evolve education group

ANNUAL REPORT

31 DECEMBER 2020

This Annual Report of Evolve Education Group Limited is dated 31 March 2021 and is signed by the Board of Directors by:

Hamish Stevens
Chair of the Board

Chris Scott
Managing Director

Contents

About Evolve Education Group

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

Number of early childhood centres	**10**
Number of licensed child care places	**911** Long Day Care **67** Outside School Hours
Number of staff	**276**
Average centre occupancy	**75%**
Average remaining centre lease term	**28 years**

Evolve is one of New Zealand's leading providers of early childhood education. The organisation operates centre-based early childhood education facilities throughout New Zealand under brands that include Lollipops, Active Explorers, Learning Adventures, Little Earth Montessori, Little Lights, Little Wonders and Pascals. In 2019, Evolve launched its expansion into Australia with the acquisition of 10 centres.

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

Number of early childhood centres	**116**
Number of licensed child care places	**8523**
Number of staff	**1947**
Average centre occupancy	**69%**
Average remaining centre lease term	**14 years**

The communities we serve – number of centres by region

Chair's Report

Hamish Stevens
Chair

Welcome to Evolve's seventh annual report covering the 9-month period ended 31 December 2020. This year has continued to be a disrupted one due to the challenges associated with Covid-19. Despite these challenges, we have been able to successfully build on the foundations laid in the previous year and with the support from both the New Zealand and Australian governments, there has been a substantial improvement in our underlying and financial performance this year.

Evolve went through a period of change last year when the Board was refreshed, Support Office streamlined, and various strategies implemented to improve operational efficiencies. Although Covid-19 has delayed the apparent result of these changes, we have been able to see green shoots of these actions in our results to date.

Covid-19 restrictions forced the closure of New Zealand centres under alert level 4 and operations limited under alert level 3. We made the decision to not charge parental childcare fees during the initial lockdowns and were able to rely on the support from the Ministry of Education and Department of Education in the form of continued funding. Child attendance dropped to an all-time low during the period however we have seen a steady increase since the lifting of restrictions. All staff were retained and paid in full with the help of wage subsidies.

In December 2020 Evolve successfully issued A$35 million senior secured medium-term notes in a wholesale offering. This issue has significantly strengthened the Company's balance sheet, with proceeds being used to retire secured bank debt and for Australian centre acquisitions.

The Board wishes to acknowledge the considerable contributions made by our staff over the period. The commitment of our employees across 126 centres and support offices in New Zealand and Australia has been a key driver of our success. Not only have we managed our way through the pandemic, but our team of 2,200 have made considerable progress on the initiatives identified during our strategy refresh last period. I would also like to thank our families that have continued supporting us through this challenging period and would like to reiterate the commitment of the Board during this time. Along with senior management, the directors have made several centre visits in an effort to enhance our engagement with as many employees and families as possible and will continue to look for opportunities to do so this year. While 2020 was a challenging year and there is still an ongoing level of uncertainty, the last 9 months have demonstrated that we have the resilience, foundations, and resources in place to respond to these challenges. Going forward, we will be continuing our focus on driving operational efficiencies in New Zealand and recommencing our growth strategy in Australia.

We would like to thank our shareholders for their continued and unwavering support over the years. Reflecting our strengthened financial profile and positive forecasts, the Board currently intends to resume dividend payments from the final quarter of 2021.

We look forward to meeting you at the annual meeting on 29 June 2021.

Managing Director's Report

Chris Scott
Managing Director

Financial Year (9 months) Ended
31 December 2020

Improved financial performance during a period of disruption and uncertainty

The 9 months to 31 December 2020 was punctuated by lockdowns, restrictions and disruptions caused by the Covid-19 pandemic. Despite these disruptions, the performance of Australian centres acquired in calendar year 2019, operating improvements and efficiencies achieved in New Zealand as well as the support of the Governments of both countries for the early childhood education sector enabled Evolve to turn in an improved financial performance this financial year.

For the nine months to 31 December 2020, Evolve recorded a net profit (after tax) of $7.6m. This was a significant turnaround from the net loss of $13.3m in the financial year ended 31 March 2020 and the net loss of $101.6m in the financial year ended 31 March 2019.

Underlying EBITDA, which is a key non-GAAP measure used by the Board and Management of Evolve to measure operating performance, was $15.7m for the nine months to 31 December 2020, an improvement from the $8.2m in the twelve months to 31 March 2020.

A back to the basics approach with emphasis on Quality

Evolve has adopted a back to the basics approach at our centres with an emphasis on providing high quality early childhood education (ECE) and care for children throughout New Zealand and in Australia. The head office has been streamlined and aptly renamed as the Support Office to underline its role in supporting our centres in their mission to be the ECE provider of choice for families in the areas we operate in. Area Managers and Centre Managers have been empowered to deliver quality education and care. There has been greater engagement with families, communities and other stakeholders.

This approach has served everyone well during the year. With the exception of the times when ECE centres were required by the authorities to close during the alert level 4 lockdown in New Zealand, our centres remained open for families who needed or wanted their children to attend. When centres were closed in New Zealand, our teachers continued to engage with children and families through online platforms and phone calls. We upgraded some of our centres and will continue to upgrade more to further enhance our "software and hardware" offerings to our families.

Australian expansion strategy

Evolve has recently announced the acquisition of ten centres in Australia conditional upon approvals such as licensing. This will double our Australian portfolio with minimal increase in Support Office costs. These acquisitions will be earning accretive from settlement.

Retirement of CEO (NZ) and appointment of COO (NZ)

Evolve announced the retirement of Tim Wong as CEO NZ on 29 March 2021. For much of Tim's time in New Zealand, Covid-19 has placed severe restrictions on cross Tasman travel and Tim has left Evolve to re-join his family in Australia. The Board wishes to thank Tim for his tireless work since his appointment in October 2019.
Evolve is pleased to welcome Craig Presland as Chief Operating Officer (NZ). Craig has a very strong background as CEO in previous New Zealand childcare businesses, including Forward Steps and ABC Learning NZ.

Well placed going forward

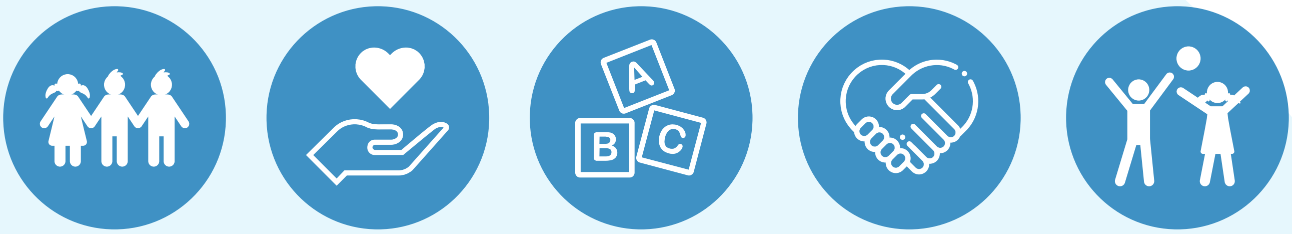
There remains considerable uncertainty due to Covid-19, however the roll-out of vaccines globally give cause for optimism. With the strong cash position and the experience of navigating what was a very challenging 2020 while implementing all the steps to improve New Zealand operations, Evolve is well placed going forward to build on its position in New Zealand and to continue to expand in Australia.

This is our...

Vision

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

Values



Belonging

Nurturing

Learning

Respectful

Playful

Mission

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

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

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

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

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

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

Our Families

Watching Arthur's confidence grow has been amazing at Active Explorers and our experience has been extremely positive!

The staff are approachable, nothing is a problem, and they are always very willing to help. Their wonderful group of teachers supported us in every way as we made a transition to pre-school and actively seemed to develop a connection with Arthur enabling him to feel comfortable, safe and secure. The activities and opportunities available are so fabulous that when we arrive to collect Arthur, he is so involved that he says he is not ready to leave....

Ailsa and Mark | **Active Explorers Tai Tapu**

Kia Ora e Te whānau

I have been so lucky to have my two children attend Lollipops daycare for the last 5-6 years. As a young mum returning to work with a toddler and baby it's always been a scary thing to leave your child in care of others but Lollipops Bell Block definitely took all those worries away. Such a caring, warm and welcoming environment for my kids to learn, love and grow. With staff so keen to help in anyway possible whether it be extending or reducing hours, good affordable prices to suit you and your whānau, or even a greeting cuddle or two to make your children feel safe and comfortable, Lollipops provides this all. With mixed culture and age groups, it makes a great place for children to interact with one another and easier for transitions of children from room to room. Knowing our children are safe and happy is key, and we are very grateful to the staff at Lollipops Bell Block that make this happen.

Santana | **Lollipops Bell Block**

From our very first visit to Active Explorers Tai Tapu we felt welcomed, comfortable and excited for our child – so much so he started the very next day! Adults and kids alike were smiling, laughing and having fun, which now almost 6 months later is definitely the norm.

The centre itself is colourful, clean and laid out so well with engaging, sensory activities in each zone that are switched up frequently, making each mornings arrival that little bit exciting. The garden is AMAZING, I kind of wish we adults got to hang out a bit longer for some tunnel and sliding adventures.

Most importantly, the staff are just wonderful. They are inclusive, caring, organised, creative super humans who we believe helped our son not only settle well but adapt and thrive in a year that saw us move from one side of the planet to the other in the midst of a global pandemic. We are just so happy to be part of this awesome pre-school.

Shanna | **Active Explorers Tai Tapu**

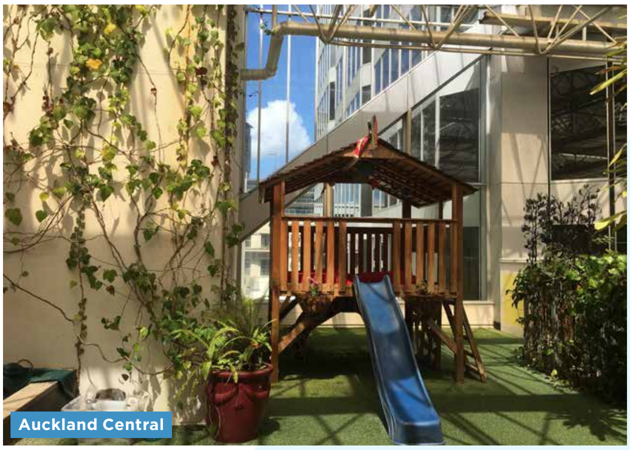
Our experience with Little Wonders has been that of delight, professionalism and total care. The facility is clean, organised and with fantastic options for the kids to play both inside and out. The teaching staff don't just entertain the kids, but educate, socialise and role play with them – I cannot thank them enough for how they have supported our children's development. The management staff have excellent communication and are always willing to be accommodating and flexible with changes in circumstances. The food prepared on site is excellent and I know they are well fed with healthy, varied meals throughout the day. Both of our kids have been at Little Wonders since they were 10 months old, they've made some long-term friends (as have we!) and I'm confident they will be well prepared for school when their time comes.

Stacey, Troy, Kaia & Bodhi |
Little Wonders Glendowie

Our Centres

Lollipops


Auckland Central


Auckland Central


Auckland Central

Learning Adventures

Warkworth

Warkworth

Active Explorers


Tai Tapu

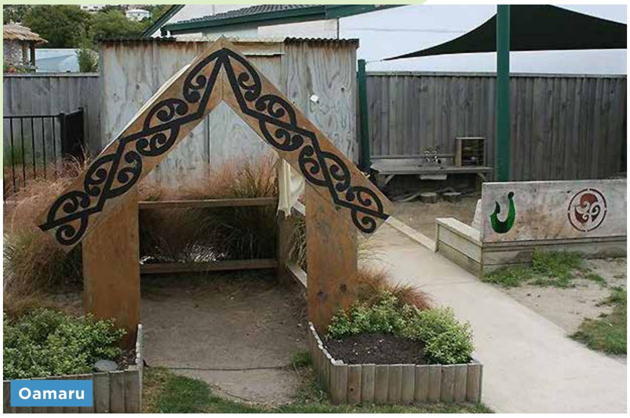

Tai Tapu


Tai Tapu

Little Wonders


Oanaka


Oanaka


Oamaru

Cubby Care


Mooroobool, AU


Mooroobool, AU

Board Profile

Hamish Stevens

Independent Director and Chair of the Board

Hamish has held independent directorships on several boards since 2010 and is currently Chair of Pharmaco NZ and East Health Services, a director of Marsden Maritime Holdings, Northport, Pacific Radiology Group, Radius Residential Care and Counties Power. Prior to his governance career Hamish held senior finance positions with Heinz Watties, Tip Top Ice Cream and DB Breweries. Hamish is a qualified Chartered Accountant and is a Chartered Fellow of the Institute of Directors.

Chris Scott

Managing Director and Executive Director (Non-Independent)

Chris Scott has over 38 years experience in senior management positions. He has spent over 35 years in business in Singapore where he founded a number of successful businesses. Chris founded S8 Limited which listed on the ASX in 2001. S8 was an integrated travel Company that acquired 36 businesses over a 5 year period and was capitalised at $700 million. S8 Limited was the subject of a successful takeover bid in late 2006.

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

Chris Sacre

Non-Independent Director

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

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

Kim Campbell

Independent Director, Chair of Remuneration and People Committee

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

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

Adrian Fonseca

Independent Director, Chair of Audit and Risk Committee

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

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

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

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

Senior Management

Edmund Mah
Group CFO

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

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

Matt Veal
Group Financial Controller

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

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

Bev Davies
Head of People and Talent

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

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

Jenny Aldous
Head of Project Team

Jenny joined Evolve in 2019 and Heads the Project Team with a key focus on the administration, marketing and other key projects to support systems and process improvement.

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

Henry Blundell
Head of Property

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

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

Tomas Stehlik
IT Manager

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

Evolve Education Group Limited
Consolidated Financial Statements

Evolve Education Group Limited

Consolidated Financial Statements

For the 9 months ended 31 December 2020

The Directors present the Consolidated Financial Statements of Evolve Education Group Limited, for the 9 months ended 31 December 2020.

The Consolidated Financial Statements presented are signed for and on behalf of the Board and were authorised for issue on 26 February 2021.

Hamish Stevens
Chair
26 February 2021

Adrian Fonseca
Chair of Audit and Risk Committee
26 February 2021

Consolidated Statement of Comprehensive Income

FOR THE 9 MONTHS ENDED 31 DECEMBER 2020

$'000	Note	9 MONTHS TO 31 DECEMBER 2020	12 MONTHS TO 31 MARCH 2020
Childcare fees	5	28,187	48,659
Government funding	5	74,452	91,948
Total revenue		**102,639**	**140,607**
Expenses			
Employee benefits expenses	6	(53,985)	(89,804)
Building occupancy expenses		(2,053)	(2,992)
Direct expenses of providing services		(10,487)	(14,783)
Acquisition expenses		–	(668)
Depreciation	10, 17c	(10,870)	(13,848)
Amortisation	13	(60)	(161)
Impairment reversal/(expense)	10, 14, 17a	17	(12,341)
Other expenses	6	(2,282)	(4,294)
Total expenses		**(79,720)**	**(138,891)**
Profit before net finance costs and income tax		**22,919**	**1,716**
Finance income	6	146	439
Finance costs	6, 17c	(12,703)	(19,585)
Net finance costs		**(12,557)**	**(19,146)**
Profit/(Loss) before income tax		**10,362**	**(17,430)**
Income tax (expense)/benefit	7	(2,792)	4,130
Profit/(Loss) after income tax attributable to the shareholders of the Company		**7,570**	**(13,300)**
Other comprehensive income			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		1,158	(1,174)
Total comprehensive income/(loss) attributable to the shareholders of the Company		**8,728**	**(14,474)**
All amounts are from continuing operations.			
Earnings per share		**Cents**	**Cents**
Basic and diluted earnings/(loss) per share attributable to the shareholders of the Company	22	5.4	(11.5)

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

Consolidated Statement of Changes in Equity

FOR THE 9 MONTHS ENDED 31 DECEMBER 2020

$'000	Note	ISSUED SHARE CAPITAL	FOREIGN CURRENCY TRANSLATION RESERVE	RETAINED (DEFICIT)/ EARNINGS	TOTAL
As at 1 April 2019		**159,598**	**–**	**(122,724)**	**36,874**
Loss after income tax		–	–	(13,300)	**(13,300)**
Other comprehensive income		–	(1,174)	–	**(1,174)**
Issue of ordinary shares for cash, net of transaction costs	19	78,378			**78,378**
As at 31 March 2020		**237,976**	**(1,174)**	**(136,024)**	**100,778**
As at 1 April 2020		**237,976**	**(1,174)**	**(136,024)**	**100,778**
Profit after income tax		–	–	7,570	**7,570**
Other comprehensive income		–	1,158	–	**1,158**
As at 31 December 2020		**237,976**	**(16)**	**(128,454)**	**109,506**

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

Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2020

$'000	Note	AS AT 31 DECEMBER 2020	AS AT 31 MARCH 2020
ASSETS			
Current assets			
Cash and cash equivalents	8, 24	59,139	39,048
Current tax assets		–	1,381
Trade and other receivables	9	2,507	13,761
Total current assets		**61,646**	**54,190**
Non-current assets			
Property, plant and equipment	10	7,102	6,783
Right-of-use assets	17a	170,938	178,238
Deferred tax assets	7	13,022	11,926
Intangible assets	13, 14	117,697	117,082
Term deposits		4,066	–
Total non-current assets		**312,825**	**314,029**
Total assets		**374,471**	**368,219**
LIABILITIES			
Current liabilities			
Trade and other payables	15	7,124	19,173
Funding received in advance	16	4,639	11,804
Current tax liabilities		2,014	–
Lease liabilities	17b	8,028	10,495
Employee entitlements	18	6,827	6,330
Total current liabilities		**28,632**	**47,802**
Non-current liabilities			
Borrowings	24	36,137	17,666
Lease liabilities	17b	200,196	201,973
Total non-current liabilities		**236,333**	**219,639**
Total liabilities		**264,965**	**267,441**
Net assets		**109,506**	**100,778**
EQUITY			
Issued share capital	19	237,976	237,976
Foreign currency translation reserve		(16)	(1,174)
Retained deficit		(128,454)	(136,024)
Total equity		**109,506**	**100,778**

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

Consolidated Statement of Cash Flows

FOR THE 9 MONTHS ENDED 31 DECEMBER 2020

$'000	Note	9 MONTHS TO 31 DECEMBER 2020	12 MONTHS TO 31 MARCH 2020
Cash flows from operating activities			
Receipts from childcare fees		28,187	54,998
Receipts from government funding		67,287	85,378
Government grants received (Wage subsidy & JobKeeper)		14,668	–
Payments to suppliers and employees		(84,014)	(117,125)
Income taxes paid		(491)	–
Interest received		146	439
Net cash flows from operating activities	25	**25,783**	**23,690**
Cash flows from investing activities			
Payments for purchase of businesses	12	(205)	(21,441)
Proceeds from sale of businesses		100	596
Proceeds from sale of property, plant and equipment		90	–
Payments for software, property, plant and equipment		(2,313)	(4,516)
Transfer to term deposits		(4,066)	–
Net cash flows from investing activities		**(6,394)**	**(25,361)**
Cash flows from financing activities			
Proceeds from issues of shares	19	–	83,097
Share issue costs	19	–	(4,719)
Proceeds from issue of notes	24	36,804	–
Note issue costs	24	(1,364)	–
Interest paid on borrowings		(428)	(1,842)
Repayment of bank borrowings	24	(17,359)	(38,000)
Lease interest payments	6, 24	(12,361)	(16,904)
Lease principal repayments		(5,622)	(6,187)
Net cash flows from financing activities		**(330)**	**15,445**
Net increase in cash and cash equivalents	24	**19,059**	**13,774**
Cash and cash equivalents at the beginning of the period	8, 24	39,048	25,274
Foreign currency translation adjustment		1,032	–
Cash and cash equivalents at the end of the period	8, 24	**59,139**	**39,048**

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

Notes to the Consolidated Financial Statements
FOR THE 9 MONTHS ENDED 31 DECEMBER 2020

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Notes to the Consolidated Financial Statements

FOR THE 9 MONTHS ENDED 31 DECEMBER 2020

1. Reporting Entity

Evolve Education Group Limited (the “Company”) is a company incorporated in New Zealand ("NZ"), registered under the Companies Act 1993 and listed on the New Zealand Exchange (“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 15, 16 Kingston Street, Auckland 1010, New Zealand.

The principal activities of the Company and its subsidiaries (the "Group") are to invest in the provision and management of high quality early childhood education centres (see Note 4, Segment Information). Further information on the Group’s structure is provided in Note 11.

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 comprise the Company and its subsidiaries. In accordance with the Act, separate financial statements for the Company are not required to be prepared.

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

The financial statements for the 9 months ended 31 December 2020 were approved and authorised for issue by the Board of Directors on 26 February 2021.

Going Concern

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

The Board has considered the impact of Covid-19 on the financial position of the Group. This is commented on in more detail in Note 2(a). While operations were affected during the year as a result of the Government responses in both New Zealand and Australia, the supportive actions of both Governments mitigated these negative effects. Accordingly, the short-term financial position of the Group has not been adversely impacted by Covid-19 to a material degree.

The longer-term effects of Covid-19 are not clear at the present point in time. Acknowledging this inherent uncertainty, and the likely adverse impacts on economic conditions in both New Zealand and Australia, these financial statements have been prepared based on currently available information and the Board's best estimates.

During the year, the Group raised A$35m million in senior secured fixed rate notes (see Note 23). This enabled repayment of all borrowings from ASB, as well as boosting cash resources (net available cash of $23.0 million as at 31 December 2020).

The Group was profitable and operating cash flows remained positive for the period. Forecasts also indicate that debt covenants will continue to be met for the foreseeable future and the Group will have sufficient cash to discharge its liabilities as they fall due. Having regard to the above, the Board has concluded that it is appropriate that these financial statements are prepared on a going concern basis, while acknowledging the uncertainties in forecasting in the current environment.

2. Basis of Preparation (continued)

Basis of Measurement

The Group 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.

These Group financial statements have been prepared for the 9 month period ended 31 December 2020 to reflect the Group's change in reporting date from 31 March to 31 December. The comparatives reflect the previous financial reporting year being the 12 month period to 31 March 2020.

Functional and Presentation Currency

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

Estimates and Judgements

The preparation of Group 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.

(a) Covid-19

The rapid global rise of Covid-19 has had a significant impact on global economies and financial markets; and asset prices have fluctuated and in some cases materially changed. The pandemic and the response to it by the New Zealand government resulted in closure of centres during alert level 4 which took place between 26 March 2020 and 27 April 2020. The Group's centres in New Zealand re-opened with limited capacity on 29 April 2020 under Covid-19 alert level 3 and were able to resume operating with full licenced capacity on 14 May 2020 when the country moved to Covid-19 alert level 2. Due to a further Covid-19 outbreak, Auckland moved to alert level 3 again from 12 August 2020 to 30 August 2020. No parental childcare fees were charged during alert levels 4 or 3, but resumed upon the move to level 2.

The NZ Ministry of Education maintained its funding at full levels throughout the funding period to 30 June 2020, including a 2.3% increase in subsidy rates from 1 July 2020. In addition, receipt of the Government wage subsidy enabled the Group to retain all staff on full pay.

In Australia, the Government's Early Childhood Education and Care Relief ("ECECR") package and JobKeeper payment ensured that the Group's centres continued operating throughout the period. Under the ECECR package, the Australian Government made weekly payments directly to early childhood education and care services in lieu of the Child Care Subsidy ("CCS") and Additional Childcare Subsidy ("ACCS") from 6 April 2020 to 12 July 2020. The weekly payment amount is essentially 50% of the total fees charged by a service during the fortnight commencing 17 February 2020 ("reference fortnight"). Under the ECECR package, families are not charged fees. In addition to CCS, the Government paid child care services a Transition Payment of 25% of their fee revenue (based on the reference fortnight) from 13 July to 27 September 2020. JobKeeper ceased on 20 July 2020.

2. Basis of Preparation (continued)

Estimates and Judgements (continued)

(a) Covid-19 (continued)

Further relief measures were provided in response to the second stage 4 lockdown in Victoria from 3 August 2020 to 27 September 2020:

- 25% transition payment increased to 30% for centres in Melbourne (4 centres);
- Government temporarily provided an extra 30 allowable absence days, where the CCS continued to be paid to providers even if the children did not attend;

In addition, 25% payment of fee revenue (based on the reference fortnight) as part of the recovery package for child care services in Victoria (6 centres). This began 28 September 2020 and ended on 31 January 2021.

While there is uncertainty about the longer term impact of Covid-19 on both economies, the NZ Ministry of Education and Australian Government have been very supportive of the early learning services sectors and the role of early childhood education in the community.

The key components of the financial statements specifically impacted by Covid-19 are impairment of intangible assets, right-of-use assets, and property, plant and equipment. These areas rely upon forecasts of future profitability as a basis for the carrying value of assets, and therefore potential impairment. More detail on the sensitivities of assumptions is provided in Note 14.

(b) Impairment assessments

The Group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether assets have suffered any impairment, in accordance with the accounting policy stated in Notes 3(h) and 3(m). Where impairment indicators exist for assets excluding indefinite useful life intangible assets, and annually for indefinite useful life intangible assets, the recoverable amounts of cash-generating units ("CGUs") or group of CGUs have been determined. This requires the use of key assumptions and estimates which require judgement. Further detail on the assumptions applied are included in Note 14.

(c) Identification of Cash Generating Units

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

Individual Early Childhood Education centres ("ECEs") are identified as CGUs. These CGUs have been tested for impairment where an indicator exists. Indefinite useful life intangible assets have not been allocated to individual ECEs and therefore the impairment assessment is performed for the New Zealand and Australian group of CGUs which is the same as the New Zealand and Australian operating segment. Refer to Note 14 for further information.

(d) Deferred tax assets

Deferred tax assets are recognised for deductible temporary differences. Forecasts prepared for the purpose of impairment testing (refer Notes 2(b) and 14) indicate future taxable amounts will be available to utilise these temporary differences. The deferred tax assets are therefore considered to be recoverable.

2. Basis of Preparation (continued)

New and Amended Standards Adopted by the Group

NZ IFRS 3: Business Combinations – definition of a business

The Group has adopted the amendments to NZ IFRS 3: Business Combinations prospectively from 1 April 2020.

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.

Adopting these amendments did not result in changes in disclosure for the Group's financial statements as no new centres were acquired in the period.

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

3. Significant Accounting Policies

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

(a) Basis of Consolidation

Business combinations

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

The Group measures goodwill at the acquisition date as:

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

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

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

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

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

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

3. Significant Accounting Policies (continued)

(a) Basis of Consolidation (continued)

Subsidiaries

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

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.

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

(c) Revenue

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

Childcare fees

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

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

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

Australian Government funding

Australian Government funding relates to fees paid under the Child Care Subsidy and are recognised over time when there is reasonable assurance that the funding will be received. Australian Government funding is received in arrears.

3. Significant Accounting Policies (continued)

(d) Taxation

Tax expense

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

Current tax

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

Deferred tax

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

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

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

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

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

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

3. Significant Accounting Policies (continued)

(e) Foreign Currency Translation

Transactions and balances

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

Foreign exchange gains and losses are presented in the statement of comprehensive income, on a net basis, within other expenses.

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

Group companies

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

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

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

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

(f) Dividends

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

3. Significant Accounting Policies (continued)

(g) Property, Plant and Equipment

Recognition and measurement

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

Depreciation

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

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

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

(h) Intangible Assets

Goodwill

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

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

Other intangible assets

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

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

Subsequent expenditure

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

3. Significant Accounting Policies (continued)

(i) Leases

Right-of-use assets

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

Impairment of right-of-use assets

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

Lease liabilities

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

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date as the interest rate implicit in the lease is not readily determinable. The weighted average incremental borrowing rate applied to the lease liabilities is 8.14%. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

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

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

Determining the lease term of contracts with renewal options

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

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

3. Significant Accounting Policies (continued)

(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, term deposits 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.

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, lease liabilities and trade and other payables.

Trade and other payables

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

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

(k) Share Capital

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

(l) Reserves

Foreign Currency Translation Reserves

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

3. Significant Accounting Policies (continued)

(m) Impairment

Non-derivative financial assets

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

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and indefinite-life intangible assets are further tested annually for impairment. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount (refer Note 14).

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.

(n) Employee Benefits

Short-term employee benefits

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

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

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

Defined contribution plan

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

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

3. Significant Accounting Policies (continued)

(o) Expenses

Direct costs of providing services

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

Finance costs

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

Government grants and subsidies

Government grants and subsidies which compensate the Group for expenses incurred are recognised in the Statement of Comprehensive Income on a straight-line basis over the period in which the related costs are recognised. Grants and subsidies are reported on a net basis in the same line as the related expense.

(p) Consolidated Statement of Cash Flows

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

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

(q) Segment Reporting

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

(r) Earnings Per Share

Basic and diluted earnings per share

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

3. Significant Accounting Policies (continued)

(s) Share Based Payments

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

(t) Goods and Services Tax

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

4. Segment Information

During the previous year ended 31 March 2020, the Group acquired ten childcare centres across Queensland and Victoria, Australia (refer Note 12). As a result of the acquisition of these centres, the Group reports operating segments by geographical location, namely New Zealand and Australia.

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

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

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

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

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

Notes to the Consolidated Financial Statements

FOR THE 9 MONTHS ENDED 31 DECEMBER 2020

4. Segment Information (continued)

The segment information for the periods ended 31 December 2020 and 31 March 2020 is presented in the following tables respectively:

31 December 2020	Note	New Zealand ECE centres $'000	Australia ECE centres $'000	Support and Corporate functions $'000	Consolidated $'000
Childcare fees		24,550	3,637	–	28,187
Government funding		62,137	12,315	–	74,452
Total revenue	5	**86,687**	**15,952**	**–**	**102,639**
Operating expenses		(71,696)	(10,371)	(4,881)	(86,948)
Underlying EBITDA		**14,991**	**5,581**	**(4,881)**	**15,691**
NZ IFRS 16 rental expense adjustment		15,674	2,092	217	17,983
NZ IFRS 16 remeasurement gains	6	355	–	46	401
Non-underlying or non-operational items:					
Loss on sale or closure of businesses		(211)	–	–	(211)
Acquisition costs		–	(32)	–	(32)
Impairment reversal	10, 14, 17	–	–	17	17
EBITDA		**30,809**	**7,641**	**(4,601)**	**33,849**
Depreciation	10, 17	(9,483)	(255)	(1,132)	(10,870)
Amortisation	13	–	–	(60)	(60)
Earnings before interest and income tax		**21,326**	**7,386**	**(5,793)**	**22,919**
Net finance costs	6	(9,915)	(2,446)	(196)	(12,557)
Profit/(Loss) before income tax from continuing operations		**11,411**	**4,940**	**(5,989)**	**10,362**
Total assets		**240,725**	**59,131**	**74,615**	**374,471**
Total liabilities		**(135,307)**	**(80,368)**	**(49,290)**	**(264,965)**

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

Notes to the Consolidated Financial Statements

FOR THE 9 MONTHS ENDED 31 DECEMBER 2020

4. Segment Information (continued)

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

4. Segment Information (continued)

Reconciliation of total expenses and operating expenses

$'000	9 MONTHS TO 31 DECEMBER 2020	12 MONTHS TO 31 MARCH 2020
Total expenses per Statement of Comprehensive Income	79,720	138,891
Less:		
Depreciation	(10,870)	(13,848)
Amortisation	(60)	(161)
NZ IFRS 16 rental expense adjustment	17,983	22,275
NZ IFRS 16 remeasurement gains	401	916
Non-underlying or non-operational items:		
Restructuring costs	–	(1,011)
Loss on sale or closure of businesses	(211)	(1,477)
Other items	–	(203)
Acquisition costs	(32)	(668)
Impairment expenses	17	(12,341)
Operating expenses	**86,948**	**132,373**

5. Revenue

$'000	9 MONTHS TO 31 DECEMBER 2020	12 MONTHS TO 31 MARCH 2020
Childcare fees	28,187	48,659
NZ Ministry of Education funding	62,137	86,199
Australian Child Care Subsidy	12,315	5,749
Total revenue	**102,639**	**140,607**

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

Other expenses

$'000	Note	9 MONTHS TO 31 DECEMBER 2020	12 MONTHS TO 31 MARCH 2020
Included in other expenses are:			
Audit fees	28	170	410
Directors' fees	27	305	415
NZ IFRS 16 remeasurement adjustments		(401)	(916)
Other items		2,208	4,385
Total other expenses		**2,282**	**4,294**

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

Employee benefits expense

$'000	9 MONTHS TO 31 DECEMBER 2020	12 MONTHS TO 31 MARCH 2020
Wages and salaries	64,017	82,899
Kiwisaver contributions	1,393	1,959
Superannuation fund contributions	773	510
Payments to agency contractors	652	4,795
Share-based payment	–	18
New Zealand government wage subsidy	(10,959)	(801)
Australian JobKeeper payment	(2,908)	–
Other employee benefits expense	1,017	424
Total employee benefits expense	**53,985**	**89,804**

As the NZ ECE centres had to close during level 4 of the Covid-19 response, and had much reduced attendance during level 3, no revenue from parental fees was earned during this period. The Group therefore met all the qualification criteria for the Government wage subsidy scheme. A total subsidy of $11.8 million was received, covering the period from 26 March to 17 June.

The Group also received $2.9 million (A$2.7 million) from the Australian government under the JobKeeper scheme covering the period from 6 April to 20 July.

All wage subsidies have been passed on to employees and has been recognised as a deduction from employee benefits expense on a straight-line basis over the period the subsidy covers. The Group continued to pay all employees in full during those periods. The Group did not meet the criteria for the subsidy extensions.

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

Net finance costs

$'000	Note	9 MONTHS TO 31 DECEMBER 2020	12 MONTHS TO 31 MARCH 2020
Interest received			
Bank deposits		146	439
Total finance income		**146**	**439**
Interest expense			
Interest on borrowings		(342)	(2,681)
Interest on lease liabilities	17c	(12,361)	(16,904)
Total finance costs		**(12,703)**	**(19,585)**
Net finance costs		**(12,557)**	**(19,146)**

7. Taxation

Income tax expense

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

$'000	9 MONTHS TO 31 DECEMBER 2020	12 MONTHS TO 31 MARCH 2020
Current income tax:		
Current income tax expense	3,919	541
Prior year adjustments	(60)	(660)
	3,859	(119)
Deferred tax:		
Relating to origination and reversal of temporary differences	(1,112)	(4,074)
Prior year adjustments	45	63
	(1,067)	(4,011)
Total income tax expense/(benefit) on continuing operations	**2,792**	**(4,130)**

Notes to the Consolidated Financial Statements

FOR THE 9 MONTHS ENDED 31 DECEMBER 2020

7. Taxation (continued)

Reconciliation of tax expense

Tax expense is reconciled to accounting profit as follows:

$'000	9 MONTHS TO 31 DECEMBER 2020	12 MONTHS TO 31 MARCH 2020
Profit/(Loss) before income tax from continuing operations	**10,362**	**(17,430)**
At the statutory income tax rate of 28%	2,901	(4,880)
Non-assessable income and non-deductible expenses for tax purposes:		
Difference in overseas tax rate	48	(116)
Impairment of goodwill	–	1,197
(Non-assessable income)/non-deductible expenses	(142)	266
Prior year adjustments	(15)	(597)
Total income tax expense/(benefit) on continuing operations	**2,792**	**(4,130)**

Deferred tax

Deferred tax relates to the following:

	31 DECEMBER 2020		31 MARCH 2020	
$'000	Consolidated Statement of Comprehensive Income	Consolidated Statement of Financial Position	Consolidated Statement of Comprehensive Income	Consolidated Statement of Financial Position
Property, plant and equipment	75	1,633	117	1,558
Intangible assets	8	(885)	(4)	(893)
Right-of-use assets	2,454	(48,634)	(3,567)	(50,681)
Lease liabilities	(1,608)	59,159	7,485	60,301
Employee entitlement provisions	209	1,273	218	1,053
Other temporary differences	(71)	476	(238)	588
Deferred tax benefit	**1,067**		**4,011**	
Net deferred tax assets		**13,022**		**11,926**

Deferred tax assets are expected to be utilised by the reversal of taxable temporary differences as well as the generation of taxable profits by the Group.

Foreign exchange movements on deferred tax of $28,692 has been recognised during the period.

Imputation credits

Imputation credits available for use in subsequent reporting periods are $11.8 million (March 2020: $11.3 million), including imputation credits that will arise from the payment of the amount of the provision for income tax. No dividends are provided for or receivable that would affect the available imputation credits at 31 December 2020. There are no Australian franking credits available.

Notes to the Consolidated Financial Statements

FOR THE 9 MONTHS ENDED 31 DECEMBER 2020

8. Cash and Cash Equivalents

$'000	AS AT 31 DECEMBER 2020	AS AT 31 MARCH 2020
Cash at banks and on hand	32,596	15,064
Short-term deposits	26,543	23,984
Total cash and cash equivalents	**59,139**	**39,048**

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 notes issue during the period, which have impacted the amount of cash and cash equivalents held.

9. Trade and Other Receivables

$'000	AS AT 31 DECEMBER 2020	AS AT 31 MARCH 2020
Trade receivables	1,076	1,138
Government wage subsidy receivable	–	12,009
Prepayments and sundry receivables	1,431	614
Total trade and other receivables	**2,507**	**13,761**

10. Property, Plant and Equipment

31 December 2020 $'000	Note	Plant and Equipment	Office Furniture and Fittings	Leasehold Improvements	Motor Vehicles	Work in Progress	Total
Cost							
Opening balance		1,159	7,683	6,497	128	1,170	16,637
Additions/Transfers		320	526	2,289	3	1,556	4,694
Disposals/Transfers		(48)	(284)	(75)	(16)	(2,435)	(2,858)
Closing balance		**1,431**	**7,925**	**8,711**	**115**	**291**	**18,473**
Depreciation and impairment							
Opening balance		(654)	(5,700)	(3,361)	(69)	(70)	(9,854)
Depreciation for the period		(182)	(570)	(1,241)	(7)	–	(2,000)
Impairment reversal	14	8	47	31	–	70	156
Disposals		34	245	25	5	–	309
Closing balance		**(794)**	**(5,978)**	**(4,546)**	**(71)**	**–**	**(11,389)**
Foreign exchange movements		–	7	11	–	–	18
Net book value		**637**	**1,954**	**4,176**	**44**	**291**	**7,102**

10 . Property, Plant and Equipment (continued)

31 March 2020 $'000	Note	Plant and Equipment	Office Furniture and Fittings	Leasehold Improvements	Motor Vehicles	Work in Progress	Total
Cost							
Opening balance		831	6,968	4,220	128	984	13,131
Additions/Transfers		361	772	2,406	96	827	4,462
Acquisition of businesses		–	205	–	–	–	205
Reclassified as no longer held for sale		42	79	238	–	–	359
Disposals/Transfers		(75)	(341)	(367)	(96)	(641)	(1,520)
Closing balance		**1,159**	**7,683**	**6,497**	**128**	**1,170**	**16,637**
Depreciation and impairment							
Opening balance		(450)	(5,081)	(1,697)	(79)	–	(7,307)
Depreciation for the year		(203)	(786)	(1,299)	(17)	–	(2,305)
Reclassified as no longer held for sale		(19)	(35)	(108)	–	–	(162)
Impairment expense	14	(27)	(79)	(333)	–	(70)	(509)
Disposals		45	281	76	27	–	429
Closing balance		**(654)**	**(5,700)**	**(3,361)**	**(69)**	**(70)**	**(9,854)**
Foreign exchange movements		–	–	–	–	–	–
Net book value		**505**	**1,983**	**3,136**	**59**	**1,100**	**6,783**

Disposals arise either when individual assets are no longer required or become obsolete, or when a centre has been closed or sold.

11. Group Information

Information about subsidiaries

The consolidated financial statements of the Group include:

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

12. Business Combinations

There have been no business combinations in the 9 months ending 31 December 2020.

Contingent Consideration

In the previous year ended 31 March 2020, the Group acquired ten ECE centres from four separate vendors across Queensland and Victoria, Australia. As part of the purchase agreements entered into with previous owners, a portion of the consideration was determined to be contingent, based on the performance of the acquired businesses.

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

	31 DECEMBER 2020		31 MARCH 2020	
	Total potential contingent consideration payable	Carrying value	Total potential contingent consideration payable	Carrying value
$'000				
Acquisition of centres				
Condition – Performance hurdles based on EBIT	–	–	1,950	205

The potential contingent consideration payable in cash is recognised in the carrying value if the conditions for the additional amount were met as at period end. As at 31 December 2020, the assessment period for the remaining potential contingent consideration ended and no performance hurdles were met.

12. Business Combinations (continued)

Movement in Contingent Consideration

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

	9 MONTHS TO 31 DECEMBER 2020 $'000
Financial liability for contingent consideration as at 1 April 2020	205
Contingent consideration paid	(205)
Total contingent consideration payable as at 31 December 2020	**–**

13. Intangible Assets

31 December 2020 $'000	Customer Lists	Management Contracts	Software	Brands	Goodwill	Total
Cost						
Opening balance	141	372	1,392	3,104	225,952	230,961
Additions	–	–	31	–	–	31
Disposals	–	–	(656)	–	–	(656)
Closing balance	**141**	**372**	**767**	**3,104**	**225,952**	**230,336**
Amortisation and impairment						
Opening balance	(141)	(372)	(1,279)	–	(112,087)	(113,879)
Amortisation expense	–	–	(60)	–	–	(60)
Disposals	–	–	656	–	–	656
Closing balance	**(141)**	**(372)**	**(683)**	**–**	**(112,087)**	**(113,283)**
Foreign exchange movement	–	–	–	–	644	644
Net book value	**–**	**–**	**84**	**3,104**	**114,509**	**117,697**

31 March 2020 $'000	Note	Customer Lists	Management Contracts	Software	Brands	Goodwill	Total
Cost							
Opening balance		141	372	1,338	3,104	203,381	208,336
Additions		–	–	54	–	–	54
Acquisition of businesses		–	–	–	–	22,571	22,571
Closing balance		**141**	**372**	**1,392**	**3,104**	**225,952**	**230,961**
Amortisation and impairment							
Opening balance		(141)	(372)	(1,118)	–	(108,095)	(109,726)
Amortisation expense		–	–	(161)	–	–	(161)
Impairment expense	14	–	–	–	–	(3,992)	(3,992)
Closing balance		**(141)**	**(372)**	**(1,279)**	**–**	**(112,087)**	**(113,879)**
Foreign exchange movement		–	–	–	–	–	–
Net book value		**–**	**–**	**113**	**3,104**	**113,865**	**117,082**

14. Impairment

Impairment assessment of CGUs excluding indefinite useful life intangible assets

The impairment assessment of CGUs concluded that indicators for both impairment and reversals of impairment losses recognised in prior periods existed as at 31 December 2020. The various CGUs were tested by calculating the recoverable amount. CGUs which were loss-making were impaired. Impairment reversals were recognised for CGUs that were previously impaired and now had an estimated recoverable amount exceeding their carrying value. The discount rate used to perform the assessment was a pre-tax rate of 13.9%.

$'000	9 MONTHS TO 31 DECEMBER 2020	12 MONTHS TO 31 MARCH 2020
Impairment expense – right-of-use assets	139	7,840
Impairment reversal – property, plant and equipment	(156)	509
	(17)	**8,349**

Impairment assessment of indefinite useful life intangible assets

The New Zealand and Australia indefinite useful life intangible assets balance of $98.4 million and $19.2 million has been tested for impairment as at 31 December 2020.

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

No impairment has been recognised in the period ended 31 December 2020.

$'000	AS AT 31 DECEMBER 2020	AS AT 31 MARCH 2020
Goodwill	114,509	113,865
Brands with indefinite useful lives	3,104	3,104
	117,613	**116,969**

Foreign exchange movement of $0.6 million was recognised during the period.

14 . Impairment (continued)

NZ ECE Centres – Goodwill

Key assumptions used in value-in-use calculations

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

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

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

	31 DECEMBER 2020 New Zealand	31 MARCH 2020 New Zealand (Restated)
Revenue growth attributable to parental fee pricing (% per annum on average)	2.4%	0.4%
Revenue growth attributable to MOE funding rates (% per annum on average)	1.1%	1.4%
Revenue growth attributable to increase in occupancy (% per annum on average)	0.8%	0.1%
Total revenue growth (% per annum on average)	4.3%	1.9%
Wages growth (% per annum on average)	4.7%	1.4%
Pre-tax discount rates (%)	11.1%	11.4%
Long-term growth rate (%)	1.5%	1.5%

Revenue – Price: Revenue is received from the NZ Ministry of Education and parents/caregivers. It is assumed the Ministry of Education NZ continues to support early childhood education to the value of approximately 66% (March 2020: 66%) of ECE revenue earned. If the NZ Government were to reduce its funding of the sector, this would lead to an increased requirement for parents and caregivers to make up the difference. If NZ Government funding were to decrease, the Group would need to initiate appropriate responses to maintain profitability. The assumptions reflect the impact of future increases in funding that have been announced by the NZ Government (1.6% from 1 January 2021), with subsequent annual increases in line with past experience (1.6% per year). Parental fees are assumed to increase by 5% from March 2021 then by 1.6% per year, in line with wage increases. As discussed in note 2a, no parental fees were charged during alert levels 4 or 3 in 2020. This has increased the revenue growth attributable to parental fee pricing over the forecast period.

Revenue – Occupancy: Occupancy refers to the number of full-time equivalent children attending centres. A number of initiatives are in place to increase occupancy, involving both attracting new children as well as retaining existing ones and optimising their attendance. There has been a focus on improving the quality of education provided, increased investment in the physical amenities of centres, targeted local advertising, and closure or sale of poor performing centres.

Wages: Wages growth of 4.7% disclosed in the table above includes the effects of the government wage subsidy received in the current period. Excluding this, wages are assumed to increase at an average of 1.0% per year.

14. Impairment (continued)

NZ ECE Centres – Goodwill (continued)

Key assumptions used in value in use calculations (continued)

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

Long-term growth rate: This rate is based on current inflation rates in New Zealand and forecast or assumed increases in revenues from parents/caregivers and the Government.

Sensitivity to changes in key assumptions

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

$'000	Headroom/ (Impairment)
Base assumption	41,438
Occupancy	-0.87%
Childcare fee growth	-2.63%
Ministry of Education funding growth	-1.32%
Wages growth	1.58%
Pre-tax discount rate	1.27%
Long-term growth rate	-2.17%

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

$'000	Headroom/ (Impairment)
Base assumption	41,438
Occupancy at 70% at the end of the forecast period	27,586
Occupancy at 65% at the end of the forecast period	(118)
MOE funding rate growth +0.5% above base	53,840
MOE funding rate growth -0.5% below base	29,206
Childcare fees growth +1.0% above base	53,095
Childcare fees growth -1.0% below base	30,055
Wages growth +1.0% above base	15,166
Wages growth -1.0% below base	66,779

14. Impairment (continued)

Australian ECE Centres – Goodwill

Key assumptions used in value in use calculations

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

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

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

$'000	31 DECEMBER 2020 Australia	31 MARCH 2020 Australia (Restated)
Revenue growth attributable to price (% per annum on average)	5.7%	2.0%
Revenue growth attributable to increase in occupancy (% per annum on average)	0.0%	0.0%
Total revenue growth (% per annum on average)	5.7%	2.0%
Wages growth (% per annum on average)	8.8%	2.0%
Pre-tax discount rates (%)	11.9%	13.1%
Long-term growth rate (%)	1.5%	1.5%

Revenue: As discussed in note 2a, families were not charged fees under the ECECR package. This has increased the revenue growth attributable to pricing over the forecast period.

Wages: Wages growth of 8.8% disclosed in the table above includes the effects of the government wage subsidy received in the current period. Excluding this, wages are assumed to increase at an average of 3.5% per year.

Sensitivity to changes in key assumptions

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

$'000	Headroom/ (Impairment)
Base assumption	7,796
Revenue growth	-1.10%
Wages growth	1.93%
Pre-tax discount rate	1.92%
Long-term growth rate	-1.98%

14. Impairment (continued)

Australian ECE Centres – Goodwill (continued)

Sensitivity to changes in key assumptions (continued)

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

$'000	Headroom/ (Impairment)
Base assumption	7,796
Revenue growth +2.0% above base	22,573
Revenue growth -2.0% below base	(6,193)
Wages growth +2.0% above base	(310)
Wages growth -2.0% below base	15,469

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

15. Trade and Other Payables

$'000	Note	AS AT 31 DECEMBER 2020	AS AT 31 MARCH 2020
Trade payables		1,807	504
Goods and services tax payable		2,850	3,642
Wage subsidy relating to the following financial period	6	–	11,208
Other payables		2,467	3,819
Total trade and other payables		**7,124**	**19,173**

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.

16. Funding Received in Advance

Funding from NZ Ministry of Education

Represents NZ Ministry of Education funding received in advance net of amounts owing but not received. The amount is shown as a current liability consistent with the period the funding covers. Funding is received three times a year on 1 March, 1 July and 1 November. Each funding round includes 75% of the estimated funding for the four months ahead, as well as payment of the remaining 25% payable for the previous funding period, adjusted for any changes in occupancy and other criteria. At 31 December 2020 funding received in advance relates to January and February 2021. Funding receivable relates to the remaining 25% of funding, adjusted for any changes in occupancy and other criteria, in respect of November and December 2020.

$'000	AS AT 31 DECEMBER 2020	AS AT 31 MARCH 2020
Funding received in advance	8,942	14,956
Funding receivable	(4,303)	(3,152)
Total funding received in advance	**4,639**	**11,804**

17. Right-of-use Assets and Lease Liabilities

(a) Right-of-use assets

31 December 2020	Leased properties	Leased motor vehicles	Total
$'000			
Opening net book value	177,960	278	178,238
Additions	2,045	98	2,143
Depreciation and impairment	(8,857)	(152)	(9,009)
Lease remeasurements	(1,908)	–	(1,908)
Foreign exchange movements	1,474	–	1,474
Closing net book value	**170,714**	**224**	**170,938**
Cost	198,030	547	198,577
Accumulated depreciation	(19,283)	(323)	(19,606)
Impairment expense	(8,033)	–	(8,033)
As at 31 December 2020	**170,714**	**224**	**170,938**

Included in accumulated depreciation is a reversal of $0.5 million for lease termination.

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

(b) Lease liabilities

	AS AT 31 DECEMBER 2020	AS AT 31 MARCH 2020
$'000		
Current lease liabilities	8,028	10,495
Non-current lease liabilities	200,196	201,973
Total lease liabilities	**208,224**	**212,468**

The Group leases childcare centres, motor vehicles and office equipment. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. As at 31 December 2020, the Group's leases had a weighted average remaining lease term of 18.6 years.

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

(c) Amounts recognised in the statement of comprehensive income

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

$'000	9 MONTHS TO 31 DECEMBER 2020	12 MONTHS TO 31 MARCH 2020
Depreciation charge of right-of-use assets		
Properties	8,718	11,358
Motor vehicles	152	185
	8,870	**11,543**
Interest expense (included in finance cost)	12,361	16,904
Expense relating to short-term leases (included in building occupancy expenses)	252	171
Expense relating to leases of low-value assets that are not shown above as short-term leases (included in direct expenses of providing services)	110	270

The total cash outflow for leases during the period was $18.0 million (March 2020: $23.1 million)

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

As detailed in Notes 3(i) and 3(m), non-financial assets including right-of-use assets are reviewed annually for indicators of impairment. Where there is an indicator of impairment, the carrying value of the asset is compared to its recoverable amount. Refer to Note 14.

18. Employee Entitlements

$'000	AS AT 31 DECEMBER 2020	AS AT 31 MARCH 2020
Employee leave provisions	4,328	3,159
Accrued wages and salaries	2,162	2,897
Other employee entitlements	337	274
Total employee entitlements	**6,827**	**6,330**

19. Issued Capital

Authorised shares

	31 DECEMBER 2020		31 MARCH 2020	
	Number	$'000	Number	$'000
Ordinary shares authorised, issued and fully paid				
Opening balance	1,118,603,993	237,976	180,278,557	159,598
Issue of ordinary shares, net of transaction costs	–	–	938,325,436	78,378
Share consolidation	(978,778,354)	–	–	–
Closing balance	**139,825,639**	**237,976**	**1,118,603,993**	**237,976**

On 15 December 2020, the Group completed a share consolidation where every eight shares held were consolidated into one share. As a result, the total number of shares on issue were reduced from 1,118,603,993 to 139,825,639, after rounding of fractional entitlements. There were no changes in the fair value of total issued capital as a result of this consolidation.

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:

Senior secured notes – issued 4 December 2020 (refer Note 23)

- Gearing ratio (i.e. core debt to equity)
- Fixed cover charges ratio (i.e. EBITDA to total interest excluding lease interest)
- Total leverage ratio (i.e. debt less cash to EBITDA)
- Debt leverage ratio (i.e. debt less lease liabilities to Underlying EBITDA)

ASB senior revolving and acquisition facilities – cancelled 3 December 2020 (refer Note 23)

- Gearing ratio (i.e. core debt to equity)
- Fixed cover charges ratio (i.e. EBITDA to total interest less lease 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 current period

No dividend was paid during the period ended 31 December 2020 (31 March 2020: Nil).

Policies

Dividends are paid in cash in accordance with the dividend policy of the Group.

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.

22. Earnings Per Share (EPS)

Basic and diluted EPS amounts are calculated by dividing the profit or loss for the period attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the period. The number of shares outstanding for the current and previous periods are adjusted for the effect of the share consolidation during the current period (refer Note 19). The following reflects the income and share data used in the basic and diluted EPS computations:

	9 MONTHS TO 31 DECEMBER 2020	12 MONTHS TO 31 MARCH 2020 (Restated)
Profit/(loss) after income tax attributable to the shareholders of the Company ($'000s)	7,570	(13,300)
Weighted average number of ordinary shares for basic and diluted EPS	139,825,639	115,509,891
Basic and diluted EPS attributable to the shareholders of the Company (cents per share)	5.4	(11.5)

There have been no other transactions involving ordinary shares or potential ordinary shares during the current or previous periods.

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.

23. Financial Assets and Liabilities (continued)

Market risk

Foreign currency risk

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

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

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

	AS AT 31 DECEMBER 2020
$'000	AUD
Cash and cash equivalents	40,206
Term deposit	1,468
Other current assets	372
Trade payables	(426)
Borrowings	(33,911)
	7,709

Sensitivity

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

Price risk

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

Interest rate risk

The Group's main interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The weighted average effective interest rate for the current period is 3.7% (March 2020: 7.7%). The effective interest rate has decreased in the current period as a result of a decrease in ASB lending rates. Bank borrowings were fully repaid in the current period and A$35 million, five year senior secured notes issued with a fixed interest rate of 7.5% per annum. The effect of an increase or decrease of ±1% in interest rates on the fair value interest rate risk will result in a ±$27,000 (March 2020: ±$0) movement on profit or loss before tax. The Group is no longer exposed to cash flow interest rate risk after the repayment of floating rate bank borrowings in the current period.

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. Exposure to interest rate risk is reduced by investing surplus cash in on-call savings accounts or term deposits.

23. Financial Assets and Liabilities (continued)

Market risk (continued)

Credit risk

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

Liquidity risk

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

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

Financing arrangements

The Group's financing arrangements comprise the following facilities:

- **Senior secured notes ("notes")** – A$35 million five year notes issued on 4 December 2020 with a fixed interest rate of 7.50% per annum, payable quarterly in arrears. The notes 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. Proceeds from the issue has been used to repay ASB debt and for future acquisitions.
- **Lease guarantee facility** – provided by ASB for $2.5 million for guarantees required for certain leasehold properties. This facility is cash-backed by a term deposit held with ASB.
- **Lease guarantee facility** – provided by NAB for A$1.4 million for guarantees required for certain leasehold properties in Australia. This facility is cash-backed by a term deposit held with NAB.

The below facilities were repaid in full and cancelled during the current period:

- **Senior revolving facility** – provided by ASB totalling $8.5 million for general corporate and working capital purposes.
- **Acquisition facility** – provided by ASB totalling $17.4 million for funding of acquisitions.

The Group was in compliance with all covenants throughout the current and previous periods.

Remaining contractual maturities

The contractual maturity for the Group's financial instrument liabilities (that is, trade payables) is disclosed in Note 15. The principal amount (A$35 million) of the notes is repayable in December 2025 and interest payments are A$2.625 million per annum for the next five years.

As at period end, the Group has a lease liabilities balance of $208.2 million (refer Note 17b). Including renewal rights expected to be exercised, the maturities of these leases are spread over the period to November 2054.

Fair value of financial instruments

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

24. Net Debt Reconciliation

Movements on net debt comprise:

31 December 2020	Cash and cash equivalents	Borrowings	Lease liabilities	Total
$'000				
Net debt as at 1 April 2020	**39,048**	**(17,666)**	**(212,468)**	**(191,086)**
Notes issued, net of transaction costs	–	(35,440)	–	(35,440)
Bank borrowings repaid	–	17,359	–	17,359
Amortisation of modification loss	–	307	–	307
Additions	–	–	(1,153)	(1,153)
Interest on lease liabilities	–	–	(12,361)	(12,361)
Repayment of lease liabilities	–	–	17,983	17,983
Other movements on lease liabilities	–	–	1,318	1,318
Cash flows	19,059	–	–	19,059
Foreign exchange movements	1,032	(697)	(1,543)	(1,208)
Net debt as at 31 December 2020	**59,139**	**(36,137)**	**(208,224)**	**(185,222)**
Due within one year	**59,139**	**(232)**	**(8,028)**	**50,879**
Due in more than one year	**–**	**(35,905)**	**(200,196)**	**(236,101)**
	59,139	**(36,137)**	**(208,224)**	**(185,222)**

Certain terms of the ASB borrowing facilities were renegotiated and amended in May 2019, resulting in a modification loss of $0.3 million being recognised in the previous year. This was fully amortised on repayment of the facilities and recognised within finance costs in the current period.

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

Notes to the Consolidated Financial Statements

FOR THE 9 MONTHS ENDED 31 DECEMBER 2020

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

$'000	9 MONTHS TO 31 DECEMBER 2020	12 MONTHS TO 31 MARCH 2020
Profit/(Loss) after income tax	7,570	(13,300)
Adjustments for non cash items:		
Depreciation and amortisation	10,930	14,009
Impairment (reversal)/expense	(17)	12,341
(Gain)/loss on disposal of property, plant and equipment	(10)	144
Remeasurement of lease liabilities	(401)	(916)
(Gain)/loss on sale and closure of businesses	(62)	483
Deferred tax	(1,067)	(9,781)
Employee benefits expense – share-based payments	–	18
Adjustments for items classified as investing or financing activities:		
Finance costs	12,703	19,585
Working capital movements relating to operating activities:		
Increase/(decrease) in funding received in advance	(7,165)	(821)
(Increase)/decrease in other current assets	11,254	(10,751)
Increase/(decrease) in trade and other payables	(12,049)	12,453
Increase/(decrease) in current income tax payables	3,395	(152)
Increase in employee entitlements	497	378
Other items:		
Business combination completion payment classified as investing	205	–
Net cash flows from operating activities	**25,783**	**23,690**

26. Commitments and Contingencies

Operating lease commitments – Group as lessee

Future minimum rentals of office equipment not subject to NZ IFRS 16 at 31 December 2020 are:

$'000	AS AT 31 DECEMBER 2020	AS AT 31 MARCH 2020
Within one year	210	370
After one year but not more than five years	213	338
Total	**423**	**708**

Guarantees

A total of $2.3 million (March 2020: $2.3 million) of the lease guarantee facility disclosed in Note 23 has been utilised.

For the Australian operation, a total of A$1.2 million (March 2020: A$1.2 million) of bank lease guarantees have been utilised.

Contingencies

There are no material contingent liabilities not already disclosed as at 31 December 2020.

27. Related Party Transactions

Identity of Related Parties

Related parties of the Group are:

- The Board of Directors comprising Hamish Stevens, Adrian Fonseca, Chris Scott, Chris Sacre and Kim Campbell.
- Timothy Wong, Chief Executive Officer of the New Zealand operations of the Group.
- J 47 Pty Limited, a company of which Chris Scott is the sole director and shareholder.
- Upton124 Pty Limited, a company of which Chris Sacre is a director.
- Sovana Child Care Pty Limited, a company of which Adrian Fonseca is the sole director and shareholder, and is a trustee of Sovana Child Care Trust.
- Vasona Pty Limited, a company of which Adrian Fonseca is a director and sole shareholder.
- Lai Wong Pty Limited, a company which Timothy Wong has the ability to control.

Related party transactions arising during the year:

- Transactions between the Company and its Directors, members of its key management and certain employees can be summarised as follows:
  - **Directors' remuneration** – The Directors' fees pool is currently $500,000 per annum (plus GST, if any), with the amount of fees paid during the period disclosed in the table below. The Board elected to take a 16.7% reduction in Directors' fees, from December 2019 to December 2020, as a contribution to the Group's efforts to improve profitability. The Directors are also entitled to be paid for reasonable travel, accommodation and other expenses incurred by them in connection with their attendance at Board or Shareholder meetings, or otherwise in connection with the Group's business.

	9 MONTHS TO 31 DECEMBER 2020	12 MONTHS TO 31 MARCH 2020
$'000		
Hamish Stevens	86	78
Chris Scott	50	75
Chris Sacre	50	75
Kim Campbell	56	43
Adrian Fonseca	63	38
Alistair Ryan	–	28
Norah Barlow	–	40
Grainne Troute	–	38
Total Directors' Remuneration	**305**	**415**

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:**
  - During the period, Sovana Child Care Pty Limited transferred 17,250,000 shares in the Company to Vasona Pty Limited.
  - On 23 December 2020, AUD $0.2 million was paid to Sovana Child Care Pty Limited, based on the performance of centres acquired by the Group in September and October 2019. There are no further amounts potentially payable with respect to these centres.
- **Compensation of key management personnel of the Group:**

$'000	9 MONTHS TO 31 DECEMBER 2020	12 MONTHS TO 31 MARCH 2020
Short-term employee benefits	514	1,624
Share-based payments	–	18
Total compensation paid to key management personnel	**514**	**1,642**

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

Contingent consideration:

The total potential contingent consideration of $1.95 million disclosed in the previous year (refer Note 12) relate to centres acquired from Sovana Child Pty Limited and Cubby Care Pty Limited, an entity of which Timothy Wong is a minority shareholder.

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

Units of shares	AS AT 31 DECEMBER 2020	AS AT 31 MARCH 2020 (Restated)
Chris Scott	26,227,514	26,227,514
Chris Sacre	8,128,332	8,128,332
Adrian Fonseca	2,156,250	2,156,250
Kim Campbell	3,750	3,750
Timothy Wong	875,000	875,000
	37,390,846	**37,390,846**

The Group completed a share consolidation during the period where every eight shares held were consolidated into one share (refer Note 19).

28. Auditor's Remuneration

During the period the following fees were paid or payable for services provided by the Group's auditor, Grant Thornton (March 2020: PricewaterhouseCoopers):

$'000	9 MONTHS TO 31 DECEMBER 2020	12 MONTHS TO 31 MARCH 2020
Assurance services:		
Audit and review of the consolidated financial statements:		
Grant Thornton for the financial period ending 31 December 2020	170	–
PricewaterhouseCoopers for the financial period ending 31 March 2020	–	410
Total assurance services	**170**	**410**
Other services provided by auditor:		
Taxation compliance services performed by PricewaterhouseCoopers	–	43
Other non-assurance services performed by PricewaterhouseCoopers	–	7
Total other services	**–**	**50**

Other non-assurance services in the previous year related to benchmarking of Directors' fees.

29. Events After the Reporting Period

Covid-19 impact

As discussed in Note 2a, Covid-19 has had a significant global impact. While the short-term financial position of the Group has not been materially impacted, there remains inherent uncertainty regarding the longer-term impact. Victoria moved to alert level 4 again from 13 to 17 February and Auckland to alert level 3 from 15 to 17 February. At the time of approving these financial statements, there are no known material adverse impacts on the Group.

Independent Auditor's Report

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To the Shareholders of Evolve Education Group Limited

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Evolve Education Group Limited (the "Company") and its subsidiaries (the "Group") on pages 17 to 60 which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the nine month period then ended, and notes to the financial statements, including a summary of significant accounting policies

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020 and its consolidated financial performance and cash flows for the nine month period then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS") issued by the New Zealand Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ("ISAs (NZ)") issued by the New Zealand Auditing and Assurance Standards Board. 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 are independent of the Group in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)*, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the Group.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. 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.

Why the audit matter is significant	How our audit addressed the key audit matter
Impairment of non-financial assets As at 31 December 2020, the Group had the following non-financial assets: • Goodwill of $114.5m (note 13); • Brands of $3.1m (note 13); • Right-of-use-assets of $170.9m (note 17); and • Property, plant and equipment of $7.1m (note10). The accounting standards require non-financial assets to be assessed for indicators of impairment or whether there is an indication that previously recognised impairment losses no longer exist on an annual basis. The Group has performed an evaluation of these indicators and identified specific assets or cash generating units ("CGU") which require an impairment assessment. Indefinite life intangible assets, such as goodwill and brands are tested for impairment at least on an annual basis irrespective of whether impairment indicators exist. Consequently the Group has also performed an impairment assessment for goodwill and brands. In relation to the impairment assessments performed, the Group recognised a net impairment reversal of $17,000 which is made up of an impairment expense of $139,000 and an impairment reversal of $156,000 (refer note 14). We included the impairment of non-financial assets as a key audit matter due to the high level of judgement required in determining the value of the recoverable amounts of assets or CGUs.	To address the risk associated with impairment of assets, the following audit procedures were carried out: • Gained an understanding, evaluated and validated management's internal controls related to the impairment assessment process; • Assessed the reasonability of the methodology used by the Group based on industry / market practice; • Obtained management's future cash flow forecasts, tested the mathematical accuracy of the underlying calculations and agreed them to the Board approved budgets; • Compared historical actual results to those budgeted to assess the quality of management's forecasts; • Assessed reasonableness of key assumptions used in the calculations by discussing with management and evaluated management's basis for determining such assumptions; • Engaged auditor's valuation expert to assist in the assessment of reasonableness of management's judgements by determining our own point estimate; • Tested the sensitivity analysis prepared by management to ascertain that adverse changes to key assumptions would not cause, individually or in aggregate, the carrying amount to exceed the recoverable amount; and • Reviewed consolidated financial statement disclosure to determine their compliance with the requirements of the accounting standards.
Revenue recognition – Ministry of Education New Zealand The Group has recognised revenue of $62m (note 5) from the Ministry of Education in New Zealand. Revenue from the Ministry of Education in New Zealand is a key focus area due to the high volume of transactions occurring and its significance to operations. This is a Key Audit Matter due to the following: • Funding received from Ministry of Education New Zealand (MOE NZ) is regulated under the Education Act 1989 which contains numerous complex requirements to determine the eligibility of funds; • The complexity involved in collating and summarising the information from manual timesheets and other records across a large number of centres.	To address the risk associated with revenue recognition, the following audit procedures were carried out: • Evaluated the design and operational effectiveness of management's internal controls related to revenue recognition. • Reviewed revenue recognition policies for appropriateness and compliance with relevant accounting standards. • Performed predictive analytical procedures using recorded hours of child attendance and prescribed fee structures to determine the accuracy of the revenue recognised. • Performed analytical reviews on revenue figures to identify large or unusual movements and reviewing industry trends as well as the impact of Covid-19. • Selected a sample of transactions and inspected supporting documentation, cash received and assessed whether all criteria related to government funding has been met before being recognised as revenue.

Other Matter

The consolidated financial statements of the Group for the year ended 31 March 2020 was audited by another auditor who expressed an unmodified opinion on those statements on 26 June 2020.

Information Other than the Consolidated Financial Statements and Auditor's Report thereon

The Directors are responsible for the annual information. The other information comprises the annual report. The annual report is expected to be made available to use after the date of this auditor's report. Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available 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.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to report that fact.

Directors' responsibilities for the Consolidated Financial Statements

The Directors are responsible on behalf of the Group for the preparation and fair presentation of the consolidated financial statements in accordance with NZ 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 on behalf of the Group 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) 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 the auditor's responsibilities for the audit of the consolidated financial statements is located on the External Reporting Board's website at: https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-1/

Restriction on use of our report

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state to the Company's shareholders, as a body 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 opinion we have formed.

Grant Thornton New Zealand Audit Limited

Grant Thornton

Ryan Campbell
Auckland

26 February 2021

Corporate Governance and Statutory Information

Corporate Governance

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

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

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

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

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

Principle 1 – Code of Ethical Behaviour

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

Code of Conduct

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

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

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

Share Ownership

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

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

The table of directors' shareholdings is included in the Disclosures section page 78.

Principle 2 – Board Composition and Performance

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

Board Charter

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

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

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

Role of the Board

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

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

Delegation

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

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

Corporate Governance and Statutory Information

Performance Management

The Board has established a Remuneration and People Committee which is responsible for evaluating the performance of the CEO, and makes recommendations to the Board in relation to remuneration and incentive arrangements for the CEO.

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

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

Composition of the Board

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

Selection and Role of Chairperson

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

The role and responsibilities of the Chair include:

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

Director Independence

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

As at 31 December 2020, Hamish Stevens, Adrian Fonseca and Kim Campbell were independent directors, within the meaning of the NZX Listing Rules.

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

Conflicts of Interest

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

Nomination and Appointment

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

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

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

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

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

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

Director biographies can be found on pages 10-11.

Director ownership interests can be found on page 78 of this annual report.

Board and Committee Meetings

The Board has established a regular schedule of Board and Committee meetings in order to carry out its obligations under its Board Charter. A summary of the Directors' attendances at each of the scheduled Board and Committee meetings between 1 April 2020 and the date of approving the financial statements (that is, 26 February 2021), as compared to the number of scheduled meetings that each Director was eligible to attend as a member (in brackets) is shown in the table below.

	Board		Audit and Risk Committee		Remuneration and People Committee	
Hamish Stevens	10	(10)	1	(2)	2	(2)
Chris Scott	10	(10)	–	–	–	–
Chris Sacre	10	(10)	4	(4)	–	–
Kim Campbell	10	(10)	5	(5)	2	(2)
Adrian Fonseca	10	(10)	6	(6)	2	(2)

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

Corporate Governance and Statutory Information

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

Diversity Policy

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

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

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

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

Gender Diversity

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

	As at 31 December 2020				As at 31 March 2020			
Position	**Women**		**Men**		**Women**		**Men**	
Board	0	(0%)	5	(100%)	0	(0%)	5	(100%)
Senior Management*	2	(29%)	5	(71%)	2	(29%)	5	(71%)
Company-wide		96%		4%		96%		4%

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

At 31 December 2020, the Group employed 1,864 women which represents 96% of the workforce (31 March 2020: 2,096 women which represented 96% of the workforce).

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

Board Access to Information and Advice

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

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

Director Education

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

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

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

Recommendation 2.8: A majority of the board should be independent directors.

A majority of the Evolve Board are independent directors.

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

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

Principle 3 – Board Committees

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

The Board may establish additional committees of directors as required.

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

Audit and Risk Committee

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

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

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

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

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

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

Remuneration and People Committee

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

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

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

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

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

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

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

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

Evolve has adopted a Takeover Response Policy.

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

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

Principle 4 – Reporting and Disclosure

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

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

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

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

Recommendation 4.3: Financial reporting should be balanced, clear and objective. An issuer should provide non-financial disclosure at least annually, including considering environmental, economic and social sustainability factors and practices. It should explain how operational or non-financial targets are measured. Non-financial reporting should be informative, include forward looking assessments, and align with key strategies and metrics monitored by the board.

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

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

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

The impacts of Covid-19 have been discussed in note 2a of the financial statements included in this annual report. The Company considers that it does not currently have any other material exposures to environmental, economic, or social sustainability risks.

Principle 5 – Remuneration

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

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

The Board elected to take a 16.7% reduction in Directors' fees for 12 months, effective from 1 December 2019, as a contribution to the Group's efforts to improve profitability.

The Director fee pool for all directors is $500,000 per annum in aggregate. The Directors are also entitled to be paid for reasonable travel, accommodation and other expenses incurred by them in connection with their attendance at Board or shareholder meetings, or otherwise in connection with the Company's business.

Corporate Governance and Statutory Information

Director Remuneration Statement

The Company's directors holding office during the period ended 31 December 2020 are listed below. Pursuant to section 211(1)(f) of the Companies Act 1993, the total amount of remuneration and other benefits received by each Director during the 9 month period ended 31 December 2020 are provided below.

($000's)	Directors' Fees	Total
Hamish Stevens	86	86
Chris Scott	50	50
Chris Sacre	50	50
Kim Campbell	56	56
Adrian Fonseca	63	63
Total	**305**	**305**

Directors of Subsidiary Companies

The remuneration of employees acting as directors of subsidiaries is disclosed in the relevant banding of remuneration set out under the heading "Employee Remuneration" below. During the period ended 31 December 2020, employees did not receive additional remuneration for acting as directors of subsidiary companies.

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

Overall Remuneration Philosophy

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

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

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

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

The number of committee meetings and attendance records of committee members is specified on page 67.

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

Executive Remuneration

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

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

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

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

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

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

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

Remuneration

Timothy Wong held the position of CEO NZ from 3 October 2019 to 28 March 2021. He had a base salary of $300,000 and was entitled to the use of a rental apartment, car, mobile telephone, and laptop. In relation to his resignation, Mr Wong was granted 1,250,000 share options, exercisable at AUD $1.20 per option up until 31 December 2023.

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

Corporate Governance and Statutory Information

Employee Remuneration

The number of employees or former employees, who received remuneration and other benefits valued at or exceeding $100,000 during the 12 months ended 31 December 2020 are specified below.

Remuneration Band	Total
$100,001 – $110,000	10
$110,001 – $120,000	5
$120,001 – $130,000	3
$130,001 – $140,000	1
$170,001 – $180,000	1
$200,001 – $210,000	1
$220,001 – $230,000	1
$320,001 – $330,000	1
$390,001 – $400,000	1
Total	**24**

Principle 6 – Risk Management

Recommendation 6.1: An issuer should have a risk management framework for its business and the issuer's board should receive and review regular reports. An issuer should report the material risks facing the business and how these are being managed.

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

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

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

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

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

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

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

Principle 7 – Auditors

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

The Audit and Risk Committee is also responsible for considering the independence of the external auditor and any potential conflicts of interest. The Audit and Risk Committee reviews policies for the provision of non-audit services by the external auditor and, where applicable, the framework for pre-approval of audit and non-audit services. Under the Audit and Risk Committee Charter, the Committee is responsible for recommending the appointment and assessing the performance of the external auditor. Further information is set out in note 28 of the financial statements included in this annual report.

In combination with the establishment of the Audit and Risk Committee, the Board has approved a Risk Management Policy because the Company views effective risk management as key to achieving and maintaining its operational and strategic objectives.

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

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

Recommendation 7.3: Internal audit functions should be disclosed.

The company has not established an internal audit function.

Principle 8 – Shareholder Rights and Relations

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

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

Corporate Governance and Statutory Information

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

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

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

The Shareholder Communications Policy requires the Company to:

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

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

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

The Company currently keeps shareholders informed through:

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

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

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

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

Recommendation 8.3: Quoted equity security holders should have the right to vote on major decisions which may change the nature of the issuer in which they are invested.

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

Recommendation 8.4: If seeking additional equity capital, issuers of quoted equity securities should offer further equity securities to existing equity security holders of the same class on a pro rata basis, and on no less favourable terms, before further equity securities are offered to other investors.

A pro rata issue of securities is Evolve's preferred approach to raising equity capital. There were no share issues in the period to 31 December 2020.

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

Evolve's Notice of Meeting will be made available at least 20 working days prior to the meeting.

Disclosure of Directors' Interests

Section 140(1) of the New Zealand Companies Act 1993 requires a director of a company to disclose certain interests. Under subsection (2) a director can make a disclosure by giving a general notice in writing to the company of a position held by a director in another named company or entity. Details of Directors' general disclosures entered in the relevant Interests Register for the Company during the period to 31 December 2020 are as follows:

Director	Position	Company
Hamish Stevens	Director	Pacific Radiology Group Limited
	Chair	East Health Services Limited (and related companies)
	Director	Marsden Maritime Holdings Limited (and related companies)
	Director	Pharmaco NZ Limited (and related companies)
	Chair	The Kennedy's Limited
	Director	Counties Power Limited (and related companies)
	Director	Radius Residential Care Limited
Chris Sacre	Director	Toddle Enterprises Group Pty Limited
Kim Campbell	Director	Douglas Pharmaceuticals Limited (and related companies)
	Director	EMH Trade Limited
	Chair	Auckland Manufacturers Association
	Director	Blackwood Bay Investments Limited
	Chair	ASB Showgrounds
	Chair	Pathways to Employment Trust
	Chair	Advisory Board, Living Green Limited (Auckland)
Adrian Fonseca	Chair	Revenue Committee, Western Sydney Football Club Limited (GWS Giants AFL Club) (and related companies)
	Director	Oxanda Education Pty Limited (and related companies)
	Director	Toddle Enterprises Group Pty Limited

Corporate Governance and Statutory Information

Disclosure of Directors' Interests in share transactions

There were no acquisitions or disposals of relevant interests in shares during the period ended 31 December 2020.

Disclosure of Directors' Interests in Shares

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

Director	Number of Shares in which a relevant interest is held
Chris Scott	26,227,514
Chris Sacre	8,128,332
Kim Campbell	3,750
Adrian Fonseca	2,156,250

The Group completed a share consolidation during the period where every eight shares held were consolidated into one share.

Indemnities and Insurance

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

Company Disclosures

Stock Exchange Listings

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

Dividend Policy

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

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

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

For the financial period ended 31 December 2020, the Company has not authorised any dividends.

Net Tangible Assets

The Company's net tangible assets as at 31 December 2020 was ($0.06) per share (31 March 2020: ($0.12) per share, restated). Due to the nature of the Company's business, intangible assets are a major component of total assets. Accordingly, the net assets per security is considered a more useful measure and as at 31 December 2020 it was $0.78 (31 March 2020: $0.72, restated).

Donations

The Company made donations of $1,103 during the 9 month period ended 31 December 2020 (31 March 2020: $2,559).

Credit Rating

The Company has no credit rating.

NZX and ASX Waivers

The Company relied on the below waiver in respect of the 31 March 2020 results announcement and annual report release.

- Waiver from NZX Listing Rule 3.5.1 granted by NZX on 3 April 2020 due to Covid-19, which provides listed issuers an additional 30 days to prepare and release results announcements.

Annual Meeting

The Company's Annual Meeting of shareholders will be held in Auckland on 29 June 2021 at 10 am.

Shareholder Information

Analysis of Shareholding at 2 March 2021

Ranges	Investors	Securities	% Issued Capital
1 to 1,000	593	256,521	0.18
1,001 to 5,000	664	1,641,834	1.17
5,001 to 10,000	321	2,372,156	1.70
10,001 to 100,000	611	18,984,952	13.58
100,001 and Over	126	116,570,176	83.37
Total	**2315**	**139,825,639**	**100.00**

Twenty Largest Shareholders at 2 March 2021

Name	Number of Shares	% of Shares
J 47 Pty Ltd	26,227,514	18.76
HSBC Custody Nominees (Australia) Limited	15,379,218	11.00
Upton124 Pty Ltd	7,772,563	5.56
National Nominees Limited	5,529,189	3.95
J P Morgan Nominees Australia Pty Limited	5,016,821	3.59
New Zealand Central Securities Depository Limited	4,505,294	3.22
A & J Online Investments Pty Ltd	2,916,439	2.09
Three Investors Pty Ltd	2,156,250	1.54
Vasona Pty Ltd	2,156,250	1.54
Citicorp Nominees Pty Limited	2,088,812	1.49
Opm Super Co Pty Ltd	1,707,750	1.22
Mr Duncan Fraser Forrest & Mrs Judy Marie Forrest	1,681,390	1.20
JBWere (NZ) Nominees Limited	1,673,004	1.20
Albert & Teresa Ting Pty Limited	1,525,000	1.09
Mr Chris Douglas Passfield	1,503,299	1.07
Broadgate Investments Pty Ltd	1,187,500	0.85
Forsyth Barr Custodians Limited	1,060,434	0.76
Custodial Services Limited	1,046,250	0.75
Laiwong Pty Ltd	875,000	0.63
Dr Albert Siong Long Ting & Mrs Teresa King Ing Ting	850,000	0.61
Total – twenty largest shareholders	**86,857,977**	**62.12**
Total number of shares on issue	**139,825,639**	**100.00**

New Zealand Central Securities Depository Limited (NZCSD) provides a custodian depository service that allows electronic trading of securities to its members and does not have a beneficial interest in these shares. As at 2 March 2021, the shareholdings in the Company held through NZCSD were:

Name	Number of Shares Held by NZCSD	% of NZCSD Shares
BNP Paribas Nominees NZ Limited	3,025,878	67.16
HSBC Nominees (New Zealand) Limited	933,185	20.71
Accident Compensation Corporation	328,823	7.30
Citibank Nominees (NZ) Ltd	173,472	3.85
BNP Paribas Nominees NZ Limited	22,401	0.50
JPMorgan Chase Bank	21,535	0.48
Total – shares held by NZCSD	**4,505,294**	**100.00**

Substantial Shareholders

According to notices given under the Financial Markets Conduct Act 2013, the following persons were substantial shareholders in the ordinary shares of the Company (being the only class of quoted voting products) at 2 March 2021 in respect of the number of shares set opposite their names.

Name	Number of Shares	% of Total Shares
J 47 Pty Ltd	26,227,514	18.76
HSBC Custody Nominees (Australia) Limited	15,379,218	11.00
Upton124 Pty Ltd	7,772,563	5.56
Total – shares held by substantial shareholders	**49,379,295**	**35.32**

Subsidiary Company Directors

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

Evolve Group 1 Limited Evolve Group 2 Limited Evolve Group 3 Limited Evolve Group 4 Limited Evolve Group 5 Limited Evolve Group 6 Limited Evolve Management Group Limited Evolve ECEM Limited Lollipops Educare Holdings Limited Lollipops Educare Limited Lollipops Educare Centres Limited Lollipops Educare (Hastings) Limited Lollipops Educare (Birkenhead) Limited Evolve Home Day Care Limited Au Pair (Evolve) Limited	Timothy Wong
Evolve Early Education Pty Limited	Chris Sacre Chris Scott

Disclosure of Subsidiary Directors Interests

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

In addition to the directorships in the Company and in fellow subsidiary companies (as applicable) referred to above, there were no directors' general disclosures entered in the relevant Interests Register for the Company's subsidiaries during the period to 31 December 2020 .

Corporate Directory

Evolve Education Group Limited Registered Office/ Support Office

Level 15
16 Kingston Street
Auckland 1010
New Zealand
Phone: +64 9 377 8700

Evolve Early Education Support Office Australia

Suite 4, 2481 Gold Coast Highway,
Mermaid Beach,
Queensland 4218
Australia
Phone: +61 7 532 25245

Directors

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

Senior Management Team

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

Solicitors

Chapman Tripp
Level 34, PWC Tower
15 Customs Street West
Auckland 1010
Phone: +64 9 357 9000

Auditor

Grant Thornton
Level 4, Grant Thornton House
152 Fanshawe Street
Auckland 1010
Phone: +64 9 308 2570

New Zealand Share Registrar

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

Australian Share Registrar

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

Banker

ASB Bank Limited
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Phone: +64 9 337 4819

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