evolve
education group

ANNUAL REPORT 2020

This Annual Report of Evolve Education Group Limited is dated 10 August 2020 and is signed by the Board of Directors by:

Hamish Stevens
Chair of the Board

Chris Scott
Managing Director

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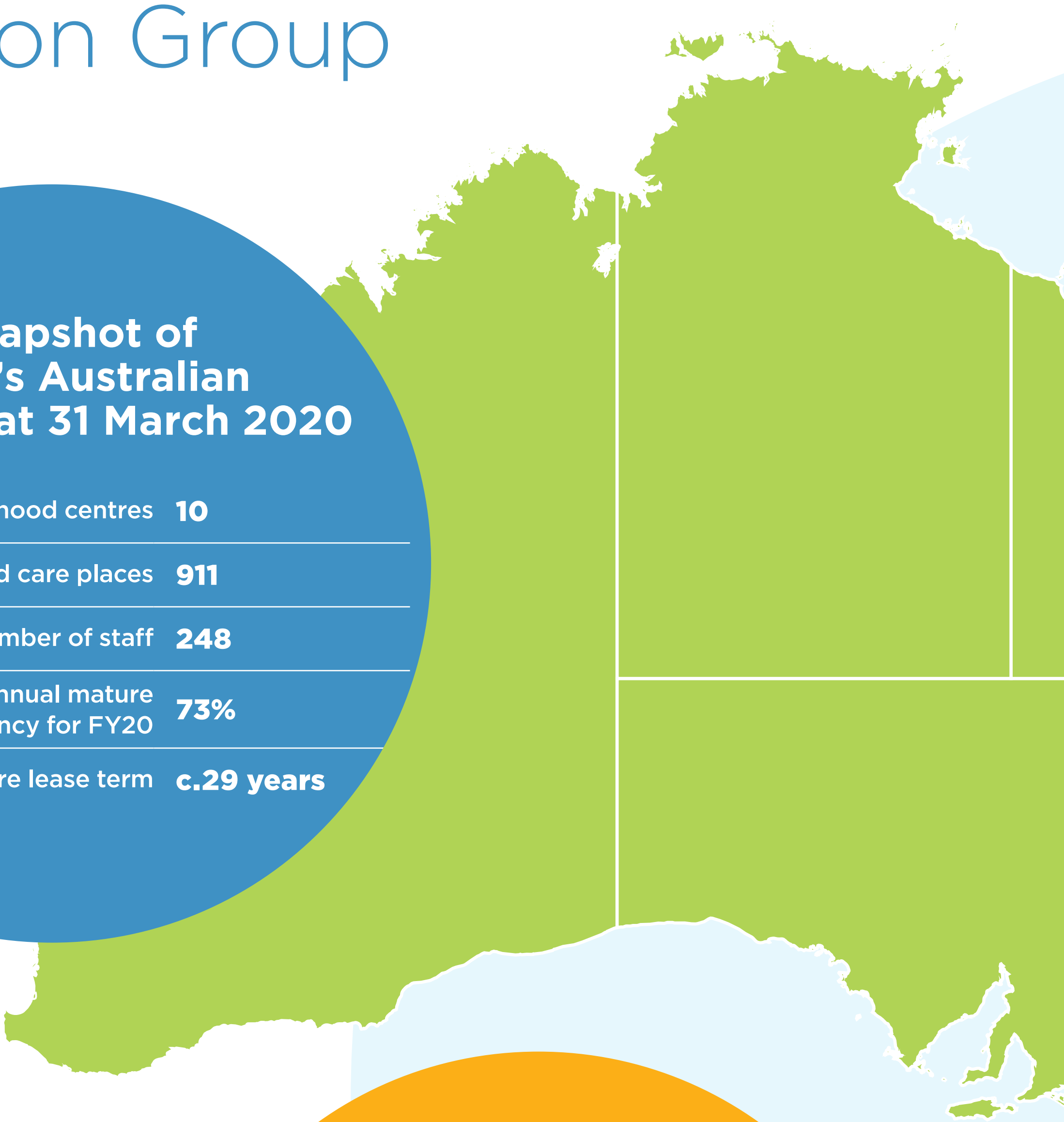


A snapshot of Evolve's Australian network as at 31 March 2020

Number of early childhood centres	**10**
Number of licensed child care places	**911**
Number of staff	**248**
Average annual mature centre occupancy for FY20	**73%**
Average centre lease term	**c.29 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. In the second half of 2019, Evolve launched its expansion into Australia with the acquisition of 10 centres.

A snapshot of Evolve's New Zealand network as at 31 March 2020

Number of early childhood centres	**117**
Number of licensed child care places	**8,708**
Number of staff	**2,173**
Average annual mature centre occupancy for FY20	**72%**
Average centre lease term	**c.17 years**

The communities we serve – number of centres by region

Chair's Report 2020

Hamish Stevens

Chair
Evolve Education Group Limited

Welcome to Evolve's sixth annual report. The past year has been a year of significant change for the Company. In September 2019, a new board and management team was put in place and the board now comprises long-term operators from the early childcare and education sectors – Chris Scott, Chris Sacre and Adrian Fonseca. Experienced directors Kim Campbell and Hamish Stevens also joined the board. Alistair Ryan, Norah Barlow and Grainne Troute retired from the Board during the year. CEO Roseanne Graham left the company in September 2019, and she has been replaced by Managing Director Chris Scott and New Zealand CEO Tim Wong. Both Chris and Tim have extensive ECE ownership and operational experience. The company is fortunate to have such capable and committed leadership now in place to lead the business through these unprecedented times.

The board wishes to acknowledge the contribution of Alistair, Norah, Grainne and Roseanne during their respective tenures.

MD Chris Scott will expand on the specific initiatives undertaken in his report.

In June 2019 Evolve raised $63m in a capital rights issue and in December 2019 the Company successfully raised a further $19m in an institutional placement. This allowed the company to retire debt and undertake the acquisition of ten centres in Australia. It also places the company on a stronger financial footing and provides the board with the time and resources to implement its New Zealand turn-around strategy.

Covid-19 has unfortunately had an impact on the sector in both New Zealand and Australia with falling attendance prior to government restrictions and a complete closure of all NZ centres during alert level 4 in March and April 2020. Following the removal of restrictions, attendance has increased but parental health concerns, an increased number of people working from home, and economic uncertainty for many families means attendance within the sector is not yet back to pre-Covid-19 levels.

Company turnarounds take time and Covid-19 has further impacted on this task, however we are confident that the people and resources are now in place to achieve meaningful improvements in financial performance. Our forecasting shows returns to shareholders continuing to improve over the next three years, assuming that Covid-19 is brought under control.

In this regard, I assure you that you have a committed and hard-working board and senior management team. I particularly wish to acknowledge the efforts and experience of our Managing Director Chris Scott who has brought a strong focus on operational excellence, and our NZ CEO Tim Wong who brings a wealth of experience and insight within the sector.

I also want to acknowledge the substantial contributions made by the dedicated employees at our centres. Day after day they greet, teach and care for the many children who attend our centres. It is through their dedication and the support of our many families that we can be confident Evolve continues to have a bright future.

Managing Director's Report

Chris Scott

Managing Director
Evolve Education Group Limited

Financial Year Ended 31 March 2020.

First half of year

Last year's annual report made reference to the fact that the financial performance of Evolve had declined significantly throughout FY19. This decline was related largely to average occupancy falling from above 80% in FY17 to 78.6% in FY18 and then 76.5% in FY19. The decline continued in FY20 with average occupancy throughout FY20 being 71.9%.

The Company outlined a three-year plan to address this issue which was developed and put into place in late 2018. Unfortunately, by July 2019, occupancy was continuing to decline and head office costs were rising rapidly. This situation was not sustainable and the Company's balance sheet was not sufficiently robust to continue on this path.

The Company decided that further structural change was required.

Second half of year

The second half of FY20 saw significant change:

a) The Board was refreshed with three directors who have significant experience in the child care sector.
b) The Support Office was streamlined and made more responsive to the needs of centres and centre managers with a significant reduction in head office costs.
c) The $63m equity raise in June 2019 was supplemented by a $19m placement in December 2019 which significantly strengthened the Company's balance sheet and allowed the commencement of the Australia growth strategy.
d) Changes were implemented to improve occupancy together with more flexible and responsive centre rostering.
e) Ten centres were acquired in Australia in line with the Australian expansion plan.

By 26 March 2020 (when the Covid-19 alert level 4 lockdown took effect in NZ), the declining trend in occupancy had been reversed and centre wages to revenue had fallen from 60% to 57%.

The measures implemented in the second half of FY20 led to FY20 underlying EBITDA coming in at $8.2m[1] – ahead of the $6m to $6.5m which had been anticipated in November 2019. Significant progress had been made in restoring the Company to financial health.

Covid-19 update

The Evolve operating environment in both New Zealand and Australia has changed dramatically since the end of the financial year due to Covid-19.

However, both the New Zealand and Australian governments supported the child care sector strongly since the advent of Covid-19 with both governments offering support in the forms of wage subsidies and continuation of funding. Accordingly, while earnings since 1 April 2020 have been affected, the Company's earnings and cash flow have been positive throughout this period.

Since Covid-19 restrictions were lifted in New Zealand, occupancy has continued to rise. Occupancy was 60.1% in early June 2020 and was 68.8% in mid July 2020. In Australia, the parent fee subsidy scheme and the Covid-19 lockdown in Melbourne announced by the Victorian State Government on 2 August 2020 mean sustainable occupancy and attendance trends will not be apparent until October 2020, at the earliest.

In summary, FY20 has been a year of change and considerable progress in restoring the Company to financial health. While the impact of Covid-19 at the very end of the year has delayed this process, the Evolve team is fully committed to continuing the positive changes that were instigated prior to this event.

[1] Please refer to page 43 (note 4 of Consolidated Financial Statements)

This is our...

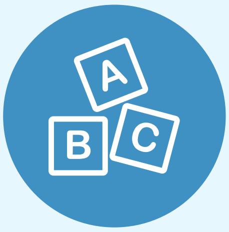
Vision

Creating centres that parents want their children to be at and children want to stay at because our people love what they do and where they work.

Values

Belonging

Nurturing



Learning

Respectful

Playful

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

Our people are central to everything we do at Evolve, to prioritise and deliver world-class early childhood education and care services to all our families.

The past 12 months have seen changes in focus across the organisation, to support and enable our centre teams to do their best work. And for our people to feel supported and valued through this journey.

There has been an increase in the collaborative forums established across our operations structure to ensure our nation-wide network of Centre Managers, supported by their Area Managers, are able to connect regularly, discuss relevant topics and issues, share learnings and new ideas as well as strengthen relationships throughout the organisation at the centre level.

I chose a career as a professional registered ECE teacher due to the magic of the early childhood years.

Children are so uniquely wonderful, and I relish being a part of their learning journeys through these formative years.

KIM

I am very proud to call myself an Early Childhood teacher. This career path is very close to my heart as I am inspired by my grandmother who has worked in this field for over 37 years. Improving outcomes for learners is what drives me to be a better version of myself every day. I am extremely lucky to say that being an Early Childhood teacher and making a difference in children's lives is my passion.

WENDY

In late 2019, under the new leadership of the Managing Director and the NZ CEO, Evolve undertook a review of its Support Office, which saw a reduction in headcount and a refining of the role of the Shared Services functions within the organisation. In conjunction with this, a stronger emphasis was placed on ensuring those senior leaders that are closest to our families – our Area Managers – are empowered and supported to make the very best decisions for our families, and the centres they lead – and do this quickly.

The number of Area Manager positions across the organisation was increased, resulting in a decrease in the number of centres each manager was responsible for; enabling them to spend more in-depth time working alongside and with their Centre Managers and Teams to prioritise activities and actions that are relevant and meaningful, and that drive improved outcomes for children.

Our new NZ CEO, who also leads the operations team, has spent a significant part of the past year visiting and meeting with Centre Managers and their teams, as well as parents, throughout the country, to ensure there is a clear line of sight over what our families want and need from us, so that we are better able to meet and exceed these.

The Head of HR works closely with the NZ CEO in this priority work, and the People and Talent Team have focussed on key activities from the Evolve People Strategy. Some of these include:

- A continuing focus on professional development, including, as required, targeted coaching for leaders
- Investing in the capability and confidence of operational leaders in key areas of HR, including recruitment, payroll, performance and development

- Refining key people processes, to ensure they are increasingly fit for purpose, and they deliver the outcomes we are looking for
- The establishment and administration of Evolve's Health, Safety and Wellbeing Committee, with a clear purpose, mandate and responsibilities.

With the advent of Covid-19, 2020 has been a challenging year for people globally.

Every employer in New Zealand has had to face operational considerations never dealt with before – an entirely new territory for which there was no map. And whilst challenging, this also provided an opportunity for real leadership to come to the fore – which it did, at all levels of the organisation.

For the Board and the Senior Management team, this was taking an early decision to continue to pay our people their full salaries during the lockdown period. We were able to sustain this approach through this time with the help of the Wage Subsidy.

For our extraordinary centre staff – this was continuing to go to extreme lengths to become and remain connected with their tamariki and whānau throughout this uncertain time – their innovation and creativity in supporting families and children came to the fore, and we are immensely proud of them.

And for our Support Office teams – it was stepping up and helping our entire organisation to successfully operate remotely in a very short space of time; and then transition back into full on-site operations.

Like many organisations, we are now navigating the challenges of the past few months and putting plans in place to enable our organisation to strengthen and flourish into the future – and we will do it together.

I chose early childhood as a profession as to me it is far more than just a job. It is one of the most important and rewarding careers. I am lucky enough to have the chance to make a difference in the lives of such special wee treasures, our youngest people, and help set them up for a lifelong love of learning. I love sparking their inquisitive minds to make discoveries, sharing in their wonder, supporting, guiding, and challenging them as well as celebrating in their success, not to mention having so much fun every day.

FABIENNE

I love to focus on the term whanaungatanga where there is a sense of family connection that you can feel when you walk into my environment. The relationships I have with whānau and our tamariki are so special; these connections have enabled a sense of belonging where whānau love to contribute. I am passionate about papatuanuku and the natural based element that comes along with that. I choose to be an ECE teacher as I have a passion for working with young children and watching them learn and achieve; this is one of the most heart-warming benefits of my job. Every day is unique through creating beautiful, entertaining and engaging environments.

NICOLE

Property

The focus for the Property team in New Zealand for the past year has been to enhance our existing centres. This is in conjunction with the expansion into Australia with the acquisition of 10 centres and the set up of the Australian support office in Queensland.

The New Zealand based development focus included the ongoing maintenance of the centres and upgrade of appliances and heating sources. Many centres have had the addition of new shade sails as well as turf upgrades.

Key Projects that have been carried out during the year are:

Learning Adventures Warkworth

- Replacement of carpet and vinyl
- Interior painting
- Playground reconfiguration and new soft fall turf

Active Explorers Ashburton

- Replacement of carpet and vinyl
- Interior painting
- Reconfiguration of internal areas for better use of space

Lollipops Hazeldean

- Replacement of carpet
- Interior painting
- New soft fall throughout outdoor spaces

As a result of the revamp of the New Zealand Support Office in late 2019, the outsourced property helpdesk was discontinued and successfully moved in house, thus enabling a faster and better coordinated response.

The full reopening of centres in New Zealand in May 2020 after the Covid-19 lockdown period provided the opportunity to conduct a professional clean and sanitisation across all the centres. This specific cleaning protocol included a Chemical Fogging process as recommended by the World Health Organisation. Additionally, all centres were equipped with an infrared thermometer to welcome our family and whānau back with confidence.

LEARNING ADVENTURES WARKWORTH

LOLLIPOPS HAZELDEAN

AUSTRALIAN CENTRES

ACTIVE EXPLORERS ASHBURTON

Board Profile

Hamish Stevens

Independent Director and Chair of the Board
Appointed 29 July 2019

Hamish has held independent directorships on several boards since 2010 and is currently Chair of Pharmaco NZ and East Health Services, a director of NZX-listed Marsden Maritime Holdings, Pacific Radiology Group and Counties Power. Hamish is also the independent Chair of the Waikato Regional Council Risk and Assurance Committee. Prior to his governance career Hamish held senior finance positions with Heinz Watties, Tip Top Ice Cream and DB Breweries. Hamish is a qualified Chartered Accountant.

Chris Scott

Managing Director and 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's market capitalisation grew from $4 million in 2010 to a peak of approximately $1.9 billion.

Chris Sacre

Non-Independent Director
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.

Kim Campbell

Appointed 19 September 2019: Independent Director
Chair of Remuneration and People Committee

Kim Campbell attended the University of Canterbury completing a Bachelor of Arts majoring in Geography.

Kim was the CEO of the Employers & Manufacturers Association. Kim is currently a Director of Douglas Pharmaceuticals, Chair of the ASB Showgrounds, Chair of EMH Trade Ltd and Chair of Auckland Manufacturers Association.

Adrian Fonseca

Appointed 19 September 2019: Independent Director
Chair of Audit and Risk Committee

Adrian Fonseca attended the University of Melbourne completing a Bachelor of Laws (Hons) and Bachelor of Commerce.

Adrian practised as a banking and finance lawyer at global firms Allens and Ashurst before spending 17 years in investment banking in Sydney, Singapore and London with Macquarie Bank, Deutsche Bank and Barclays Bank. In his last role Adrian was head of a Strategic Solutions and Financing Team at Deutsche Bank in Singapore.

Adrian is currently the Founder and Managing Director of Oxanda Education – a large Australian early learning centre owner/operator with centres across NSW (including Western Sydney), Victoria and Queensland. Adrian is a Board Member and Deputy Chairman of the GWS Giants AFL Club and Deputy Chairman of the GWS Giants Foundation.

Adrian is married with three children and very passionate about the early education needs of children and heavily involved in community groups relating to children.

Senior Management

Timothy Wong
Chief Executive Officer (New Zealand)

Timothy has held senior leadership roles in both listed and unlisted companies over the past twenty-five years. He has an MBA and Bachelor of Commerce from the University of Queensland and is a fellow of AICD. Prior to joining Evolve Education, he was the Managing Director of Creative Garden Early Learning Centres and Cubby Care Early Learning Centres throughout Australia. Tim is committed to his vision for the ECE sector, especially early years education and the quality of care.

Edmund Mah
Group CFO

Edmund is an experienced CFO and General Manager who has extensive experience in various industries in large corporates, small and medium sized enterprises (SMEs) as well as start-ups. Prior to joining Evolve, Edmund was the General Manager (with full profit & loss responsibility) of an Auckland based company which has grown by leaps and bounds to be a market leader in its industry. Edmund has also held senior finance leadership roles in a large public listed multinational group, Keppel, which is headquartered in Singapore, and has significant international experience.

Edmund has an MBA from the University of Strathclyde and a Bachelor of Economics from the University of Adelaide. He is a Fellow CPA (Australia) and has attended the Executive Development Program at the Wharton School.

Matt Veal
Group Financial Controller

Matt has been Group Financial Controller since May 2019, having previously contracted for Evolve to facilitate the divestment of the Porse and Au Pair Link businesses. A qualified Chartered Accountant, Matt initially worked in audit for Coopers & Lybrand in Bristol, before moving to Auckland.

Matt has broad experience of finance, management and governance, having previously held senior leadership roles with Southern Cross Health Society and Fidelity Life Assurance. He has also been involved in the start-up sector and is Deputy Chair of the Board of Glendowie College.

Bev Davies

Head 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.

Jenny Aldous

Head of Project Team

Jenny joined Evolve late last year and Heads the Project Team with a key focus on the administration, marketing and other key projects to support systems and process improvement.

Prior to joining Evolve, Jenny was with the Auckland Kindergarten Association for 12 years, most recently in senior, special project roles. Her career began in the banking and finance sector, working for ANZ for a number of years, so Jenny comes to us with more than 20 years' experience in project management.

Henry Blundell

Head of Property

Henry's role as Head of Property sees him manage the property strategy for Evolve, including all matters related to the acquisition, development, divestment, lease renewals and maintenance works required by the business, and ensure the provision of effective and efficient support for centres and all centre requests.

Henry has an architectural background then moved to work in the property industry for some of New Zealand's biggest property companies including Harcourts, Ray White and Barfoot & Thompson.

Tomas Stehlik

IT Manager

Tomas is an experienced IT Manager with a strong analytical and technical skillset across the information technology landscape. With over a decade of experience in managing all aspects of IT systems and services within the ECE sector, Tomas is at the forefront of Evolve's digital transformation efforts, focusing on automation and process streamlining across all areas of the business. He joined Evolve in November 2015.

Evolve Education Group Limited
Consolidated Financial Statements

Evolve Education Group Limited

Consolidated Financial Statements
For the Year Ended 31 March 2020

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

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

Hamish Stevens
Chair
26 June 2020

Adrian Fonseca
Chair of Audit and Risk Committee
26 June 2020

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 MARCH 2020

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

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

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 MARCH 2020

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

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

Consolidated Statement of Financial Position

FOR THE YEAR ENDED 31 MARCH 2020

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

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

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 MARCH 2020

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

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2020

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Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2020

1. Reporting Entity

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

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

2. Basis of Preparation

Statement of Compliance

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

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

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

Going Concern

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

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

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

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

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

2. Basis of Preparation (continued)

Going Concern (continued)

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

Key assumptions underpinning the going concern assessment include:

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

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

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

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

Basis of Measurement

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

Functional and Presentation Currency

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

Estimates and Judgements

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

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

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

2. Basis of Preparation (continued)

Estimates and Judgements (continued)

(a) Covid-19

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

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

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

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

(b) Business combinations

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

2. Basis of Preparation (continued)

(c) Identification and valuation of intangible assets acquired

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

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

(d) Impairment assessments

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

(e) Identification of Cash Generating Units

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

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

(f) Deferred tax assets

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

New and Amended Standards Adopted by the Group

NZ IFRS 16: Leases

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

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

2. Basis of Preparation (continued)

New and Amended Standards Adopted by the Group (continued)

NZ IFRS 16: Leases (continued)

Measurement of lease liabilities

$'000	
Operating lease commitments disclosed as at 31 March 2019	**131,644**
Discounted using the lessee's incremental borrowing rate at the date of initial application	91,807
Add: Adjustments as a result of different treatment of extension and termination options	100,212
Less: Low-value and short-term leases not recognised as liabilities	(2,178)
Lease liabilities recognised as at 1 April 2019	**189,841**
Of which are:	
Current lease liabilities	5,805
Non-current lease liabilities	184,036
	189,841

Measurement of right-of-use assets

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

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

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

Adjustments recognised on adoption of NZ IFRS 16

The effect of adopting NZ IFRS 16 is as follows:

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

2. Basis of Preparation (continued)

New and Amended Standards Adopted by the Group (continued)

NZ IFRS 16: Leases (continued)

Adjustments recognised on adoption of NZ IFRS 16 (continued)

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

(i) Impact on earnings per share

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

(ii) Practical expedients applied

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

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

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

2. Basis of Preparation (continued)

New and Amended Standards Adopted by the Group (continued)

NZ IFRS 16: Leases (continued)

Adjustments recognised on adoption of NZ IFRS 16 (continued)

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

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

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2020

2. Basis of Preparation (continued)

New and Amended Standards Adopted by the Group (continued)

NZ IFRS 16: Leases (continued)

Adjustments recognised on adoption of NZ IFRS 16 (continued)

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

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

2. Basis of Preparation (continued)

New and Amended Standards Adopted by the Group (continued)

NZ IFRS 16: Leases (continued)

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

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

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

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

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

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

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

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

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

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

2. Basis of Preparation (continued)

New Standards and Interpretations Not Yet Adopted

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

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

NZ IFRS 3: Business Combinations – definition of a business

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

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

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

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

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

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

3. Significant Accounting Policies

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

(a) Basis of Consolidation

Business combinations

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

The Group measures goodwill at the acquisition date as:

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

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

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

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

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

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

Subsidiaries

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

Assets held for sale

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

3. Significant Accounting Policies (continued)

(a) Basis of Consolidation (continued)

Assets held for sale (continued)

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

Transactions eliminated on consolidation

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

(b) Determination of Fair Values

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

Intangible assets

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

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

(c) Revenue

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

Childcare fees

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

3. Significant Accounting Policies (continued)

(c) Revenue (continued)

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

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

(d) Taxation

Tax expense

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

Current tax

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

Deferred tax

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

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

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

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

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

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

3. Significant Accounting Policies (continued)

(e) Foreign Currency Translation

Transactions and balances

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

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

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

Group companies

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

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

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

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

(f) Dividends

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

3. Significant Accounting Policies (continued)

(g) Property, Plant and Equipment

Recognition and measurement

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

Depreciation

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

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

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

(h) Intangible Assets

Goodwill

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

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

Other intangible assets

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

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

Subsequent expenditure

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

3. Significant Accounting Policies (continued)

(i) Leases

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

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. The recognised right-of-use assets are depreciated on a straight-line basis over the shorter of useful life and the lease term.

Impairment of right-of-use assets

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

Lease liabilities

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

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

Short-term leases and leases of low-value assets

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

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

Determining the lease term of contracts with renewal options

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

3. Significant Accounting Policies (continued)

(i) Leases (continued)

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

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

Previous policy

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

(j) Financial Instruments

Non-derivative financial assets

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

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

Financial assets at amortised cost

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

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

Cash and cash equivalents

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

Non-derivative financial liabilities

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

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

3. Significant Accounting Policies (continued)

(j) Financial Instruments (continued)

Trade and other payables

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

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

(k) Share Capital

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

(l) Reserves

Foreign Currency Translation Reserves

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

(m) Impairment

Non-derivative financial assets

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

Non-financial assets

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

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

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

3. Significant Accounting Policies (continued)

(n) Employee Benefits

Short-term employee benefits

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

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

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

Defined contribution plan

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

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

(o) Expenses

Direct costs of providing services

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

Finance costs

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

(p) Consolidated Statement of Cash Flows

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

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

3. Significant Accounting Policies (continued)

(q) Segment Reporting

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

(r) Earnings Per Share

Basic and diluted earnings per share

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

(s) Share Based Payments

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

(t) Goods and Services Tax

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

4. Segment Information

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

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

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

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

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

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

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

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

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

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

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

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

4. Segment Information (continued)

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

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

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

4. Segment Information (continued)

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

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

(a) Discontinued operations

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

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

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

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

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

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

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

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

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

$'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)**

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

(a) Discontinued operations (continued)

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

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

(b) Assets and liabilities held for sale

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

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

As at 31 March 2019

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

6. Revenue

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2020

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

Other Expenses

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

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

Building occupancy expenses

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

Employee benefits expense

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

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

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

Net finance costs

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

8. Taxation

Income tax expense

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

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

Reconciliation of tax expense

Tax expense is reconciled to accounting profit as follows:

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

8. Taxation (continued)

Deferred tax

Deferred tax relates to the following:

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

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

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

Imputation credits

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

9. Cash and Cash Equivalents

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

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

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

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10. Other Current Assets

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

The NZ Government wage subsidy was received in early April.

11. Property, Plant and Equipment

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

11. Property, Plant and Equipment (continued)

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

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

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

12. Group Information

Information about subsidiaries

The consolidated financial statements of the Group include:

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

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

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

13. Business Combinations

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

13. Business Combinations (continued)

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

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

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

Acquisitions from related parties are disclosed in Note 28.

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

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

Contingent Consideration

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

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

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

13. Business Combinations (continued)

Movement in Contingent Consideration

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

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

14. Intangible Assets

31 March 2020		Customer Lists	Syllabus Material	Management Contracts	Software	Brands	Goodwill	Total
$'000	**Note**							
Cost								
Opening balance		141	–	372	1,338	3,104	203,381	208,336
Additions		–	–	–	54	–	–	54
Acquisition of businesses		–	–	–	–	–	22,571	22,571
Closing balance		**141**	**–**	**372**	**1,392**	**3,104**	**225,952**	**230,961**
Amortisation and impairment								
Opening balance		(141)	–	(372)	(1,118)	–	(108,095)	(109,726)
Amortisation expense		–	–	–	(161)	–	–	(161)
Impairment expense	15	–	–	–	–	–	(3,992)	(3,992)
Closing balance		**(141)**	**–**	**(372)**	**(1,279)**	**–**	**(112,087)**	**(113,879)**
Net book value		**–**	**–**	**–**	**113**	**3,104**	**113,865**	**117,082**

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

Amortisation expense includes amounts for both continuing and discontinued operations.

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15. Impairment

Impairment assessment of CGUs excluding indefinite useful life intangible assets

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

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

Impairment assessment of indefinite useful life intangible assets

31 March 2020 $'000	New Zealand	Australia	Total
Goodwill	95,286	18,579	113,865
Brands with indefinite useful lives	3,104	–	3,104
	98,390	**18,579**	**116,969**

31 March 2019 $'000	NZ ECE Centres	Home-based ECE	Total
Goodwill	95,286	–	95,286
Brands with indefinite useful lives	3,104	–	3,104
	98,390	**–**	**98,390**

New Zealand

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

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

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

Australia

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

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

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

15. Impairment (continued)

NZ ECE Centres – Goodwill

Key assumptions used in value-in-use calculations

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

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

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

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

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

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

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

15. Impairment (continued)

Key assumptions used in value in use calculations (continued)

Pre-tax discount rates: The discount rates represent the current market assessment of the risks specific to the group of CGUs, taking into account the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the industry segment the Group is engaged in, and is derived from its weighted average cost of capital (WACC). The WACC takes into account both the cost of debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors using the capital asset pricing model. The cost of debt takes 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 increases in revenues from parents/caregivers and the Government. The rate has been reduced in the current period to reflect low inflation expectations and the uncertainty arising from Covid-19.

Adoption of NZ IFRS 16: Leases

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

Sensitivity to changes in key assumptions

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

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

15. Impairment (continued)

Key assumptions used in value in use calculations (continued)

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

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

Australian ECE Centres – Goodwill

Key assumptions used in value in use calculations

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

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

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

$’000	Headroom/ (Impairment)
Revenue growth attributable to price (% per annum on average)	2.0%
Revenue growth attributable to increase in occupancy (% per annum on average)	0.0%
Total revenue growth (% per annum on average)	2.0%
Wages growth (% per annum on average)	2.0%
Pre-tax discount rates (%)	14.3%
Long-term growth rate (%)	1.5%

15. Impairment (continued)

Australian ECE Centres – Goodwill (continued)

Sensitivity to changes in key assumptions

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

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

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

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

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

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

16. Trade and Other Payables

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

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

17. Funding Received in Advance

Funding from NZ Ministry of Education

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

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

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18. Right-of-use Assets and Lease Liabilities

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

(a) Right-of-use assets

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

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

(b) Lease liabilities

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

(c) Amounts recognised in the statement of comprehensive income

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

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

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

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

(d) Impairment testing of right-of-use assets

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

19. Employee Entitlements

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

20. Issued Capital

Authorised shares

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

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

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

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

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2020

21. Capital Management

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

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

Dividend Policy

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

Financial Covenants

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

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

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

22. Dividends

Dividends paid during the current year

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

Dividends paid during the previous year	2019 Cents per share	2019 $'000
Final dividend for the year ended 31 March 2018	2.00	3,590
	2.00	**3,590**

Policies

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

Supplementary dividends

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

Dividend reinvestment plan

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2020

23. Earnings Per Share (EPS)

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

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

24. Financial Assets and Liabilities

Financial risk management objectives

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

Market risk

Foreign currency risk

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

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

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

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

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

24. Financial Assets and Liabilities (continued)

Market risk (continued)

Foreign currency risk (continued)

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

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

Sensitivity

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

Price risk

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

Interest rate risk

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

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

Credit risk

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

Liquidity risk

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

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

24. Financial Assets and Liabilities (continued)

Market risk (continued)

Financing arrangements

The Group's financing arrangements comprise the following facilities:

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

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

Amounts drawn against the senior revolving and acquisition facilities are:

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

Remaining contractual maturities

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

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

Fair value of financial instruments

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2020

25. Net Debt Reconciliation

Movements on net debt comprise:

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

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

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

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

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

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

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

27. Commitments and Contingencies

Operating lease commitments – Group as lessee

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

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

Guarantees

A total of $2.3 million (2019: $2.3 million) of the lease guarantee facility disclosed in Note 24 has been utilised.

For the Australian operation, a total of $1.2 million (2019: $0) of bank lease guarantees have been utilised.

Contingencies

There are no material contingent liabilities at 31 March 2020.

28. Related Party Transactions

Identity of Related Parties

Related parties of the Group are:

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

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

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

Related party transactions arising during the year:

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

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

28. Related Party Transactions (continued)

Related party transactions arising during the year (continued):

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

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

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

28. Related Party Transactions (continued)

Related party transactions arising during the year (continued):

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

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

29. Auditor's Remuneration

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

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

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

30. Events After the Reporting Period

Change of Balance Date

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

Covid-19 impact

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

Independent auditor's report

To the shareholders of Evolve Education Group Limited

We have audited the consolidated financial statements which comprise:

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

Our opinion

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

Basis for opinion

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

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

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

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

Key audit matters

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

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Key audit matter	How our audit addressed the key audit matter
Impairment assessment of non-financial assets As at 31 March 2020, the Group had non-financial assets relating to property, plant and equipment of $6.8 million (refer to note 11), right-of-use assets of $178.2 million (refer to note 18) and intangible assets of $117.1 million (refer to note 14). Accounting standards require an entity to assess at the end of each reporting period whether there is any indication that an asset may be impaired. The Group has identified impairment indicators which required management to perform an impairment assessment in addition to the requirement to perform an annual impairment assessment of goodwill and other indefinite life intangible assets. This is a key focus of our audit due to the significance of the impairment expense amounting to $12.3 million recognised in the consolidated financial statements, the inherent judgement in assessing impairments and the impact of COVID-19 on the assumptions that the Group's assessment is based on. In respect of the Australian Group of cash-generating units (CGU) an impairment of $4.0 million and $1.4 million relating to goodwill and right-of-use assets, respectively, was recorded. In respect of the New Zealand Group of CGU's, an impairment of $6.4 million in relation to right-of-use assets and $0.5 million of property, plant and equipment was recorded as a result of the impairment assessments of individual ECE centres. In relation to the New Zealand goodwill, the recoverable amount exceeds the carrying amount however reasonably possible changes in the key assumptions could result in an impairment.	To address the risk of impairment of assets, our audit procedures included the following: • considered the appropriate composition of each cash-generating unit (CGU); • gained an understanding of the Group's impairment assessments and held discussions with management to understand the basis of determining key assumptions used in the impairment models; • considered whether the methodology applied was appropriate and whether changes as a result of the adoption of IFRS 16 had been correctly incorporated into the impairment assessments; • for the New Zealand CGU's, we compared actual to forecast performance for the past three financial years and assessed the impact on forecast earnings. Given that the Australian CGU's were recently acquired, we compared the forecast cash flows included within the purchase price valuation model to actual performance and assessed the impact on forecast earnings; • assessed the appropriateness of key assumptions used by management to develop cash flow forecasts including adjustments for the potential impact of COVID-19, by analysing the Group's performance, key trends and interrelationships of key assumptions and benchmarking information to market data where relevant and available; • tested the mathematical accuracy of the models; • engaged our auditor's valuation expert to assess key assumptions including discount rates and terminal growth rates and assist in developing a point estimate; and • considered whether the disclosures in the consolidated financial statements were in compliance with the requirements of the accounting standards. In respect of the Australia CGU's, acquisition forecasts adjusted to reflect the uncertainty arising from the Covid-19 pandemic and its aftermath were used as a basis for the impairment testing. With the assistance of the auditor's valuation expert, we developed an independent point estimate with cash flow forecast assumptions which were based on our assessment of

Key audit matter	How our audit addressed the key audit matter
Based on a value-in-use methodology, the key assumptions used in management's discounted cash flow model are the following: • revenue growth; • wage growth; • discount rate; and • long-term growth rate The above key assumptions and sensitivities to changes in certain assumptions are disclosed in note 15 of the consolidated financial statements.	forecast earnings and external market evidence. Our independent point estimate supported the amount of impairment recognised for the Australia CGU's.
Adoption of NZ IFRS 16, Leases The Group adopted NZ IFRS 16 Leases on 1 April 2019. The new standard resulted in almost all leases, where the Group is a lessee, being recognised in the consolidated statement of financial position. On the date of adoption, a right-of-use asset of $168.0 million and a lease liability of $189.8 million was recognised by the Group. As outlined in notes 2 and 3, a number of judgements and estimates have been made by management in establishing these opening balances. These comprise: • incremental borrowing rates at the time of adoption; • lease terms, including any rights of renewal expected to be exercised; and • application of practical expedients in respect of low value assets and short term lease exemptions. This was considered an area of focus for the audit due to the magnitude of the balance recognised on adoption of the new standard, number of leases involved, and significant effort required during the audit. The impact on adoption of the new standard is disclosed in note 2 of the consolidated financial statements.	We performed the following audit procedures: • held discussions with management to understand the implementation process, including the basis for the judgements and estimates used in the calculation of opening balances; • obtained an understanding of the practical expedients applied and considered the appropriateness of applying these expedients based on what is permitted in the standard; • checked assumptions used to determine the lease term, including rights of renewal, and assessed whether they were supported by past practice and current business plans; • performed testing, on a sample basis, of the accuracy of information included in the calculations by comparing the inputs to the terms in the underlying lease contracts; • tested completeness of the identified lease contracts by checking that leased centres and other major leased assets were included in the calculation; • recalculated the right-of-use asset and lease liability for individual leases on a sample basis; • engaged our internal valuation expert to assess the reasonableness of the incremental borrowing rates adopted and comparing this against management's rates; and • considered the appropriateness of disclosures in the financial statements.

Key audit matter	How our audit addressed the key audit matter
Forecast compliance with loan facility financial covenants In the interim financial statements to 30 September 2019, the Group disclosed a material uncertainty with regard to going concern. As described in note 2 to the consolidated financial statements, the Group's operating cash flow remained positive for the financial year. The Board has considered the impact of COVID-19 on the financial position of the Group and its cash flows. The key assumptions underpinning these cash flows are disclosed in note 2 to the consolidated financial statements. This was considered an area of focus for the audit due to the significance of the impact of non-compliance on the financial statements and the judgements included in the key assumptions.	We have gained an understanding of the loan facility agreement including the recent amendment to that agreement. We obtained the Group's forecast financial covenant compliance calculation for the next 12 months from the date of the approval of the consolidated financial statements and performed the following audit procedures: • agreed the cash flow forecast to the risk adjusted forecast approved by the Board; • reperformed the Group's calculation of compliance with financial covenants at each compliance date; • assessed the reasonableness of the forecast cash balances and covenant compliance calculation to assess the level of forecasting risk, including consideration of the impact of COVID-19 to the business (such as occupancy levels and government's responses) and the forecast; • considered the Group's ability to repay the loan facility if financial covenants were breached; and • reviewed the disclosures in note 2 of the consolidated financial statements to ensure they accurately reflect our understanding of the assumptions and uncertainties that underpin the forecast compliance calculation.

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Our audit approach

Overview

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

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

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

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

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

Materiality

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

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

Audit scope

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

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

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

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

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

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

Responsibilities of the Directors for the consolidated financial statements

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

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

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

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

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

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

This description forms part of our auditor's report.

Who we report to

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

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants 26 June 2020	Auckland

Corporate Governance and Statutory Information

Corporate Governance

Evolve Education Group Limited (the "Company") is a New Zealand incorporated owner and provider of ECE services in New Zealand and Australia, 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 more specific and stringent rules also applying to trading in the Company's securities by directors and certain senior employees, or employees performing certain functions.

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 94.

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 for protecting and enhancing 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 directors, three.

As at 31 March 2020, Hamish Stevens, Adrian Fonseca and Kim Campbell 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 and director attendance at board meetings.

Evolve's Director biographies can be found on pages 10-11.

Evolve Director ownership interests can be found on page 93 of this annual report.

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 2019 and the date of approving the financial statements (that is, 26 June 2020), 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	3	(3)	2	(2)	1	(1)
Alistair Ryan	1	(1)	1	(1)	1	(1)
Chris Scott	10	(10)	–	–	–	–
Gráinne Troute	2	(2)	–	–	1	(1)
Chris Sacre	10	(10)	3	(3)	1	(1)
Hamish Stevens	9	(9)	4	(5)	1	(1)
Kim Campbell	7	(7)	3	(3)	1	(1)
Adrian Fonseca	7	(7)	4	(4)	1	(1)

Corporate Governance and Statutory Information

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

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 and Inclusion Policy and is committed to being an inclusive workplace that embraces and values diversity while always upholding the principle of meritocracy.

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

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

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

Gender Diversity

As noted above, the Board is responsible for monitoring the Company's performance in meeting objectives set out in the Diversity and Inclusion 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 2020				As at 31 March 2019			
Position	**Women**		**Men**		**Women**		**Men**	
Board	0	(0%)	5	(100%)	2	(40%)	3	(60%)
Senior Management*	2	(29%)	5	(71%)	5	(71%)	2	(29%)
Company-wide		>96%		<4%		>96%		<4%

*Senior management includes the CEO NZ, CFO and employees who report directly to the CFO. As at 31 March 2020 the senior management team consisted of seven positions.

At 31 March 2020 the Group employed 2,096 women which represents 96% of the workforce (FY19: 2,151 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: A majority of the Board should be independent directors.

A majority of the Evolve Board are independent directors.

Recommendation 2.9: An issuer should have an independent chair of the board. If the chair is not independent, the chair and the CEO should be different people.

The chair of Evolve is an independent director, and is separate to the CEO.

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 be an independent director and not 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 Chair of Evolve's Audit and Risk Committee is an independent Director and is not the Chair of the Board.

The members of the Audit and Risk Committee as at 31 March 2020 were Adrian Fonseca (Chair), Hamish Stevens and Kim Campbell. The Board is of the belief that the Audit and Risk Committee was appropriately constituted as at 31 March 2020 having regard to the scale and complexity of the Company's business and the particular expertise and experience of each current member.

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

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

Corporate Governance and Statutory Information

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

Remuneration and People Committee

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

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

The current members of the Remuneration and People Committee are Kim Campbell (Chair), Hamish Stevens and Adrian Fonseca.

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.

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. The Board 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.

Evolve has adopted a Takeover Response Policy.

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.

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, Conflict of Interest Policy, Securities Trading Policy and Guidelines, Diversity and Inclusion Policy, Risk Management Policy, Shareholder Communications Policy, Dividend Policy, Takeover Response 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 environmental, economic and social sustainability factors and practices. It should explain how operational or non-financial targets are measured. Non-financial reporting should be informative, include forward looking assessments, and align with key strategies and metrics monitored by the board.

Evolve publishes interim and audited full-year financial statements that are prepared in accordance with relevant financial reporting 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 $475,000 per annum.

With effect from 1 December 2019, the Board elected to take a 16.7% reduction in Directors' fees, as a contribution to the Group's efforts to improve profitability.

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.

Corporate Governance and Statutory Information

Director Remuneration Statement

The Company's directors holding office during the year ended 31 March 2020 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 2020 are provided below.

($000's)	Directors' Fees	Total
Alistair Ryan	28	28
Norah Barlow	40	40
Gráinne Troute	38	38
Hamish Stevens	78	78
Kim Campbell	43	43
Adrian Fonseca	38	38
Chris Scott	75	75
Chris Sacre	75	75
Total	**415**	**415**

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 2020 employees did not receive additional remuneration for acting as directors of subsidiary companies.

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 83.

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 Managing Director 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 remuneration of direct reports of the Managing Director, on recommendation by the Remuneration and People Committee. Further, recommendations from the Managing Director in relation to remuneration of other members 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.

There is currently no performance share rights long-term executive incentive scheme in place for the senior management team.

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

Rosanne Graham held the position of CEO from 2 July 2018 until 23 August 2019. She had a base salary of $450,000 per annum (gross) and was entitled to the use of a mobile telephone, laptop and carpark. A short-term incentive scheme of up to 30% of gross salary was provided, under which scheme the Board approved a recognition payment of $100,000 for Ms Graham in respect of 2019. In November 2019, 100,000 shares (valued at $18,000) were awarded to Ms Graham under the terms of the share-based long-term executive incentive scheme previously in place.

Timothy Wong has held the position of CEO NZ from 3 October 2019. He has a base salary of $300,000, and is entitled to the use of a rental apartment, mobile telephone and laptop.

Chris Scott has been Managing Director since 26 August 2019. He has received no remuneration (other than Director's Fees) for this role.

Corporate Governance and Statutory Information

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 and termination payments) valued at or exceeding $100,000 during the year ended 31 March 2020 are specified below.

Remuneration Band	Total
$100,001 – $110,000	10
$110,001 – $120,000	2
$120,001 – $130,000	1
$130,001 – $140,000	2
$200,001 – $210,000	1
$210,001 – $220,000	2
$270,001 – $280,000	1
$570,001 – $580,000	1
$780,001 – $790,000	1
Total	**21**

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. An issuer should report the material risks facing the business and how these are being managed.

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

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

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

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

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

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

As a leading provider of ECE the safety of our employees and children is paramount. As is best practice, appropriate governance structures have been established at the Board level to ensure that matters such as health and safety risk for staff, contractors and our children is effectively governed and managed. The Board has adopted measures that will allow the Company to monitor and proactively identify 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 2020 is set out in note 29 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.

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 meeting. 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.

Corporate Governance and Statutory 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.

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, Managing Director 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 issuer 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: If seeking additional equity capital, issuers of quoted equity securities should offer further equity securities to existing equity security holders of the same class on a pro rata basis, and on no less favourable terms, before further equity securities are offered to other investors.

A pro rata issue of securities is Evolve's preferred approach to raising equity capital. A full pro rata offer was completed in May and June 2019. A placement was completed in December 2019. This method was chosen as a quicker method for funding potential centre acquisitions in Australia. The number of shares issued was less than the permitted 15% of shares previously on issue.

Recommendation 8.5: The board should ensure that the notices of annual or special meetings are posted on the issuers website as soon as possible and at least 20 working days prior to the meeting.

Evolve's Notice of Meeting will be made available at least 20 working 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 a 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 2020 are as follows:

Director	Position	Company
Hamish Stevens	Director	Pacific Radiology Group Limited
	Chair	East Health Services Limited (and related companies)
	Director	Marsden Maritime Holdings Limited (and related companies)
	Chair	Pharmaco NZ Limited (and related companies)
	Chair	The Kennedy's Limited
	Chair	Risk and Assurance Committee, Waikato Regional Council
Adrian Fonseca	Director	Western Sydney Football Club Limited (GWS Giants AFL Club) (and related companies)
	Director	Oxanda Education Pty Limited (and related companies)
Kim Campbell	Director	Douglas Pharmaceuticals Limited (and related companies)
	Director	EMH Trade Limited
	Chair	Auckland Manufacturers Association
	Director	Blackwood Bay Investments Limited
	Chair	ASB Showgrounds
	Chair	Pathways to Employment Trust
	Chair	Living Green Limited (Auckland)

Corporate Governance and Statutory Information

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 2020:

Kim Campbell:
Purchase of 30,000 shares.

Adrian Fonseca:
Purchase of 17,250,000 shares.

Chris Sacre:
Purchase of 65,026,654 shares.

Chris Scott:
Purchase of an additional 175,634,052 shares.

Alistair Ryan, Gráinne Troute, Norah Barlow and Hamish Stevens:
Nil

Disclosure of Directors' Interests in Shares

Directors disclosed the following relevant interests in shares as at 31 March 2020:

Director	Number of Shares in which a relevant interest is held
Kim Campbell	30,000
Adrian Fonseca	17,250,000
Chris Sacre	65,026,654
Chris Scott	209,820,113

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 2020, the Company has not authorised any dividends.

Net Tangible Assets

The Company's net tangible assets as at 31 March 2020 were ($0.01) per share (31 March 2019 ($0.26) 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 2020 it was $0.09 (2019: $0.29).

Donations

The Company made donations of $2,559 during the year ended 31 March 2020 (31 March 2019 $3,351).

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.

Annual Meeting

The Company's Annual Meeting of shareholders will be held in Auckland on 23 September 2020 at 10 am.

Shareholder Information

Analysis of Shareholding at 17 July 2020

Ranges	Investors	Securities	% Issued Capital
1 to 1,000	130	66,135	0.01
1,001 to 5,000	302	997,374	0.09
5,001 to 10,000	314	2,497,919	0.22
10,001 to 100,000	996	40,951,315	3.66
100,001 and Over	723	1,074,091,250	96.02
Total	**2465**	**1,118,603,993**	**100.00**

Twenty Largest Shareholders at 17 July 2020

Name	Number of Shares	% of Shares
J47 Pty Ltd	209,820,113	18.76
HSBC Custody Nominees (Australia) Limited	88,984,397	7.95
Upton124 Pty Ltd	65,026,654	5.81
National Nominees Limited	63,303,451	5.66
New Zealand Central Securities Depository Limited	45,307,639	4.05
A & J Online Investments Pty Ltd <A & J Online Investment A/C>	23,218,599	2.08
Citicorp Nominees Pty Limited	20,671,867	1.85
JBWere (NZ) Nominees Limited <NZ Resident A/C>	17,823,767	1.59
Three Investors Pty Ltd <Three Investors Unit A/C>	17,250,000	1.54
Vasona Pty Ltd <Oxanda Super A/C>	17,250,000	1.54
J P Morgan Nominees Australia Pty Limited	13,982,310	1.25
Opm Super Co Pty Ltd <M M Superannuation Fund A/C>	13,662,000	1.22
Duncan Fraser Forrest & Mrs Judy Marie Forrest <Forrest Family S/F A/C>	13,498,000	1.21
Chris Douglas Passfield	12,026,394	1.08
Forsyth Barr Custodians Limited	9,942,081	0.89
Gwynvill Trading Pty Ltd	9,500,000	0.85
Albert & Teresa Ting Pty Limited	9,200,000	0.82
Leveraged Equities Finance Limited	8,801,041	0.79
Custodial Services Limited	8,370,000	0.75
Laiwong Pty Ltd <Twong Family A/C>	7,000,000	0.63
Total – twenty largest shareholders	**674,638,313**	**60.31**
Total number of shares on issue	**1,118,603,993**	**100.00**

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 17 July 2020, the shareholdings in the Company held through NZCSD were:

Name	Number of Shares Held by NZCSD	% of NZCSD Shares
BNP Paribas Nominees NZ Limited	17,079,267	37.70
HSBC Nominees (New Zealand) Limited	14,731,987	32.51
JPMorgan Chase Bank	9,943,861	21.95
Citibank Nominees (NZ) Ltd	2,164,746	4.78
Accident Compensation Corporation	1,387,776	3.06
National Nominees New Zealand Limited	1	0.00
BNP Paribas Nominees NZ Limited	1	0.00
Total – shares held by NZCSD	**45,307,639**	**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 2020 in respect of the number of shares set opposite their names.

Name	Number of Shares	% of Shares
J47 Pty Limited	209,820,113	18.76
Regal Funds Management	132,877,758	11.88
Upton124 Pty Ltd	65,026,654	5.81
Total number of shares on issue	**1,118,603,993**	

Subsidiary Company Directors

The following persons held office as Directors of the Company's subsidiaries during the year ended 31 March 2020.

Evolve Group 1 Limited Evolve Group 2 Limited Evolve Group 3 Limited Evolve Group 4 Limited Evolve Group 5 Limited Evolve Group 6 Limited Evolve Management Group Limited Evolve ECEM Limited Lollipops Educare Holdings Limited Lollipops Educare Limited Lollipops Educare Centres Limited Lollipops Educare (Hastings) Limited Lollipops Educare (Birkenhead) Limited Evolve Home Day Care Limited Au Pair (Evolve) Limited	Roseanne Graham (ceased 23 August 2019) Paul Matthews (ceased 26 August 2019) Stephen Davies (ceased 15 November 2019) Timothy Wong (appointed 15 November 2019)
Evolve Early Education Pty Limited (incorporated in Australia 30 April 2019)	Chris Sacre (appointed 30 April 2019) Chris Scott (appointed 14 October 2019)

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 2020.

Corporate Directory

Evolve Education Group Limited Registered Office/ Support Office

Level 2
54 Fort Street
Auckland 1010
New Zealand
Phone: +64 9 377 8700

Evolve Early Education Support Office Australia

Suite 4, 2481 Gold Coast Highway,
Mermaid Beach,
Queensland 4218
Australia
Phone: +61 753225245

Directors

Hamish Stevens (Chair)
Chris Scott (Managing Director)
Chris Sacre
Kim Campbell
Adrian Fonseca

Senior Management Team

Chris Scott (Managing Director)
Edmund Mah (Group CFO)
Tim Wong (CEO NZ)
Matt Veal (Group Financial Controller)
Bev Davies (Head of People and Talent)
Jenny Aldous (Head of Projects)
Tomas Stehlik (IT Manager)
Henry Blundell (Head of Property)

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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