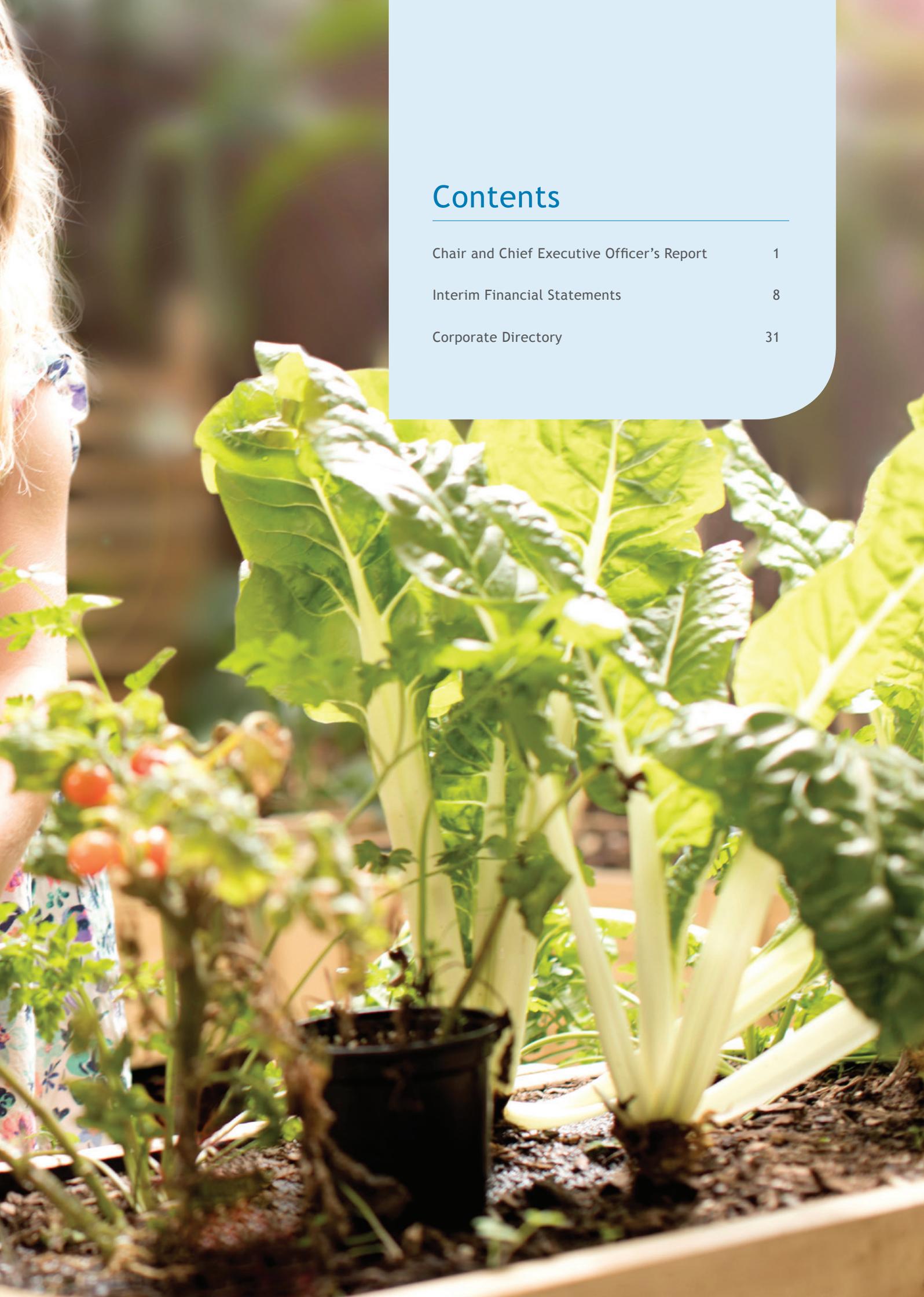




**Interim Financial Report**  
For the Six Month Period Ended  
30 September 2018







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# Chair and Chief Executive Officer's Report

FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2018



## Alistair Ryan

Chair  
Evolve Education Group Limited

Dear shareholders,

I am writing to update you on Evolve's financial results for the six months ended 30 September 2018, which we reported recently, and on other important developments with the company.

As we outlined at the annual shareholders' meeting in July, a reset of the company's core business of centre-based early childhood education is underway to address areas of underperformance over the past two years. A turnaround plan has been developed by recently appointed CEO Rosanne Graham in conjunction with a new executive management team and the Board. The plan is focused on remedying the causes of high staff turnover and reduced customer satisfaction which have in turn resulted in lower occupancy. The turnaround plan necessarily involves additional operating and capital expenditure on support functions and premises.

You will find more information on the business turnaround plan, and the specific actions which are being undertaken, later in this update.

### Half Year Results

Evolve reported underlying net profit after tax before non-recurring items<sup>1</sup> of \$4.6 million for the six months ended 30 September 2018 compared with \$7.0 million in the prior corresponding period. Underlying operating earnings<sup>2</sup> (earnings before interest, tax, depreciation and amortisation, or EBITDA) were \$9.1 million compared with \$12.5 million in the prior period.

At period end the Board resolved to review the carrying value of goodwill and as a result an impairment charge of \$32.1 million was taken in respect of the goodwill on centres acquired in prior years. Consequently, a net loss

after tax of \$27.5 million was recorded for the period, compared with a net profit after tax of \$4.0 million in the prior corresponding period.

The interim result included some non-recurring items with a net adverse impact on EBITDA of \$0.1 million. A one-off gain on the sale of centre land and buildings acquired in FY18 of \$0.4 million was offset by one-off costs associated with staff restructuring and engagement with potential investors regarding ownership of the Group of \$0.5 million.

As we have previously noted, Evolve is focused on lifting the performance of the current portfolio and selectively developing new centres. Consequently, no centres were acquired during the first half of the financial year, while three new centres are in development and are on track to open during the next twelve months.

### Impairment

The net loss recorded for the first half was due to the impairment of goodwill expense recognised in the period. Evolve recorded an expense of \$32.1 million 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. Whilst the Board remains confident that the operation and profitability of the centre portfolio will improve over the next three years, an impairment is required in accordance with financial reporting standards.

### Ownership Structure of Evolve

Over the past year the company has received a number of approaches from third parties considering investing in the company, either directly or through a formal offer being made to all shareholders by way of a

<sup>1</sup> Underlying net profit after tax and before non-recurring items is defined as net profit after tax and before impairment expense of \$32.1 million. For the prior corresponding period net profit after tax and before non-recurring items was defined as net profit after tax and before the Porse GST settlement amount of \$3 million.

<sup>2</sup> Underlying EBITDA is before the after-tax impairment expense of \$32.1m. EBITDA is a non-GAAP measure and is not prepared in accordance with NZ IFRS. This measure is intended to supplement NZ GAAP measures, should not be considered in isolation and is not a substitute for those measures. A reconciliation to net profit before tax can be found in note 2 of the interim financial statements.

# Chair and Chief Executive Officer's Report

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FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2018

takeover offer or scheme of arrangement. The Board of Evolve has taken the time to fully engage with these third parties, and has utilised external advisers to assist in assessing these approaches. Discussions with one party were at an advanced stage by early August but were ultimately inconclusive.

Following one of these approaches Chris Scott, through his wholly-owned company J47 Pty Limited, acquired an 18.9% shareholding in the company in August from former Evolve CEO Mark Finlay. Mr Scott has extensive sector experience, having been responsible for the growth of G8 Education Limited, Australia's largest listed early education and child care provider. He was Managing Director of G8 Education between 2010 and 2016.

## Board Changes

Following his cornerstone investment in the company, the Board of Evolve has appointed Chris Scott to the board as a non-independent non-executive director.

In addition, the Board has appointed Chris Sacre as an independent non-executive director. Mr Sacre has worked previously with Mr Scott and also has considerable experience in the early childhood education sector. He was Chief Operating and Financial Officer of G8 Education Limited between 2008 and 2016. His formal qualifications include a Bachelor of Business and a graduate diploma in applied finance. He is a Chartered Accountant and a senior associate of FINSIA.

As a result of these two appointments, Anthony Quirk and Lynda Reid have retired from the Board. This keeps the number of directors to five in total. We are pleased to have Chris Scott and Chris Sacre join Evolve as non-executive directors. They both have considerable experience in the early childhood education sector which will be invaluable as we reset the company and deliver on the business turnaround plan.

I would like to thank Anthony and Lynda for their significant contribution to the Evolve Board over the past sixteen months. The company has been through a challenging period, and Anthony and Lynda's commitment to the company and to working constructively through complex issues has been much appreciated.

During the upcoming period, the new Board will focus on appropriate capital restructuring and explore potential growth opportunities for the company alongside achievement of the company's turnaround plan, with a view to securing a stronger future for Evolve and reducing future refinancing risk.

## Funding, Liquidity and Capital Structure

Following the period end, the company entered into a revision of its debt funding facilities with ASB Bank. This revision recognises that, consistent with management's forecasts for the next 12-month period, Evolve will be restructuring its business model and incurring significant additional expenditures ahead of expected revenue uplift. The amended facilities accommodate this rebuilding period by providing relaxed financial covenants for the next four quarterly reporting periods. The covenants then return to pre-existing levels.

Management is confident that the three-year turnaround plan is robustly prepared and is achievable, and delivery of the plan will ensure that the company has adequate covenant headroom. However, there is always uncertainty about future actual results yet to be achieved and this uncertainty is acknowledged in the half year financial statements at Note 1c.

In order to secure a strong and stable financial future for the company, the new board will be actively assessing capital restructuring/capital raising options designed to reduce reliance on bank debt. Reduced reliance on bank debt will provide the company with

# Chair and Chief Executive Officer's Report

FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2018

additional buffer in the event that the turnaround plan is not achieved in the manner anticipated and will allow the company to re-consider growth initiatives that will further strengthen its earnings line. These options will be explored by the Board over the next immediate period and we will update shareholders when further progress has been made and a clearer picture of the preferred approach has been finalised.

## Interim Dividend FY19

With the reduction in current year earnings, and the costs of the business turnaround plan, no dividend will be paid for the half year. In making the decision not to declare an interim dividend the Board is ensuring that the company's financial resources are focused appropriately on building capability and implementing the business turnaround plan.

Following completion of the capital management strategy in the first quarter of 2019, the Board will determine the future dividend policy of the Group.

## Outlook for FY19 Earnings

At the annual shareholder's meeting in July, we indicated that our best estimate was that underlying EBITDA for the financial year ending 31 March 2019 would be in the range of \$16.6 million to \$18.6 million, if the business tracked through to the end of the year at stable occupancy levels (and excluding additional expenditures for remedial strategies).

Our updated estimate is that full year underlying EBITDA, before allowing for the costs of the business turnaround plan of approximately \$2.9 million, is expected to be marginally lower than the bottom end of the guidance range given at the annual meeting. Including these additional costs, we now expect underlying EBITDA for the 2019 financial year to be in the range of \$12 million to \$14 million.

Alistair Ryan



# Chair and Chief Executive Officer's Report

FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2018



## Rosanne Graham

Chief Executive Officer  
Evolve Education Group Limited

### From CEO Rosanne Graham

Since I joined Evolve in July, my focus has been on identifying the issues the company faces, and developing a turnaround plan that will return the company to previous levels of profitability and create a sustainable platform for further growth.

At the annual shareholders' meeting at the end of July, I outlined my assessment of the key areas that needed to be addressed to remedy the company's current performance. These were staff engagement, customer retention, premises, and core support capability.

Following on from this early diagnosis, I have been actively working to rebuild the senior management team at Evolve, and worked with the Board on a turnaround plan for the business. We have made good progress over this time.

### Business Turnaround Plan

The business turnaround plan we have developed is addressing Evolve's current performance issues and aims to progressively lift earnings over the next three years, from the 2020 financial year onwards. The plan consists of two distinct phases.

The immediate phase over the next two years will establish a sound and sustainable operational platform to halt the decline in occupancy and then steadily re-grow centre occupancy to target levels of 82% at the end of 2021 financial year. Lifting occupancy is the most significant lever the business has to positively impact on earnings and a lift in overall occupancy to 82% would bring performance up to the levels that were being achieved two years ago.

The longer-term phase from 2022 and beyond will seek to build on the new platform to achieve greater scale and improved earnings, through the selective acquisition of existing centres and the development of new centres by the company.

### Progress to date

Since the annual meeting, I have led an organisational restructure with the appointment of a number of key senior management positions, including GM Centre Operations, GM People and Talent, GM Property, and GM Marketing. Recruitment is under way for a GM Educational Quality Assurance. With these appointments, the executive leadership team has been significantly enhanced, with Stephen Davies and Paul Matthews continuing in their roles as CFO and CIO respectively.

Centre operations, marketing, property and human resources teams have all been restructured and key appointments have been made within the management structure of each of these teams.

Our marketing activity has been shifted away from broad, brand-oriented campaigns to targeted centre-specific initiatives and digital campaigns. An action plan has been developed for the 50 lowest occupancy centres and is being implemented to further stabilise and then lift occupancy.

As part of the turnaround plan, Evolve has unconditionally agreed to sell both its Porse In-Home Childcare business and Au Pair Link. The sale of these businesses is consistent with Evolve's previously articulated strategy of focusing its activities on centre-based early childhood education. The Porse sale was completed on 3 December 2018, and completion of the Au Pair Link transaction is expected by 31 January 2019.

In addition, five centres are being actively marketed, one of which has been contracted for sale in the second half of the financial year, and a centre that was being actively marketed was sold on 30 November 2018. This is consistent with the business turnaround plan which will see the portfolio of centres actively managed and the sale of those centres not considered core to Evolve's operations.

# Chair and Chief Executive Officer's Report

FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2018

## Key Areas of Focus in Turnaround Plan

The turnaround plan will address the key areas of the business:

- Attracting new families by better understanding our customers and improving our marketing effectiveness to drive the level of new enquiries and enrolments.
- Retaining families by using real-time customer feedback to understand and manage the reasons that cause a child to leave one of our centres prematurely. Similarly, we will be driving to reduce staff turnover as staff turnover leads to child/family turnover.
- Investing in the support office operations to build the capability and capacity of the senior and middle managers. This will enable them to better lead and manage the business and provide head office support when and where it is needed to assist centre operations. It will also ensure consistent management focus on centre performance and the early resolution of any issues.
- Retaining staff and steadily reducing staff turnover levels through investing in the development of staff at all levels of the organisation. This will be supported by the development of a people strategy with a clear value proposition for our employees which, once implemented, will lead to increased staff satisfaction. We are also looking to create a significant change in the current culture of the company to becoming one of success, accountability and self-leadership. And we must ensure that roles and responsibilities of regional, area and centre managers are clearly laid out and that people in these roles have the right capability, motivation and appropriate support.
- Developing a clear quality framework across the organisation to provide the highest quality services to our families in a sustained and consistent manner.
- Lifting the presentation appeal of Evolve's centres by establishing an ongoing coordinated and comprehensive maintenance and repairs schedule, and investing in the capital expenditure requirements to bring the centres up to a higher standard of presentation. We will be expanding the property team to effectively and efficiently manage this programme of work.
- Improving the portfolio of centres by divesting non-core centres based on agreed strategic criteria, and developing a plan for future acquisitions/developments.

The increased investment in appropriately resourcing support office is required to turn the business around and to successfully manage it into the future. The investment adds considerably to the cost of support office, but having these resources in place will allow the business to become far more scalable. Once the turnaround of the existing centre portfolio has been achieved, additional long-term value will be delivered by leveraging Evolve's scale through centre acquisitions and development.

**Rosanne Graham**

OUR REFRESHED STRATEGY FOCUSES ON 8 GOALS, EACH WITH A DEFINED PLAN TO ACHIEVE SUCCESS

1

DELIVERING THE HIGHEST QUALITY OUTCOMES FOR CHILDREN

2

RETAINING CHILDREN AND FAMILIES

3

RETAINING STAFF - REDUCING TURNOVER LEVELS

4

GROWING REVENUE FROM THE EXISTING BASE

5

ATTRACTING NEW FAMILIES

6

INVESTING IN THE SUPPORT OFFICE OPERATIONS

7

LIFTING THE PRESENTATION AND APPEAL OF EVOLVE'S CENTRES

8

IMPROVING THE PORTFOLIO OF CENTRES



**Evolve Education Group Limited**  
Interim Financial Statements  
For the Six Month Period Ended 30 September 2018

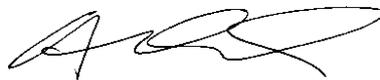
The Directors present the Interim Financial Statements of Evolve Education Group Limited for the six month period ended 30 September 2018.

The Interim Financial Statements presented are signed for and on behalf of the Board and were authorised for issue on 28 November 2018.



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**Alistair Ryan**  
Chair  
28 November 2018



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**Anthony Quirk**  
Chair of Audit and Risk Committee  
28 November 2018

# Consolidated Statement of Comprehensive Income

FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2018

		UNAUDITED 6 MONTHS 30 SEPTEMBER 2018	UNAUDITED 6 MONTHS 30 SEPTEMBER 2017
<b>\$'000</b>	<b>Note</b>		
Revenue	4	70,670	70,434
Other income	7	367	-
<b>Total income</b>		<b>71,037</b>	<b>70,434</b>
<b>Expenses</b>			
Employee benefits expenses		(42,112)	(40,252)
Building occupancy expenses		(11,477)	(10,720)
Direct expenses of providing services		(6,809)	(6,156)
Acquisition expenses		-	(88)
Integration expenses		-	(264)
Depreciation		(1,379)	(1,179)
Amortisation		(217)	(197)
Impairment expense	6	(32,069)	-
Other expenses		(2,033)	(1,396)
<b>Total expenses</b>		<b>(96,096)</b>	<b>(60,252)</b>
<b>(Loss)/Profit before net finance expense and income tax</b>		<b>(25,059)</b>	<b>10,182</b>
Finance income		31	7
Finance costs		(1,087)	(752)
Net finance expense		(1,056)	(745)
<b>(Loss)/Profit before income tax</b>		<b>(26,115)</b>	<b>9,437</b>
Income tax expense		(1,675)	(2,666)
<b>(Loss)/Profit after income tax from continuing operations</b>		<b>(27,790)</b>	<b>6,771</b>
Profit/(Loss) after income tax from discontinued operations	3(a)	302	(2,764)
<b>(Loss)/Profit after income tax attributed to shareholders of the Company</b>		<b>(27,488)</b>	<b>4,007</b>
Other comprehensive income		-	-
<b>Total comprehensive (loss)/income attributed to the shareholders of the Company</b>		<b>(27,488)</b>	<b>4,007</b>
<b>Earnings per share attributable to shareholders of the parent from continuing operations:</b>		<b>Cents</b>	<b>Cents</b>
Basic (and diluted) earnings per share from continuing operations		(15.5)	3.8
<b>Earnings per share attributable to shareholders of the parent:</b>			
Basic (and diluted) earnings per share		(15.3)	2.2

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

# Consolidated Statement of Movements in Equity

FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2018

\$'000	Note	ISSUED SHARE CAPITAL	RETAINED (DEFICIT)/EARNINGS	TOTAL
As at 31 March 2017 (audited)		158,106	10,565	168,671
<b>Total comprehensive income</b>		-	4,007	4,007
Shares issued under Dividend Re-investment Plan		672	-	672
Share issue costs relating to shares issued		(8)	-	(8)
Dividends paid		-	(4,456)	(4,456)
<b>As at 30 September 2017 (unaudited)</b>		<b>158,770</b>	<b>10,116</b>	<b>168,886</b>
As at 31 March 2018 (audited)		159,149	(2,574)	156,575
<b>Total comprehensive loss</b>		-	(27,488)	(27,488)
Change in accounting policy	1(d)	-	(203)	(203)
Shares issued under Dividend Re-investment Plan		457	-	457
Share issue costs relating to shares issued		(8)	-	(8)
Dividends paid		-	(3,589)	(3,589)
<b>As at 30 September 2018 (unaudited)</b>		<b>159,598</b>	<b>(33,854)</b>	<b>125,744</b>

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

# Consolidated Statement of Financial Position

AS AT 30 SEPTEMBER 2018

		UNAUDITED AS AT 30 SEPTEMBER 2018	AUDITED AS AT 31 MARCH 2018	UNAUDITED AS AT 30 SEPTEMBER 2017
<b>\$'000</b>	<b>Note</b>			
<b>Current assets</b>				
Cash and cash equivalents		1,803	5,362	5,572
Funding receivable	8	1,233	-	1,308
Current income tax receivable		566	552	138
Other current assets		1,116	1,788	1,218
<b>Total current assets</b>		<b>4,718</b>	<b>7,702</b>	<b>8,236</b>
<b>Non-current assets</b>				
Property, plant and equipment	7	5,690	8,586	7,238
Deferred tax asset		1,544	1,636	989
Intangible assets	6	173,769	207,170	219,814
<b>Total non-current assets</b>		<b>181,003</b>	<b>217,392</b>	<b>228,041</b>
Assets classified as held for sale	3(b)	6,727	-	-
<b>Total assets</b>		<b>192,448</b>	<b>225,094</b>	<b>236,277</b>
<b>Current liabilities</b>				
Trade and other payables	9	5,541	10,019	4,685
Funding received in advance	8	-	17,864	-
PORSE GST Settlement Payable	3(b), 5	-	1,500	3,000
Employee entitlements		6,196	6,836	7,206
<b>Total current liabilities</b>		<b>11,737</b>	<b>36,219</b>	<b>14,891</b>
<b>Non-current liabilities</b>				
Borrowings	10	51,200	32,300	52,500
<b>Total non-current liabilities</b>		<b>51,200</b>	<b>32,300</b>	<b>52,500</b>
Liabilities classified as held for sale	3(b)	3,767	-	-
<b>Total liabilities</b>		<b>66,704</b>	<b>68,519</b>	<b>67,391</b>
<b>Net assets</b>		<b>125,744</b>	<b>156,575</b>	<b>168,886</b>
<b>Equity</b>				
Issued share capital		159,598	159,149	158,770
Retained (deficit)/earnings		(33,854)	(2,574)	10,116
<b>Total equity</b>		<b>125,744</b>	<b>156,575</b>	<b>168,886</b>

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

# Consolidated Statement of Cash Flows

FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2018

\$'000	Note	UNAUDITED 6 MONTHS 30 SEPTEMBER 2018	UNAUDITED 6 MONTHS 30 SEPTEMBER 2017
<b>Cash flows from operating activities</b>			
Receipts from customers (including Ministry of Education funding)		61,274	62,398
PORSE GST Settlement paid		(818)	-
Payments to suppliers and employees		(75,506)	(73,620)
Taxes paid		(2,259)	(3,956)
Interest received		31	7
<b>Net cash flows from operating activities</b>	12	<b>(17,278)</b>	<b>(15,171)</b>
<b>Cash flows from investing activities</b>			
Payments for purchase of businesses		-	(9,882)
Receipts from sale of land and buildings	7	3,267	-
Receipts from sale of businesses		-	100
Payments for software, property, plant and equipment		(1,933)	(1,326)
<b>Net cash flows from investing activities</b>		<b>1,334</b>	<b>(11,108)</b>
<b>Cash flows from financing activities</b>			
Share issue costs		(8)	(8)
Interest paid on borrowings		(1,087)	(752)
Bank borrowings drawn		52,900	69,300
Bank borrowings repaid		(34,000)	(37,000)
Dividends paid		(3,132)	(3,784)
<b>Net cash flows from financing activities</b>		<b>14,673</b>	<b>27,756</b>
<b>Net cash flows</b>		<b>(1,271)</b>	<b>1,477</b>
Cash and cash equivalents at beginning of period		5,362	4,095
<b>Cash and cash equivalents at end of period are represented as follows:</b>			
Cash and cash equivalents		1,803	5,572
Cash and cash equivalents classified as held for sale	3(b)	2,288	-
<b>Cash and cash equivalents at end of period</b>		<b>4,091</b>	<b>5,572</b>

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

# Notes to the Consolidated Interim Financial Statements

FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2018

## 1. Basis of Presentation and Accounting Policies

### (a) 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 a high quality early childhood education service which gives parents and caregivers the option of which service best suits their child’s learning and care needs (see Note 2, Segment Information).

These consolidated interim financial statements were approved for issue on 28 November 2018.

### (b) Basis of Preparation

The consolidated interim financial statements of the Group have been prepared in accordance with the requirements of the NZX Listing Rules, New Zealand Equivalent to International Accounting Standard 34: Interim Financial Reporting and New Zealand Generally Accepted Accounting Practice (“NZ GAAP”). The interim financial statements are for the Evolve Education Group Limited. The Group financial statements comprise the Company and its subsidiaries. The Group is a profit-oriented entity for financial reporting purposes.

These consolidated interim financial statements of the Group are unaudited and have been prepared using the same accounting policies, methods of computation, significant judgements, estimates and assumptions, as the financial statements and related notes included in the Group’s audited financial statements for the year ended 31 March 2018, except for the adoption of new and amended standards set out in 1(d).

### (c) Going Concern

The considered view of the Board is that, after a comprehensive three-year planning process undertaken with management, it has a reasonable expectation that the Company and the Group have access to adequate resources to continue operations for the foreseeable future.

The Board has reached this conclusion having regard to circumstances which it considers likely to affect the Company and the Group during the period to at least 28 November 2019.

The Board has reviewed the operating and cash flow forecasts that cover the three-year period to 31 March 2021. The directors have obtained sufficient satisfaction based on their review of these financial forecasts that during the period to at least 28 November 2019 there will be: (a) adequate cash flows generated from operating activities; and (b) continued access to group debt funding facilities, available to meet any obligations of the Company and the Group as they arise.

The key assumptions on which the cash flow forecasts are based include:

- Incremental occupancy growth over the next 12 months
- Changes to pricing structures including the removal of some temporary discounts currently applied to parental fees
- Incremental price increases for parental fees to cover inflation and increased fixed costs
- For the next 12 months, Government funding already announced, increasing by 1.6% from 1 January 2019

In the event of adverse actual revenue trends relative to the three-year plan, the Company will respond through cost management initiatives (including the scaling back of selected intended initiatives) and divestment of certain underperforming assets to reduce debt.

# Notes to the Consolidated Interim Financial Statements

FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2018

## 1. Basis of Presentation and Accounting Policies (continued)

### (c) Going Concern (continued)

A revision to the Group's debt funding facilities with ASB Bank Limited (ASB or the bank) was entered into following the period end (30 September 2018). The revision recognises that, consistent with management's forecasts for the period to December 2019, Evolve will be restructuring its business model and incurring significant additional expenditures ahead of expected revenue uplift. The amended facilities accommodate this rebuilding period by providing relaxed financial covenants for the next four quarterly reporting periods, being the end of December 2018, March 2019, June 2019 and September 2019.

The Board is also undertaking a review of its capital management strategy. Under the terms of the revision to its debt facilities, the Company will work with ASB to ensure its revised capital management strategy is in a form satisfactory to ASB. That strategy will seek to reduce the ratio of debt to EBITDA, defined as the ratio of the existing acquisition facility (currently \$58m) to last twelve months' EBITDA, to below 3 times. This covenant is based on the most recent 12 months historical earnings which are forecast to steadily improve as the benefits of the additional investment expenditures flow through to higher occupancy and increased revenues.

The capital management strategy will be finalised prior to 1 March 2019. In formulating the strategy, the Company will explore all options to reduce gearing including operational improvement, divestment of non-core assets, and alternative sources of debt and equity.

Therefore, whilst material uncertainties exist, the Directors consider that there is a reasonable expectation that the revised capital management strategy will be acceptable to the Bank, and that bank covenants will be met for the foreseeable future, and that funding will be available to the Group to enable it to continue to meet its liabilities as they fall due. Taking this into account and the expected financial performance of the Group and the positive operating cash flows of the Group, it is the considered view of the Directors that the Group is a going concern.

The Directors do, however, acknowledge that if the Group's financial forecasts and cash flows from the three-year plan are not realised, or the capital management strategy is not acceptable and it is unable to successfully renegotiate revised terms with the Bank, or it is unable to secure alternative sources of funding or realise the sale of assets to enable the repayment of the Group's current borrowings, then the going concern assumption may not be valid, the consequence being that the Group may be unable to realise the value in its assets and discharge its liabilities in the normal course of business.

### (d) New and Amended Standards Adopted by the Group

There were two new standards adopted during the period.

#### 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.

# Notes to the Consolidated Interim Financial Statements

FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2018

## 1. Basis of Presentation and Accounting Policies (continued)

### (d) New and Amended Standards Adopted by the Group (continued)

#### NZ IFRS 9: Financial Instruments (continued)

##### *Impact from the adoption of the new standard on 1 April 2018: (continued)*

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

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

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

- ECE Centres - No impact on measurement of ECE Centre Ministry of Education funding or Childcare fees (refer note 4 for accounting policies).
- Home-based ECE - The adoption of NZ IFRS 15 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 \$169k in the six months ended 30 September 2018 and \$209k in the six months ended 30 September 2017, with no impact to net profit and retained earnings. This reclassification is reflected in note 3(a) discontinued operations.

### (e) Functional and Presentation Currency

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

### (f) Comparatives

The comparative period is for the six months ended 30 September 2017.

### (g) Restatement of prior year

Certain comparatives have been reclassified to ensure consistency with the current period. These interim financial statements do not include all the notes of the type normally included in an annual financial report.

#### **Discontinued Operations**

The prior year comparative numbers 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 3.

# Notes to the Consolidated Interim Financial Statements

FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2018

## 2. Segment Information

The Group has two reportable operating segments as described below, which are the strategic business models the Group invests in within the early childhood education (“ECE”) industry in New Zealand. The Group operates entirely within New Zealand. Each segment is managed separately. For each of the segments, the Group’s Chief Executive Officer (“CEO”) and the “Chief Operating Decision Maker”) reviews internal management reports at least on a monthly basis. The following summary describes the 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. This operating segment meets the definition of a discontinued operation as at 30 September 2018 (note 3).

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

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

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

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

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

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

# Notes to the Consolidated Interim Financial Statements

FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2018

## 2. Segment Information (continued)

UNAUDITED 30 SEPTEMBER 2018	Note	ECE Centres	Home-based ECE (Discontinued)	Unallocated	Consolidated
		\$'000	\$'000	\$'000	\$'000
Revenue		70,458	9,371	212	80,041
Other income		367	-	-	367
<b>Total income</b>		<b>70,825</b>	<b>9,371</b>	<b>212</b>	<b>80,408</b>
Operating expenses		(57,705)	(8,880)	(4,726)	(71,311)
<b>Underlying EBITDA</b>		<b>13,120</b>	<b>491</b>	<b>(4,514)</b>	<b>9,097</b>
<i>Material non-recurring items:</i>					
Impairment expense	6	(31,403)	-	(666)	(32,069)
<b>EBITDA</b>		<b>(18,283)</b>	<b>491</b>	<b>(5,180)</b>	<b>(22,972)</b>
Depreciation		(1,334)	(15)	(45)	(1,394)
Amortisation		(30)	(25)	(187)	(242)
<b>Earnings before interest and tax</b>		<b>(19,647)</b>	<b>451</b>	<b>(5,412)</b>	<b>(24,608)</b>
Net finance expense		-	-	(1,056)	(1,056)
<b>Reportable segment profit/(loss) before tax</b>		<b>(19,647)</b>	<b>451</b>	<b>(6,468)</b>	<b>(25,664)</b>
Less: Profit before tax from discontinued operations					451
<b>(Loss) before income tax from continuing operations</b>					<b>(26,115)</b>

UNAUDITED 30 SEPTEMBER 2017	Note	ECE Centres	Home-based ECE	Unallocated	Consolidated
		\$'000	\$'000	\$'000	\$'000
Revenue		70,201	10,694	233	81,128
<b>Total income</b>		<b>70,201</b>	<b>10,694</b>	<b>233</b>	<b>81,128</b>
Operating expenses		(54,746)	(10,057)	(3,778)	(68,581)
<b>Underlying EBITDA</b>		<b>15,455</b>	<b>637</b>	<b>(3,545)</b>	<b>12,547</b>
Acquisition expenses		-	-	(88)	(88)
Integration expenses		-	-	(264)	(264)
<i>Material non-recurring items:</i>					
Porse GST Settlement	5	-	(3,000)	-	(3,000)
<b>EBITDA</b>		<b>15,455</b>	<b>(2,363)</b>	<b>(3,897)</b>	<b>9,195</b>
Depreciation		(1,144)	(164)	(35)	(1,343)
Amortisation		(30)	(125)	(167)	(322)
<b>Earnings before interest and tax</b>		<b>14,281</b>	<b>(2,652)</b>	<b>(4,099)</b>	<b>7,530</b>
Net finance expense		-	-	(745)	(745)
<b>Reportable segment profit/(loss) before tax</b>		<b>14,281</b>	<b>(2,652)</b>	<b>(4,844)</b>	<b>6,785</b>
Less: Loss before tax from discontinued operations					(2,652)
<b>Profit before income tax from continuing operations</b>					<b>9,437</b>

# Notes to the Consolidated Interim Financial Statements

FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2018

## 3. Discontinued Operations and Non-current Assets Held for Sale

### (a) Discontinued operations

On 3 April 2018, the Group announced its intention to commence a sale process for the wholly-owned Porse in-home childcare and training business ("PORSE"). An active program to locate a buyer has since been initiated. On 14 November 2018, an unconditional sale agreement was entered into for PORSE in-home childcare and training businesses (refer note 14).

In the six month period ended 30 September 2018, an active programme to locate a buyer for Au Pair Link Limited (the remainder of the Home-based ECE operating segment) commenced. A sale agreement was entered into for the Au Pair Link Limited business, which became unconditional on 31 October 2018 (refer note 14).

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*.

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

		UNAUDITED 6 MONTHS 30 SEPTEMBER 2018	UNAUDITED 6 MONTHS 30 SEPTEMBER 2017
<b>\$'000</b>	<b>Note</b>		
Revenue		9,371	10,694
Porse GST settlement	5	-	(3,000)
Depreciation		(15)	(164)
Amortisation		(25)	(125)
Operating expenses		(8,880)	(10,057)
<b>Profit/(Loss) before income tax</b>		<b>451</b>	<b>(2,652)</b>
Income tax expense		(149)	(112)
<b>Profit/(Loss) after income tax</b>		<b>302</b>	<b>(2,764)</b>
The cash flow for the half-year from the discontinued operation is analysed as follows:			
<b>\$'000</b>			
Net cash from operating activities		722	620
<b>Net cash flows for the year</b>		<b>722</b>	<b>620</b>

### (b) Assets and liabilities held for sale

The assets and liabilities held for sale as at 30 September 2018 includes those in relation to the discontinued home-based operations described in note 3(a). In addition to the net assets of the home-based ECE subsidiaries, the Group classified 6 ECE centres and another ancillary business as held for sale as at 30 September 2018. They do not meet the definition of a discontinued operation.

A goodwill impairment expense of \$3.8m, being the difference between the carrying value and fair value less cost to sell of the 6 ECE centres and ancillary business has been recognised in the six month period to 30 September 2018.

# Notes to the Consolidated Interim Financial Statements

FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2018

## 3. 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 30 September 2018:

\$'000	Note	Discontinued operations	ECE Centres and other ancillary business	Total
Cash and cash equivalents		2,288	-	2,288
Funding receivable		-	95	95
Current income tax receivable		163	-	163
Intercompany receivable	9	1,603	-	1,603
Other current assets		653	9	662
Property, plant and equipment		141	379	520
Deferred tax assets		311	33	344
Intangible assets		96	956	1,052
<b>Assets classified as held for sale</b>		<b>5,255</b>	<b>1,472</b>	<b>6,727</b>
Trade and other payables		1,733	14	1,747
Funding received in advance		425	-	425
PORSE GST Settlement Payable	5	682	-	682
Employee entitlements		913	-	913
<b>Liabilities classified as held for sale</b>		<b>3,753</b>	<b>14</b>	<b>3,767</b>

# Notes to the Consolidated Interim Financial Statements

FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2018

## 4. 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 1(d). There was no impact on opening retained earnings.

### Accounting Policy

#### Ministry of Education funding

Ministry of Education 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 childcare services are provided. Income receivable from the Ministry of Education by way of a wash-up payment is recognised as an asset, and is netted off against the income received in advance. 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 or receives home-based care. The performance obligation is satisfied over time as the child simultaneously receives and consumes the benefit.

	UNAUDITED 6 MONTHS 30 SEPTEMBER 2018	UNAUDITED 6 MONTHS 30 SEPTEMBER 2017
<b>\$'000</b>		
<b>Revenue from continuing operations:</b>		
Ministry of Education Funding	46,564	45,665
Childcare fees	23,851	24,486
Other revenue	255	283
<b>Total revenue from continuing operations</b>	<b>70,670</b>	<b>70,434</b>

## 5. Porse GST Settlement Payable

In 2018, the Group reached formal agreement with the Inland Revenue Department (IRD) in respect of various taxation matters relating to the Group's wholly owned PORSE business, currently classified as held for sale (note 3).

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

The Group has paid \$2.3m of the total amount payable as at 30 September 2018, with the remaining balance of \$682k due in the six months to 31 March 2019 (note3(b)).

# Notes to the Consolidated Interim Financial Statements

FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2018

## 6. Intangible assets

\$'000	Note	UNAUDITED AS AT 30 SEPTEMBER 2018	AUDITED AS AT 31 MARCH 2018	UNAUDITED AS AT 30 SEPTEMBER 2017
Goodwill		170,228	203,312	214,030
Brands		3,104	3,104	4,787
Other		437	754	997
<b>Total Intangible assets (net book value)</b>		<b>173,769</b>	<b>207,170</b>	<b>219,814</b>
<b>Movement in goodwill</b>				
Balance at the beginning of the period		203,312	206,094	206,094
Acquisition of businesses		-	8,855	8,017
Purchase price adjustment of goodwill from acquisition of businesses		(59)	-	-
Disposal of businesses		-	(81)	(81)
Impairment expense- Assets held for sale	3(b)	(3,781)	-	-
Impairment expense- ECE Centres		(28,288)	(956)	-
Impairment expense- Home based ECE		-	(10,600)	-
<b>Balance at the end of the period</b>		<b>171,184</b>	<b>203,312</b>	<b>214,030</b>
Goodwill classified as held for sale	3(b)	(956)	-	-
<b>Balance at the end of the period (excluding held for sale)</b>		<b>170,228</b>	<b>203,312</b>	<b>214,030</b>

### Impairment Testing of Goodwill

In the year ended 31 March 2018, the Group fully impaired the Home-based ECE goodwill balance of \$10.6m.

As identified in note 3(b), 6 ECE centres and another ancillary business were classified as held for sale as at 30 September 2018. A goodwill impairment expense of \$3.8m has been recognised in the six month period ended 30 September 2018 in relation to these disposal groups.

The remaining ECE centres cash generating unit (CGU) goodwill balance of \$198.6m has been tested for impairment as at 30 September 2018.

Declining enrolments in the 2018 and 2019 financial years have reduced the current level of profitability of the portfolio of centres. This has impacted the recoverable amount of the CGU and as a result an impairment of \$28.3m has been recognised in respect of the ECE centres CGU in the consolidated interim financial statements for the six months ended 30 September 2018.

The recoverable amount of the ECE centres CGU is determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets covering a five-year period.

# Notes to the Consolidated Interim Financial Statements

FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2018

## 6. Intangible assets (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:

	30 SEPTEMBER 2018 Centres	31 MARCH 2018 Centres
Revenue growth attributable to price (% per annum on average)	3.1%	1.5%
Revenue growth attributable to increase in enrolment (% per annum on average)	0.6%	0.7%
Total revenue growth (% per annum on average)	3.7%	2.2%
Expense growth (% per annum on average)	2.6%	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 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 or be below expected levels, 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 further cost savings measures.

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

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

# Notes to the Consolidated Interim Financial Statements

FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2018

## 6. Intangible assets (continued)

### *Sensitivity to changes in key assumptions*

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

	Impairment
<b>\$'000</b>	
Base assumption	(28,288)
Enrolment growth +0.5% above base	(19,750)
Enrolment growth -0.5% under base	(36,713)
Price growth +0.5% above base	(9,370)
Price growth -0.5% below base	(46,954)

## 7. Property, Plant and Equipment

Land and buildings, with an associated cost of \$2.9m, were sold in the six months ended 30 September 2018. A gain on sale of \$367k was recorded in the period.

## 8. Funding Receivable and Funding Received in Advance

	UNAUDITED AS AT 30 SEPTEMBER 2018	AUDITED AS AT 31 MARCH 2018	UNAUDITED AS AT 30 SEPTEMBER 2017
<b>\$'000</b>			
Funding received in advance	(5,926)	(21,474)	(7,289)
Funding receivable	7,159	3,610	8,597
<b>Total funding receivable/(received in advance)</b>	<b>1,233</b>	<b>(17,864)</b>	<b>1,308</b>

Ministry of Education 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 30 September 2018 funding received in advance relates to October 2018. Funding receivable relates to the remaining 25% of funding, adjusted for any changes in occupancy levels, in respect of June to September 2018.

# Notes to the Consolidated Interim Financial Statements

FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2018

## 9. Trade And Other Payables

	UNAUDITED AS AT 30 SEPTEMBER 2018	AUDITED AS AT 31 MARCH 2018	UNAUDITED AS AT 30 SEPTEMBER 2017
<b>\$'000</b>			
Trade payables	1,058	1,506	898
Payable to third party	1,603	-	-
Amounts accrued in respect of business combinations	-	-	140
Goods and services tax	-	5,550	84
Other payables	2,880	2,963	3,563
<b>Total trade and other payables</b>	<b>5,541</b>	<b>10,019</b>	<b>4,685</b>

Payable to third party relates to funds held in Evolve Education Group Limited relating to Porse In Home Childcare Limited which is payable to the purchaser of the business (refer note 14) upon settlement. The corresponding intercompany receivable in Porse In Home Childcare Limited is classified as held for sale in note 3(b).

The timing of Ministry of Education funding, as disclosed at Note 8, affects the timing of goods and services tax ("GST") payable. GST on funding received in March remains payable at the end of March, whereas no GST on funding is payable at September as the GST relating to July funding is paid in August. As at 30 September 2018, a GST receivable of \$145K has been included in other current assets in the Consolidated Statement of Financial Position.

## 10. Borrowings

The Group's financing arrangements comprise the bank facilities summarised below. The facilities are secured by way of a first ranking general security agreement over all present and future shares and 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.

	UNAUDITED AS AT 30 SEPTEMBER 2018	AUDITED AS AT 31 MARCH 2018	UNAUDITED AS AT 30 SEPTEMBER 2017
<b>\$'000</b>			
<b>Facility Limits</b>			
Senior revolving facility	25,000	30,000	30,000
Acquisition facility	70,000	60,000	60,000
<b>Total lending facilities</b>	<b>95,000</b>	<b>90,000</b>	<b>90,000</b>
<b>Utilisation</b>			
Senior revolving facility	-	-	-
Acquisition facility	51,200	32,300	52,500
<b>Total borrowings</b>	<b>51,200</b>	<b>32,300</b>	<b>52,500</b>
<b>Total unused facilities</b>	<b>43,800</b>	<b>57,700</b>	<b>37,500</b>

# Notes to the Consolidated Interim Financial Statements

FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2018

## 10. Borrowings (continued)

During the period, 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 during the working capital cycle. Cash applied against the facility in this manner is available to be redrawn.

Subsequent to 30 September 2018, the senior revolving facility limit was reduced to \$8.5m and the acquisition facility limit was reduced to \$58m.

## 11. Commitment and Contingencies

### Guarantees

In addition to the lending facilities disclosed at Note 10, the Group has a lease guarantee facility of \$3,000,000 at 30 September 2018 (31 March 2018: \$3,000,000; 30 September 2017: \$3,000,000). At the reporting date, utilisation of the facility was \$2,255,000 (31 March 2018: \$2,386,000; 30 September 2017 \$2,543,000).

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

	UNAUDITED 6 MONTHS 30 SEPTEMBER 2018	UNAUDITED 6 MONTHS 30 SEPTEMBER 2017
<b>\$'000</b>		
(Loss)/Profit after tax	(27,488)	4,007
<b>Adjustments for:</b>		
Depreciation and amortisation	1,636	1,665
Impairment expense	32,069	-
Gain on sale of land and buildings	(367)	-
Loss on disposal of property, plant and equipment	53	-
Finance expense	1,087	752
Deferred tax	(252)	(149)
<b>Changes in operating assets and liabilities:</b>		
<i>Working capital movements:</i>		
Increase/(decrease) in funding received in advance	(18,767)	(19,360)
(Increase)/decrease in other current assets/ intercompany receivable	(1,796)	706
Increase/(decrease) in trade and other payables	(2,731)	(5,691)
(Increase)/decrease in current income tax receivables	(177)	(979)
Increase/(decrease) in PORSE GST settlement payable	(818)	3,000
Increase/(decrease) in employee entitlements	273	624
<i>Other items:</i>		
Business combination completion payment classified as investing	-	254
<b>Net cash flows from operating activities</b>	<b>(17,278)</b>	<b>(15,171)</b>

As per Note 8, Ministry of Education ("MOE") funding is received by Evolve every four months. In the six months to 30 September 2018 MOE funding was received on 1 July 2018 only.

# Notes to the Consolidated Interim Financial Statements

FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2018

## 13. Related Parties

### Parent entity

Evolve Education Group Limited is the parent entity.

### Identity of Related Parties

Related parties of the Group are:

- The Board of Directors comprising Norah Barlow, Alistair Ryan, Gráinne Troute, Anthony Quirk and Lynda Reid.
- Mark Finlay was appointed Chief Executive Officer on 1 November 2017 and had been acting in this capacity since 25 August 2017. Mark Finlay resigned as Chief Executive Officer on 2 July 2018.
- LEP Limited, LEDC Limited, LEP Construction Limited, LEP1 Limited, LEP2 Limited, LEDC1 Limited, Little Wonders Childcare (Aoraki) Limited, Little Wonders Childcare (Timaru) Limited, Little Wonders Childcare (Cromwell) Limited, Little Wonders Childcare (St Kilda) Limited, Little Wonders Childcare (Roslyn) Limited, Little Wonders Childcare (Oamaru) Limited, and Wildfire Consultants Limited, companies that are all associated with Mark Finlay.

### Related party transactions arising during the period:

In addition to salaries paid to certain key personnel of the Group the following related party transactions occurred between 1 April 2018 and 30 September 2018:

- Directors' fees paid of \$237,496 (30 September 2017: \$248,528).
- Shares issued pursuant to the Company's dividend reinvestment plan to Alistair Ryan and Norah Barlow who were both issued 3,022 shares each valued at \$1,682 (September 2017: 2,045 shares each valued at \$1,995).
- Dividends of \$426,948 (September 2017: \$533,685) were paid to Mark Finlay.
- During the period, Mark Finlay reduced his shareholdings from 21,347,382 shares to 976,235 shares.
- Companies associated with Mark Finlay are the landlord of the Group's head office and fourteen of the Group's ECE centres. Rent of \$1,400,000 (30 September 2017: \$903,000 relating to 12 ECE centres and head office) and \$37,000 in building related expenses for those properties has been paid by the Group to the companies associated with Mark Finlay during the period.
- As at 31 March 2018, the Group had committed to the lease of two new development centres where LEP2 Limited, a company associated with Mark Finlay, will be the landlord. As at 30 September 2018, the Group had paid \$64,000 of lease deposit for those development centres.
- In the current reporting period, the Group has engaged LEP Construction Limited, a company where Mark Finlay has a minority shareholding, to perform building renovations, repairs and maintenance on ECE centres, totalling \$732K.
- Management fee income from centres related to Mark Finlay of \$7,500 (30 September 2017: \$17,500).

# Notes to the Consolidated Interim Financial Statements

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FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2018

## 14. Events after the Reporting Period

A sale agreement was entered into for the Au Pair Link Limited business, which became unconditional on 31 October 2018 (refer note 3). This is expected to settle on 31 January 2019.

On 14 November 2018, an unconditional sale agreement was entered into for PORSE in-home childcare and training business (refer note 3). This is expected to settle on 30 November 2018.

A revision to the Group's debt funding facilities with ASB Bank Limited (ASB or the bank) was entered into following the period ended 30 September 2018 (refer note 1c and note 10).

As of 28 November 2018 the following directors have resigned - Anthony Quirk and Lynda Reid, with the following being appointed Chris Scott and Chris Sacre.



## *Independent review report*

to the shareholders of Evolve Education Group Limited

### *Report on the interim financial statements*

We have reviewed the accompanying interim financial statements of Evolve Education Group Limited (the Company), including its subsidiaries (the Group) on pages 9 to 27, which comprise the consolidated statement of financial position as at 30 September 2018, and the consolidated statement of comprehensive income, the consolidated statement of movements in equity and the consolidated statement of cash flows for the period ended on that date, and a summary of significant accounting policies and selected explanatory notes.

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### *Directors' responsibility for the interim financial statements*

The Directors are responsible on behalf of the Company for the preparation and presentation of these interim financial statements in accordance with International Accounting Standard 34 *Interim Financial Reporting* (IAS 34) and New Zealand Equivalent to International Accounting Standard 34 *Interim Financial Reporting* (NZ IAS 34) and for such internal control as the Directors determine is necessary to enable the preparation of interim financial statements that are free from material misstatement, whether due to fraud or error.

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### *Our responsibility*

Our responsibility is to express a conclusion on the accompanying interim financial statements based on our review. We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410). NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the interim financial statements, taken as a whole, are not prepared in all material respects, in accordance with IAS 34 and NZ IAS 34. As the auditors of the Group, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of interim financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. Accordingly, we do not express an audit opinion on these interim financial statements.

We are independent of the Group. Our firm carries out other services for the Group in the areas of audit related assurance and non-assurance services and tax compliance and advisory services. The provision of these other services has not impaired our independence.

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### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that these interim financial statements of the Group are not prepared, in all material respects, in accordance with IAS 34 and NZ IAS 34.



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### *Emphasis of matter*

We draw attention to the disclosures made in Note 1 to the interim financial statements concerning the Group's ability to continue as a going concern. Subsequent to the reporting period, the Group revised its debt funding facilities with ASB Bank Limited, including the financial covenants that the Group is required to meet. Meeting these financial covenants are dependent on the ability of the Group to achieve its cash flow forecast and/or secure alternative sources of funding. Uncertainties exist in relation to the Group's ability to meet these cash flow forecasts and/or secure alternative funding. These conditions along with other matters as described in Note 1 indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

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### *Who we report to*

This report is made solely to the Company's shareholders, as a body. Our review work has been undertaken so that we might state to the Group's shareholders those matters which we are required to state to them in our review 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 review procedures, for this report, or for the conclusion we have formed.

For and on behalf of:

A handwritten signature in black ink that reads 'Tricentiahuacapers'.

Chartered Accountants  
28 November 2018

Auckland



# Corporate Directory

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## Directors

Alistair Ryan  
Norah Barlow  
Chris Sarce (appointed 28 November 2018)  
Chris Scott (appointed 28 November 2018)  
Gráinne Troute

## Senior Management Team

**Rosanne Graham** - Chief Executive Officer  
**Stephen Davies** - Chief Financial Officer  
**Kirsten Long** - GM Centre Operations  
**Bev Davies** - GM People & Talent  
**Ru Wilkie** - GM Marketing  
**Paul Matthews** - Chief Information Officer

## Solicitors

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## Auditor

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## New Zealand Share Registrar

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## Australian Share Registrar

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680 George Street  
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[evolveeducation.co.nz](http://evolveeducation.co.nz)