude impairment losses.

Given the volatility experienced in profit before income tax over the last 3 years and the significant impact the impairment loss has on profit before income tax, in our judgement, a 3-year average of profit before income tax adjusted for impairment losses provides a more stable basis for calculating materiality.

We have determined that there are two key audit matters:

- Compliance with financial covenants
- 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 matters

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 were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	***How our audit addressed the key audit matter***
Compliance with financial covenants As described in note 2 to the consolidated financial statements, the Group's facilities with ASB Bank Limited require certain financial covenants to be complied with. To meet these financial covenants, the debt facilities were revised to accommodate relaxed financial covenants during the term of the facility. The Group was also required to agree a capital management strategy with the bank to reduce borrowings. For these reasons, we have considered this as an area of focus. Subsequent to year end, the Group further renegotiated its debt facilities with the bank and repaid $29.0 million of its borrowings from the proceeds raised from the Institutional Entitlement Offer. The Directors have determined that the Group expects to fully comply with its financial covenants.	To address the risk of non-compliance with the financial covenants and conditions included in the amended banking facility arrangement, we reperformed the Group's calculations of compliance with financial covenants at each compliance date during the year. We obtained the Group's forecast compliance assessment for the next 12 months from the date of the approval of the consolidated financial statements and performed the following audit procedures: • agreed the cash flow forecast to the forecast approved by the Board; • reperformed the Group's calculation of compliance with financial covenants at each compliance date; • performed sensitivity analysis on the forecast covenant compliance calculation to assess the level of forecasting risk; and • considered the status of the capital raise and its impact on the forecast compliance assessment by calculating the effect on available headroom. We have no matters to report.

Key audit matter	***How our audit addressed the key audit matter***
Impairment assessment of goodwill As at 31 March 2019, the Group has goodwill of $95.7 million relating to the ECE Centres cash-generating unit (CGU). During the year, the Group recognised an impairment of $107.1 million due to the underperformance of the ECE CGU and a continued decline in child enrolments for this CGU. This was an area of focus 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. A discounted cash flow model on a value-in-use basis was used to determine the recoverable amount. Management considers the following being key assumptions to the recoverable amount calculation: • 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 15 of the consolidated financial statements where the impairment testing of goodwill is discussed, including sensitivities to changes in certain assumptions.	To address the risk of impairment of goodwill, our audit procedures included the following: • Gained an understanding of the business process applied by the Group in determining whether there are any indicators of impairment; • Obtained an understanding of the Group's forecasting and budgeting process to understand the basis of the assumptions and operational improvements planned within FY20; • Reviewed the past year's actual performance against the cash flow forecast used in the impairment model to determine the achievability of assumptions used to develop the model; • Tested management's value-in-use calculation and the mathematical accuracy of the model; • 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 rate and discount rate used against those used by similar market participants and to 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 consolidated financial statements and auditor's report

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

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

Responsibilities of the Directors for the consolidated financial statements

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

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

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

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

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

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

This description forms part of our auditor's report.

Who we report to

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

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
27 May 2019

Auckland

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 furthermore specific and stringent rules also applying to trading in the Company's securities by directors and certain senior employees, or employees performing certain functions.

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 80.

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.

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.

Corporate Governance and Statutory Information

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.

As at 31 March 2019, Norah Barlow, Chris Sacre, Gráinne Troute and Alistair Ryan (retired 15 June 2019) were independent directors, within the meaning of the NZX Listing Rules.

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 pages 11-12.

Evolve Director ownership interests can be found on page 80 of this annual report.

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.

Corporate Governance and Statutory Information

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 2019				As at 31 March 2018			
Position	**Women**		**Men**		**Women**		**Men**	
Board	2	(40%)	3	(60%)	3	(60%)	2	(40%)
Senior Management*	5	(71%)	2	(29%)	3	(43%)	4	(57%)
Company-wide		>96.0%		<4.0%		>96.0%		<4.0%

*Senior management includes the CEO and employees who report directly to the CEO. As at 31 March 2019 the senior management team consisted of seven positions.

At balance date the Group employs 2,151 women which represents 96% of the workforce (FY18: 2,187 women which represented 96% 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.

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 members of the Audit and Risk Committee as at 31 March 2019 were Norah Barlow, (Chair appointed November 2018) Chris Sacre and Alistair Ryan (retired 15 June 2019). Grainne Troute joined the committee on 15 June 2019. The Board is of the belief that the Audit and Risk Committee was appropriately constituted as at 31 March 2019 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.

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), Chris Sacre, and Norah Barlow.

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.

Corporate Governance and Statutory Information

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 scheduled Board and Committee meetings between 1 April 2018 and the date of approving the financial statements (that is, 27 May 2019), as compared to the number of scheduled meetings that each Director was eligible to attend as a member (in brackets) is shown in the table below.

	Board	Audit and Risk Committee	Remuneration and People Committee
Norah Barlow	11 (11)	3 (3)	3 (4)
Alistair Ryan	11 (11)	3 (3)	-
Chris Scott	3 (3)	-	-
Gráinne Troute	11 (11)	-	4 (4)
Anthony Quirk	8 (8)	2 (2)	-
Lynda Reid	8 (8)	-	2 (2)
Chris Sacre	3 (3)	1 (1)	2 (2)

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

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 binding 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.

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).

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 Chairs of the Audit and Risk Committee and Remuneration and People Committee each receive an additional $10,000 per annum. The directors' fees currently total $472,000 per annum.

The Director fee pool for all directors is $500,000 per annum in aggregate. 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 2019 are listed below. Pursuant to section 211(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 2019 are provided below.

($000's)	Directors' Fees	Total
Alistair Ryan	135	135
Norah Barlow	80	80
Gráinne Troute	90	90
Anthony Quirk	60	60
Lynda Reid	53	53
Chris Scott	27	27
Chris Sacre	27	27
Total	**472**	**472**

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 2019 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 74.

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 where necessary 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.

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.

A performance share rights long-term executive incentive scheme for the CEO and the senior management team is currently under review to ensure that it is optimised.

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

Mark Finlay held the position of CEO until 2 July 2018. He had a base salary of $320,000 per annum (gross) and was entitled to the use of a laptop and carpark. Rosanne Graham held the position of CEO from 2 July 2018. She has a base salary of $450,000 per annum (gross) and is entitled to the use of a mobile telephone, laptop and carpark. A short term incentive scheme of up to 30% of gross salary is provided under which scheme the Board approved a recognition payment of $100,000 for Ms Graham in respect of 2019.

Employee Remuneration

The number of employees or former employees (including employees holding office as directors of subsidiaries, who received remuneration and other benefits (including share-based payments) valued at or exceeding $100,000 during the year ended 31 March 2019 are specified below.

Remuneration Band	Total
$100,001 - $110,000	4
$110,001 - $120,000	1
$120,001 - $130,000	2
$150,001 - $160,000	1
$190,000 - $200,000	1
$220,000 - $230,000	1
$310,000 - $320,000	1
$350,000 - $360,000	1
$390,000 - $400,000	1
Total	**13**

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.

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.

Corporate Governance and Statutory Information

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 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 2019 is set out in note 28 of the financial statements included in this annual report.

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.

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.

Corporate Governance and Statutory Information

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.

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 2019 are as follows:

Director	Position	Company
Norah Barlow	Director – ceased	Methven Limited
	Director – ceased	Aged Care Guild Limited
	Director – ceased	Cigna Life Insurance NZ Limited
	Director	Heritage Lifecare Limited
Gráinne Troute	Director	Investore Property Group
Alistair Ryan	Director-ceased	Christchurch Casinos Limited

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 2019:

Norah Barlow:

- Issue of 3,022 shares by the Company on 28 June 2018 under the Company's dividend reinvestment plan.

Alistair Ryan:

- Issue of 3,022 shares by the Company on 28 June 2018 under the Company's dividend reinvestment plan.

Chris Scott:

- Purchase of 34,186,061 shares.

Anthony Quirk, Gráinne Troute, Chris Sacre and Lynda Reid:

- Nil

Disclosure of Directors' Interests in Shares

Directors disclosed the following relevant interests in shares as at 31 March 2019:

Director	Number of Shares in which a relevant interest is held
Norah Barlow	93,412
Alistair Ryan	93,412
Chris Scott	34,186,061

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 2019, the Company authorised nil dividends.

Net Tangible Assets

The Company's net tangible assets as at 31 March 2019 were ($0.27) per share (31 March 2018 ($0.29) 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 2019 it was $0.29 (2018: $0.87).

Donations

The Company made donations of $3,351 during the year ended 31 March 2019 (31 March 2018 $2,732).

Credit Rating

The Company has no credit rating.

NZX and ASX Waivers

On 8 May 2019, NZX Regulation granted Evolve a waiver from the following NZX Listing Rules in respect of the 4.4 for 1 accelerated rights entitlement offer announced by Evolve on 8 May 2019 (*the Offer*):

- Waiver from NZX Listing Rule 7.11.1 which allowed Evolve to allot the new shares under the institutional entitlement offer six business days after the close of the institutional entitlement offer.
- Waiver from NZX Listing Rule 9.2.1, to the extent that NZX Listing Rule 9.2.1 would otherwise require prior shareholder approval for any of Chris Sacre or his associated persons to act as a sub-underwriter of the Offer and receive sub-underwriting fees under a sub-underwriting agreement.

Evolve also relied on the NZX class waiver to accelerated entitlement offers, dated 13 June 2017, in respect of the Offer. It is noted that the Offer occurred after Evolve's balance date, but the waivers have been included in this Annual Report for completeness.

Annual Meeting

The Company's Annual Meeting of shareholders will be held in Auckland on 18 September 2019 at 10 am.

Shareholder Information

Analysis of Shareholding at 6 June 2019

Ranges	Number of Shareholders	%	Number of Shares	Holding Quantity %
1 to 1,000	102	5.75	56,141	0.01
1,001 to 5,000	251	14.15	800,727	0.08
5,001 to 10,000	226	12.74	1,799,941	0.18
10,001 to 100,000	695	39.18	26,767,566	2.75
100,001 and Over	500	28.18	944,079,618	96.98
Total	**1,774**	**100.00**	**973,503,993**	**100.00**

Twenty Largest Shareholders at 6 June 2019

Name	Number of Shares	% of Shares
New Zealand Central Securities Depository Limited	210,950,179	21.67
J47 Pty Ltd	184,604,729	18.96
National Nominees Limited	42,020,940	4.32
Upton124 Pty Ltd	38,180,000	3.92
HSBC Custody Nominees (Australia) Limited	37,707,881	3.87
JBWere (NZ) Nominees Limited	27,161,341	2.79
FNZ Custodians Limited	26,763,571	2.75
Brispot Nominees Pty Ltd	25,420,172	2.61
UBS Nominees Pty Ltd	23,766,587	2.44
Forsyth Barr Custodians Limited	19,078,074	1.96
Mrs Juwarseh Scott	14,990,000	1.54
Opm Super Co Pty Ltd	13,662,000	1.40
J P Morgan Nominees Australia Pty Limited	12,336,054	1.27
Leveraged Equities Finance Limited	11,153,987	1.15
Merrill Lynch (Australia) Nominees Pty Limited	10,622,443	1.09
Custodial Services Limited	8,370,000	0.86
Great Glennie Holdings Pty Ltd	7,948,275	0.82
Geosine Pty Ltd	7,001,994	0.72
BNP Paribas Nominees Pty Ltd	6,850,000	0.70
Heath Richard Finlay & Mark Clayton Finlay & Mark Dobson Trustee Company Limited	5,400,000	0.55
Total - twenty largest shareholders	**733,988,227**	**75.39**
Total number of shares on issue	**973,503,993**	

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 6 June 2019, the shareholdings in the Company held through NZCSD were:

Name	Number of Shares Held by NZCSD	% of NZCSD Shares
JPMorgan Chase Bank	103,740,869	49.18
Accident Compensation Corporation	49,610,325	23.52
HSBC Nominees (New Zealand) Limited	25,972,122	12.31
BNP Paribas Nominees NZ Limited	15,300,325	7.25
National Nominees New Zealand Limited	10,591,167	5.02
Tea Custodians Limited	3,344,026	1.59
Citibank Nominees (NZ) Ltd	1,786,191	0.85
Public Trust Forte Nominees Limited	600,000	0.28
Private Nominees Limited	5,154	0.00
Total - shares held by NZCSD	**210,950,179**	**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 31 March 2019 in respect of the number of shares set opposite their names.

Name	Number of Shares	% of Shares
J47 Pty Ltd	34,186,061	18.96%
Regal Funds Management	29,827,904	16.55%
Salt Funds Management Limited	17,637,808	9.78%
UBS Group AG	10,855,800	6.02%
National Australia Bank Limited	19,261,709	10.68%
Total number of shares on issue	**180,278,557**	

Subsidiary Company Directors

The following persons held office as Directors of the Company's subsidiaries during the year ended 31 March 2019 or, in the case of acquired subsidiaries, from the date of acquisition:

Evolve Group 1 Limited	Rosanne Graham (appointed 10 August 2018) Paul Matthews (appointed 31 August 2018) Stephen Davies Fay Amaral (ceased 10 August 2018)
Evolve Group 2 Limited	Rosanne Graham (appointed 10 August 2018) Paul Matthews (appointed 31 August 2018) Stephen Davies Fay Amaral (ceased 10 August 2018)
Evolve Group 3 Limited	Rosanne Graham (appointed 10 August 2018) Paul Matthews (appointed 31 August 2018) Stephen Davies Fay Amaral (ceased 10 August 2018)
Evolve Group 4 Limited	Rosanne Graham (appointed 10 August 2018) Paul Matthews (appointed 31 August 2018) Stephen Davies Fay Amaral (ceased 10 August 2018)
Evolve Group 5 Limited	Rosanne Graham (appointed 10 August 2018) Paul Matthews (appointed 31 August 2018) Stephen Davies Fay Amaral (ceased 10 August 2018)
Evolve Group 6 Limited	Rosanne Graham (appointed 10 August 2018) Paul Matthews (appointed 31 August 2018) Stephen Davies Fay Amaral (ceased 10 August 2018)
Evolve Management Group Limited	Rosanne Graham (appointed 10 August 2018) Paul Matthews (appointed 31 August 2018) Stephen Davies Fay Amaral (ceased 10 August 2018)
Evolve ECEM Limited	Rosanne Graham (appointed 10 August 2018) Paul Matthews (appointed 31 August 2018) Stephen Davies Fay Amaral (ceased 10 August 2018)
Lollipops Educare Holdings Limited	Rosanne Graham (appointed 10 August 2018) Paul Matthews (appointed 31 August 2018) Stephen Davies Fay Amaral (ceased 10 August 2018)
Lollipops Educare Limited	Rosanne Graham (appointed 10 August 2018) Paul Matthews (appointed 31 August 2018) Stephen Davies Fay Amaral (ceased 10 August 2018)
Lollipops Educare Centres Limited	Rosanne Graham (appointed 10 August 2018) Paul Matthews (appointed 31 August 2018) Stephen Davies Fay Amaral (ceased 10 August 2018)
Lollipops Educare (Hastings) Limited	Rosanne Graham (appointed 10 August 2018) Paul Matthews (appointed 31 August 2018) Stephen Davies Fay Amaral (ceased 10 August 2018)
Lollipops Educare (Birkenhead) Limited	Rosanne Graham (appointed 10 August 2018) Paul Matthews (appointed 31 August 2018) Stephen Davies Fay Amaral (ceased 10 August 2018)

Evolve Home Day Care Limited	Rosanne Graham (appointed 10 August 2018) Paul Matthews (appointed 31 August 2018) Stephen Davies Fay Amaral (ceased 10 August 2018)
Au Pair (Evolve) Limited	Rosanne Graham (appointed 10 August 2018) Paul Matthews (appointed 31 August 2018) Stephen Davies Fay Amaral (ceased 10 August 2018)
PORSE In-home Childcare (NZ) Limited	Stephen Davies (ceased 3 December 2018) Rosanne Graham (ceased 3 December 2018) Paul Matthews (ceased 3 December 2018) Fay Amaral (ceased 9 August 2018)
PORSE Franchising (NZ) Limited	Stephen Davies (ceased 3 December 2018) Rosanne Graham (ceased 3 December 2018) Paul Matthews (ceased 3 December 2018) Fay Amaral (ceased 9 August 2018)
PORSE Education & Training (NZ) Limited	Stephen Davies (ceased 3 December 2018) Rosanne Graham (ceased 3 December 2018) Paul Matthews (ceased 3 December 2018) Fay Amaral (ceased 9 August 2018)
For Life Education & Training (NZ) Limited	Stephen Davies (ceased 3 December 2018) Rosanne Graham (ceased 3 December 2018) Paul Matthews (ceased 3 December 2018) Fay Amaral (ceased 9 August 2018)

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 2019.

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) retired 15 June 2019
Norah Barlow (Acting Chair)
Chris Sacre (appointed 28 November 2018)
Chris Scott (appointed 28 November 2018)
Gráinne Troute

Senior Management Team

Rosanne Graham	Chief Executive Officer
Bev Davies	GM People and Talent
Stephen Davies	Chief Financial Officer
Kirsten Long	GM Centre Operations
Paul Matthews	Chief Information Officer
Karen Shields	GM Quality Assurance and Professional Learning
Ru Wilkie	GM Marketing

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

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