

Evolve Confirms FY19 Result

Evolve Education Group Limited's finalised FY19 result for the full year ended 31 March 2019 (underlying EBITDA \$13.3million) confirms its previously announced unaudited result issued in conjunction with its capital raise initiative on 8 May 2019.

Key features of the result include:

- Net profit after tax before non-recurring items \$5.5m¹ (FY18 \$12.0m)
- Net loss after tax after non-recurring items, primarily goodwill impairment of \$107.1m, \$101.6m
- Underlying EBITDA \$13.3m¹ (FY18 \$21.6m)

The FY19 operating result was impacted by a 2% lower average occupancy across all childcare centres on a comparable basis (same centre occupancy) and an increase in head office costs of \$3m for investment in infrastructure improvements to support the centre network.

CEO Rosanne Graham (commenced July 2018) noted that FY19 had been a year of "coming to grips with the issues impacting Evolve's overall performance and developing a comprehensive turnaround plan to address the identified issues.

"FY19 was a year of consolidation and reinvestment in the organisation with the recruitment of capability into our new management team and the development of our three year plan which we are now executing", she said.

The New Zealand turnaround plan has included divestment of parts of the business which have been under-performing or which no longer fit within the company's strategic criteria. The latter category included the sale of in-home care operations PORSE and Au Pair Link. The selected centre divestments reflect the strategy to help consolidate the network to a position from which the company can then look to resume growth.

"We are focused on operational improvement within the existing portfolio and we plan to achieve this by lifting occupancy over the coming one to three years, lifting staff engagement and retention, improving the presentation and appeal of Evolve's centres to a consistent quality standard and attracting new families through improved marketing" said Ms Graham. "In particular this means investing in our centres, both in terms of physical infrastructure and facilities, as well as in our people to ensure we deliver a quality early childcare education service across the centre network throughout New Zealand. While operating as a national network brings advantages, we must also ensure that each centre is meeting the needs and preferences of the community it serves. These community needs reflect a wide range of requirements, in addition to meeting national curriculum priorities for all early childhood participants."

A significant feature of the second half of the financial year has entailed the development of a capital management plan (signalled at the half year result in November 2018) to meet the obligations of the company's funding facilities with ASB, culminating in a fully underwritten \$63.5m accelerated rights entitlement offer to all eligible shareholders (both institutional and retail), announced on 8 May. The proceeds of the rights issue are being used to reduce bank debt (\$30m) and to fund an initial phase of Australian centre acquisitions (NZ\$25m), for additional working capital and to cover the costs of the issue. Details of the capital raise were announced on 8 May and involved an institutional offer period and bookbuild followed by a retail offer period and bookbuild. The rights issue is scheduled to be fully completed by 6 June .

Following completion of the capital raise, Evolve's core debt facility of \$55m will be paid down to \$25m, retaining a working capital facility of \$8.5m. Evolve is forecast to remain well within its banking covenants for the foreseeable future.

The finalised FY19 result has confirmed the unaudited result released at the beginning of May when the company launched its accelerated rights entitlement offer.

The rights issue has been very well supported by existing institutional shareholders and the retail offer is currently in progress. Details of the outcome of the offer will be advised within the next few weeks.

Retiring Chair, Alistair Ryan, noted "The new capital will strengthen the company's balance sheet to allow the New Zealand turnaround plan to be progressed and to initiate a new growth opportunity in Australia which will help to reduce risk and enhance earnings outlook across two jurisdictions, auguring well for the company's future prospects."

For more details of the New Zealand turnaround plan and Australian expansion initial phase please refer to the capital raising investor presentation dated 8 May 2019.

1 For detailed reconciliation refer FY19 financial result investor presentation page 14.

ENDS

For further information please contact:

Stephen Davies
Chief Financial Officer
Evolve Education Group Limited
Email: stephen.davies@eeg.co.nz
Mobile: +64 27 269 1525

About Evolve Education Group

Evolve Education Group is one of New Zealand's leading providers of early childhood education (ECE), operating more than 120 centre-based ECE facilities around New Zealand, operating under brands that include Lollipops, Active Explorers, Learning Adventures, Little Earth Montessori, Little Lights, Little Wonders and Pascals.

NZX APPENDIX 1

EVOLVE EDUCATION GROUP LIMITED		
Audited results for announcement to the market		
Reporting Period	Year ended 31 March 2019	
Previous Reporting Period	Year ended 31 March 2018	
	Amount (NZ\$'000s)	Percentage Change
Revenue from ordinary activities	\$137,177	-0.9%
Profit (Loss) from ordinary activities after tax attributable to security holders	(\$102,399)	-1044.9%
Net profit (loss) attributable to the security holders	(\$101,554)	2310.5%
Interim/Final Dividend	Amount per Security (NZ\$)	Imputed Amount per Security (NZ\$)
Final Dividend	Nil	Nil
Record Date	N/A	
Dividend Payment Date	N/A	
	31-Mar-19	Previous Corresponding Period
Net tangible assets per security (NZ\$)	(0.27)	(0.29)
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 as a more useful measure and at 31 March 2019 it was NZ\$0.29 (2018: NZ\$0.87)		
Details of entities over which control has been gained or lost during the period	Not applicable	
Details of associates and joint venture entities	Not applicable	
Comments	Revenue from ordinary activities does not include revenue from discontinued operations.	
	Profit (Loss) from ordinary activities after tax attributable to security holders does not include profit (loss) from discontinued operations.	
	Net tangible assets and net assets per security includes assets held for sale.	
	For additional information please refer to financial statements, results and media release attached.	

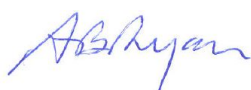
Dividends during year	Amount per Security (NZ\$)	Imputed Amount per Security (NZ\$)
Interim dividend - cents per share	\$0.0000	\$0.0000
	Supplementary dividend per security (NZ\$)	Date paid
	\$0.0000	N/A
Final dividend - cents per share	Amount per Security (NZ\$)	Imputed Amount per Security (NZ\$)
	\$0.0200	\$0.0078
	Supplementary dividend per security (NZ\$)	Date paid
	\$0.0035	28-Jun-18

Evolve Education Group Limited

Consolidated Financial Statements
For the Year Ended 31 March 2019

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

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



Alistair Ryan

Chair
27 May 2019



Norah Barlow

Chair of Audit and Risk Committee
27 May 2019

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 MARCH 2019

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

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

Consolidated Statement of Movements in Equity

FOR THE YEAR ENDED 31 MARCH 2019

		ISSUED SHARE CAPITAL	RETAINED (DEFICIT)/EARNINGS	TOTAL
\$'000	Note			
As at 31 March 2017		158,106	10,565	168,671
Total comprehensive (loss)		-	(4,213)	(4,213)
Shares issued under Dividend Re-investment Plan	19	1,058	-	1,058
Share issue costs relating to shares issued	19	(15)	-	(15)
Dividends paid	21	-	(8,926)	(8,926)
As at 31 March 2018		159,149	(2,574)	156,575
Change in accounting policy	2	-	(203)	(203)
As at 1 April 2018 (restated)		159,149	(2,777)	156,372
Total comprehensive (loss)		-	(101,554)	(101,554)
Shares issued under Dividend Re-investment Plan	19	457	-	457
Share issue costs relating to shares issued	19	(8)	-	(8)
Dividends paid	21	-	(3,590)	(3,590)
As at 31 March 2019		159,598	(107,921)	51,677

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

Consolidated Statement of Financial Position

AS AT 31 MARCH 2019

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

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

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 MARCH 2019

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

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2019

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Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2019

1. Reporting Entity

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

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

2. Basis of Preparation

Statement of Compliance

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

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

The financial statements for the year ended 31 March 2019 were approved and authorised for issue by the Board of Directors on 27 May 2019.

Going Concern

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

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

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2019

2. Basis of Preparation (continued)

Going Concern (continued)

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

Basis of Measurement

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

Functional and Presentation Currency

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

Estimates and Judgements

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

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

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

Business combinations

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2019

2. Basis of Preparation (continued)

Identification and valuation of intangible assets acquired

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

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

Goodwill and other indefinite life intangible assets

The Group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in Notes 3(h) and 3(l). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows. Further detail on the assumptions applied are included in Note 15.

Identification of Cash Generating Units

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

Onerous leases

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

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences only if the Group considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses (refer Note 9).

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2019

2. Basis of Preparation (continued)

New and Amended Standards Adopted by the Group

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

NZ IFRS 9: Financial Instruments

Nature of change

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

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

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

NZ IFRS 15: Revenue from Contracts with Customers

Nature of change

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

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

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

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2019

2. Basis of Preparation (continued)

New Standards and Interpretations Not Yet Adopted

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

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

NZ IFRS 16: Leases

Nature of change

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

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

Potential impact

The standard will affect the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of \$131.6m (see Note 26). During the year, work has progressed regarding:

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

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

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

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2019

2. Basis of Preparation (continued)

New Standards and Interpretations Not Yet Adopted (continued)

NZ IFRS 16: Leases (continued)

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

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

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

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

Date of adoption

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

NZ IFRS 3: Business Combinations - definition of a business

Nature of the change

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

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

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

Potential impact

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2019

2. Basis of Preparation (continued)

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

Date of adoption

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

3. Significant Accounting Policies

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

(a) Basis of Consolidation

Business combinations

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

The Group measures goodwill at the acquisition date as:

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

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

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

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

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2019

3. Significant Accounting Policies (continued)

(a) Basis of Consolidation (continued)

Business combinations (continued)

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

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

Transactions eliminated on consolidation

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

(b) Determination of Fair Values

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

Intangible assets

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2019

3. Significant Accounting Policies (continued)

(b) Determination of Fair Values (continued)

Intangible assets (continued)

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.

Ministry of Education ("MOE") funding

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

Childcare fees

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

Interest income

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

(d) Taxation

Tax expense

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

Current tax

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2019

3. Significant Accounting Policies (continued)

(d) Taxation (continued)

Deferred tax

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

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

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

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

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

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

(e) Foreign Currency Transactions

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

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

(f) Dividends

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2019

3. Significant Accounting Policies (continued)

(g) Property, Plant and Equipment

Recognition and measurement

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

Depreciation

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

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

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

(h) Intangible Assets

Goodwill

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

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

Other intangible assets

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

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

Subsequent expenditure

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2019

3. Significant Accounting Policies (continued)

(i) Leased Assets

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

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

(j) Financial Instruments

Non-derivative financial assets

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

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

Financial assets at amortised cost

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

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

Cash and cash equivalents

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

Non-derivative financial liabilities

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

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2019

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) Impairment

Non-derivative financial assets

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

Non-financial assets

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

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

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2019

3. Significant Accounting Policies (continued)

(m) Employee Benefits

Short-term employee benefits

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

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

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

Defined contribution plan (KiwiSaver)

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

(n) Expenses

Operating lease payments

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

Direct costs of providing services

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

Finance expenses

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

Share issue costs

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2019

3. Significant Accounting Policies (continued)

(o) Consolidated Statement of Cash Flows

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

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

(p) Segment Reporting

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

(q) Earnings Per Share

Basic and diluted earnings per share

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

(r) Share Based Payments

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

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

(s) Goods and Services Tax

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2019

3. Significant Accounting Policies (continued)

(t) Comparative balances

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

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

4. Segment Information

During the year, the Group had two reportable operating segments, as described below. The Group operates entirely within New Zealand. Each segment is managed separately. For each of the segments, the Group's Chief Executive Officer ("CEO" and the "Chief Operating Decision Maker") reviews internal management reports at least on a monthly basis. The following summary describes the operations in each of the Group's reportable segments:

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

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

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

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

Other operations include ECE Management, a non-reportable segment, whereby the Group provides management and back-office expertise to ECE centres but it does not own the centre. This operation was sold during the year, with settlement on 28 March 2019. This operation did not meet any of the quantitative thresholds for determining reportable segments and as such it has been included as an unallocated amount. Unallocated amounts also represent other corporate support services, acquisition and integration costs.

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2019

4. Segment Information (continued)

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

- **Acquisition expenses** - in acquiring the businesses and net assets in the year ended 31 March 2018 (Note 13) the Group incurred certain expenses directly related to those acquisitions including agents' commissions, legal fees, financing fees and financial, tax and operational due diligence fees.
- **Integration expenses** - third party costs associated with the integration of the businesses acquired. No employment costs have been allocated to integration expenses for the current or prior year.
- **Material non-recurring items** - one off or non-recurring in nature. These are items that have not occurred in recent years or are not forecast to occur in the future, such as impairment expense, gains or losses on the sale of businesses and the PORSE GST settlement.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2019

4. Segment Information (continued)

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

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

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2019

4. Segment Information (continued)

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

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

a) Discontinued operations

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

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

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

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2019

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

a) Discontinued operations (continued)

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

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

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

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

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

	YEAR 31 MARCH 2019
\$'000	
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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2019

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

a) Discontinued operations (continued)

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

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

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

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

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

b) Assets and liabilities held for sale

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

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

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2019

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

b) Assets and liabilities held for sale (continued)

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

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

6. Revenue

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

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

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

Other Expenses

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

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2019

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

Building occupancy expenses

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

Employee benefits expense

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

Net finance expense

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

8. Porse GST Settlement

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

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

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

Notes to the Consolidated Financial Statements
FOR THE YEAR ENDED 31 MARCH 2019

9. Taxation

Income tax expense

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

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

Reconciliation of tax expense

Tax expense is reconciled to accounting profit as follows:

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2019

9. Taxation (continued)

Deferred tax

Deferred tax relates to the following:

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

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

Imputation credits

Imputation credits available for use in subsequent reporting periods are \$11.3m (2018: \$11.1m), including imputation credits that will arise from the payment of the amount of the provision for income tax. No dividends are provided for or receivable at balance date that would affect the available imputation credits at balance date.

10. Cash and Cash Equivalents

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

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

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2019

11. Property, Plant and Equipment

31 March 2019		Land	Buildings	Plant and Equipment	Office Furniture and Fittings	Leasehold Improvements	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)
Disposal of businesses		-	-	(6)	(2,484)	(385)	(42)	-	(2,917)
Disposals		(725)	(2,195)	(26)	(192)	(105)	(54)	-	(3,297)
Closing balance		-	-	831	6,968	4,220	128	984	13,131
Depreciation and impairment									
Opening balance		-	(18)	(308)	(6,206)	(1,237)	(124)	-	(7,893)
Depreciation for the year		-	-	(180)	(1,478)	(1,008)	(29)	-	(2,695)
Classified as held for sale	5b	-	-	25	151	131	7	-	314
Disposal of businesses		-	-	3	2,349	381	42	-	2,775
Disposals		-	18	10	103	36	25	-	192
Closing balance		-	-	(450)	(5,081)	(1,697)	(79)	-	(7,307)
Net book value		-	-	381	1,887	2,523	49	984	5,824

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

31 March 2018		Land	Buildings	Plant and Equipment	Office Furniture and Fittings	Leasehold Improvements	Motor Vehicles	Work in Progress	Total
\$'000	Note								
Cost									
Opening balance		-	-	453	7,796	1,939	313	278	10,779
Additions/Transfers		725	2,195	208	689	1,301	17	93	5,228
Acquisition of businesses		-	-	66	642	54	-	-	762
Disposals		-	-	(12)	(93)	(68)	(117)	-	(290)
Closing balance		725	2,195	715	9,034	3,226	213	371	16,479
Depreciation and impairment									
Opening balance		-	-	(165)	(4,332)	(444)	(96)	-	(5,037)
Depreciation for the year		-	(18)	(148)	(1,763)	(636)	(57)	-	(2,622)
Disposals		-	-	5	63	9	68	-	145
Impairment expense	15	-	-	-	(174)	(166)	(39)	-	(379)
Closing balance		-	(18)	(308)	(6,206)	(1,237)	(124)	-	(7,893)
Net book value		725	2,177	407	2,828	1,989	89	371	8,586

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2019

12. Group Information

Information about subsidiaries

The consolidated financial statements of the Group include:

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

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

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

13. Business Combinations

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2019

14. Intangible Assets

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

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

Amortisation expense includes amounts for both continuing and discontinued operations.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2019

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

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

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

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

Impairment expense

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

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

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

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

The recoverable amount of the ECE centres CGU as at 31 March 2019, \$91.6m, is determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets covering a five-year period.

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2019

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

Key assumptions used in value in use calculations

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

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

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

	31 MARCH 2019 Centres	31 MARCH 2018 Centres
Revenue growth attributable to price (% per annum on average)	2.5%	1.5%
Revenue growth attributable to increase in enrolment (% per annum on average)	0.8%	0.7%
Total revenue growth (% per annum on average)	3.3%	2.2%
Expense growth (% per annum on average)	1.8%	2.1%
Pre-tax discount rates (%)	15.4%	15.4%
Long-term growth rate (%)	2.0%	2.0%

Revenue - Revenue is received from the Ministry of Education and parents/caregivers, which in turn is based on occupancy. It is assumed the Ministry of Education continues to support early childhood education to the value of approximately 66% (2018: 65%) of ECE revenue earned. If the Government reduces its funding it could lead to the increased requirement of parents and caregivers to make up the difference. If Government funding was to decrease, management would need to initiate appropriate responses to maintain profitability. The assumptions reflect the impact of future increases in funding as announced by the Government.

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

Pre-tax discount rates - The discount rates represent the current market assessment of the risks specific to the group of CGUs, taking into account the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the industry segment the Group is engaged in, and is derived from its weighted average cost of capital (WACC). The WACC takes into account both the cost of debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors using the capital asset pricing model. The cost of debt takes in to account borrowing rates for both the Group and the market. The overall discount rate is independent of the Group's capital structure and the way the Group might finance the purchase of a business. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data. Adjustments to the discount rate are made to factor in the specific amount and timing of the future tax flows in order to reflect a pre-tax discount rate.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2019

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

Key assumptions used in value in use calculations (continued)

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

Sensitivity to changes in key assumptions

ECE Centres - Goodwill

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

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

ECE Centres - Brands

The recoverable amount of the ECE Centres was \$4.4m (2018: \$4.7m) at balance date. The decrease is primarily attributable to a slight decline in financial performance of the centres trading under the Lollipops brand. The assessment is based on the discounted estimated royalty payments that have been avoided as a result of the brands being owned ("relief from royalty method") using revenue projections from the Group's financial forecasts covering a 12-month period. The pre-tax discount rate applied to cash flow projections is 15.4% (2018: 15.4%) and cash flows beyond the one year period are extrapolated using a 2% (2018: 2%) terminal growth rate that is not inconsistent with the long-term growth rate experienced industry-wide. As the recoverable value is in excess of the carrying value, there is no impairment of this brand.

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

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

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

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2019

16. Trade and Other Payables

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

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

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

17. Funding Received in Advance

Represents Ministry of Education funding received in advance net of amounts owing but not received. The amount is shown as a current liability consistent with the period the funding covers. Funding is received three times per year on 1 March, 1 July and 1 November. Each funding round includes 75% of the estimated funding for the four months ahead. At 31 March 2019 funding received in advance relates to April to June 2019. Funding receivable relates to the remaining 25% of funding, adjusted for any changes in occupancy levels, in respect of February and March 2019.

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

18. Employee Entitlements

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2019

19. Issued Capital

Authorised shares

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

20. Capital Management

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

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

Dividend Policy

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

Financial Covenants

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

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

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

21. Dividends

Dividends paid during the year

	2019	2018	2019	2018
	Cents per share	Cents per share	\$'000	\$'000
Interim dividend for the year ended 31 March 2019	-		-	
Final dividend for the year ended 31 March 2018	2.00		3,590	
Interim dividend for the year ended 31 March 2018		2.50		4,455
Final dividend for the year ended 31 March 2017		2.50		4,471
	2.00	5.00	3,590	8,926

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2019

21. Dividends (continued)

Policies

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

Supplementary dividends

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

Dividend reinvestment plan

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

22. Earnings Per Share (EPS)

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

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

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

23. Financial Assets and Liabilities

Financial risk management objectives

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

Market risk

Foreign currency risk

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

Price risk

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2019

23. Financial Assets and Liabilities (continued)

Interest rate risk

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

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

Credit risk

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

Liquidity risk

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

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

Financing arrangements

The Group's financing arrangements comprise the following facilities:

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

The facilities are secured by way of a first ranking general security agreement over all present and future assets and undertakings of the Group, together with an all obligations cross guarantee and indemnity. The Group was in compliance with all bank covenants during the period.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2019

23. Financial Assets and Liabilities (continued)

Amounts drawn against the senior revolving and acquisition facilities are:

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

Remaining contractual maturities

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

Fair value of financial instruments

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

24. Net Debt Reconciliation

Movements on net debt comprise:

31 March 2019	Cash and cash equivalents	Borrowings due within one year	Borrowings due after one year	Total
\$'000				
Net debt as at 1 April 2018	5,362	-	(32,300)	(26,938)
Bank borrowings drawn	-	-	(92,247)	(92,247)
Bank borrowings repaid	-	-	69,188	69,188
Reclassified as current liability	-	(30,000)	30,000	-
Cash flows	19,912	-	-	19,912
Net debt as at 31 March 2019	25,274	(30,000)	(25,359)	(30,085)
31 March 2018	Cash and cash equivalents	Borrowings due within one year	Borrowings due after one year	Total
\$'000				
Net debt as at 1 April 2017	4,095	-	(20,200)	(16,105)
Bank borrowings drawn	-	-	(117,500)	(117,500)
Bank borrowings repaid	-	-	105,400	105,400
Cash flows	1,267	-	-	1,267
Net debt as at 31 March 2018	5,362	-	(32,300)	(26,938)

Net debt as defined in the financial covenants (Note 20) also includes any amounts utilised under the Group's lease guarantee facility (Note 26).

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2019

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

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

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

26. Commitments and Contingencies

Operating lease commitments - Group as lessee

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

	YEAR 31 MARCH 2019	YEAR 31 MARCH 2018
\$'000		
Within one year	22,248	21,224
After one year but not more than five years	63,504	63,583
More than five years	45,892	53,880
Total	131,644	138,687

Guarantees

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2019

27. Related Party Transactions

Identity of Related Parties

Related parties of the Group are:

- The Board of Directors comprising Norah Barlow, Alistair Ryan, Grainne Troute (appointed 1st May 2017), Anthony Quirk (appointed 2nd August 2017, retired 28 November 2018), Lynda Reid (appointed 2nd August 2017, retired 28 November 2018), Chris Scott (appointed 28 November 2018) and Chris Sacre (appointed 28 November 2018).
- J47 Pty Limited, a company associated with Chris Scott.
- The following companies are all associated with Mark Finlay (refer below for relationships): LEP Limited, LEDC Limited, LEP Construction Limited, LEP1 Limited, LEP2 Limited, LEDC1 Limited, Little Wonders Childcare (Aoraki) Limited, Little Wonders Childcare (Timaru) Limited, Little Wonders Childcare (Cromwell) Limited, Little Wonders Childcare (St Kilda) Limited, Little Wonders Childcare (Roslyn) Limited, Little Wonders Childcare (Oamaru) Limited, and Wildfire Consultants Limited.

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

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

Related party transactions arising during the year:

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

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2019

27. Related Party Transactions (continued)

Related party transactions arising during the year (continued):

- **Directors' indemnity and insurance** - the Company has entered into a Deed of Indemnity and Access by Deed Poll under which it has granted indemnities in favour of, and maintains insurance for, its present and future directors (and directors of related companies) and certain employees of the Company, in each case to the extent permitted by the Companies Act 1993, the Securities Act 1978 and the Financial Markets Conduct Act 2013.
- **Other transactions with parties related to the Directors of the Group:**
 - Companies associated with Mark Finlay are the landlord of the Group's head office and 13 of the Group's ECE centres. Rent of \$647,738 (2018: \$2,208,000 relating to 14 ECE centres and the head office) has been paid by the Group to the companies associated with Mark Finlay during the period.
 - Management fee income received from centres related to Mark Finlay was \$0 (2018: \$17,500).
 - Payments for services other than rent paid to companies related to Mark Finlay were \$3,691 (2018: \$68,872).
 - Payments to Wildfire Consulting for CEO services provided by Mark Finlay were \$80,000 (2018: \$0)
 - Payments for capital expenditure to companies related to Mark Finlay were \$45,646 (2018: \$0)
 - Dividends of \$426,000 (2018: \$1,067,000) were paid to Mark Finlay and associated parties.
 - On 8 August 2018, J47 Pty Limited acquired 34,186,061 shares.
 - Shares were issued pursuant to the Company's dividend reinvestment plan to Alistair Ryan and Norah Barlow. 3,022 shares each valued at \$1,682 each. (2018: 4,641 shares each valued at \$4,038 each).
- **Compensation of key management personnel of the Group:**

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

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

Notes to the Consolidated Financial Statements
FOR THE YEAR ENDED 31 MARCH 2019

27. Related Party Transactions (continued)

Related party transactions arising during the year (continued):

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

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

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

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

28. Auditor's Remuneration

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

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

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2019

29. Events After the Reporting Period

Director changes

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

Capital raising

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

The funds will be applied to repay \$30 million of bank borrowings by the end of June 2019, a permanent reduction of the acquisition facility, to fund an initial phase of Australian expansion (NZ\$25 million), to provide working capital (\$5.0m) and meet the costs of the offer (NZ\$3.5 million).

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



Independent auditor's report

To the shareholders of Evolve Education Group Limited

We have audited the consolidated financial statements which comprise:

- the consolidated statement of financial position as at 31 March 2019;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of movements in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the accompanying consolidated financial statements of Evolve Education Group Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 31 March 2019, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

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

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

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

Our firm carries out other services for the Group in the areas of assurance services, taxation compliance and other non-assurance services. The provision of these other services has not impaired our independence as auditor of the Group.

Our audit approach

Overview



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

Overall Group materiality: \$0.7 million, which represents approximately 5% of a 3-year average of profit before income tax adjusted to exclude impairment losses.

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

We have determined that there are two key audit matters:

- Compliance with financial covenants
- Impairment assessment of goodwill

Materiality

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

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

Audit scope

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

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



Key audit matters

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

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p><i>Compliance with financial covenants</i></p> <p>As described in note 2 to the consolidated financial statements, the Group's facilities with ASB Bank Limited require certain financial covenants to be complied with.</p> <p>To meet these financial covenants, the debt facilities were revised to accommodate relaxed financial covenants during the term of the facility. The Group was also required to agree a capital management strategy with the bank to reduce borrowings. For these reasons, we have considered this as an area of focus.</p> <p>Subsequent to year end, the Group further renegotiated its debt facilities with the bank and repaid \$29.0 million of its borrowings from the proceeds raised from the Institutional Entitlement Offer.</p> <p>The Directors have determined that the Group expects to fully comply with its financial covenants.</p>	<p>To address the risk of non-compliance with the financial covenants and conditions included in the amended banking facility arrangement, we reperformed the Group's calculations of compliance with financial covenants at each compliance date during the year.</p> <p>We obtained the Group's forecast compliance assessment for the next 12 months from the date of the approval of the consolidated financial statements and performed the following audit procedures:</p> <ul style="list-style-type: none"> • agreed the cash flow forecast to the forecast approved by the Board; • reperformed the Group's calculation of compliance with financial covenants at each compliance date; • performed sensitivity analysis on the forecast covenant compliance calculation to assess the level of forecasting risk; and • considered the status of the capital raise and its impact on the forecast compliance assessment by calculating the effect on available headroom. <p>We have no matters to report.</p>

Key audit matter	How our audit addressed the key audit matter
<p><i>Impairment assessment of goodwill</i></p> <p>As at 31 March 2019, the Group has goodwill of \$95.7 million relating to the ECE Centres cash-generating unit (CGU).</p> <p>During the year, the Group recognised an impairment of \$107.1 million due to the underperformance of the ECE CGU and a continued decline in child enrolments for this CGU.</p> <p>This was an area of focus due to the judgements and estimates that are involved in determining whether the recoverable amount of the CGU exceeds the carrying value of the CGU's assets and liabilities.</p> <p>A discounted cash flow model on a value-in-use basis was used to determine the recoverable amount.</p> <p>Management considers the following being key assumptions to the recoverable amount calculation:</p> <ul style="list-style-type: none"> • Revenue growth from enrolment and price changes through the forecast period; • Expense growth through the forecast period; • Discount rate; and • Growth rates used to extrapolate cash flows beyond the forecast period. <p>Refer to note 15 of the consolidated financial statements where the impairment testing of goodwill is discussed, including sensitivities to changes in certain assumptions.</p>	<p>To address the risk of impairment of goodwill, our audit procedures included the following:</p> <ul style="list-style-type: none"> • Gained an understanding of the business process applied by the Group in determining whether there are any indicators of impairment; • Obtained an understanding of the Group's forecasting and budgeting process to understand the basis of the assumptions and operational improvements planned within FY20; • Reviewed the past year's actual performance against the cash flow forecast used in the impairment model to determine the achievability of assumptions used to develop the model; • Tested management's value-in-use calculation and the mathematical accuracy of the model; • Reviewed management's sensitivity analysis over the key assumptions and also considered alternative possible scenarios and their potential impact; • Engaged our internal valuation expert to assess the terminal growth rate and discount rate used against those used by similar market participants and to determine whether the rates were within a reasonable range, and • Considered whether the disclosures in the consolidated financial statements were in compliance with the requirements of the accounting standards. <p>Based on the results of our procedures we have nothing to report.</p>

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

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

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

Responsibilities of the Directors for the consolidated financial statements

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

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

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

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

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

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

This description forms part of our auditor's report.



Who we report to

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

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

For and on behalf of:

A handwritten signature in dark ink, appearing to read 'Tricentiahac (apars)', written over a light blue circular stamp.

Chartered Accountants
27 May 2019

Auckland

Financial Results 2019 – Year Ended 31 March



Investor Presentation

evolve
education group

Overview of FY19 Performance

Audited FY19 result confirmed – unchanged from unaudited results shared in the company's capital raise documentation of 8 May 2019:

- FY19 Net Profit After Tax before non-recurring items \$5.5m (FY18: \$12.0m)
- FY19 underlying EBITDA \$13.3m (FY18: \$21.6m) ¹
- Occupancy declined relative to prior years during the course of FY19, leading to a loss of revenue from mature centres² of approximately \$4.2m
- Evolve invested in improving the quality of centre support, adding \$3.0m to Head Office costs during FY19
- Declining occupancy combined with increased Support Office costs were the key factors in booking a goodwill impairment expense of \$107.1m in FY19

(1) EBITDA (underlying) for FY19 is EBITDA before the after-tax impairment expense of NZ\$107.1m, being an impairment of goodwill relating to the acquisition of early childhood education centres in prior periods; for FY18 this is EBITDA before the Porse GST provision, the after-tax impairment expense of NZ\$13.2m relating to the Home-Based Division and the closure of one early childhood education centre, acquisition and integration costs. Refer to the Appendix for further detail. EBITDA is a non-GAAP measure and is not prepared in accordance with NZ IFRS. This measure is intended to supplement NZ GAAP measures presented in Evolve Group financial statements, should not be considered in isolation and is not a substitute for those measures

(2) Centres acquired by Evolve as a going concern from a third party vendor

FY19 financial performance

NZ\$m	FY19	FY18	Commentary
Total Income (including discontinued operations)	150.2	158.5	<p>Audited results confirm un-audited results released 8 May, 2019, in support of Evolve's accelerated rights entitlement offer.</p> <p>Profit after tax excluding non-recurring items of NZ\$5.5m, with non-recurring items reducing this to a reported loss after tax of NZ\$101.6m</p> <p>Declining occupancy combined with increased support office costs were key factors in booking a further goodwill impairment of NZ\$75.0m, taking the total FY19 impairment expense to NZ\$107.1m</p>
EBITDA (underlying) ¹	13.3	21.6	
Net Profit Before Tax and Non-Recurring Items	7.4	16.7	
Less: Porse GST provision ²	-	(3.0)	
Less: Impairment ³	(107.1)	(13.9)	
Add: Other ⁴	0.1	-	
Net Profit/(Loss) Before Tax	(99.7)	(0.2)	
Less Tax	(1.9)	(4.0)	
Net Profit/(Loss) After Tax	(101.6)	(4.2)	
Net Profit After Tax and Before Non-Recurring Items⁵	5.5	12.0	

(1) EBITDA (underlying) for FY19 is EBITDA before the after-tax impairment expense of NZ\$107.1m, being an impairment of goodwill relating to the acquisition of early childhood education centres in prior periods; for FY18 this is EBITDA before the Porse GST provision, the after-tax impairment expense of NZ\$13.2m relating to the Home-Based Division and the closure of one early childhood education centre, acquisition and integration costs. Refer to the Appendix for further detail. EBITDA is a non-GAAP measure and is not prepared in accordance with NZ IFRS. This measure is intended to supplement NZ GAAP measures presented in Evolve Group financial statements, should not be considered in isolation and is not a substitute for those measures

(2) Expense to settle the historic PORSE GST matter, a non-recurring expense

(3) Impairment of NZ\$107.1m in respect of centres in FY19 and NZ\$13.9m less tax benefit of NZ\$0.7m, in respect of Home-Based Division and one ECE Centre in FY18.

(4) Net gain on sale of assets sold, including sale of home based division and one ECE centre, and onerous lease expense

(5) Refer to Appendix for reconciliation

Mature Centre metrics

	FY19	FY18
Mature Centres – period end	123	126
ECE licensed places – period end	8,825	8,929
Occupancy – average	76.5%	78.6%
Employee expenses/revenue	56.1%	54.6%
Rent expenses/revenue	15.4%	14.4%
Mature Centre revenue	NZ\$133.8m	NZ\$137.2m
Mature Centre Underlying EBITDA¹	NZ\$22.8m	NZ\$28.5m
Mature Centre Underlying EBITDA¹ margin %	17.3%	20.8%

(1) Underlying EBITDA for Mature Centres only, and excludes Head Office costs and Home-based earnings

Goodwill Impairment

- The net loss recorded for the year was due to the impairment of a goodwill expense recognised in the financial statements. Evolve recorded a non-cash expense of NZ\$107.1m for the impairment of goodwill relating to the acquisition of early childhood education centres in prior periods. Declining enrolments in FY18 and FY19 have reduced the current profitability of the portfolio of centres. This impairment was signaled in Evolve's 8 May, 2019 announcement of its accelerated rights entitlement offer.
- In assessing the carrying value of goodwill, the company undertakes a number of assessments, primarily focusing on a value in use model, which is highly sensitive to relatively small changes in key assumptions. The company also considered the share price movement since the interim result (November 2018)
- Since the interim financial result for FY19, the further decline in occupancy in the final stages of FY19 and further increased investment in Head Office support have impacted the value in use model for the year ended 31 March 2019 leading to the company recording a further \$75m impairment expense in the second half of the 2019 financial year
- Evolve remains confident that the operation and profitability of the centre portfolio will improve over the next three years, however an impairment is required in accordance with financial reporting standards and auditing requirements.

Balance Sheet / Funding

- Underwritten capital raise of NZ\$63.5m announced in May, currently in progress
- Accelerated rights entitlement offer structure selected by the Board in the interests of being as fair as possible to all existing shareholders
- Eligible institutional shareholders took up 98.8% of their rights, combined with clearing the bookbuild, raising gross proceeds of NZ\$30.5m, representing approximately 381.8 million new shares
- March 2019 gearing ratio of 3.2x, based on net debt. Adjusting for the net receipts from the capital raise (excluding the funds raised for the Australian strategy) pro forma March 2019 gearing ratio of 0.6x
- On 17 May the Acquisition debt facility of \$55.4m was paid down to \$26.4m using proceeds received from the Institutional element of the capital raise. This facility will be paid down to a balance of \$25.4m by early June. In addition Evolve retains a working capital facility of \$8.5m
- Following repayment of the Acquisition facility Evolve is forecast to remain well within its banking covenants

Appendix



Reconciliation of non-GAAP Financial Information

NZ\$m	Underlying (1)	Impairment (2)	Net other (3)		Underlying (1)	Porse GST Provision (4)	Impairment (2)	
	FY19			FY19	FY18			FY18
Total Income	149.7			149.7	158.5			158.5
Operating expenses	(136.4)		(0.1)	(136.3)	(136.9)	3.0	13.9	(153.8)
EBITDA before acquisition and integration expenses	13.3		(0.1)	13.4	21.6	3.0	13.9	4.7
Acquisition expenses					(0.1)			(0.1)
Integration expenses					(0.0)			(0.0)
Depreciation	(2.7)			(2.7)	(2.6)			(2.6)
Amortisation	(0.4)	107.1		(107.6)	(0.6)			(0.6)
EBIT	10.1	107.1	(0.1)	(96.9)	18.2	3.0	13.9	1.4
Funding costs	(2.8)			(2.8)	(1.6)			(1.6)
Profit before taxation	7.4	107.1	(0.1)	(99.7)	16.7	3.0	13.9	(0.2)
Taxation	(1.9)		0.0	(1.9)	(4.6)		(0.7)	(4.0)
Net Profit After Taxation	5.5	107.1	(0.0)	(101.6)	12.0	3.0	13.2	(4.2)

- (1) EBITDA (underlying) for FY19 is EBITDA before the after-tax impairment expense of NZ\$107.1m, being an impairment of goodwill relating to the acquisition of early childhood education centres in prior periods; for FY18 this is EBITDA before the Porse GST provision, the after-tax impairment expense of NZ\$13.2m relating to the Home-Based Division and the closure of one early childhood education centre, acquisition and integration costs. EBITDA is a non-GAAP measure and is not prepared in accordance with NZ IFRS. This measure is intended to supplement NZ GAAP measures presented in Evolve Group financial statements, should not be considered in isolation and is not a substitute for those measures
- (2) For FY19 impairment expense with respect to ECE Centres; for FY18 impairment expense with respect to Home Based ECE division, and closure of one centre.
- (3) Net gain on sale of assets sold, including sale of home based division and one ECE centre, and onerous lease expense
- (4) NZ\$3m expense to settle the historic PORSE GST matter - a non-recurring expense

Disclaimer

The information in this presentation is an overview and does not contain all information necessary to make an investment decision. It is intended to constitute a summary of certain information relating to the performance of Evolve Education Group Limited (“Evolve Education”) for the year ended 31 March 2019. Please refer to the audited financial statements for the year ended 31 March 2019 that have been simultaneously released with this presentation.

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