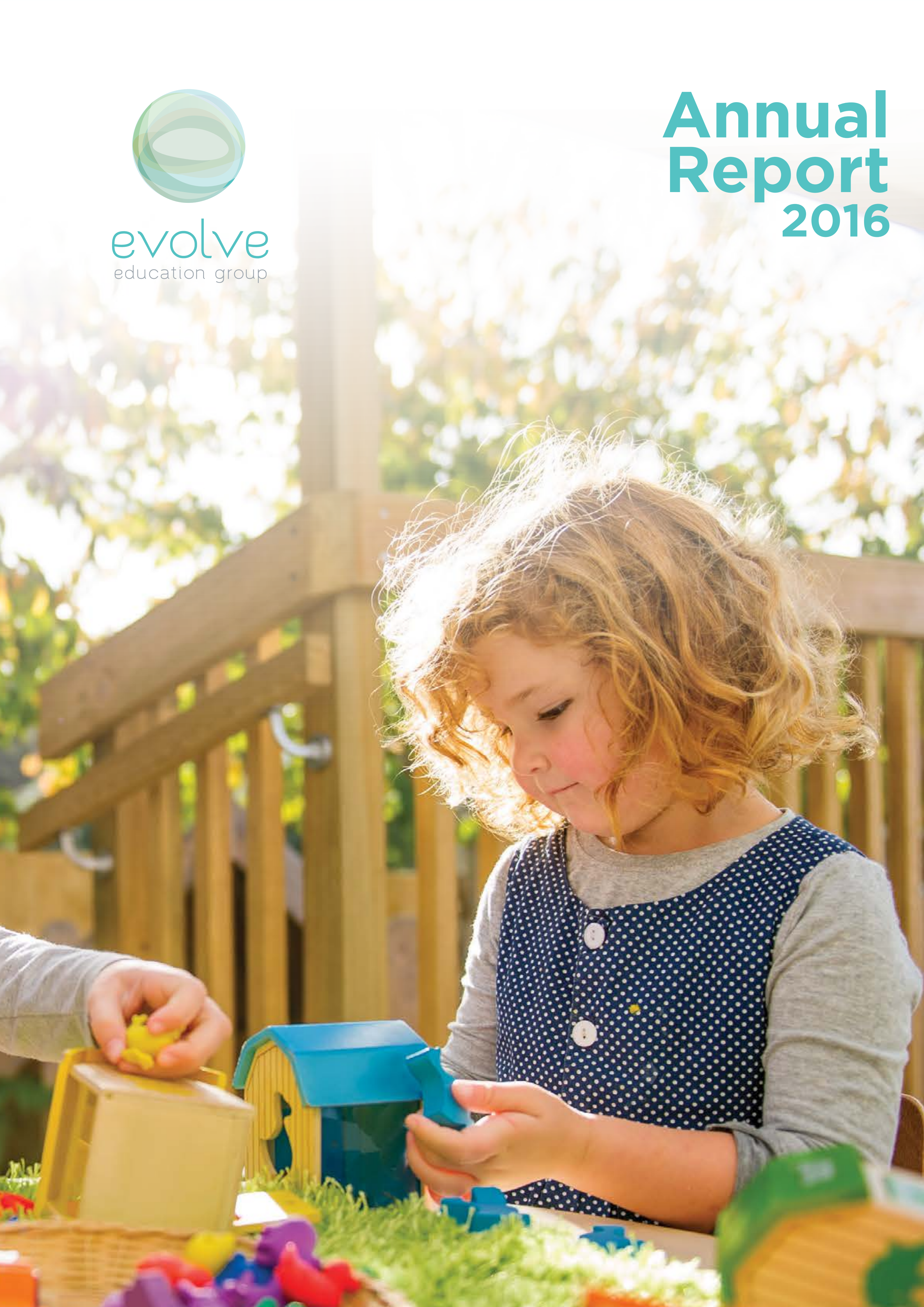
evolve
education group

Annual Report 2016



Vision and Values

Vision

Evolve Education's vision is to be a leading provider of early childhood education in New Zealand. Our vision is rooted in the firm conviction (and irrefutable evidence) that early childhood learning has a profound impact on a child's future health, development and wellbeing. We are committed to delivering the best possible outcomes for Kiwi children and their families.

As professional early childhood educators, we strive to act with integrity in all situations. We seek to model the highest moral and ethical standards to the children, treating them with kindness and fairness always. We understand the need to protect their dignity and to develop their self-esteem, talents and skills because they represent the future of our nation and world. As we observe them growing in skills and comment positively on their achievements, we motivate them to do the best they can. The work proudly displayed on the walls and in their portfolios is proof of this.

Our holistic approach sets us apart from our competitors because we understand the value of integrating existing operators into our business model. Through further consolidation and continuity of the provision of childcare services, we are well-placed to meet the diverse needs of thousands of families here in New Zealand.

Values

Leadership

We support effective and professional leadership, and mentor our educators to be engaged, involved and empowered. We encourage staff development so that our educators can achieve their highest professional and personal potential.

Respect

We protect the rights of all children, and act with professional integrity towards them. We strive to foster a culture that is based on respect, not only for the children and their teachers but also for the childcare sector as a whole.

Equality

We strive to ensure that all children and their parents have equal access to our services. We act fairly towards every child and value his or her uniqueness.

Communication

We believe it is important to communicate regularly and effectively with the families of our children. It is also the key to our operational success, both strategically and personally.

This Annual Report is signed for and on behalf of the Board of the Company by:

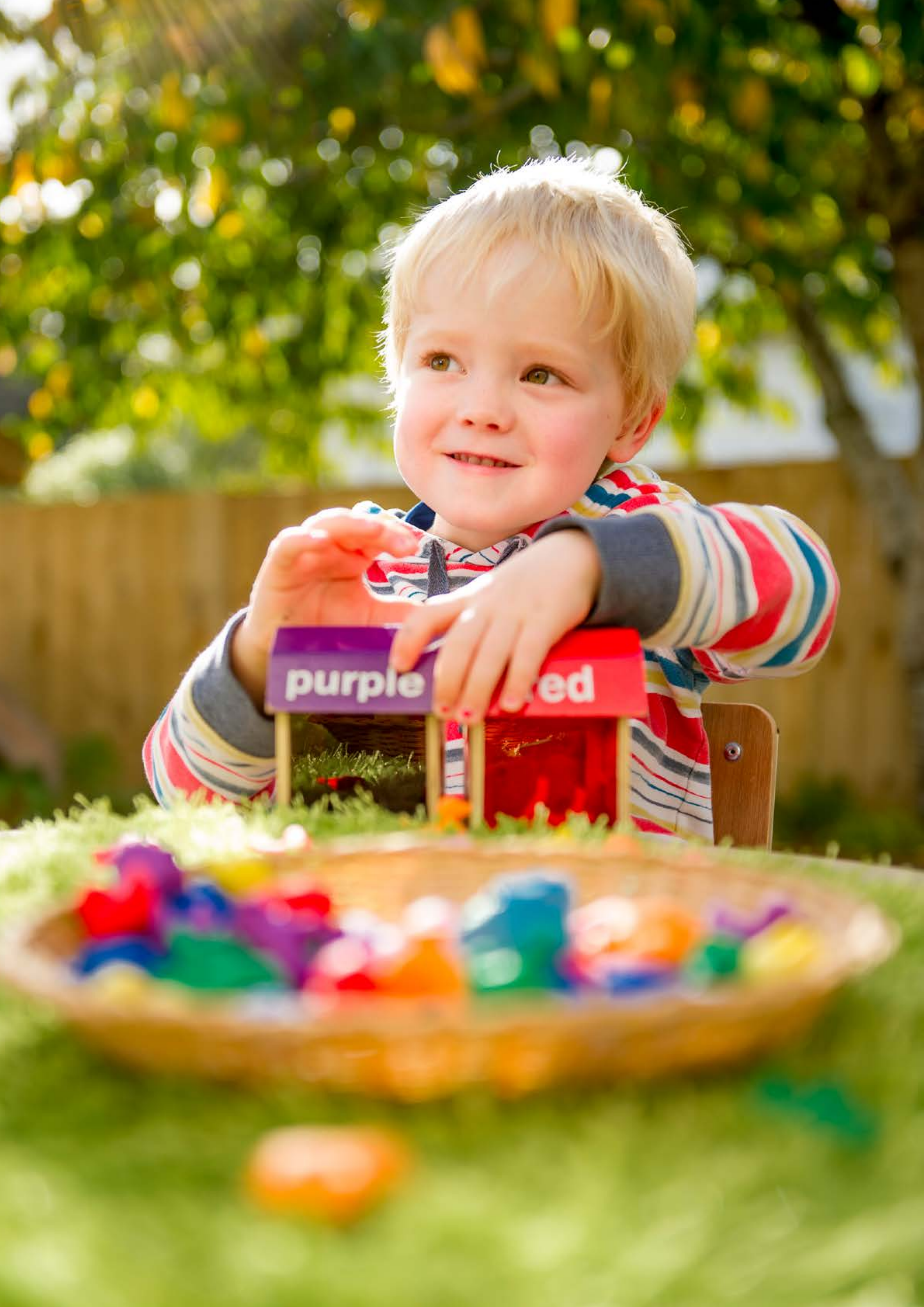
Norah Barlow
Norah Barlow
Chair
28 June 2016

Alistair Ryan
Director
28 June 2016

Company Profile

Evolve Education Group is a leading provider of high-quality, multifaceted Early Childhood Education (ECE) services in New Zealand. Established in 2014, Evolve has built a solid foundation through the acquisition of leading ECE brands including 106 ECE centres, Porse and Au Pair Link. Offering both centre-based and home-based ECE, Evolve's priority is to ensure every child gets the full attention and support they need in their early years.

Contents


purple

Business Profiles

Early Childhood Education (ECE) Centres

Evolve Education operates 106 ECE centres and employs approximately 2,000 staff nationwide under a number of leading ECE brands.

Catering for approximately 70 children on average, Evolve ECE centres have separate, age-appropriate areas for indoor and outdoor play. A wide range of learning activities allows children to explore and learn based on their interests.

Evolve ECE centres also offer a variety of education philosophies including Reggio Emilia and Montessori.

Home-based ECE

- ### Porse in-home care

  PORSE currently provides home-based care and education for approximately 5,000 children.

  Founded in 1994, PORSE has provided education support in homes as New Zealand's largest and longest serving home-based ECE provider. PORSE Nannies provide one-to-one care for children in their parents' home, while PORSE Educators care for up to four children in their own homes, which are set up as dedicated in-home childcare environments.

  With 200 staff working across most communities in New Zealand, and supported by a National Support Office, Porse is the market leader for quality home-based ECE with well-established practices.

- ### Au Pair Link

  Au Pair Link has been placing international au pairs with New Zealand host families since 2006, providing quality in-home care and education for young children.

  As a live-in form of childcare, Au Pair Link's au pairs provide one-on-one education and care in the place where learning really begins – the child's home.

  Au Pair Link was the first au pair agency to be licensed by the New Zealand Ministry of Education, and has since grown to be the largest au pair agency in New Zealand.

  Through tailored and individual learning experiences, Au Pair Link's priority is to provide the best possible outcomes for children, families and their au pairs.

ECE Training

- ### PORSE Education & Training

  PORSE Education & Training provides quality education in order to nurture respectful relationships between adults and children, and be responsive to the demands of learners within the ECE industry.

  As a registered category 1 Private Training Establishment, PORSE Education & Training is accredited to offer New Zealand Qualifications Framework unit standards at levels 3, 5 and 6 that focus on Early Childhood Education and Care.

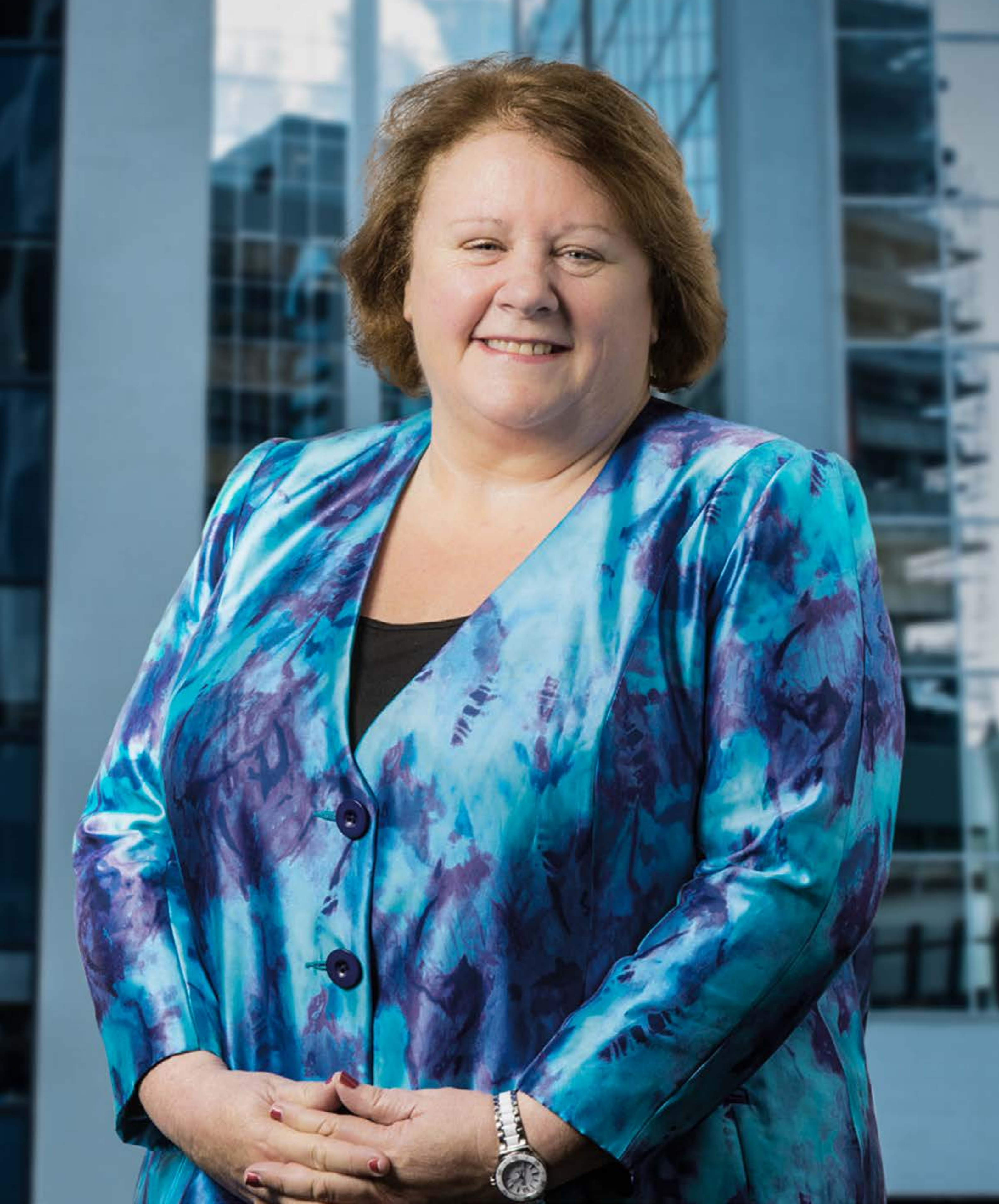
- ### For Life Education & Training

  For Life Education & Training is an organisation focused on empowering and supporting all people to consciously be in relationship with others.

  With the latest scientific research in early brain development and attachment theory informing programme development, For Life aims to walk alongside all parents, caregivers and teachers to offer training in early childhood education with the aim to grow healthy, happy and resilient children.

Chair Report

Norah **Barlow**



The last financial year has been one of establishment and consolidation of Evolve Education Group as a strong, long-term business. This business started as an amalgamation of a multitude of different ownerships, different education philosophies, and many different types of buildings. We have finished the year edging forward in our total consolidation of the group.

Our medium term vision is to create the one Evolve, and we have successfully started that process this year.

We have already consolidated the many systems and processes into one common platform across all of our early childhood education centres (ECE centres). We have established a strong regional structure led by a team of very highly qualified and experienced managers and their staff to ensure localised management.

We are looking forward to further integration of our centres and home-based ECE now that we are in operational control of all parts of the business. This will see better synergies for both management and parents as we look at the overall preschool proposition for children and movement between the different services.

This year we will also establish a brand plan that incorporates the Evolve presence.

Investment in our teachers and leaders is at the core of our business. This year we have implemented strong professional development initiatives including hosting our first leadership development conference to inspire future leaders, followed by a wider programme of conferences and seminars to continue to develop our teachers and staff.

Over time we would like Evolve to be seen as an employer of choice because of quality well-resourced environments, robust processes, professional development and career opportunities.

While consolidating our initial portfolio of centres and home care businesses, we have also continued to grow. The acquisitions made in 2016 have grown our portfolio by 20% to a total of 106 centres. While in the first year these are not earnings accretive with the costs associated with acquisition, we are confident that we have purchased well, and that these acquisitions will lead to increased revenue and profitability as they operate with us for the full year.

We are also pleased that our home-based ECE businesses performed well during the year. However, it should be noted that the earn-out payment which would have been paid should the home support business achieve the 12 months forecast to December 2015, was not required to be paid. This one off item is included in these financial results.

While most of our centres performed very well on their first full year with us, some did underperform to our expectations – an inevitable issue for a nationwide operator which has acquired groups of centres - and one we are putting significant effort into correcting. This may mean however, that in the future we look to divest certain assets that are not able to meet our overall criteria.

In the year ahead we will continue to invest in centres and people to meet the needs of our families and shareholders. Along with investing in our existing centres and facilities to extend and enhance the learning and development environment, we will be focused on seeking development opportunities as part of our acquisitions programme.

This has started already with the acquisition of five early-stage, purpose-built centres on 31 March – including a prime location in the new urban development of Pegasus Town detailed later in the report.

One of the changes we have made during the year has been to bring the majority of the acquisition processes in-house. We see this step as extending our early knowledge of the new centres, and being complementary to the development processes.

We have enhanced engagement with our customers, the families and carers of our children, through the roll out of online communication platform Storypark enabling teachers and families to share children's progress and activities. I am one of the many happy recipients of Storypark, receiving stories of my grandson at play and learning that I would not otherwise be privileged to be part of.

We continue to see a strong requirement for preschool education and care of our children and do not see this diminishing.

With the diversity of our portfolio, Evolve is well-placed to cater for all requirements, whether this be at the child's home with a nanny through Au Pair Link, at an educator's home through PORSE in-home child care or in one of our many ECE centres around New Zealand.

I want to thank the ongoing support of our shareholders. It has been pleasing to see strengthening in our New Zealander shareholder base (64.4% at 31 March) reflecting the increasing recognition of ECE as an investment class.

Finally, I would like to thank all of our staff who every day make the lives of our children and their families better.

Norah Barlow

Norah Barlow

Chair

Evolve Education Group Limited

CEO Report

Alan **Wham**

Evolve Education Group has had a strong performance in its first full establishment year.

We have delivered the business model outlined in our prospectus. That is, to establish a high-quality portfolio of ECE businesses, drive efficiencies from scale, deliver high quality ECE to the children in our care and grow our business through acquisitions.

We have acquired 21 ECE centres beyond the initial portfolio, providing a nationwide platform of 106 ECE centres. Integrating these businesses over 18 months has been a successful and challenging journey and the learnings we have captured mean we are well placed to ensure that new acquisitions perform better, quicker.

Total income for the year totalled $138.9m of which 80% is sourced from ECE centres and 18.3% from the home-based ECE businesses. Statutory net profit after tax was $15.6m for the year inclusive of both $1.8m acquisition and integration expenses relating to the new centres acquired and $1.3m of earn-out provision reversed as mentioned previously in the Chair's report. Reported net profit after tax compares to a Prospectus forecast of $16.6m (as issued in November 2014) which assumed no business acquisitions and payment of the earn-out amounts. Costs were well managed in both the ECE centres and home-based ECE businesses during the year.

At the heart of delivering outstanding ECE for the children entrusted to us, is the quality, passion and professionalism of our teachers and support staff. At the end of March 2016, we employed over 2,200 New Zealanders, of whom 90% are based in our ECE centres. As you would expect, over 80% of all our employees hold undergraduate and postgraduate qualifications.

Strong organisational culture and leadership are key constituents of the operational and financial performance expected by our shareholders and stakeholders as well as allowing the company to accommodate further growth.

Growth Strategy

Our growth strategy has two key pillars. The first is driving organic growth off existing centres and home-based services. This requires strong and capable leadership and teamwork within each centre and home-based network. The culture we adopt must focus on the children, engagement with the families and development of our people. We will continue to invest in centres to enhance the environments and ensure centres and home-based services are well resourced with learning material. If we do all of these things well our occupancy will grow through word of mouth and our financial performance will follow.

Opportunities to leverage scale also exist within our home-based businesses, Porse and Au Pair Link, which are working to develop common processes and to enable au pairs to be extended into the Porse-licensed geography. Porse's focus for the forthcoming year is to re-engage with talented educators to ensure a sufficiently broad pool of educators to match all families seeking quality home-based services and extend their client base.

The second pillar for growth is extending our centre portfolio through acquisitions. Our mandate is to acquire high-quality environments preferably in new, purpose-built centres. In our existing portfolio our centres have an average licensed capacity of 70 child places, which is higher than the industry average. Our plans extend beyond acquiring existing centres to working with development partners to establish new leasehold centre developments. This should present a lower entry cost than acquiring a fully-occupied centre and a mechanism to ensure our portfolio performs well in the long term and is more resilient to competition.

Evolve has the means to implement this growth with adequate headroom in its funding arrangements. Our bank debt facilities of $90 million, comprise an acquisition facility of $60 million and a working capital facility of $30 million.

Environment and Outlook

The sector remains highly fragmented with a lot of smaller ECE centres, many based in converted houses. We expect further consolidation of the market will continue through larger, purpose-built environments being developed. This provides an opportunity for Evolve to access these new developments.

The ECE environment remains positive. Demand is driven by population growth particularly in the Auckland region. With this, parents rely on the support for ECE to enable both parents to work.

We are pleased to see the Government's ongoing commitment and funding support for the sector underpinned by a goal of 98% of children having had some level of pre-school education. The 2016 Government Budget confirmed $397 million over the next four years to meet the growing demand for early childhood education and provide places for a further 14,000 children.

Our occupancy levels remain strong. The average occupancy for our centre portfolio finished the 31 March 2016 year at 87%, the same level we started the year before. The dip through late December and January however reduced the year average to 85.3%. The development of new websites for many acquired centres assisted the post-Christmas enrolment period and we continue to see a steady flow of enquiries through these websites.

We have established three-monthly family surveys for every centre to evaluate our services against our customers' needs and expectations. The feedback will allow us to improve our services, respond to concerns and recognise our staff for their role in meeting with families and carers to discuss their child's development and engaging with their community.

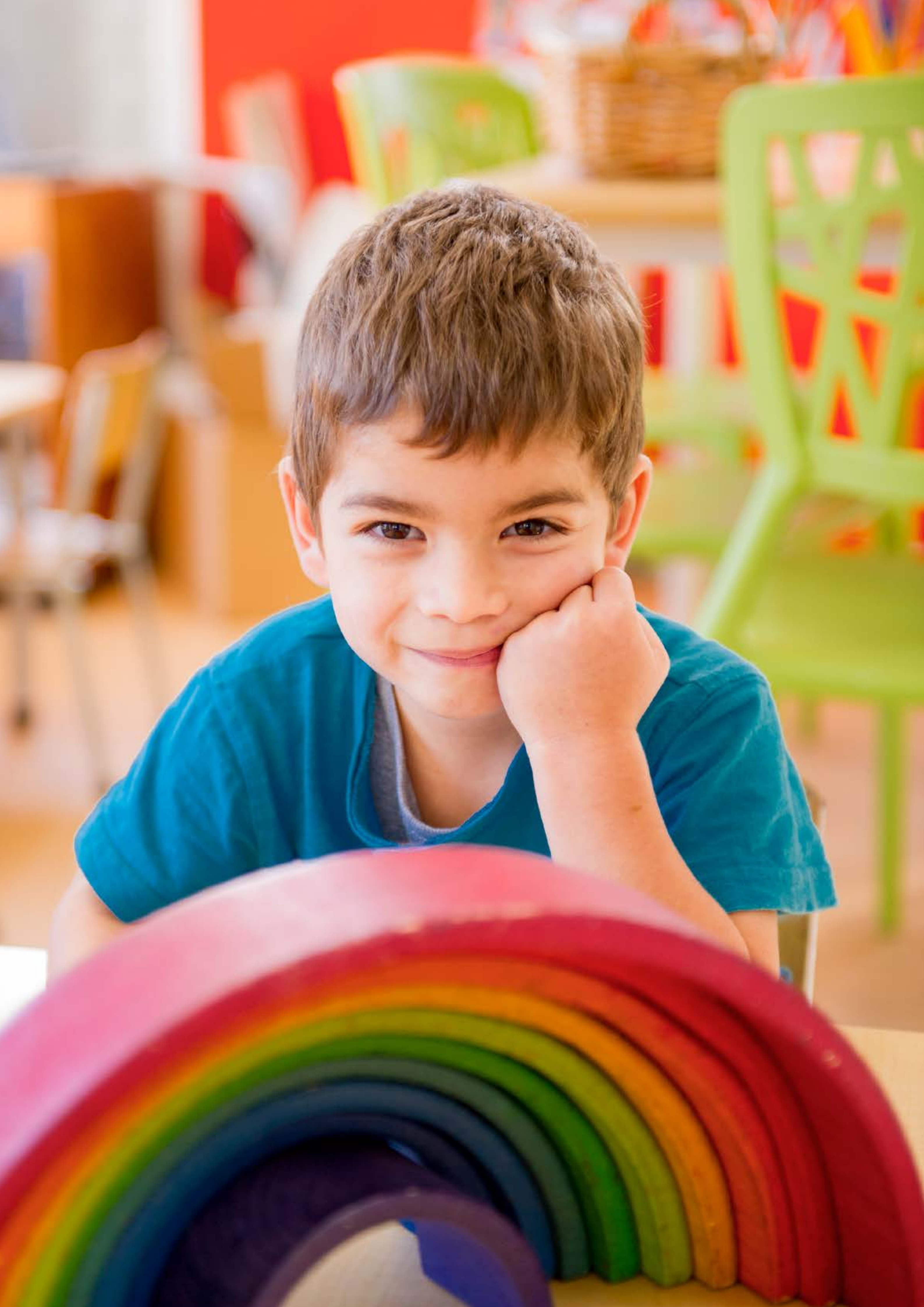
We have developed a solid foundation both to grow and to deliver on our commitment to children, families as well as shareholders in the year ahead.

Alan Wham

Alan Wham

Chief Executive Officer

Evolve Education Group Limited



Financial and Operational Snapshot

2016 Financial Summary

Year ended 31 March 2016:

- Total income of $138.9m
- Statutory net profit after tax of $15.6m
- EBITDA before acquisition and integration expenses of $26.5m[1]

As at 31 March 2016:

- Debt drawn $45.9m
- Net debt $7.2m[2]
- Debt facilities available $44.1m

Acquisitions

106 ECE centres as at 31 March 2016 with 20 centres acquired in the last financial year

ERO Audits

Over 90% of ECE centres and 80% of home-based ECE licences have been audited by the Education Review Office and are considered well placed to promote positive learning outcomes for children:

- 9 ECE centres received 4-year review cycles
- Over 90% of ECE centres received 3-year review cycles

Growth Forecast

- Investing in professional development and developing centre management
- Solid platform for future growth
- Funding in place for acquisition
- Centre development and acquisition opportunities key to growth

Dividends

Total dividend of 4.76 cents per share (fully imputed) in respect of the year ended 31 March 2016

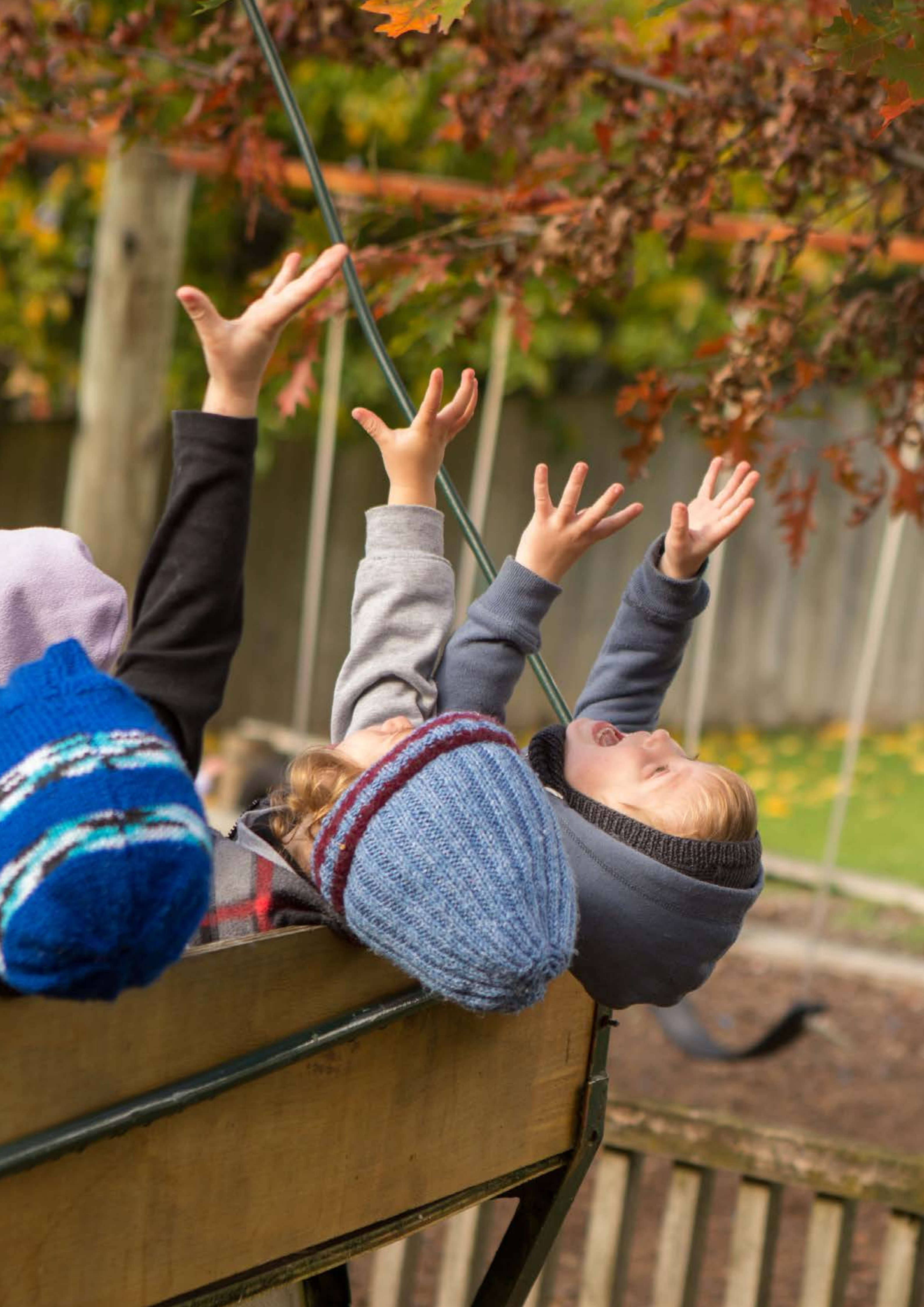
Capacity

- Total licensed capacity in centres: 7,158 places
- Total licensed capacity in home-based ECE: 7,200 places

Porse & Au Pair Link

Market-leading home-based ECE businesses, with quality systems and strong curriculum support

(1) Earnings before interest, tax, depreciation and amortisation (EBITDA) is a non-GAAP financial measure and is not prepared in accordance with NZ IFRS. This measure is intended to supplement the NZ GAAP measures presented in the Company's financial statements, should not be considered in isolation and is not a substitute for those measures. EBITDA before acquisition and integration costs is reconciled on pages 47 and 69 of this annual report and as highlighted on those pages includes the reversal of earnout provisions of $1.35m.
(2) Net debt is defined as bank borrowings drawn less cash and cash equivalents.



A Foundation of Quality

As an early childhood education provider, our service and success is built on our commitment to high quality educational outcomes for the children in our care.

Exceptional Outcomes

The quality of education in our centres and home-based ECE licences is recognised with our outstanding Education Review Office (ERO) reports.

ERO is an independent external evaluation agency that provides assurance to the Government about the quality and effectiveness of schools and early childhood services.

ERO evaluates the processes and practices in an early childhood service, looking primarily at how well placed a service is to promote positive learning outcomes for all children and to sustain a process of ongoing improvement.

The review is robust and transparent, assessing key areas such as policies and systems that promote stability in staffing, leadership and management, quality of curriculum, approach to diversity and a self-review process that demonstrates the service is likely to sustain high-quality performance.

The reports help ECE services improve and advance and, depending on the evaluation, the centre will be given an accreditation for review in four different categories ranging from a four-year review (the best possible outcome, meaning a centre is very well placed to promote positive learning outcomes); a three-year review meaning it is well-placed, followed by two years and then reviews on an agreed basis.

Nine of Evolve's early childhood centres have received four-year review cycles, and over 90% of Evolve early childhood centres have received Education Review Office evaluations with three-year review periods – testament to the exceptional education and care they provide.

60 Porse licences and 12 Au Pair Link licences were reviewed by ERO over the last year, finding both services well placed to promote positive learning outcomes for children. The remaining licences will be reviewed in the next year.

Parents can search for ERO reviews for individual ECE centres on the Education Review Office's website www.ero.govt.nz.

New Initiatives for PORSE Education & Training

PORSE Education & Training has been a leading provider of quality training in early childhood education and child mental health for more than 16 years. Its evidence-based workshops and programmes are delivered sector-wide to support high learning outcomes for learners, children and families.

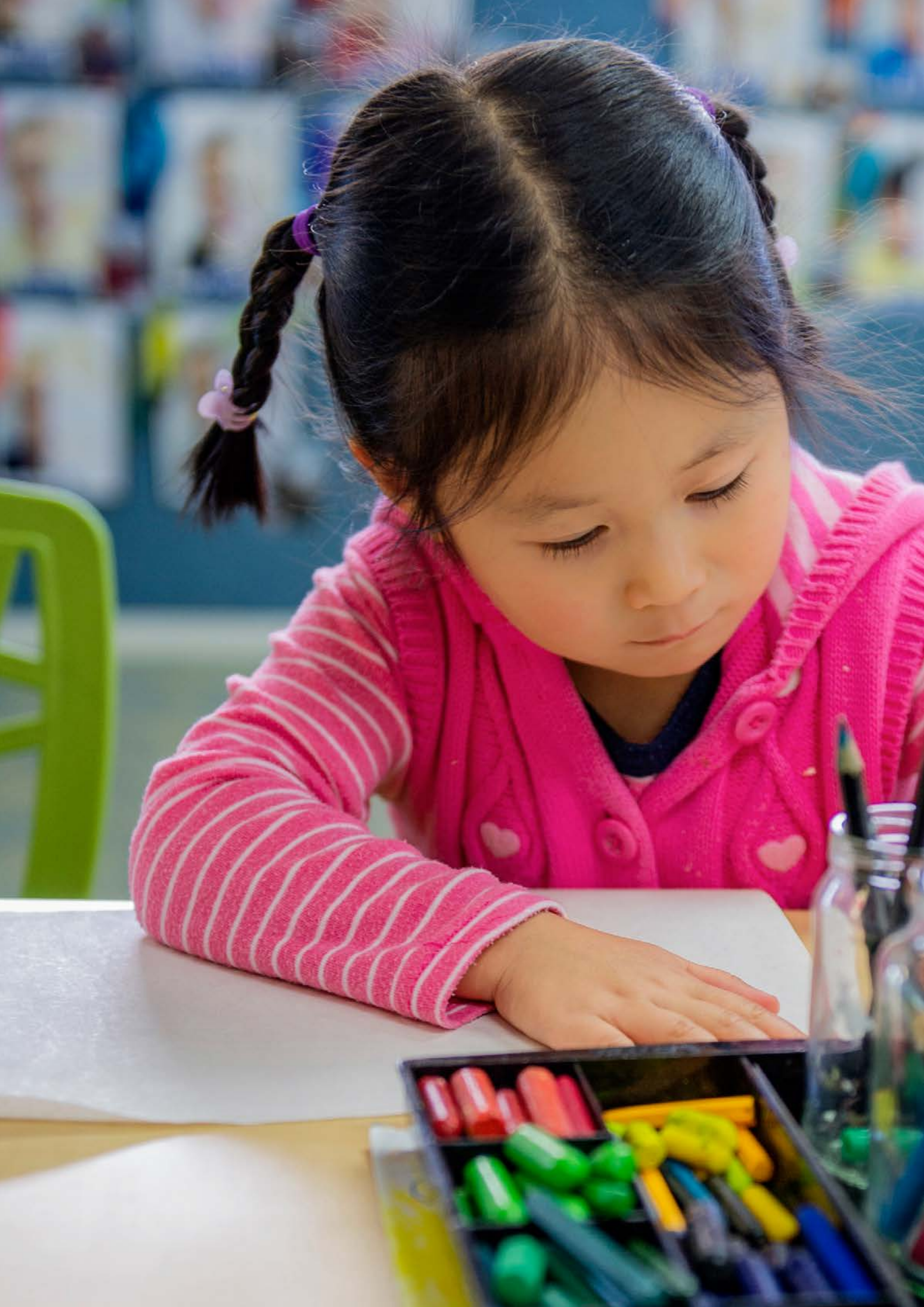
Recently, a new initiative, the Nanny Intern Programme, has had national success. The programme supports Government goals and priorities to engage youth in training opportunities in transition from secondary to tertiary and industry environments.

A benchmark for quality for nannies, the programme addresses a market gap in the provision of genuine career pathways and training relevant to nannying in New Zealand. During 2016, PORSE will support over 100 nanny interns and training families nationwide through this programme.

During the last financial year PORSE has also continued to embrace online learning using innovative web-based platforms to make its programmes and courses accessible to learners anywhere in the world. This includes the National Certificate in Early Childhood Education & Care as well as other short programmes and workshops.

In addition to a national contract for the delivery of the Incredible Years Programme to trained early childhood teachers, PORSE has received Ministry of Education Strengthening Early Learning Opportunities (SELO) funding contracts around the country. This cements PORSE's strong relationship with the Ministry of Education as a provider of quality learning and training.

PORSE is also continuing to grow its presence in the parenting space, partnering with parents to offer useful, targeted and real life training to support them with transitions, milestones and behaviours. This is a key area of focus for development in the future.



A Foundation of Quality

Little World Early Childhood Centre

4-year ERO Review Cycle

Little World in Auckland's Mount Albert caters for 60 children up to school age in two adjacent buildings.

ERO has recognised the centre's ongoing improvement and refinement, offering a consistently high standard of quality care and education.

Little World also fosters biculturalism through opportunities for children to become familiar with te reo and tikanga Māori as they play and teachers' everyday use of te reo Māori.

Comments from the latest ERO review:

"Children at Little World are confident and love learning. Centre leadership is highly effective. Programmes are thoughtfully developed to promote the Te Whāriki and Reggio Emilia approaches which form the basis of the centre's philosophy. Children's learning journeys are very well documented in portfolios that also reflect their cultural backgrounds."

Leaps and Bounds Ellerslie

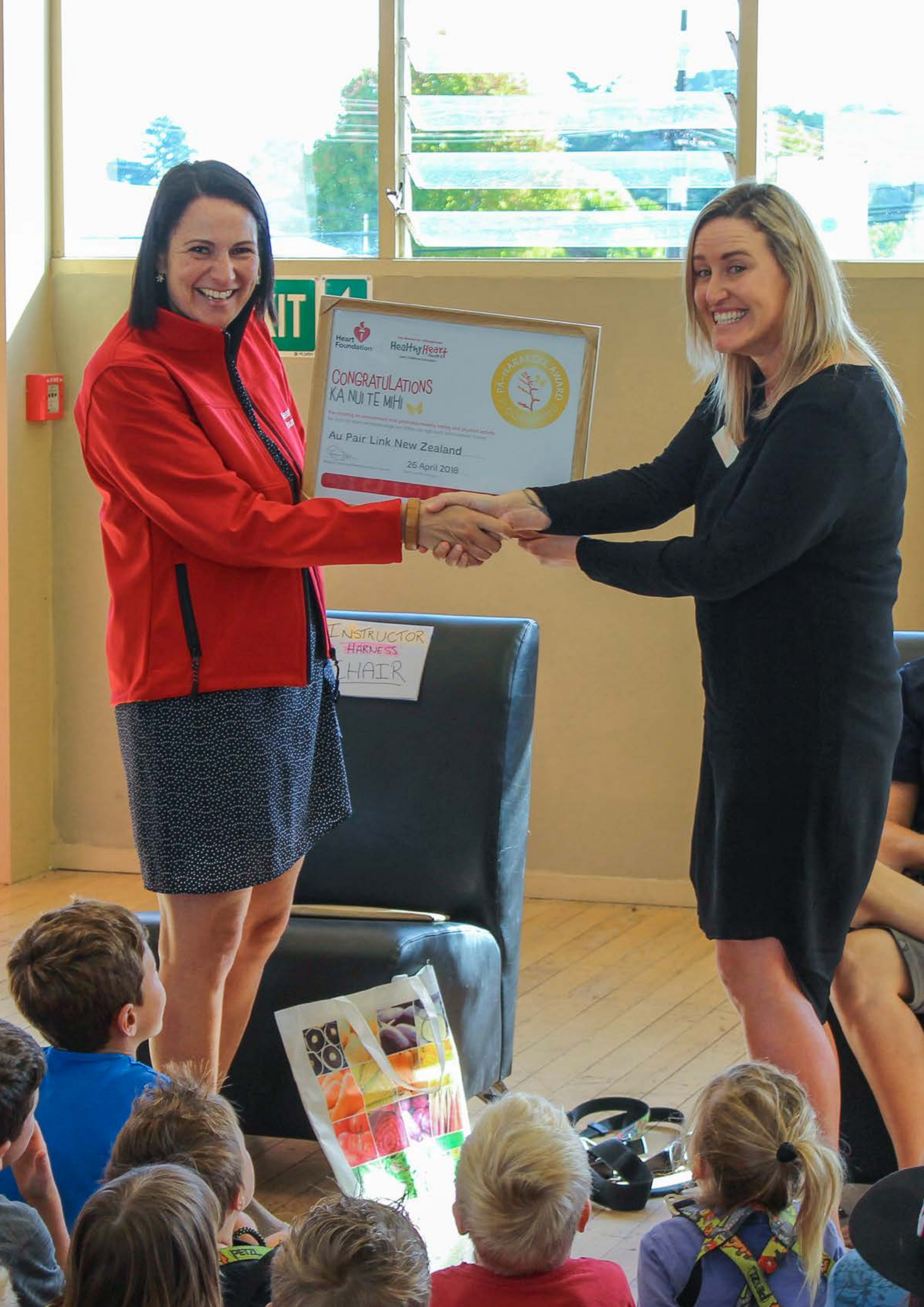
4-year ERO Review Cycle

Providing education and care for up to 100 children, Leaps and Bounds Ellerslie is recognised for its exceptional leadership and management and the high-level of collaboration between teachers, parents and children.

The centre's programme and environment encourages children to be creative and self-motivated, with opportunities to explore and experiment with natural resources in uncluttered indoor and outdoor spaces.

Comments from the latest ERO review:

"Ongoing improvements have enhanced children's learning experiences and contribute to a centre that is focused on providing a valuable service to families. Teachers know children and their families well, and mutually respectful interactions are evident. Children are treated as capable learners and teachers provide many opportunities for children to revisit their learning."


Heart Foundation
Healthy Heart
CONGRATULATIONS
KA NUI TE MIHI
Au Pair Link New Zealand
26 April 2018
INSTRUCTOR
HARNESS
CHAIR

Leaders in Health and Wellbeing

Leadership in Promoting Health and Wellbeing in Early Childhood Education

Au Pair Link has been recognised as a leader in the promotion of health and wellbeing in the early childhood education sector – the first New Zealand company to win the Flourishing Pa-Harakeke Healthy Heart Award at a national level across all 14 licences.

The Heart Foundation award recognises excellence in the sector in promoting healthy food and physical activity among the whānau, tamariki and educators.

Achieving the award nationally is a powerful validation of Au Pair Link's consistently high standards.

"We are committed to providing information, education and support to our au pairs, whānau and tamariki to establish good eating habits from an early age, which is at the core of our programmes," says Cherilynn Buckingham, Au Pair Link's Education Services Manager.

Au Pair Link impressed the judges with its innovative health and nutrition promoting initiatives: the 'Kiwi Kai Cookbook', and an array of online tools and resources, learning destinations and sites for sharing of ideas and aspirations, further enhancing collaboration to support wellbeing.

Au Pair Link also provides professional learning opportunities in a variety of ways, including introducing New Zealand food and healthy eating habits to new au pairs in its orientation programme.

Au Pair Link has implemented the Kitchen Club for Au Pair Link whānau, to support educators in increasing their skills in the kitchen and empowering busy whānau to put healthy meals on the table.

Healthy movement is promoted through initiatives such as GrooveLink classes incorporating music, stories and movement with explorations of numeracy, literacy, physical development, social interactions and musical appreciation. The MoveLink class brings a more holistic approach to keeping healthy encouraging physical exploration, teamwork and relaxation.

Leading the Way in Workplace Health and Safety

PORSE is now leading the way in workplace health and safety in the early childhood education sector.

PORSE has achieved ACC's primary rating for Workplace Safety Management Practices meaning all its systems and processes are in place to support staff in relation to workplace health and safety.

It is one of only two childcare services in New Zealand to have achieved the primary rating accreditation, marking PORSE as a safety-first organisation.

The voluntary programme assesses businesses' health and safety management practices against audit standards that provide a framework for building successful and sustainable health and safety practices.

ACC Relationship Manager Nathan Meo says the rating demonstrates PORSE's commitment to the wellbeing of its employees, customers, suppliers and visitors.

"We want to support businesses to reduce the number of accidents and injuries in their workplaces. PORSE has met the audit standards and we look forward to helping them further achieve their health and safety objectives".

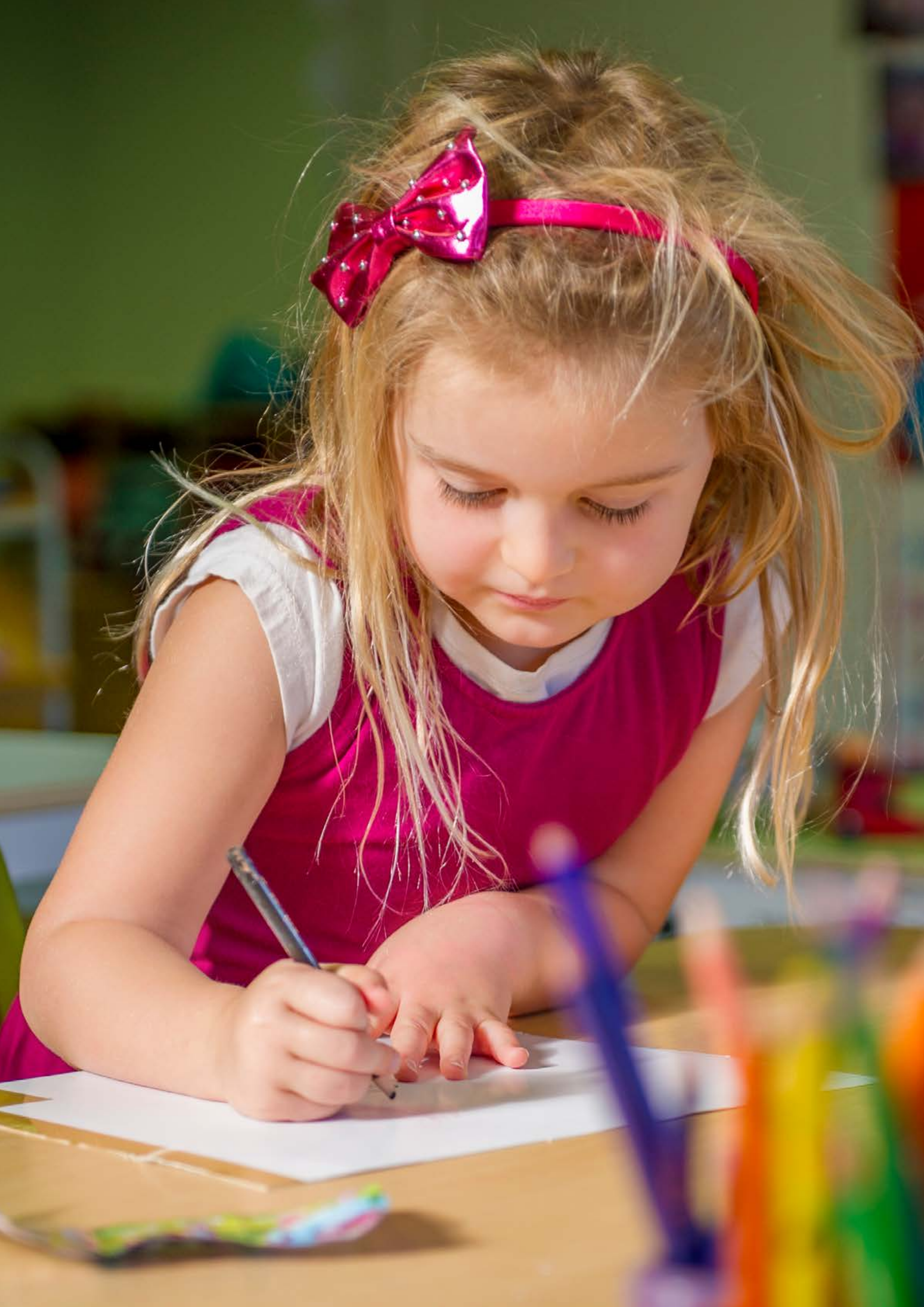
Meeting the ACC programme standards means the business also receives the financial benefits of a levy reduction.

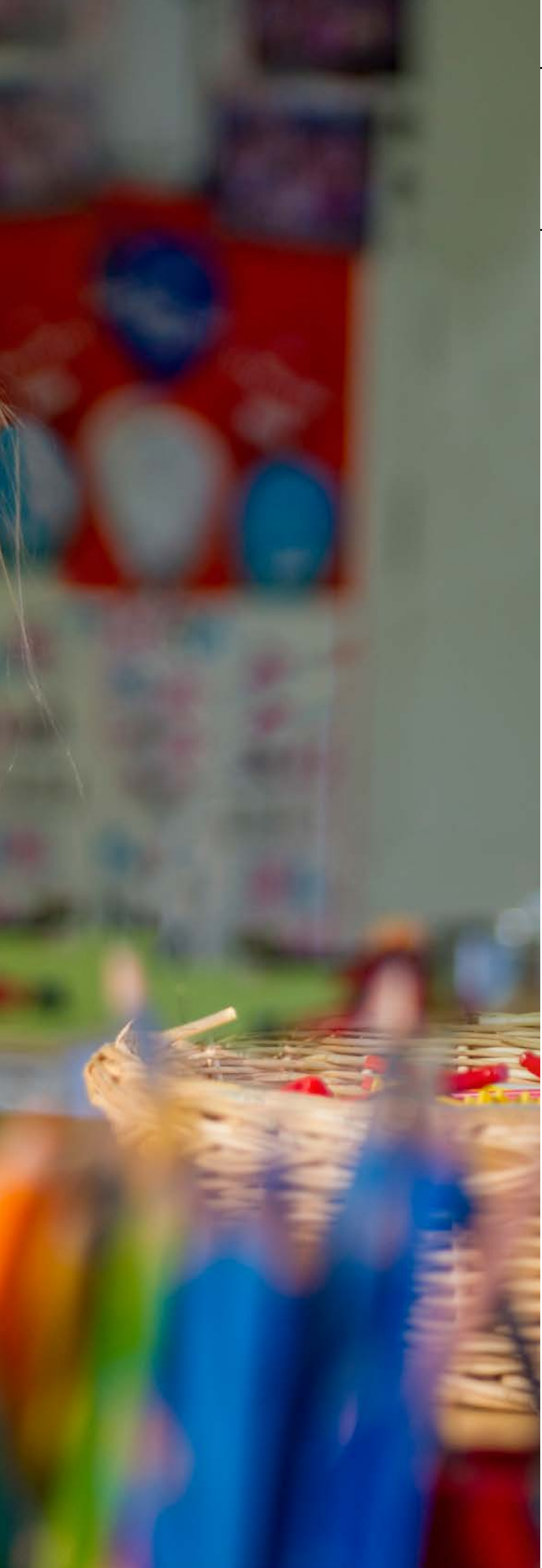
First Aid Training

Over 150 Evolve centre staff have completed first aid training to ensure centres can confidently address any accidental situations that may arise.

Free Flu Vaccines

Free flu vaccines have also been offered to all staff.





Engaging with Families and Communities

Local Communities

When more than 250 people turn up for dinner at a small early childhood centre, you know you're doing something right.

Inviting large numbers of guests into the centre is business as usual for Paddingtons Early Childhood Centre on Farnborough Drive in Hamilton. The centre is well-known and loved for its tradition of fun and creative activities engaging families and getting children involved in the community.

The recent summer Night Gala, which attracted hundreds of locals to enjoy food and craft stalls, is just one example.

As Centre Manager Angela Maseyk says, "it's about continuously offering activities that celebrate our children and families".

Paddingtons has a full calendar of events, activities and excursions ranging from celebrating its cultural diversity including annual Diwali festivities where Indian parents come bearing food, a Japanese Girls Day – not to mention a Dads and Boys Night – and staging yearly theatre productions.

Then there's the community focus, from taking children out on weekly excursions from Nature Class at the local arboretum and weekly soccer lessons down at the park to tree planting at the zoo.

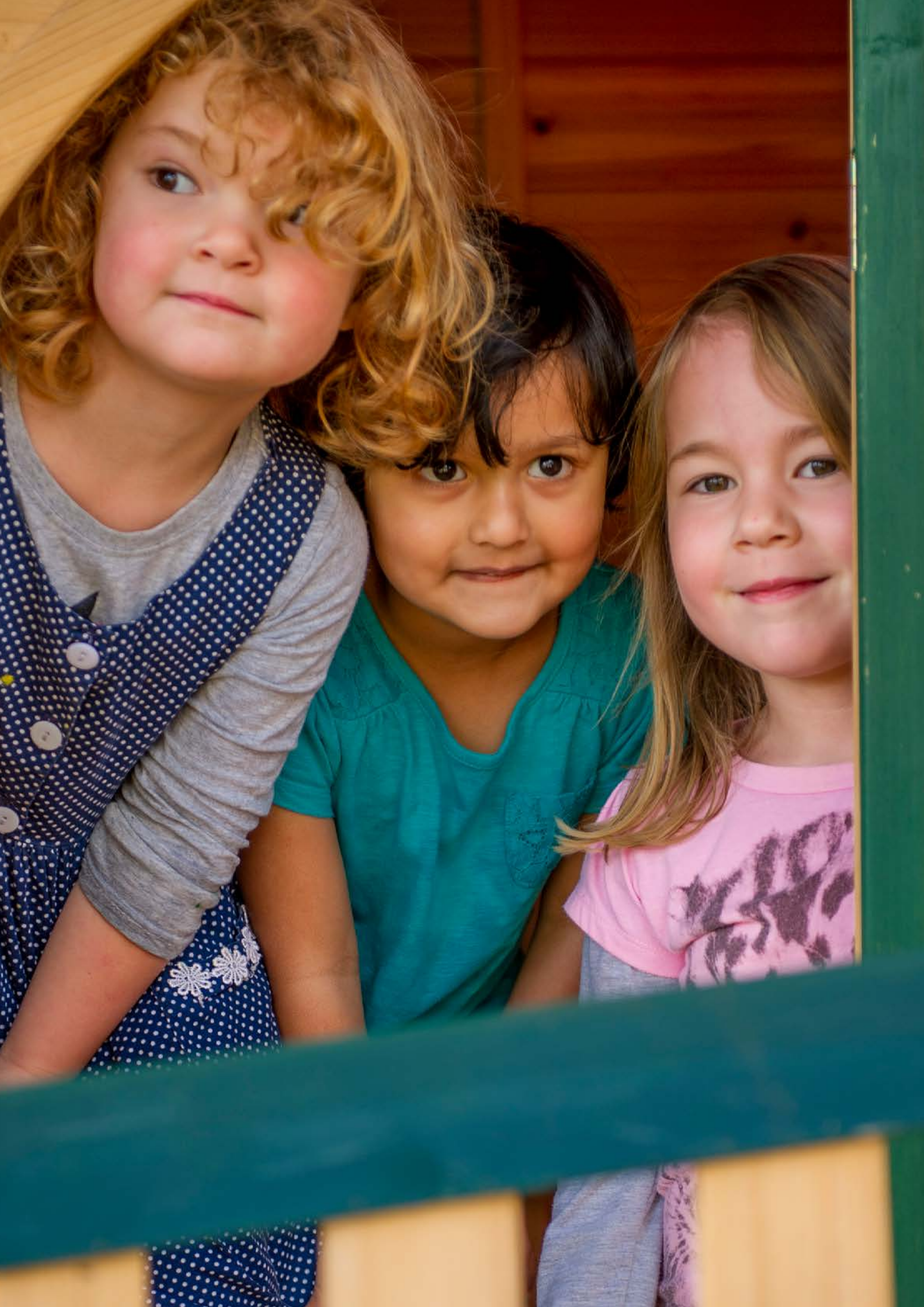
And it's working. The centre is "chocka block", operating at between 97% to 110% of its occupancy licence for 68 children.

Angela also uses the activities as an opportunity to promote the centre with flyers and branded items such as Paddingtons drink bottles for parents and Paddingtons t-shirts for children, proudly tagged "Hero in Training".

Engagement is maximised through sharing and posting on the online communications platform, Storypark, keeping keen parents involved in near real-time of their children's day.

"Our parents love it. They understand the time and effort involved in organising activities. Sometimes they talk about events for weeks."

Paddingtons have every reason to pride themselves on having close relationships with their whanau, knowing it creates the best outcomes for our children.



Engaging with Families and Communities

Online Communities

It takes a community to raise a child, and Storypark, an online portfolio and family communication platform, helps support this process through enabling the people in a child's life to empower their learning.

Storypark not only greatly enhances teaching and communication with families, but enables parents and the wider family to be involved in their child's learning and understand their strengths and interests.

Through Storypark, Evolve ECE Centres Provided

Over
95,000
Learning stories

For Approximately
11,600
Family members

And Over
8,600
Children

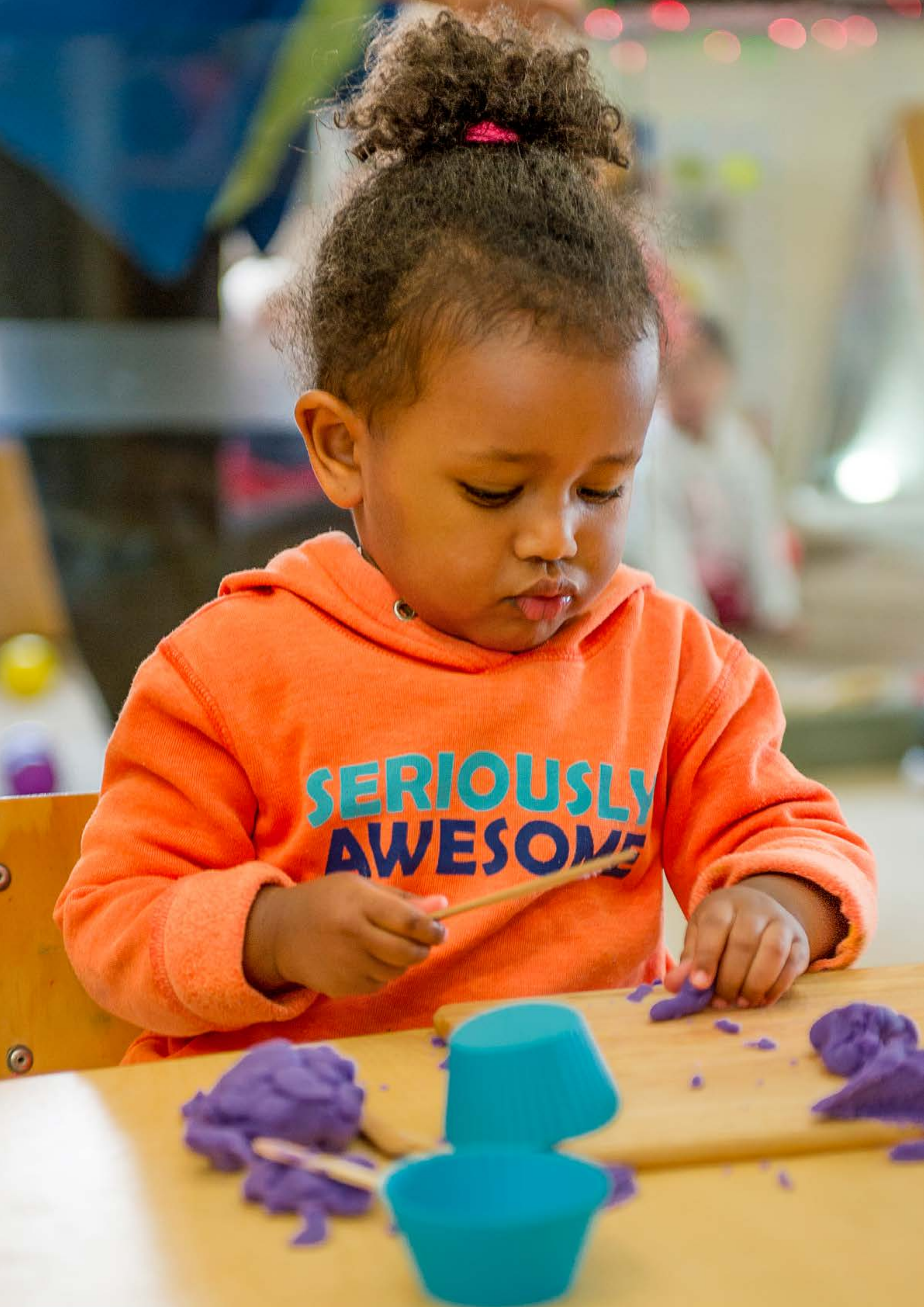
Visit our Centre Websites

In 2015, individual websites were created for each ECE centre brand, allowing better engagement with their target audiences and online communities. You can visit them at www.evolveeducation.co.nz.

55
Websites

Over
12,000
Visitors a month

Over
500
Enrolment enquiries a month


SERIOUSLY
AWESOME

Investing in Our People

A Learning Community

One of the most significant benefits of being part of the Evolve Education Group is the opportunity for educators and managers to learn and share with their peers, tapping into a powerful learning community.

This process is supported by a number of formal professional development initiatives. In the last year, Evolve Education held an inspirational leadership day for 100 centre managers, teacher enrichment days for 185 teachers across the country and regular cluster meetings for Evolve centre managers nationwide, focusing on their individual needs.

Evolve Inaugural Manager's Conference

More than 100 managers from ECE centres nationwide attended the first Evolve Manager's Conference in September 2015, a stimulating day of workshops and speakers. With the theme *"Building for our children's futures"*, the conference was designed to empower centre managers to lead more effectively.

Nationwide Cluster Groups

A powerful form of peer-based professional development, national cluster groups bring teachers together to share and learn from each other around identified needs and issues.

Evolve educators are supported through these regular group learning and support sessions with six-weekly regional cluster groups. As well as giving teachers a forum to discuss best practice and build a pool of shared knowledge, clusters also provide a space for standardising processes and procedures across Evolve centres.

Not only do the clusters develop network connections and sharing, they also provide a cost-effective way for centres to get new ideas, initiatives and solutions without the need to call on external advisors.

South Island Teachers Enrichment

More than 90 delegates from around the South Island attended the two-day Teachers Enrichment event in March this year exploring the theme of *"Intentional Teaching"*.

The programme allowed staff from different centres to meet for the first time, with opportunities for them to share and learn from each other, and exposed educators to cutting-edge thinking in effective and intentional teaching. Expert speakers included Dr Jackie Blunt of the Brainwaves Trust and facilitated workshops allowed attendees to deeply explore the learnings.

Delegates also attended an open-day at Nature's Play Early Learning Centre near Christchurch, allowing them to see the Reggio Emilia approach in practice in the centre.

The open day was a huge success, both for the learning opportunity it provided, and the massive following it engendered when photos were uploaded to the centre's Facebook page, followed by likes and shares in the tens of thousands – all over the world.

A similar event was held in Auckland for the northern region and a third will be held during 2016 for the middle region.

Teacher Feedback

"Evolve is taking children's learning seriously and they are willing to invest in it – great!"

Teacher feedback; South Island Teacher Enrichment Day.

Manager Feedback

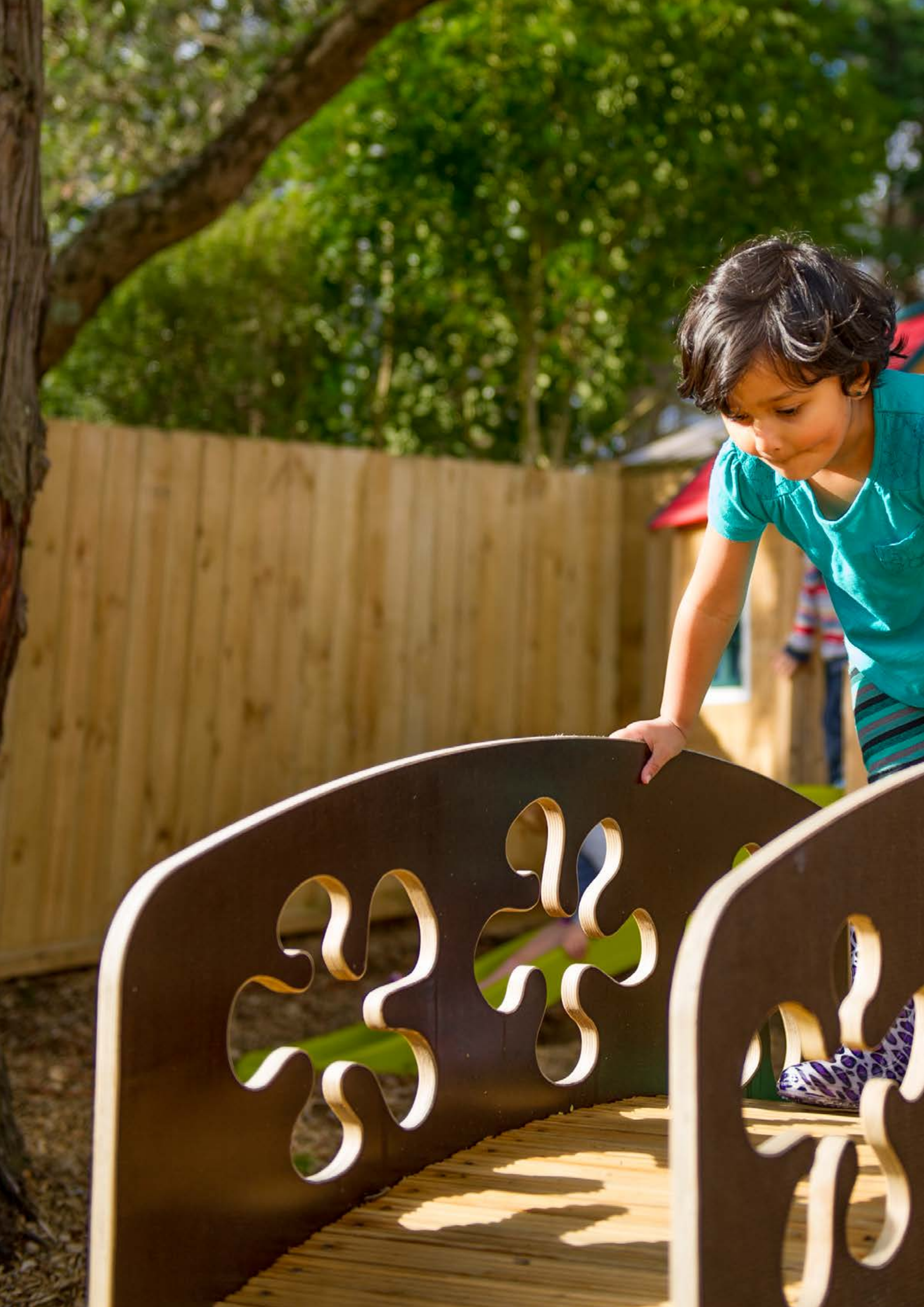
"This was one of the best professional learning workshops I have attended and it left me feeling inspired to achieve greatness."

Feedback from Evolve Manager's Conference.

South Island Teacher Feedback

"This was a really great opportunity and a worthwhile experience. It was good to have other team members from our centre attend - good team building. A very inspiring and motivating weekend. Thank you."

Feedback from South Island Teachers Enrichment.



Growing Our Centre Portfolio

As a growth company, Evolve is clear on the strategies needed to achieve growth and secure the company's long term performance. The key focus is on acquiring quality ECE centres, both within existing regional clusters of centres and in areas of high demand. A quality environment is an enabler of high-quality early childhood education services as well as being more resilient to competition. There are a number of ways by which Evolve will access quality centres and grow its portfolio including acquisition of existing centre operations, expansion of existing centres as well as undertaking leasehold centre developments.

Over the last financial year, Evolve has added 20 centres to its portfolio, including Nature's Play, a popular nature-themed centre in Pegasus Town, a new urban town under development northeast of Christchurch. This acquisition included the right to lease a second ECE centre in the town and an opportunity for Evolve to work with developers to set up a centre in a new town. This provides Evolve with the opportunity to expand its capability and grow with the community.

Evolve has also acquired five early-stage, purpose-built Lollipops centres to grow and develop, drawing on the expertise and knowledge of the internal team in establishing successful operations in brand new centres. Investing in quality, early-stage centres is not only cost effective but provides Evolve with an opportunity to take a role in their evolution, ensuring centres are created with sustainable, enduring appeal. Evolve will continue to access this quality of centre through establishing partnerships with developers to deliver new leasehold centre developments in the coming year.

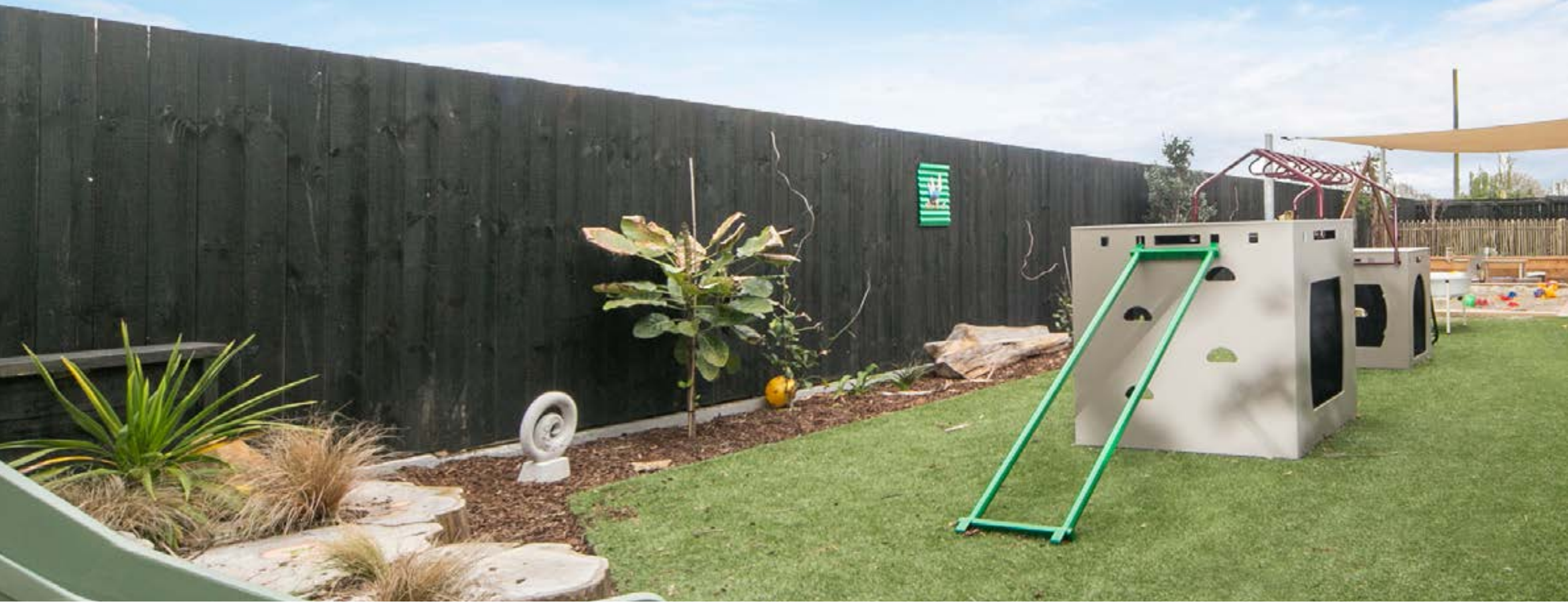
Green Bay Early Childhood Centre Expansion

When Evolve acquired Green Bay Early Children Centre it was licenced for 27 children with no under twos.

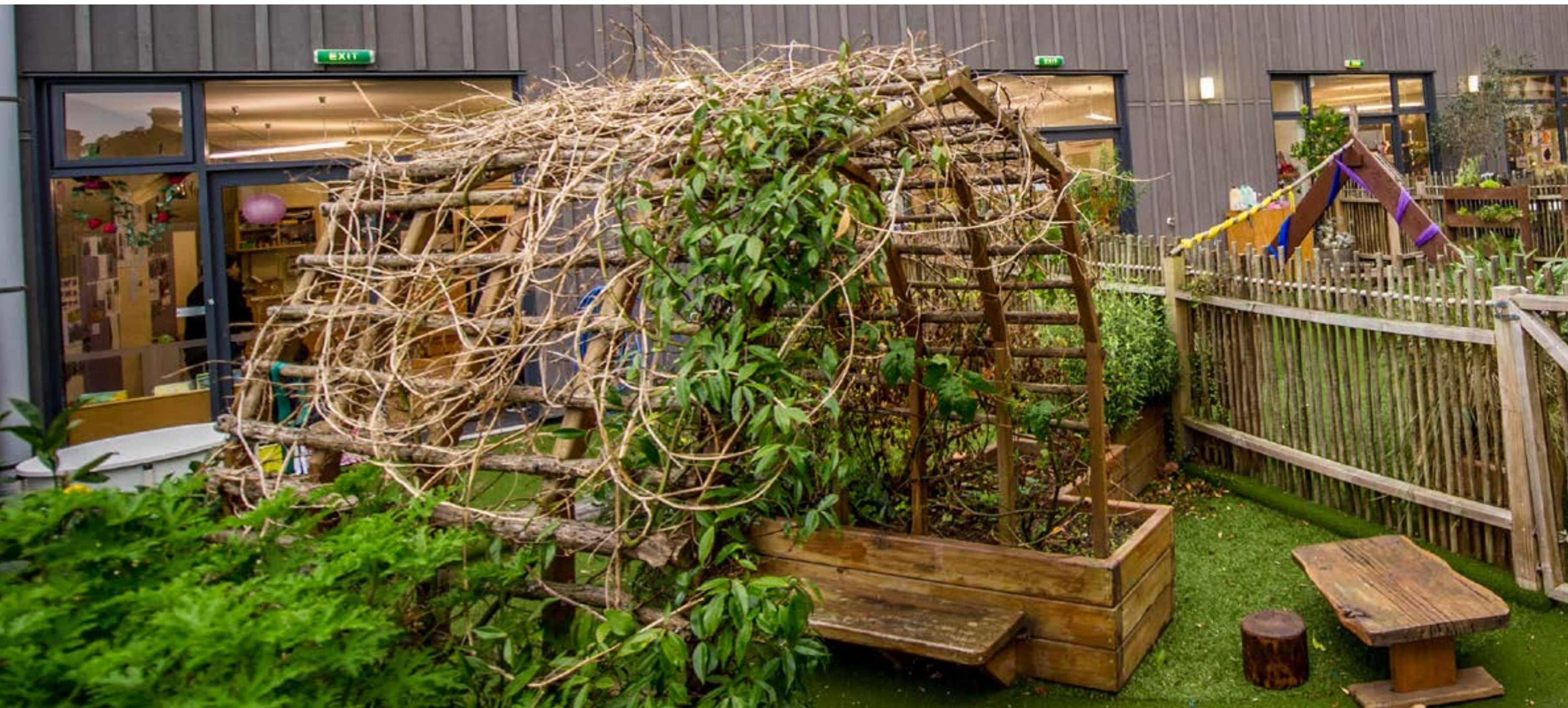
"We're always looking to make the best of the centres we acquire and we could see Green Bay had room to grow and develop," says Rachel Nottingham, Business Acquisition and Property Manager.

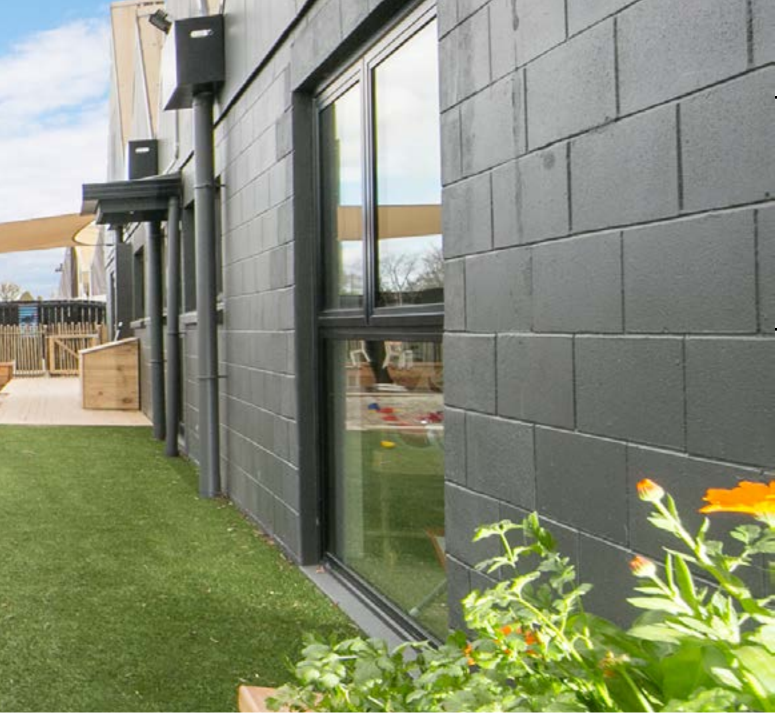
As part of the acquisition, the landlord agreed to enhance the centre with the addition of new purpose-built buildings, a new playground and improved facilities.

Green Bay is now licenced for 75 children ensuring the community is well-served for children from babies to five years. The project provided valuable learning in how to enhance centres without disruption to families and the community as well as preserving the health and safety of staff and children.




WHĀNAU

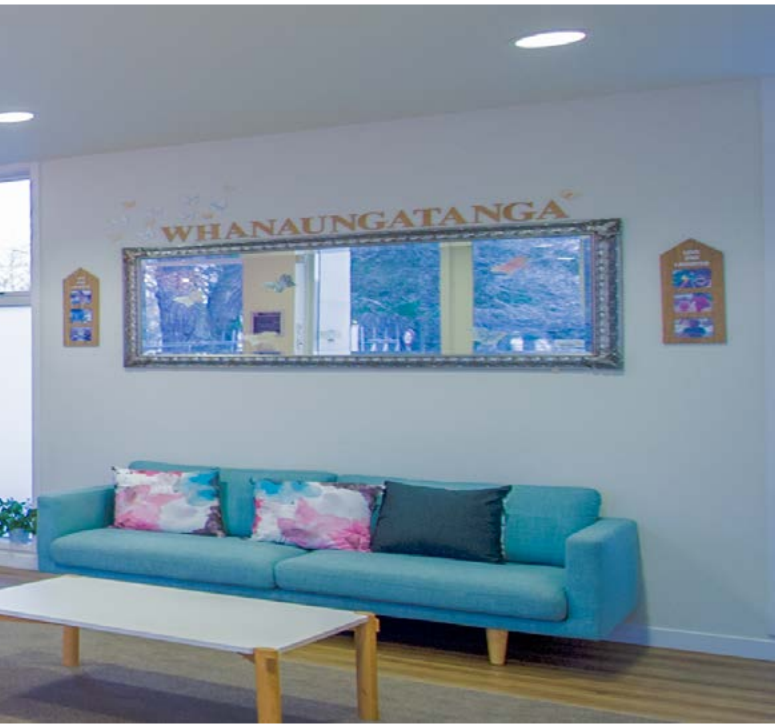

EXIT



Growing Our Centre Portfolio

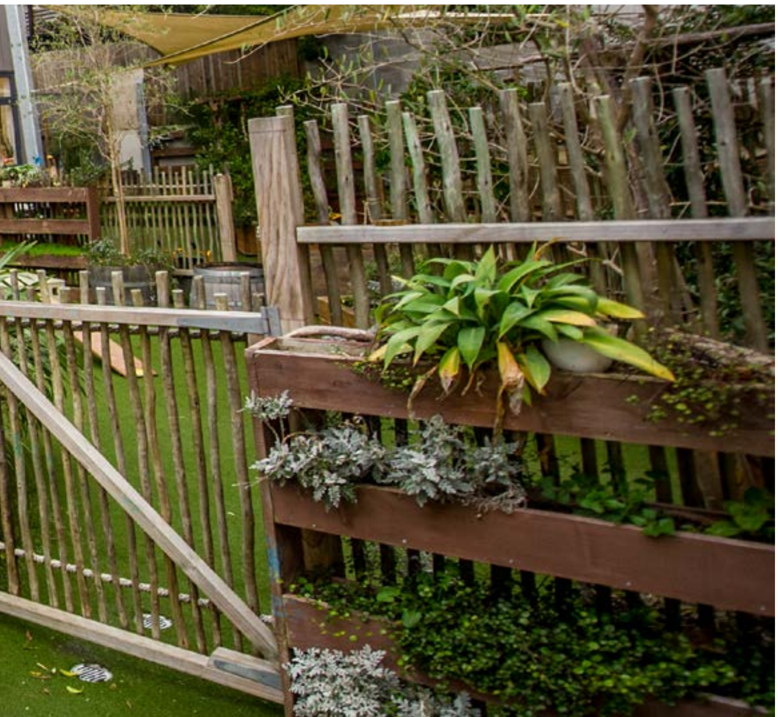
Lollipops Takanini

Lollipops Educare located in Conifer Grove, Takanini nurtures a family-oriented environment with a Reggio Emilia-inspired focus.



Lollipops Swanson

Lollipops Educare Swanson is a new centre with a warm, family-orientated environment, with facilities and activities designed so children learn through play and are encouraged to be inspired by nature.



Lollipops Newton

Lollipops Educare Newton is a new, purpose-built centre where children are a unique part of a wonderful, family oriented environment.

Board Profiles

Evolve Education has an experienced and balanced Board with a diverse range of skills, including industry and business knowledge, financial management and corporate governance experience. The Board currently comprises an Independent Chair, two Independent Non-Executive Directors, one Non-Executive Director, and one Executive Director, being the Chief Executive Officer.

Norah **Barlow**

Chair
(Independent)

BCA, CA
Appointed as Director
13 November 2014

Norah is an accountant by profession, operating her own partnership for a number of years, prior to becoming the Group Accountant, and then CEO of NZX and ASX listed Summerset Group. Norah retired from that role in April 2014 but remained on the Board as a non-executive Director until April 2016.

Norah is now a professional director and holds a number of directorships, including Methven Limited, Cigna Life Insurance New Zealand Limited, Careerforce and Vigil Monitoring Limited in New Zealand, and Estia Health Limited and Ingenia Communities Limited in Australia. Norah is Chair of the National Science Challenge 'Ageing Well'. In 2014 she was awarded an ONZM for services to business.

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

Alan **Wham**

Chief Executive Officer
(Non-Independent)

BPharm
Appointed as Director
13 November 2014

Alan was appointed as Chief Executive Officer of Evolve Education Group in September 2014. Alan was CEO of Pharmacybrands Limited (now Green Cross Health Limited) from late 2003 to mid-2013. The Pharmacybrands business was transformed during this period by consolidation through mergers and acquisitions, raising capital, delivering significant synergies and enhancing the performance of pharmacy and medical centre acquisitions.

Alan's early career spanned 15 years in senior executive positions with 3M in New Zealand, the United Kingdom and Australia. He was Managing Director for 3M Pharma in Australia and Regional Director for Asia Pacific and Africa before returning to New Zealand in late 2003.

Alan has undertaken a range of governance roles and remains an advisor to Windhaven Investments.

Board Profiles

Mark **Finlay**

Non-Executive Director
(Non-Independent)

BEd
Appointed as Director
13 November 2014

Mark has 15 years experience in New Zealand early childhood education. He was a founder and Managing Director of the Lollipops Educare Group. Lollipops Educare is a respected ECE provider in New Zealand having developed and managed more than 40 ECE Centres over the past decade. Mark brings in-depth operational experience in the ECE services industry to the Board.

Mark is a member of Evolve Education's Remuneration and People Committee.

Greg **Kern**

Non-Executive Director
(Independent)

BCom, CA,
GradDip in Applied
Finance and Investment
Appointed as Director
20 May 2014

Greg is the Managing Director of Kern Group, a corporate advisory firm based in Queensland, Australia. Greg is a chartered accountant, a registered company auditor, and a member of the Institute of Internal Auditors and a member of the Financial Services Institute of Australasia. Greg recently led the sale of education company, Aspire2 Group Limited to Archer Capital in New Zealand.

Greg is Chair of Evolve Education's Remuneration and People Committee and a member of Evolve Education's Audit and Risk Committee.

Alistair **Ryan**

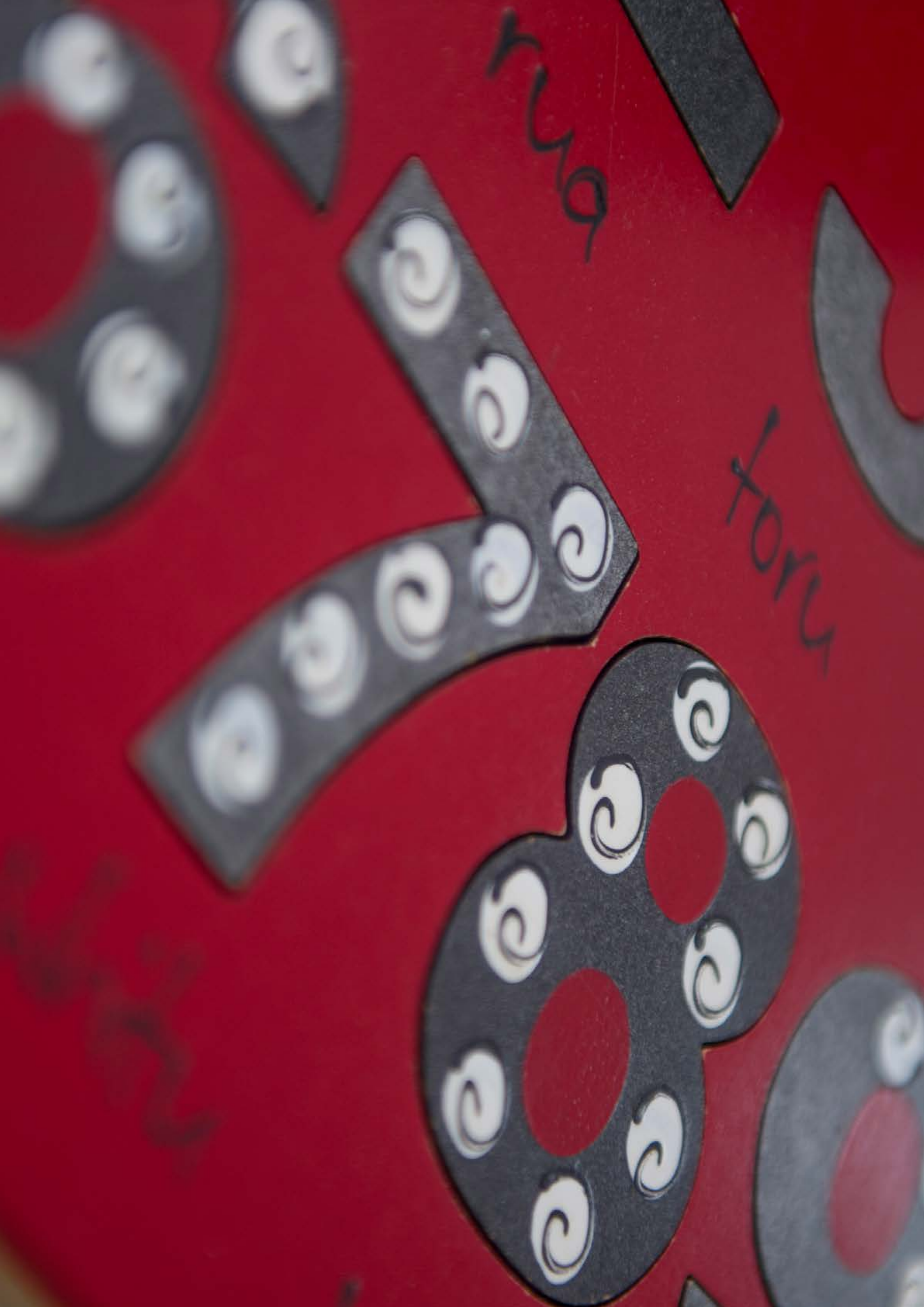
Non-Executive Director
(Independent)

MCom, CA
Appointed as Director
13 November 2014

Alistair is an experienced company director and corporate executive. He is currently Chairman of NZX-listed investment companies Kingfish Limited, Barramundi Limited and Marlin Global Limited, a Director and Audit and Risk Committee Chair of listed company Metlifecare Limited, a board member and Chair of the Audit and Risk Committee of the New Zealand Racing Board, and a Director of private companies Christchurch Casinos Limited and Lewis Road Creamery Limited. Alistair is also a member of the FMA-appointed Auditor Regulation Advisory Group.

Alistair retired from NZX and ASX-listed SKYCITY Entertainment Group Limited as Chief Financial Officer in June 2011 after a 16-year career with the company, which began just prior to its opening and stock exchange listing in February 1996.

Alistair is the Chair of Evolve Education's Audit and Risk Committee and a member of its Remuneration and People Committee


rua
toru

Evolve Education Group Limited

Financial Statements for the Year Ended 31 March 2016

The Directors have pleasure in presenting the Financial Statements of Evolve Education Group Limited for the year ended 31 March 2016.

The Financial Statements presented are signed for and on behalf of the Board and were authorised for issue on 23 May 2016.

Norah Barlow	**Alistair Ryan**
Chair	Director
23 May 2016	23 May 2016

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2016

$'000	Note	YEAR 31 MARCH 2016	PERIOD 31 MARCH 2015
Revenue	4	137,379	32,940
Other income	4, 10	1,352	518
Share of profit of equity accounted joint venture		204	123
Total income		**138,935**	**33,581**
Expenses			
Employee benefits expense	5	(74,793)	(20,013)
Building occupancy expenses	5	(17,474)	(4,384)
Direct expenses of providing services		(15,232)	(3,659)
Acquisition expenses	4, 10	(1,204)	(5,033)
Integration expenses	4	(871)	(1,494)
Initial listing expenses		-	(1,308)
Depreciation	8	(1,687)	(302)
Amortisation	11	(470)	(137)
Other expenses	5	(4,922)	(3,524)
Total expenses		**(116,653)**	**(39,854)**
Profit/(loss) before net finance expense and tax		**22,282**	**(6,273)**
Finance income	5	159	191
Finance costs	5	(1,255)	(1,853)
Net finance expense		(1,096)	(1,662)
Profit/(loss) before tax		**21,186**	**(7,935)**
Income tax expense	6	(5,544)	(123)
Profit/(loss) after tax attributed to the owners of the Company		**15,642**	**(8,058)**
Other comprehensive income		-	-
Total comprehensive income/(loss) attributed to the owners of the Company		**15,642**	**(8,058)**
Earnings per share			
Basic (and diluted) earnings per share (expressed as cents per share)	18	8.8	(12.9)

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes. Further to those notes and in relation to the comparative balances, the Company was incorporated on 20 May 2014 and the comparative period is from the date of incorporation to 31 March 2015. During part of this period the Company was preparing to list and as a result earned no revenue but incurred costs to enable it to successfully commence operations as a listed entity on 5 December 2014 on the NZX and ASX.

Consolidated Statement of Movements in Equity

For the year ended 31 March 2016

$'000	Note	ISSUED SHARE CAPITAL	RETAINED EARNINGS/ (ACCUMULATED LOSSES)	TOTAL
Balance as at 20 May 2014		-	-	**-**
Loss for the period		-	(8,058)	**(8,058)**
Other comprehensive income for the period		-	-	**-**
Total comprehensive loss		**-**	**(8,058)**	**(8,058)**
Issue of share capital on IPO (net of costs) for cash	16	119,941	-	**119,941**
Issue of shares related to share based payments	16	775	-	**775**
Issue of shares related to business combinations	16	36,210	-	**36,210**
Balance as at 31 March 2015		**156,926**	**(8,058)**	**148,868**
Profit for the year		-	15,642	**15,642**
Other comprehensive income for the year		-	-	**-**
Total comprehensive income		**-**	**15,642**	**15,642**
Shares issued under Dividend Re-investment Plan	16	489	-	**489**
Share issue costs relating to shares issued	16	(51)	-	**(51)**
Dividends paid	17	-	(4,215)	**(4,215)**
Balance as at 31 March 2016		**157,364**	**3,369**	**160,733**

The above Consolidated Statement of Movements in Equity should be read in conjunction with the accompanying notes. Further to those notes and in relation to the comparative balances, the Company was incorporated on 20 May 2014 and the comparative period is from the date of incorporation to 31 March 2015. During part of this period the Company was preparing to list and as a result earned no revenue but incurred costs to enable it to successfully commence operations as a listed entity on 5 December 2014 on the NZX and ASX.

Consolidated Statement of Financial Position

As at 31 March 2016

$'000	Note	AS AT 31 MARCH 2016	AS AT 31 MARCH 2015
Current assets			
Cash and cash equivalents	7	38,624	4,610
Assets held for sale (investment in equity accounted joint venture)	9	1,605	-
Other current assets		1,313	1,087
Total current assets		**41,542**	**5,697**
Non-current assets			
Property, plant and equipment	8	5,502	5,054
Investment in equity accounted joint venture	9	-	1,521
Deferred tax asset	6	786	450
Intangible assets	11	190,857	168,525
Total non-current assets		**197,145**	**175,550**
Total assets		**238,687**	**181,247**
Current liabilities			
Trade and other payables	13	8,413	10,968
Current income tax liabilities		1,286	674
Funding received in advance	14	16,318	15,646
Employee entitlements	15	6,072	5,091
Total current liabilities		**32,089**	**32,379**
Non-current liabilities			
Borrowings	19	45,865	-
Total non-current liabilities		**45,865**	**-**
Total liabilities		**77,954**	**32,379**
Net assets		**160,733**	**148,868**
Equity			
Issued share capital	16	157,364	156,926
Retained earnings/(Accumulated losses)		3,369	(8,058)
Total equity		**160,733**	**148,868**

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes. Further to those notes and in relation to the comparative balances, the Company was incorporated on 20 May 2014 and the comparative period is from the date of incorporation to 31 March 2015. During part of this period the Company was preparing to list and as a result earned no revenue but incurred costs to enable it to successfully commence operations as a listed entity on 5 December 2014 on the NZX and ASX.

Consolidated Statement of Cash Flows

For the year ended 31 March 2016

$'000	Note	YEAR 31 MARCH 2016	PERIOD 31 MARCH 2015
Cash flows from operating activities			
Receipts from customers (including Ministry of Education funding)		136,779	37,117
Dividends received		121	-
Payments to suppliers and employees		(113,525)	(34,107)
Taxes paid		(4,484)	(478)
Net cash flows from operating activities	**20**	**18,891**	**2,532**
Cash flows from investing activities			
Payments for purchase of businesses	10	(23,708)	(130,445)
Cash acquired from purchase of businesses		-	15,523
Payments for software, property, plant and equipment		(2,296)	(240)
Interest received		159	191
Net cash flows from investing activities		**(25,845)**	**(114,971)**
Cash flows from financing activities			
Proceeds from issue of shares		-	132,317
Share issue costs	16	(51)	(12,376)
Interest paid on borrowings		(1,166)	(1,853)
Bank borrowings drawn		141,790	10,000
Bank borrowings repaid		(95,925)	(10,000)
Dividends paid	17	(3,680)	-
Pre-listing funding received		-	704
Pre-listing funding repaid		-	(1,743)
Net cash flows from financing activities		**40,968**	**117,049**
Net cash flows		**34,014**	**4,610**
Cash and cash equivalents at beginning of period		4,610	-
Cash and cash equivalents at end of period		**38,624**	**4,610**

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes. Further to those notes and in relation to the comparative balances, the Company was incorporated on 20 May 2014 and the comparative period is from the date of incorporation to 31 March 2015. During part of this period the Company was preparing to list and as a result earned no revenue but incurred costs to enable it to successfully commence operations as a listed entity on 5 December 2014 on the NZX and ASX.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2016

Index to Notes to the Consolidated Financial Statements

Notes to the Consolidated Financial Statements

For the year ended 31 March 2016

1. Reporting Entity

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

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

The Group's principal activities are to invest in the provision and management of a high quality early childhood education service which gives parents and caregivers the option of which service best suits their child's learning and care needs (see Note 4, Segment Information). Information on the Group's structure is provided in Note 9.

2. Basis of Preparation

Statement of Compliance

These Group financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). The External Reporting Board's pronouncement Standard XRB A1: Accounting Standards Framework establishes a for-profit tier structure and outlines which suite of accounting standards entities in different tiers must follow. The Group is a Tier 1 reporting entity. The Group financial statements comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. These financial statements also comply with International Financial Reporting Standards ("IFRS") and IFRS Interpretations Committee interpretations.

The financial statements for the year ended 31 March 2016 were approved and authorised for issue by the Board of Directors on 23 May 2016.

Going Concern

The financial statements have been prepared on a going concern basis. From time to time and mainly due to funding received in advance from the Ministry of Education and employee entitlements the current liabilities may exceed current assets. The Group has funding arrangements in place (as per Note 19) with its bank to meet all its current obligations. Accordingly, the preparation of the financial statements on a going concern basis is appropriate.

Basis of Measurement

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

Functional and Presentation Currency

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

Comparative Period

As the Company was incorporated on 20 May 2014 the comparative period is from the date of incorporation to 31 March 2015. During part of this period the Company was preparing to list and as a result earned no revenue but incurred costs to enable it to successfully commence operations as a listed entity on 5 December 2014 on the NZX and ASX.

Certain comparatives have been reclassified to ensure consistency with the current period reporting.

Estimates and Judgements

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

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

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

2. Basis of Preparation (continued)

Business combinations

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

Identification and valuation of intangible assets acquired

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

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

Goodwill and other indefinite life intangible assets

The Group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in notes 3(h) and 3(l) below. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows. Further detail on the assumptions applied are included in Note 12.

Identification of Cash Generating Units

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

Measurement of contingent consideration

Contingent consideration arising from business combinations is initially measured at fair value at the acquisition date. Subsequently, the Group re-assesses the likelihood of settling the contingent consideration and this involves an assessment of whether the underlying criteria for payment will be achieved. Any movements in the value of contingent consideration is subsequently recognised in the Consolidated Statement of Comprehensive Income (refer Notes 4 and 10).

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences only if the Group considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses (refer Note 6).

2. Basis of Preparation (continued)

New Standards and Interpretations Not Yet Adopted

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

A number of new standards, amendments to standards and interpretations have been approved but are not yet effective and have not been adopted by the Group for the year ended 31 March 2016. The financial statement impact of adoption of these standards and interpretations has not yet been quantified by management. These will be applied when they become mandatory. The significant standards are:

NZ IFRS 9: Financial Instruments

NZ IFRS 9: 'Financial Instruments' was issued in September 2014 as a complete version of the standard. NZ IFRS 9 replaces the parts of NZ IAS 39 that relate to the classification and measurement of financial instruments, hedge accounting and impairment. NZ IFRS 9 requires financial assets to be classified into two measurement categories; those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the NZ IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The new hedge accounting model more closely aligns hedge accounting with risk management activities undertaken by companies when hedging their financial and non-financial risks. NZ IFRS 9 introduces a new expected credit loss model for calculating the impairment of financial assets. The standard is effective for reporting periods beginning on or after 1 January 2018.

NZ IFRS 15: Revenue from Contracts with Customers

NZ IFRS 15 addresses recognition of revenue from contracts with customers. It replaces the current revenue recognition guidance in NZ IAS 18: Revenue and NZ IAS 11: Construction Contracts and is applicable to all entities with revenue. It sets out a five step model for revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. This standard is effective for periods beginning on or after 1 January 2018.

NZ IFRS 16: Leases

NZ IFRS 16, 'Leases', which replaces the current guidance in IAS 17, was published by the International Accounting Standards Board (IASB) in January 2016. The standard is yet to be issued by the New Zealand Accounting Standards Board (NZASB). Under NZ IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The new standard includes guidance and illustrative examples on assessing whether a contract contains a lease, a service or both. Under IAS 17, the Company as a lessee was required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). NZ IFRS 16 now requires the Company as a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases (generally, those with a term of 12 months or less) and leases of low-value assets (such as leases of tablets and personal computers, small items of office furniture and telephones but not, for example, leases of cars); however, this exemption can only be applied by lessees. To measure a lease, the lease term and lease payments must be established. Specifically, the lease term now includes extension periods if it is reasonably certain the entity will extend the lease, while lease payments now include certain variable payments that depend on an index or rate (such as CPI increases) and purchase options which are reasonably certain to be exercised. The standard can be applied early, but only in conjunction with NZ IFRS 15, 'Revenue from Contracts with Customers', otherwise, the mandatory effective date is for periods beginning on or after 1 January 2019.

3. Significant Accounting Policies

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

(a) Basis of Consolidation

Business combinations

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

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; less
- the net recognised amount (generally fair value) of the identifiable assets acquired, the liabilities assumed 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 profit and loss.

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. The Group retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

Subsidiaries

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

Investments in joint ventures (equity accounted investees)

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

Investments in joint ventures are accounted for using the equity method and are recognised initially at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that joint control commences until the date that joint control ceases.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of the investment, including any long-term investments that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Loss of control

On the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in the Consolidated Statement of Comprehensive Income. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2016

3. Significant Accounting Policies (continued)

Assets held for sale

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

Once classified as held for sale, intangible assets and property, plant and equipment are no longer amortised or depreciated, and any equity-accounted investee is no longer equity accounted.

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 methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Intangible assets

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

The fair value of other intangible assets is 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 amount of revenue can be reliably measured, it is probable that the future economic benefits will flow to the Group, and specific criteria have been met for each of the Group's activities as described below. In all cases, the Group assesses revenue arrangements against specific criteria to determine if it is acting as the principal or agent in a revenue transaction. In an agency relationship only a portion of the revenue received on the Group's own account is recognised as revenue.

Ministry of Education funding

Ministry of Education funding is recognised initially as funding received in advance and is then recognised in the Consolidated Statement of Comprehensive Income over the period childcare services are provided. Income receivable from the Ministry of Education by way of a wash-up payment is recognised as an asset, and is netted off against the income received in advance.

Childcare fees

Fees paid by government (childcare benefit) or parents are recognised as and when a child attends, or was scheduled to attend, a childcare facility or receives home-based care.

Education income

Revenue from the provision of tertiary education is recognised when the service has been rendered.

Interest income

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

(d) Income Tax

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.

3. Significant Accounting Policies (continued)

Current tax

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

Deferred tax

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

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

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

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

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

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

(e) Foreign Currency Transactions

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

Foreign exchange gains and losses resulting from the settlement of the above are recognised in the Consolidated Statement of Comprehensive Income. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the Consolidated Statement of Comprehensive Income within finance costs.

(f) Dividends

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

(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:

3. Significant Accounting Policies (continued)

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

The depreciation methods, useful lives and residual values are reviewed at the reporting date and adjusted if appropriate.

(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 and is not amortised but is reviewed at each balance date to determine whether there is any objective evidence of impairment (refer to (l) Impairment).

Other intangible assets

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

Software	4 years
Training syllabus	4 years
Customer lists	4 years
Brand names	Indefinite life

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the Consolidated Statement of Comprehensive Income as incurred.

(i) Leased Assets

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

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

(j) Financial Instruments

Non-derivative financial assets

The Group initially recognises loans and receivables on the date that they are originated.

Financial assets and liabilities are offset and the net amount presented in the 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.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables 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; these are classified as non-current assets.

Loans and receivables comprise cash and cash equivalents and trade and other receivables.

Cash and cash equivalents

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

Non-derivative financial liabilities

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

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

3. Significant Accounting Policies (continued)

Trade and other payables

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

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

(k) Share capital

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

(l) Impairment

Non-derivative financial assets

A financial asset not carried at fair value through the Consolidated Statement of Comprehensive Income is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that the loss event(s) had an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor and adverse changes in the payment status of debtors.

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-lived intangible assets are 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.

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

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

(m) Employee Benefits

Short-term employee benefits

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

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

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

Defined contribution plan (KiwiSaver)

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

Notes to the Consolidated Financial Statements

For the year ended 31 March 2016

3. Significant Accounting Policies (continued)

(n) Expenses

Operating lease payments

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

Finance expenses

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

Offer costs

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

(o) Consolidated Statement of Cash Flows

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

- Cash includes cash on hand, bank current accounts and any bank overdrafts.
- 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.
- Operating activities include all transactions and other events that are not investing or financing activities.

(p) Segment Reporting

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

(q) Earnings Per Share

Basic and diluted earnings per share

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

(r) Share Based Payments

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

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

(s) Goods and Services Tax

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

Notes to the Consolidated Financial Statements

For the year ended 31 March 2016

4. Segment Information

The Group has two reportable operating segments, as described below, which were identified as the strategic business-models the Group would initially invest in within the wider teacher-led early childhood education (ECE) industry in New Zealand. The Group operates entirely within New Zealand.

Each segment offers parents and caregivers the choice about the type of service in which they think their child or children will flourish. Each segment is managed separately. For each of the segments, the Group's Chief Executive Officer (the "CEO" and Chief Operating Decision Maker) reviews internal management reports at least on a monthly basis. The following summary describes the operations in each of the Group's reportable segments:

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

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

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

Other operations include ECE Centre Management, a non-reportable segment, whereby the Group provides management and back-office expertise to early childhood education centres but it does not own the centre. This activity does not meet any of the quantitative thresholds for determining reportable segments in 2016 (and 2015) and as such it has been included as an unallocated amount. Unallocated amounts also represent other corporate support services, acquisition and integration costs.

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

EBITDA excluding acquisition and integration costs (and in the case of the previous period initial listing related costs) reflects a number of adjustments that are separately identified to enable the business to be reported on exclusive of these items. These adjustments may be defined as:

- **Acquisition expenses** – in acquiring the businesses and net assets in Note 10 the Group incurred certain expenses directly related to those acquisitions including agents' commissions, legal fees, financing fees and financial, tax and operational due diligence fees.
- **Integration expenses** – costs associated with the integration of the businesses acquired including the employment costs of the Group's acquisition and integration team and third party costs establishing, for example, IT and communications with the Group and the transfer of employment/payroll records to the Group's payroll provider.
- **Initial listing costs** – relate to NZX and ASX initial listing costs (in 2015).

Other than the items noted above, EBITDA includes increases or decreases to amounts provided for contingent consideration.

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

Notes to the Consolidated Financial Statements

For the year ended 31 March 2016

4. Segment Information (continued)

31 March 2016	ECE Centres $'000	Home-based ECE $'000	Unallocated $'000	Consolidated $'000
Total revenue	**110,848**	**25,431**	**1,100**	**137,379**
Other income	-	-	1,352	1,352
Share of profit of equity accounted joint venture	204	-	-	204
Total income	**111,052**	**25,431**	**2,452**	**138,935**
Operating expenses	(83,484)	(22,426)	(6,511)	(112,421)
EBITDA before acquisition and integration expenses	**27,568**	**3,005**	**(4,059)**	**26,514**
Acquisition expenses	-	-	(1,204)	(1,204)
Integration expenses	-	-	(871)	(871)
EBITDA	**27,568**	**3,005**	**(6,134)**	**24,439**
Depreciation	(1,152)	(478)	(57)	(1,687)
Amortisation	(61)	(209)	(200)	(470)
Earnings before interest and tax	**26,355**	**2,318**	**(6,391)**	**22,282**
Net finance expense	-	-	(1,096)	(1,096)
Reportable segment profit/(loss) before tax	**26,355**	**2,318**	**(7,487)**	**21,186**
Total assets	**182,101**	**16,933**	**39,653**	**238,687**
Total liabilities	**(25,068)**	**(9,170)**	**(43,716)**	**(77,954)**
Other disclosures				
Investment in joint venture (held for sale)	1,605	-	-	1,605

Included within Total Revenue is revenue from the Ministry of Education totalling $93.6m for the year (2015: $22.2m). Other income relates to the reversal of a contingent consideration provision of $1.35m (2015: $0.5m) arising from the December 2014 acquisitions of the home-based ECE businesses (refer Note 10).

4. Segment Information (continued)

Period 31 March 2015	ECE Centres $'000	Home-based ECE $'000	Unallocated $'000	Consolidated $'000
Total revenue	**24,626**	**7,928**	**386**	**32,940**
Other income	-	-	518	518
Share of profit of equity accounted joint venture	123	-	-	123
Total income	**24,749**	**7,928**	**904**	**33,581**
Operating expenses	(19,311)	(7,163)	(5,106)	(31,580)
EBITDA before acquisition, integration and initial listing costs/expenses	**5,438**	**765**	**(4,202)**	**2,001**
Acquisition expenses	-	-	(5,033)	(5,033)
Integration expenses	-	-	(1,494)	(1,494)
Initial listing costs	-	-	(1,308)	(1,308)
EBITDA	**5,438**	**765**	**(12,037)**	**(5,834)**
Depreciation	(156)	(138)	(8)	(302)
Amortisation	(20)	(54)	(63)	(137)
Earnings before interest and tax	**5,262**	**573**	**(12,108)**	**(6,273)**
Net finance expense	-	(71)	(1,591)	(1,662)
Reportable segment profit/(loss) before tax	**5,262**	**502**	**(13,699)**	**(7,935)**
Total assets	**159,429**	**16,332**	**5,486**	**181,247**
Total liabilities	**(18,284)**	**(9,605)**	**(4,490)**	**(32,379)**
Other disclosures				
Investment in joint venture	1,521	-	-	1,521

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

Other expenses

$'000s	Note	YEAR 31 MARCH 2016	PERIOD 31 MARCH 2015
Included in other expenses are:			
Audit fees	23	194	245
Directors' fees	22	385	137
Other items		4,343	3,142
Total other expenses		**4,922**	**3,524**

Other items includes corporate and head office costs not already disclosed separately. They include travel expenses, legal costs not relating to the acquisition of businesses in Note 10, consultancy costs and general office expenses.

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

Building occupancy expenses

Building occupancy expenses of $17.5m (2015: $4.4m) include $16.1m (2015: $4.2m) of expenditure in relation to minimum operating lease payments.

Employee benefits expense

$'000s	YEAR 31 MARCH 2016	PERIOD 31 MARCH 2015
Wages and salaries	70,258	18,556
Kiwisaver contributions	1,615	438
Payments to agency contractors	883	202
Share-based payments expense	-	550
Other	2,037	267
Total employee benefits expense	**74,793**	**20,013**

Net finance expense

$'000s	YEAR 31 MARCH 2016	PERIOD 31 MARCH 2015
Interest received		
Bank deposits	159	191
Total interest received	**159**	**191**
Interest expense		
Interest on acquisition facility borrowings	(904)	-
Interest on other bank borrowings	(215)	(102)
Unwind of discount relating to contingent consideration	(134)	-
Interest on other borrowings	-	(1,748)
Other	(2)	(3)
Total interest expense	**(1,255)**	**(1,853)**
Net finance expense	**(1,096)**	**(1,662)**

6. Taxation

Income tax expense

The major components of income tax expense for the period are:

$'000s	YEAR 31 MARCH 2016	PERIOD 31 MARCH 2015
Current income tax:		
Current income tax expense	6,112	186
Prior year adjustments	(359)	-
	5,753	**186**
Deferred tax:		
Relating to origination and reversal of temporary differences	(218)	(63)
Prior year adjustments	9	-
	(209)	**(63)**
Total income tax expense	**5,544**	**123**

Reconciliation of income tax expense

Income tax expense may be reconciled to accounting profit as follows:

$'000	YEAR 31 MARCH 2016	PERIOD 31 MARCH 2015
Profit/(loss) before tax	**21,186**	**(7,935)**
At statutory income tax rate of 28%	5,932	(2,222)
Non-assessable income and non-deductible expenses for tax purposes:		
Contingent consideration re-measurement	(379)	(145)
Non-deductible expenses	4	141
Non-recurring non-deductible expenses	337	2,349
Prior year adjustments	(350)	-
Total income tax expense	**5,544**	**123**
Effective income tax rate	26.17%	(1.55%)

Deferred tax

Deferred tax relates to the following:

	31 MARCH 2015		31 MARCH 2016		
$'000	CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	CONSOLIDATED STATEMENT OF FINANCIAL POSITION	CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	ARISING FROM ACQUISITION OF BUSINESSES	CONSOLIDATED STATEMENT OF FINANCIAL POSITION
Property, plant and equipment	(58)	1,391	(305)	127	1,213
Intangible assets	21	(1,602)	7	-	(1,595)
Employee entitlement provisions	(35)	500	337	-	837
Other timing differences	135	161	170	-	331
Deferred tax benefit	**63**		**209**	**127**	
Net deferred tax assets		**450**			**786**

6. Taxation (continued)

Imputation credits

Imputation credits available for use in subsequent reporting periods is $5,054,461 (2015: $478,150), including imputation credits that will arise from the payment of the amount of the provision for income tax. No dividends are provided for or receivable at balance date that would affect the available imputation credits at balance date.

Other taxation matters

The Company, in conjunction with the home-based ECE sector, is in discussion with the Inland Revenue Department ("IRD") on the GST status of home-based care delivery. The IRD has challenged Porse's treatment in respect of payments made to Porse home-based educators who are acting as independent contractors. The Company has taken advice and believes that its current GST treatment is appropriate and that the matter can be resolved satisfactorily.

7. Cash and Cash Equivalents

$'000	31 MARCH 2016	31 MARCH 2015
Cash at banks and on hand	1,914	2,025
Short-term deposits	36,710	2,585
Total cash and cash equivalents	**38,624**	**4,610**

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 3 months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2016

8. Property, Plant and Equipment

31 MARCH 2016 $'000	Note	PLANT AND EQUIPMENT	OFFICE FURNITURE AND FITTINGS	LEASEHOLD IMPROVEMENTS	MOTOR VEHICLES	WORK IN PROGRESS	TOTAL
Cost							
Opening balance		202	4,303	584	152	13	5,254
Additions		55	800	577	260	153	1,845
Acquisition of businesses	10	-	586	-	-	205	791
Disposals		(6)	(265)	(205)	(95)	-	(571)
Closing balance		**251**	**5,424**	**956**	**317**	**371**	**7,319**
Depreciation and impairment							
Opening balance		(2)	(159)	(38)	(1)	-	(200)
Depreciation charge for period		(59)	(1,417)	(135)	(76)	-	(1,687)
Disposals		12	58	-	-	-	70
Closing balance		**(49)**	**(1,518)**	**(173)**	**(77)**	**-**	**(1,817)**
Net book value		**202**	**3,906**	**783**	**240**	**371**	**5,502**

31 MARCH 2015 $'000	PLANT AND EQUIPMENT	OFFICE FURNITURE AND FITTINGS	LEASEHOLD IMPROVEMENTS	MOTOR VEHICLES	WORK IN PROGRESS	TOTAL
Cost						
Opening balance	-	-	-	-	-	-
Additions	21	164	45	-	10	240
Acquisition of businesses	181	4,232	539	199	23	5,174
Disposals	-	(93)	-	(47)	(20)	(160)
Closing balance	**202**	**4,303**	**584**	**152**	**13**	**5,254**
Depreciation and impairment						
Opening balance	-	-	-	-	-	-
Depreciation charge for period	(2)	(245)	(38)	(17)	-	(302)
Disposals	-	86	-	16	-	102
Closing balance	**(2)**	**(159)**	**(38)**	**(1)**	-	**(200)**
Net book value	**200**	**4,144**	**546**	**151**	**13**	**5,054**

Notes to the Consolidated Financial Statements

For the year ended 31 March 2016

9. Group Information

Information about subsidiaries

The consolidated financial statements of the Group include:

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

During the year the balance date of Porse In Home Childcare (NZ) Limited, Porse Franchising (NZ) Limited, Porse Education & Training (NZ) Limited For Life Education & Training (NZ) Limited was changed from 31 December to 31 March. These financial statements includes the results of operations for the year ended 31 March 2016.

Asset held for sale – Investment in joint venture

The consolidated financial statements of the Group include:

Name	Principal Activities	Country of Incorporation	Balance Date	Equity Interest
Lollipops Educare (Halfmoon Bay) Limited	ECE centre owner	NZ	31 March	50%

9. Group Information (continued)

The carrying value of the investment in the joint venture is $1,605,000 (2015: $1,521,000) representing the initial investment in the joint venture plus the Group's share of the joint venture's profits less dividends received since acquisition and up to the time the asset was reclassified as held for sale.

As at 31 March 2016, the investment has been treated as an asset held for sale as the Company is in negotiations for the sale of its 50% interest with expectations the sale will be concluded by 30 June 2016 and the asset has been reclassified as a current asset in the Consolidated Statement of Financial Position. The Group's management is of the view that no impairment or fair value adjustments are required at balance date. Disposal costs of $30,000 have been provided.

10. Business Combinations

The Group was established to acquire a group of centrally-owned and managed ECE providers. This was achieved by acquiring the assets of or shares in a number of owned ECE centres, home-based ECE providers and other related entities up to and including 31 March 2015. By 31 March 2015 the Group consisted of 86 ECE centres and 2 home-based ECE providers.

As disclosed in the Consolidated Statement of Cash Flows, $23.7m was paid in respect of the acquisition of businesses during the year, as follows:

- The Group acquired 20 ECE centres from several separate vendors, for a combined purchase price of $22.3m (net of purchase price adjustments). Of this, $22.1m was paid in cash by balance date. Of the 20 centres acquired, 5 were purchased from interests of a related party as disclosed at Note 22. Net liabilities acquired was $0.2m resulting in goodwill on acquisition of $22.4m. Total acquisition costs incurred during the year were $1.2m and these are included in the Consolidated Statement of Comprehensive Income and cash flows from operating activities in the Consolidated Statement of Cash Flows. No cash was acquired. A summary of the net liabilities acquired is included in the table below.
- The remaining $1.6m paid relates primarily to completion payments to the vendors of the home-based ECE businesses acquired in December 2014.

Assets and liabilities acquired and consideration paid	$'000
Assets	
Other current assets	131
Property, plant and equipment	791
Deferred tax	127
	1,049
Liabilities	
Funding received in advance	(1,183)
Employee entitlements	(24)
Other current liabilities	(25)
	(1,232)
Total identifiable net liabilities at fair value	**(183)**
Goodwill arising on acquisition	22,447
Purchase consideration transferred	**22,264**
Purchase consideration	
Cash paid	22,149
Cash payable relating to retentions	115
Total consideration	**22,264**

10. Business Combinations (continued)

The goodwill of $22.4m predominantly comprises the future earnings potential of the acquired ECE centres and the value expected from continuing to bring together a group of ECE Centres and home-based ECE providers under one centrally managed group. Goodwill is allocated to each of the segments identified at Note 4, as appropriate.

The total identifiable net liabilities above are provisional and are subject to the completion of purchase price adjustments.

At balance date the acquisitions have contributed revenue of $11.0m and net profit after tax of $0.7m to the Group's results before allowing for upfront acquisition and integration expenses. As the acquisitions were made at different times during the year it is anticipated these acquisitions would have contributed revenue of $19.4m and net profit after tax of $1.4m (excluding upfront and non-recurring acquisition costs of $1.2m and integration costs of $0.7m) had they all been acquired on 1 April 2015.

Contingent consideration

As part of the purchase agreement with the previous owners of the Home-based ECE businesses acquired contingent consideration was agreed. At 31 March 2015 $1.6m had been provided in respect of this. At balance date the amount provided is nil, with the balance either being settled or reversed to the Consolidated Statement of Comprehensive Income for amounts no longer considered payable (note 4).

11. Intangible Assets

31 MARCH 2016		CUSTOMER LISTS	SYLLABUS MATERIAL	MANAGEMENT CONTRACTS	SOFTWARE	BRANDS	GOODWILL	TOTAL
$'000	**Note**							
Cost								
Opening balance		301	200	372	964	4,787	162,038	168,662
Additions		-	-	-	506	-	-	506
Acquisition of businesses	10	-	-	-	-	-	22,447	22,447
Completion adjustments		-	-	-	-	-	(139)	(139)
Disposals		-	-	-	(13)	-	-	(13)
Closing balance		**301**	**200**	**372**	**1,457**	**4,787**	**184,346**	**191,463**
Amortisation and impairment								
Opening balance		(25)	(17)	(31)	(64)	-	-	(137)
Amortisation for period		(75)	(50)	(93)	(252)	-	-	(470)
Disposals		-	-	-	1			1
Closing balance		**(100)**	**(67)**	**(124)**	**(315)**	**-**	**-**	**(606)**
Net book value		**201**	**133**	**248**	**1,142**	**4,787**	**184,346**	**190,857**

Subsequent to the initial provisional recognition of the fair value of net assets acquired the Group has identified items requiring adjustment to those initial values and these have been referred to as completion adjustments above.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2016

11. Intangible Assets (continued)

31 MARCH 2015 $'000	Note	CUSTOMER LISTS	SYLLABUS MATERIAL	MANAGEMENT CONTRACTS	SOFTWARE	BRANDS	GOODWILL	TOTAL
Cost								
Opening balance		-	-	-	-	-	-	-
Additions		-	-	-	492	-	-	492
Acquisition of businesses		301	200	372	472	4,787	162,038	168,170
Closing balance		**301**	**200**	**372**	**964**	**4,787**	**162,038**	**168,662**
Amortisation and impairment								
Opening balance		-	-	-	-	-	-	-
Amortisation for period		(25)	(17)	(31)	(64)	-	-	(137)
Closing balance		**(25)**	**(17)**	**(31)**	**(64)**	-	-	**(137)**
Net book value		**276**	**183**	**341**	**900**	**4,787**	**162,038**	**168,525**

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

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

31 MARCH 2016 $'000	ECE CENTRES	HOME-BASED ECE	ECE MANAGEMENT	TOTAL
Goodwill	173,080	10,600	666	184,346
Brands with indefinite useful lives	3,104	1,683	-	4,787

31 MARCH 2015 $'000	ECE CENTRES	HOME-BASED ECE	ECE MANAGEMENT	TOTAL
Goodwill	150,858	10,545	635	162,038
Brands with indefinite useful lives	3,104	1,683	-	4,787

The Group performed its annual impairment test at balance date.

ECE Centres and Home-based ECE Providers - Goodwill

The recoverable amount of the ECE Centres and Home-based ECE provider CGUs was $238.4m (2015: $219.1m) at balance date. It has been determined based on a value in use calculation using cash flow projections from the Group's financial forecasts approved by senior management and the Board covering a five year period. The pre-tax discount rate applied to cash flow projections is 15.4% (2015: 16%) and cash flows beyond the five-year period are extrapolated using a 2% (2015: 2%) terminal growth rate that is not inconsistent with the long term growth rate experienced industry-wide. As the recoverable value was in excess of the carrying value management did not identify an impairment for these CGU's.

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

Key assumptions used in value in use calculations and sensitivity to changes in assumptions

The calculation of value in use for both CGU's is most sensitive to the following assumptions:

- Operating earnings
- Discount rates
- Growth rates used to extrapolate cash flows beyond the forecast period

Operating earnings – operating earnings is a function of revenue (received from the Ministry of Education and parents/caregivers) which in turn is based on occupancy. Revenue is assumed to grow by 1% (2015: 2%) per annum on average and assumes the Ministry of Education continues to support early childhood education to the value of approximately 65% of total revenue earned. If the Government reduces its funding it could lead to an increased requirement of parents and caregivers to make up the difference. Also affecting operating earnings are centre wages and other operating expenses such as operating lease costs. Expenses are forecast to grow by 0.5% (2015: 2%) which is currently consistent with the inflation rate projections in New Zealand. If Government funding was to decrease management would need to initiate appropriate responses to maintain profitability.

The following summarises the effect of a change in the above "base" growth assumptions of 1% revenue growth and 0.5% expense growth:

	ECE CENTRES	HOME-BASED ECE
1. Revenue and expense growth 0%	Recoverable amount > Carrying value	Recoverable amount > Carrying value
2. Revenue growth 1%, expense growth 1%	Recoverable amount > Carrying value	Recoverable amount > Carrying value
3. Revenue growth 0%, expense growth 1%	Recoverable amount < Carrying value	Recoverable amount < Carrying value
4. Revenue decline 1%, 0% expense growth	Recoverable amount < Carrying value	Recoverable amount < Carrying value

Discount rates – discount rates represent the current market assessment of the risks specific to each CGU, taking into account the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors using the capital asset pricing model. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data. Adjustments to the discount rate are made to factor in the specific amount and timing of the future tax flows in order to reflect a pre-tax discount rate. A rise in the pre-tax discount rates to 17.5% (2015: 22%) and 20% (2015: 32%) would lead to an impairment in the ECE Centre and Home-based ECE CGU's respectively, assuming the growth rates referred to above remained the same.

Growth rate estimates – rates are based on current inflation rates in New Zealand and forecast or assumed increase in revenues from parents/caregivers and the Government. Management are not aware of any information to suggest that the growth assumptions are at risk. Should terminal growth be between 0% and 1% instead of the 2% assumed, the recoverable value will still exceed carrying value for both CGUs.

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

ECE Centres and Home-based ECE Providers - Brands

The recoverable amount of the ECE Centres and Home-based ECE brands was $5.6m (2015: $4.8m) at balance date. It has been determined based on the discounted estimated royalty payments that have been avoided as a result of the brands being owned ("relief from royalty method") using revenue projections from the Group's financial forecasts approved by senior management and the Board covering a 12-month period. The pre-tax discount rate applied to cash flow projections is 15.4% (2015: 16%) and cash flows beyond the one year period are extrapolated using a 2% (2015: 2%) terminal growth rate that is not inconsistent with the long term growth rate experienced industry-wide. As the recoverable value was in excess of the carrying value management did not identify an impairment for these brands.

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

Revenue – as above, revenue is received from the Ministry of Education and in the case of ECE Centres parents/caregivers. A reduction in ECE centre revenue of greater than 25% will cause the recoverable value to be less than the carrying value of the ECE Centre brand value. A reduction in Home-based ECE revenue greater than 3.3% could lead to an impairment in the Home-based ECE brand.

Royalty rate – the relief from royalty method assumes a royalty rate of 1%. Reductions of more than 0.2% may lead to an impairment in the ECE Centre brand and any reduction below 1% could lead to an impairment in the Home-based ECE brand, all other assumptions remaining unchanged.

Discount rates – the assumptions relating to discount rates are discussed above. Assuming all other assumptions remain constant an increase in the pre-tax discount to 18.75% and 15.8% could result in an impairment of the ECE and Home-based ECE brands respectively.

Growth rate estimates – terminal growth rates have been discussed above. In terms of the ECE Centres terminal growth will need to be less than 0% (with all other assumptions remaining unchanged) before the recoverable value of the brand becomes lower than its carrying value. A terminal growth rate of less than 1.7% could result in an impairment of the Home-based ECE brand.

13. Trade and Other Payables

$'000	31 MARCH 2016	31 MARCH 2015
Trade payables	838	1,832
Amounts accrued in respect of contingent consideration	-	1,638
Amounts accrued in respect of business combinations	115	1,057
Goods and services tax	4,652	3,737
Other payables	2,808	2,704
Total trade and other payables	**8,413**	**10,968**

Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing and are normally settled within 60-day terms
- Contingent consideration is payable between April 2015 and December 2015 (Note 10)
- Other payables are non-interest bearing and have an average term of 2 months

14. Funding Received in Advance

Represents Ministry of Education funding received in advance net of amounts owing but not received. The amount is shown as a current liability consistent with the period the funding covers. Funding is received three times per year on 1 March, 1 July and 1 November. Each funding round includes 75% of the estimated funding for the four months ahead. At 31 March 2016 funding received in advance relates to April to June 2016. Funding receivable relates to the remaining 25% of funding, adjusted for any changes in occupancy levels, in respect of February and March 2016.

$'000	31 MARCH 2016	31 MARCH 2015
Funding received in advance	20,216	18,668
Funding receivable	(3,898)	(3,022)
Total funding received in advance	**16,318**	**15,646**

15. Employee Entitlements

$'000s	31 MARCH 2016	31 MARCH 2015
Employee leave provisions	2,812	2,582
Accrued wages and salaries	2,930	2,272
Other	330	237
Total employee entitlements	**6,072**	**5,091**

16. Issued Capital

Authorised shares

	31 MARCH 2016	31 MARCH 2016	31 MARCH 2015	31 MARCH 2015
	Number	$'000	Number	$'000
Ordinary shares authorised, issued and fully paid				
Opening balance	177,082,724	156,926	-	-
Ordinary shares issued:				
On incorporation	-	-	1,200	-
Issue of shares following share split (31 October 2014)	-	-	4,999,200	-
Issue of shares to certain Directors and employees (31 October 2014)	-	-	1,250,000	550
Issue of shares (14 November 2014)	-	-	1,855,707	-
Share based payment (4 December 2014)	-	-	449,438	225
Issue of shares arising from business combination (4 December 2014)	-	-	36,209,901	36,210
Issue of shares following initial public offering (4 December 2014)	-	-	132,317,278	132,317
Issue of shares in relation to dividend reinvestment plan ("DRP")	493,294	489	-	-
Less share issue costs relating to shares issued under DRP (18 December 2015)	-	(51)	-	-
Less share issue costs incurred relating to the initial public offering	-	-	-	(12,376)
Closing balance	**177,576,018**	**157,364**	**177,082,724**	**156,926**

Notes to the Consolidated Financial Statements

For the year ended 31 March 2016

16. Issued Capital (continued)

At balance date of the shares issued:

- 36,209,901 (2015: 36,209,901) are issued to the vendors of the Lollipops Educare acquisition, including 21,347,382 (2015: 21,347,382) to interests of Mark Finlay, a director of the Company.
- 2,347,247 (2015: 2,296,121) are issued to Kern Group NZ Limited, an entity related to Greg Kern, a director of the Company.
- 2,285,369 (2015: 2,285,369) are issued to Wraith Capital Group NZ Limited.
- 2,285,369 (2015: 2,285,369) are issued to Stuart and Gillian James as trustees of the S.B. James Superannuation Fund (a former related party).
- 1,032,595 (2015: 1,250,000) are issued to directors and senior management identified at Note 22.
- 449,438 (2015: 449,438) are issued to Hayes Knight Business Services (QLD) Pty Limited (or its nominees) in consideration for the provision of management assistance in connection with the acquisition of certain ECE centres.

17. 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 and accumulated profits of the Group as well as cash and cash equivalents. 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 dividend policy of the Group is to pay dividends between 40% and 60% of net profit after tax in respect of the preceding half year period subject to the discretion of the Board.

During the year the Company declared and paid an interim dividend of $4.2m or 2.38 cents per share, fully imputed. After adjustments for shares issued under the Group's dividend reinvestment plan, share issue costs and taxation the cash paid dividend was $3.7m.

Subsequent to balance date the Board approved a fully imputed final dividend of $4.2m or 2.38 cents per share for the year ended 31 March 2016. The dividend is due for payment on 20 June 2016 (refer Note 25).

Financial Covenants

The Group's capital management, amongst other things, aims to ensure that it meets its financial covenants attached to any interest bearing loans and borrowings that define capital structure requirements. Breaches in meeting the financial covenants could permit the bank to immediately call loans and borrowings. There have been no breaches in the financial covenants of any interest-bearing loans and borrowings in the current or prior period.

18. Earnings Per Share (EPS)

Basic and diluted EPS amounts are calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year. The following reflects the income and share data used in the basic and diluted EPS computations:

	YEAR 31 MARCH 2016	PERIOD 31 MARCH 2015
Profit/(loss) attributed to ordinary equity holders of the parent ($'000s)	**15,642**	**(8,058)**
Weighted average number of ordinary shares for basic and diluted EPS	177,222,895	62,392,887
Basic (and diluted) earnings per share (expressed as cents per share)	8.8	(12.9)

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of these financial statements.

19. 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 minimal and risk management is carried out by senior finance executives and the Board of Directors.

Market risk

Foreign currency risk

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

Price risk

The Group is not exposed to any significant price risk.

Interest rate risk

The Group's main interest rate risk arises from short-term and long-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of cash and cash equivalents as well as the use of loans. At balance date the Group had drawn $45.9m of the Group's $90.0m lending facilities exposing the Group to interest rate risk. Exposure to interest rate risk is reduced to an insignificant level as the borrowings are repaid typically in the short term at the Company's discretion.

Credit risk

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

19. Financial Assets and Liabilities (continued)

Liquidity risk

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

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

Financing arrangements

The Group's financing arrangements comprise the following facilities:

- **Senior revolving facility** - provided by ASB totalling $30.0 million for general corporate and working capital purposes. The facility expires on 30 April 2019 (but is able to be extended by 12 months on each anniversary of the financing arrangements with ASB's consent),
- **Acquisition facility** - provided by ASB totalling $60.0 million for funding of future acquisitions. It expires on 30 April 2019 (but is able to be extended by 12 months on each anniversary of the financing arrangements with ASB's consent), and
- **Lease guarantee facility** - provided by ASB for $3.0 million for bonds required for certain leasehold properties.

The facilities are secured by way of a first ranking general security agreement over all present and future shares and assets and undertakings of the Group, together with an all obligations cross guarantee and indemnity.

Amounts drawn against the senior revolving and acquisition facilities are:

$'000	31 MARCH 2016	31 MARCH 2015
Facility Limits		
Senior revolving facility	30,000	30,000
Acquisition facility	60,000	60,000
Total lending facilities	**90,000**	**90,000**
Utilisation		
Senior revolving facility	20,000	-
Acquisition facility	25,865	-
Total borrowings	**45,865**	**-**
Total unused facilities	**44,135**	**90,000**

Remaining contractual maturities

The contractual maturity for the Group's financial instrument liabilities (that is, trade payables) is disclosed at Note 13 and in terms of bank borrowings, above. The contractual maturities are based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid.

Fair value of financial instruments

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

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

$'000	YEAR 31 MARCH 2016	PERIOD 31 MARCH 2015
Profit/(loss) after tax	15,642	(8,058)
Adjustments for:		
Depreciation and amortisation	2,157	439
Share-based payments	-	775
Contingent consideration adjustments	(1,352)	(518)
Expenses paid on behalf of the Group	-	1,040
Net finance expense	1,275	1,662
Deferred tax	(336)	(450)
Share of profits in joint venture	(204)	(21)
Other non cash items	1,139	-
Changes in operating assets and liabilities:		
Working capital movements:		
Increase/(decrease) in funding received in advance	(511)	2,674
(Increase)/decrease in other current assets	(226)	1,023
Increase/(decrease) in trade and other payables	(2,837)	5,032
Increase/(decrease) in current income tax liabilities	612	674
Increase/(decrease) in employee entitlements	957	955
Other items:		
Business combination completion payment classified as investing	937	(1,057)
Change in contingent consideration provided classified as investing	1,638	(1,638)
Net cash flows from operating acivities	**18,891**	**2,532**

The other items specified above relate to accruals classified as working capital on the Consolidated Statement of Financial Position but as they relate to the acquisition of businesses they are investing activities for the purposes of the Consolidated Statement of Cash Flows.

21. Commitments and Contingencies

Operating lease commitments – Group as lessee

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

$'000	31 MARCH 2016	31 MARCH 2015
Within one year	17,429	14,612
After one year but not more than five years	48,848	49,099
More than five years	33,015	38,491
Total	**99,292**	**102,202**

21. Commitments and Contingencies (continued)

Bank Guarantees

$2,362,980 (2015: $2,042,000) of the lease guarantee facility disclosed at Note 19 has been utilised.

There are no other material commitments or contingencies.

22. Related Party Transactions

Parent entity

Evolve Education Group Limited is the parent entity.

Identity of Related Parties

Related parties of the Group are:

- The Board of Directors, comprising Norah Barlow, Alistair Ryan, Mark Finlay, Greg Kern and Alan Wham.
- Certain senior executives of the Group, including Alan Wham as Chief Executive Officer.
- Kern Group (Paddington) Pty Limited and Kern Group NZ Limited, companies associated with Greg Kern.
- LEP Limited, LEDC Limited, LEP Construction Limited, Birkenhead Properties Limited, LEP1 Limited, LEDC1 Limited and Wildfire Consultants Limited, companies associated with Mark Finlay.
- Wraith Capital Group NZ Limited, one of the Company's shareholders.

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

- Russell Daly resigned as director on 13 November 2014.
- The Group's Remuneration and People Committee has defined key management. Consequently, various members of the senior management team included as related parties in 2015 are not regarded as key management under the current definition and it has been assumed this change took effect on 1 April 2015.
- Stuart Bruce James and Gillian Doreen James as trustees of the S.B. James Superannuation Fund, one of the Company's shareholders, ceased being related parties on 5 December 2014.
- On 31 December 2015 Jenny Yule ceased as Chief Executive Officer of the Porse group and as such ceased being a related party from that date.

Related party transactions arising during the year:

- Transactions between the Company and its Directors', members of its key management and certain employees can be summarised as follows:

  - ***Directors' remuneration*** - The Directors' fees pool is currently $500,000 per annum (plus GST, if any), with the amount of fees paid during the period disclosed in the table below. The Directors' are also entitled to be paid for reasonable travel, accommodation and other expenses incurred by them in connection with their attendance at Board or Shareholder meetings, or otherwise in connection with the Group's business. Alan Wham, the Group's Chief Executive Officer, does not receive directors' fees but does receive a salary and this is included in the compensation of key management personnel table below. In FY2015 Mark Finlay had a consultancy agreement with the Group, with the $40,000 fees associated with this included in the table below. This arrangement ended in the current year with no further amounts paid. Norah Barlow, Alan Wham and Alistair Ryan received share based payments in FY15, with the amount paid to Alan Wham being included in the key management personnel table below. A summary of Directors' remuneration follows:

22. Related Party Transactions (continued)

$'000s	DIRECTORS FEES	OTHER	YEAR 31 MARCH 2016 $'000
Norah Barlow	135	-	135
Alistair Ryan	90	-	90
Mark Finlay	80	-	80
Greg Kern	80	-	80
Total Directors Remuneration	**385**	**-**	**385**

$'000s	DIRECTORS FEES	OTHER	PERIOD 31 MARCH 2015 $'000
Norah Barlow	51	63	114
Alistair Ryan	34	63	97
Mark Finlay	26	40	66
Greg Kern	26	-	26
Russell Daly	-	-	-
Total Directors Remuneration	**137**	**166**	**303**

- ***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:*** –
  - On 31 March 2016 the Group acquired 5 Lollipops centres from LEDC Limited, a company that Mark Finlay is a director of and shareholder in, for $5,787,000 net of purchase price adjustments of which $5,687,000 was paid prior to balance date and a further $100,000 remains payable. The financial impact of these acquisitions is included in disclosures at Note 10.
  - LEP Limited is the landlord of the Group's head office and it is the landlord of six of the Lollipops Educare Owned ECE Centres including 3 centres acquired during the year. Rent of $739,000 (2015: $220,620) has been paid by the Group to LEP Limited during the period. A further commitment to make future rent payments of $3,154,000 (2015: $4,834,000) over the next 2 to 7 years (depending on the term of each lease) is included in Note 21. Certain properties ceased being owned by LEP Limited during the period.
  - Following completion of the Lollipops Educare Acquisition in 2015, the Company became party to a centre management agreement whereby the Group initially managed five ECE Centres for LEP Limited and its related companies. Revenue earned from the management of these centres was $140,525 (2015: $23,354).
  - Heath Finlay and Anna Finlay, the brother and sister-in-law respectively of Mark Finlay, were centre directors at two centres owned by the Group. This employment relationship ended during the year. In addition, Heath Finlay is a shareholder in the Company via his interest in the Heath Finlay Investment Trust.

22. Related Party Transactions (continued)

- Acquisition related costs paid to Wraith Capital Group NZ Limited of $239,000 (2015: nil) and Kern Group of $230,000 (2015: nil) in respect of centre acquisitions in the current and prior period. At balance date $7,750 was due to each party.

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

	YEAR 31 MARCH 2016 $'000	PERIOD 31 MARCH 2015 $'000
Short-term employee benefits	813	1,285
Share-based payment transactions	-	475
Total compensation paid to key management personnel	**813**	**1,760**

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

- ***Other transactions with employees of the Group*** – rent of $242,000 (2015: $102,960) was paid to entities related to Jenny Yule, the former Chief Executive Officer of the Porse group.

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

Shareholder	31 MARCH 2016 No of shares	31 MARCH 2015 No of shares
Mark Finlay	21,347,382	21,347,382
Kern Group NZ Limited	2,347,247	2,296,121
Alan Wham	562,304	550,000
Vivek Singh	306,711	300,000
Norah Barlow	81,790	80,000
Alistair Ryan	81,790	80,000
Other senior management	-	240,000
	24,727,224	**24,893,503**

Shares were issued to Mark Finlay as partial settlement of the initial Lollipops acquisition in December 2014. The shares issued to Alan Wham, Vivek Singh, Norah Barlow, Alistair Ryan and other senior management (in respect of the prior period comparative) were issued pursuant to the share-based payment plan. The shares fully vested in the period ended 31 March 2015. During the year Norah Barlow, Alistair Ryan, Greg Kern, Alan Wham and Vivek Singh increased their shareholdings via electing to receive shares under the Group's dividend reinvestment plan. As referred to above, the definition of key management was confirmed during the year and consequently certain members of the senior management team ceased being regarded as "key" for reporting purposes.

Related party transactions arising during the prior period:

The following transactions with persons or entities related to the Group arose as part of the Company's initial public offering ("IPO") and acquisition of the initial portfolio of ECE centre acquisitions in the previous period:

- ERA Education Management Pty Limited ("ERA"), a company related to a former shareholder of the Company, received AUD$1,000,000, representing funding disclosed in Note 20 from S.B. James Superannuation Fund (see below). The funds were held on behalf of the Group in an AUD bank account by ERA and were used to pay AUD$900,000 of the Group's creditors for expenses recognised in the Consolidated Statement of Comprehensive Income. The remaining balance of the ERA AUD bank account was repaid to the Company prior to 31 March 2015.
- Kern Group (Paddington) Pty Ltd (a company of which Greg Kern is a director and shareholder) received AUD$1,000,000 in their capacity as financial advisers to the Company in relation to the IPO. This amount is included in the share issue costs in Note 16.

22. Related Party Transactions (continued)

- Wraith Capital Group NZ Limited received AUD$300,000 for the provision of consultancy services to the Company in connection with the acquisition of the initial portfolio of ECE centres. This amount is included in the acquisition costs in the Consolidated Statement of Comprehensive Income.
- The Group entered into various loan agreements with Stuart Bruce James and Gillian Doreen James as trustees of the S.B. James Superannuation Fund, Kern Group NZ Limited and with Wraith Capital Group NZ Limited. The lenders agreed to provide unsecured loans to the Company of AUD$1,600,000 in aggregate (being AUD$1,200,000 from Stuart Bruce James and Gillian Doreen James as trustees of the S.B. James Superannuation Fund, AUD$200,000 from Kern Group NZ Limited and AUD$200,000 from Wraith Capital Group NZ Limited). The loans were repaid in December 2014. In addition to the obligation to repay the loans, the Group paid an additional AUD$1,600,000 (NZ$1,748,000) in aggregate by way of interest following the successful listing and this is included in interest on other borrowings at Note 5.

23. Auditor's Remuneration

During the period the following fees were paid or payable for services provided by the Group's auditor, PricewaterhouseCoopers, and to the previous auditors of the Company's subsidiaries Porse In Home Childcare (NZ) Limited, Porse Franchising (NZ) Limited, Porse Education & Training (NZ) Limited and For Life Education & Training (NZ) Limited (the "PORSE Group"), Gardiner Knobloch:

$'000	YEAR 31 MARCH 2016	PERIOD 31 MARCH 2015
Audit services:		
Audit of Group consolidated financial statements	175	230
Audit of special purpose financial statements as at 31 August 2014	-	15
Fees paid to PricewaterhouseCoopers	**175**	**245**
Audit of financial statements of PORSE Group as at 31 December 2014	19	-
Fees paid to Gardiner Knobloch	**19**	-
Total audit services	**194**	**245**
Other services provided by PricewaterhouseCoopers:		
Due diligence services	-	523
Integration services	-	1,444
Taxation services	54	55
Consultancy services	15	-
Total other services	**69**	**2,022**

Total fees paid to PricewaterhouseCoopers for the year ended 31 March 2016 were $244,000 (2015: $2,267,000).

The audit of the special purpose financial statements was a condition of listing in December 2014.

Fees paid in respect of due diligence services relate to the listing of the Company and Group in the prior period. The integration services relate to the subsequent integration requirements (for example, creating new employment contracts, centralising supplier relationships) of the acquired businesses. These fees were incurred relevant to the listing and immediately subsequent to listing, as set out in the Company's Prospectus and Investment Statement.

Taxation services relate to compliance services and general tax advice.

Consultancy services relate to advice regarding executive remuneration.

24. Comparison to Prospective Financial Information (PFI)

Consolidated Statement of Comprehensive Income

	ACTUAL 31 MARCH 2016 $'000	PROSPECTUS FORECAST 31 MARCH 2016 $'000
Revenue	**137,379**	**136,221**
Other income	1,352	-
Share in equity accounted investees profit	204	272
Total income	**138,935**	**136,493**
Expenses		
Employee expenses	(74,793)	(72,474)
Building occupancy expenses	(17,474)	(16,082)
Direct expenses of providing services	(15,232)	(16,560)
Acquisition expenses	(1,204)	-
Integration expenses	(871)	-
Depreciation	(1,687)	(1,520)
Amortisation	(470)	(418)
Other expenses	(4,922)	(5,672)
Total expenses	**(116,653)**	**(112,726)**
Results from operating activities	**22,282**	**23,767**
Net finance expense	(1,096)	(674)
Net profit before tax	**21,186**	**23,093**
Income tax expense	(5,544)	(6,466)
Net profit after tax attributed to the owners of the Company	**15,642**	**16,627**
Other comprehensive income	-	-
Total comprehensive income attributed to the owners of the Company	**15,642**	**16,627**

The mix and number of centres is different from that assumed in PFI due to the ongoing programme of acquiring new ECE centres. Consequently, revenue and expenses include the effect of the new centre acquisitions. Expenses also include acquisition and integration costs related to new centre acquisitions. Interest costs include interest on debt funding incurred in relation to the acquisition of new centres. PFI assumed there would be no acquisitions over and above the initial portfolio.

24. Comparison to Prospective Financial Information (PFI) (continued)

Non-GAAP measures – EBITDA excluding acquisition and integration expenses

$'000	ACTUAL 31 MARCH 2016	PROSPECTUS FORECAST 31 MARCH 2016
Net profit after tax	**15,642**	**16,627**
Net finance expense	1,096	674
Tax expense	5,544	6,466
Earnings before interest and tax (EBIT)	**22,282**	**23,767**
Depreciation	1,687	1,520
Amortisation	470	418
EBITDA including acquisition and integration costs	**24,439**	**25,705**
Acquisition expenses	1,204	-
Integration expenses	871	-
Total adjustments	**2,075**	**-**
EBITDA excluding acquisition and integration costs	**26,514**	**25,705**

Non-GAAP measures – Net profit after tax excluding acquisition and integration expenses

$'000	ACTUAL 31 MARCH 2016	PROSPECTUS FORECAST 31 MARCH 2016
Net profit after tax	**15,642**	**16,627**
Acquisition expenses	1,204	-
Integration expenses (net of tax)	627	-
Total adjustments	**1,831**	**-**
Net profit after tax excluding acquisition and integration costs	**17,473**	**16,627**

Net profit after tax in the tables above includes the reversal of a $1.35m contingent consideration provision as discussed at Notes 4 and 10.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2016

24. Comparison to Prospective Financial Information (PFI) (continued)

Consolidated Statement of Movements in Equity

ACTUAL	CONTRIBUTED EQUITY	(ACCUMULATED LOSSES)/RETAINED EARNINGS	TOTAL
$'000			
Balance at 31 March 2015	**156,926**	**(8,058)**	**148,868**
Profit for the period	-	15,642	**15,642**
Other comprehensive income for the period	-	-	**-**
Total comprehensive income	**-**	**15,642**	**15,642**
Dividends paid	-	(4,215)	**(4,215)**
Issue of share capital (net of costs)	438	-	**438**
Balance as at 31 March 2016	**157,364**	**3,369**	**160,733**

PROSPECTUS FORECAST	CONTRIBUTED EQUITY	(ACCUMULATED LOSSES)/RETAINED EARNINGS	TOTAL
$'000			
Balance at 31 March 2015	**156,945**	**(9,498)**	**147,447**
Profit for the period	-	16,627	**16,627**
Other comprehensive income for the period	-	-	**-**
Total comprehensive income	**-**	**16,627**	**16,627**
Dividends paid	-	(4,154)	**(4,154)**
Issue of share capital (net of costs)	489	-	**489**
Balance as at 31 March 2016	**157,434**	**2,975**	**160,409**

24. Comparison to Prospective Financial Information (PFI) (continued)

Consolidated Statement of Financial Position

$'000s	ACTUAL 31 MARCH 2016 $'000	PROSPECTUS FORECAST 31 MARCH 2016 $'000
Current assets		
Cash and cash equivalents	38,624	39,318
Assets held for sale (investment in equity accounted joint venture)	1,605	-
Other current assets	1,313	2,908
Total current assets	**41,542**	**42,226**
Non-current assets		
Property, plant and equipment	5,502	4,901
Investments in equity accounted joint venture	-	2,104
Deferred tax asset	786	-
Intangible assets	190,857	163,386
Total non-current assets	**197,145**	**170,391**
Total assets	**238,687**	**212,617**
Current liabilities		
Trade and other payables	8,413	8,513
Current income tax liabilities	1,286	2,161
Funding received in advance	16,318	13,326
Employee entitlements	6,072	5,299
Lease liabilities	-	682
Other current liabilities	-	868
Total current liabilities	**32,089**	**30,849**
Non-current liabilities		
Deferred tax liability	-	1,340
Borrowings	45,865	20,000
Finance lease liability	-	19
Total non-current liabilities	**45,865**	21,359
Total liabilities	**77,954**	52,208
Net Assets	**160,733**	160,409
Equity		
Issued shared capital	157,364	157,434
Retained earnings	3,369	2,975
Total Equity	**160,733**	160,409

The higher debt reflects the funding of 20 acquisitions during the year which were not forecast. The increase in intangibles, funding received in advance and employee entitlements reflects the additional centres acquired during the year (in addition to the effect of acquisitions in the prior period).

24. Comparison to Prospective Financial Information (PFI) (continued)

The asset held for sale relates to the Group's investment in a joint venture. The investment has been reclassified from "Investments in equity accounted joint venture" (as per the prospectus forecast above) to "Assets held for sale" (as outlined at Note 9).

Trade receivables is lower compared to PFI due to debtors days outstanding being significantly lower than assumed in the PFI. Other current liabilities, as per the PFI, have been reclassified to trade and other payables above.

Current income tax liabilities include tax receivable relating to the prior period.

The deferred tax asset is caused by the recognition of acquisition provisions for employee entitlements and fair value adjustments relating to property, plant and equipment acquired.

Consolidated Statement of Cash Flows

	ACTUAL 31 MARCH 2016	PROSPECTUS FORECAST 31 MARCH 2016
$'000s	$'000	$'000
Cash flows from operating activities		
Receipts from customers (including Ministry of Education funding)	136,779	137,489
Dividends received	121	-
Payments to suppliers and employees	(113,525)	(109,786)
Taxes paid	(4,484)	(4,608)
Net cash flows from operating activities	**18,891**	**23,095**
Cash flows from investing activities		
Payments for purchase of businesses	(23,708)	(1,140)
Payments for software, property, plant and equipment	(2,296)	(764)
Interest received	159	-
Net cash flows from investing activities	**(25,845)**	**(1,904)**
Cash flows from financing activities		
Share issue costs	(51)	-
Interest paid on borrowings	(1,166)	(540)
Bank borrowings drawn	141,790	-
Bank borrowings repaid	(95,925)	-
Dividends paid	(3,680)	(4,155)
Net cash flows from financing activities	**40,968**	**(4,695)**
Net cash flows	**34,014**	**16,496**
Cash and cash equivalents at beginning of period	4,610	22,822
Cash and cash equivalents at end of period	**38,624**	**39,318**

24. Comparison to Prospective Financial Information (PFI) (continued)

Payments to suppliers and employees includes payments relating to the acquisition and integration costs which were not forecast. Payments for property, plant and equipment include expenditure deferred from the prior period.

The PFI assumed $20m of borrowings as at 31 March 2015, however this was only drawn in the current year. The remaining borrowings relate to current year centre acquisitions. Payments for the purchase of businesses has been discussed above under the heading Consolidated Statement of Financial Position.

25. Events After the Reporting Period

Dividend

On 23 May 2016 the Board approved the payment of a fully imputed final dividend of $4.2m or 2.38 cents per share in respect of the year ended 31 March 2016. The dividend is payable on 20 June 2016.

Acquisitions

During April 2016 the Group acquired a further two ECE centres for consideration of $1.25m net of purchase price adjustments. The acquisition is a continuation of the Group's strategy to form a nationwide group of centrally-owned and managed early childhood education providers. The goodwill acquired comprises the value of expected synergies arising from the acquisitions including those that occurred during the reporting period.

A summary of the provisional net assets acquired is below. Acquisition costs of approximately $0.1m were incurred.

	$'000
Assets	
Other current assets	16
Property, plant and equipment	84
	100
Liabilities	
Funding received in advance	(102)
Employee entitlements	-
Other current liabilities	(4)
	(106)
Total identifiable net assets at fair value	**(6)**
Goodwill arising on acquisition	1,256
Purchase consideration transferred	**1,250**
Purchase consideration	
Cash	1,210
Cash payable relating to retentions	40
Total consideration	**1,250**

In addition to the above the Group has entered into an agreements for the acquisition of a further two ECE centres for $4.7m total consideration. At the date of signing these financial statements, one of the agreements is unconditional and due for settlement in June 2016 and the other is conditional.

Independent Auditor’s Report
to the shareholders of Evolve Education Group Limited

Report on the Financial Statements

We have audited the Group financial statements of Evolve Education Group Limited (the “Company”) on pages 31 to 73, which comprise the statement of financial position as at 31 March 2016, the statement of comprehensive income, the statement of movements in equity and the statement of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for the Group. The Group comprises the Company and the entities it controlled at 31 March 2016 or from time to time during the financial year.

Directors’ Responsibility for the Consolidated Financial Statements

The Directors are responsible on behalf of the Company for the preparation and fair presentation of these consolidated financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards and for such internal controls as the Directors determine are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal controls relevant to the Company’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the consolidated financial statements.

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

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

Independent Auditor's Report

Evolve Education Group Limited

Opinion

In our opinion, the consolidated financial statements on pages 31 to 73 present fairly, in all material respects, the financial position of the Group as at 31 March 2016, and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards.

Restriction on Use of our Report

This report is made solely to the Company's shareholders, as a body, in accordance with the Companies Act 1993. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

PricewaterhouseCoopers

Chartered Accountants — Auckland

23 May 2016

Corporate Governance and Statutory Information

Corporate Governance

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

The Company is not subject to Chapters 6, 6A, 6B and 6C of the Australian Corporations Act 2001 (Cth). 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 the Corporate Governance Best Practice Code set out in the NZX Listing Rules, and, from listing, has approved various corporate governance policies and charters. These corporate governance policies and charters reflect the principles and recommendations outlined in the third edition of the Corporate Governance Principles and Recommendations issued by the ASX Corporate Governance Council ("Recommendations") and are broadly consistent with the New Zealand Financial Markets Authority's Corporate Governance in New Zealand – Principles and Guidelines.

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. Many of these policies and guidelines are foundational and work to fully implement these is ongoing. 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. The Company has, however continued to report its approach to governance against the eight fundamental principles of the ASX Recommendations as set out in this section. Other than as noted in this corporate governance section, the Company has not departed from the Recommendations.

Principle 1 – Lay Solid Foundations for Management and Oversight

A listed entity should establish and disclose the respective roles and responsibilities of its board and management and how their performance is monitored and evaluated.

Role of the Board

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

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

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 Senior Management team which is charged with

Corporate Governance and Statutory Information

operating the business. The Board also advises, oversees and counsels Senior Management, 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.

Delegation

The Board has delegated authority for the operations and administration of the Company to the Chief Executive Officer ("CEO"), 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 to assess Senior Management's performance. All policies and delegated limits of authority are reviewed on a regular basis.

Diversity Policy

The Company has adopted a diversity policy which obliges the Board to set measurable objectives in achieving diversity, including gender diversity. The Board is establishing appropriate measurable objectives for 2016/17, and will report the Company's progress against these measurable objectives in future annual reports. The Company 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 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 Policy. Information relating to the current representation of female employees of the Company, including holding senior executive positions and on the Board is as follows:

	As at 31 March 2015		As at 31 March 2016	
Position	Women	Men	Women	Men
Board	1 (20%)	4 (80%)	1 (20%)	4 (80%)
Senior Executives (including Executive Directors)	4 (50%)	4 (50%)	4 (50%)	4* (50%)
Company-wide	>95%	<5%	>92.5%	<7.5%

* Senior Management includes the CEO and employees who report directly to the CEO. As at 31 March 2016 the Senior Management team consists of nine positions. At that date the position of Chief Operating Officer is vacant and not included in the above table.

At balance date the Group employs 2,099 women which represents 92.5% of the workforce (comparative information is not available).

Performance Management

The Board has established a Remuneration and People Committee (formerly Governance and Remuneration 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.

Corporate Governance and Statutory Information

During the reporting period, a formal review of the Senior Management team performance was undertaken by the CEO. The CEO's conclusions and recommendations were then reviewed by the Remuneration and People Committee, and were taken into consideration when setting remuneration and incentive arrangements for the Senior Management team.

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

Principle 2 – Structure of the Board to Add Value

A listed entity should have a board of an appropriate size, composition, skills and commitment to enable it to discharge its duties effectively.

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 above.

Selection and Role of Chairperson

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

The role and responsibilities of the Chair include:

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

Director Independence

The Company's constitution specifies the minimum number of Independent Directors to be two or, if there are eight or more Directors, three or one-third of the total number of directors.

Norah Barlow, Greg Kern and Alistair Ryan are Independent Directors, within the meaning of the NZX Listing Rules and the Recommendations. Mark Finlay and Alan Wham are not independent within the meaning of the NZX Listing Rules and the Recommendations.

With regard to the NZX Listing Rules:

- Mark Finlay is not considered independent given his shareholding in the Company on completion of the initial public offering;
- Alan Wham is currently CEO of the Company and is therefore not independent.

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, and that the appointment of additional Independent Directors is not warranted at this time.

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 (formerly the Governance and Remuneration 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 being considered by the Board and Remuneration and People Committee.

Corporate Governance and Statutory Information

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 has not separately constituted a Nomination Committee because the duties and responsibilities that are normally delegated to a Nomination Committee have been delegated to the Remuneration and People Committee.

The Board may establish additional committees of Directors as required.

- *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 current members of the Audit and Risk Committee are Alistair Ryan (Chair), Norah Barlow and Greg Kern.

- *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.

  The current members of the Remuneration and People Committee are Greg Kern, Mark Finlay and Alistair Ryan.

  Norah Barlow ceased being a member of the Remuneration and People Committee and was replaced by Greg Kern with the changes effective from June 2016.

Board Access to Information and Advice

The Company Secretary of the Company is directly accountable to the Board through the Chair on all matters to do with the proper functioning of the Board.

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 carrying out their responsibilities.

Director Education

All Directors are responsible for ensuring that they remain current in understanding their duties as Directors.

Directors' Share Ownership

The Company's Securities Trading Policy and Guidelines detail the Company's policy on, and rules for dealing in shares and other securities in the Company. The Securities Trading Policy and Guidelines applies regardless of whether the Company's securities are quoted on NZX or ASX and fundamentally provides that insider trading is prohibited at all times. The policy applies to all Directors, officers and employees of the Company, with further 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 below.

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.

Corporate Governance and Statutory Information

Board and Committee Meetings

The Board has established a regular schedule of board and committee meetings in order to carry out its obligations under its Board Charter. A summary of the Directors' attendances at each of the Board and Committee meetings between 1 April 2015 and the date of approving the financial statements (that is, 23 May 2016), as compared to the number of scheduled meetings and teleconferences (in brackets) is shown in the table below.

	Board	Audit and Risk Committee	Remuneration and People Committee
Norah Barlow	18 (18)	5 (5)	5 (5)
Mark Finlay	18 (18)	-	5 (5)
Greg Kern	17 (18)	4 (5)	-
Alistair Ryan	17 (18)	5 (5)	5 (5)
Alan Wham	18 (18)	-	-

Principle 3 – Act Ethically and Responsibly

A listed entity should act ethically and responsibly.

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 for individuals for reporting and investigating reports of unethical practices; and
- use the Company's resources and property properly.

Principle 4 – Safeguard Integrity in Corporate Reporting

A listed entity should have formal and rigorous processes that independently verify and safeguard the integrity of its corporate reporting.

Risk management

Identification and mitigation of the Company's risks are priorities for the Board. The Board is responsible for overseeing the risk-management and compliance systems put in place by the Company's management. The Audit and Risk Committee's role in assisting the Board is detailed in the Audit and Risk Committee Charter, which is available on the Company's website (www.evolveeducation.co.nz).

The objectives of the Audit and Risk Committee are to assist the Board in fulfilling its responsibilities relating to risk management and internal control, financial reporting, legislative and NZX and ASX Listing Rule compliance, internal policies and industry standards, the external and internal audit functions, tax management, treasury management, and includes, among other things:

- promoting a culture of compliance;
- providing a forum for communication between the Board and Senior Management in relation to audit and compliance matters affecting the Company; and
- reviewing and commenting on Senior Management's plans for managing the material financial and reporting risks faced by the Company.

In performing its duties, the Committee will maintain effective working relationships with the Board, management, and external and internal auditors. The profiles of Committee members is disclosed under the section "Board Profiles" on page 28 and the number of Committee members and attendance records is disclosed above.

Corporate Governance and Statutory Information

The Audit and Risk Committee reports to the Board annually (and has done so in respect of the year ended 31 March 2016). Furthermore, the Board, before it approves the financial statements for a particular financial period, requires that it receives a declaration from the CEO and CFO, that, in their opinion, the financial records of the Company have been properly maintained and that the financial statements comply with New Zealand accounting standards and give a true and fair view of the financial position and performance of the Company and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively. The Board confirms that it received such a declaration in respect of the year ended 31 March 2016.

The Audit and Risk Committee is also responsible for considering the independence of the external auditor and any potential conflicts of interest. The Audit and Risk Committee reviews policies for the provision of non-audit services by the external auditor and, where applicable, the framework for pre-approval of audit and non-audit services. Under the Audit and Risk Committee Charter, the Committee is responsible for recommending the appointment and assessing the performance of the external auditor. Further information about the non-audit services provided during the year ended 31 March 2016 is set out in the financial statements included in this annual report.

In combination with the establishment of the Audit and Risk Committee, the Board has approved a Risk Management Policy because the Company views effective risk management as key to achieving and maintaining its operational and strategic objectives. The Risk Management Policy is available on the Company's website (www.evolveeducation.co.nz).

Principle 5 – Make Timely and Balanced Disclosure

A listed entity should make timely and balanced disclosure of all matters concerning it that a reasonable person would expect to have a material effect on the price or value of its securities.

Shareholder communications

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

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

The Shareholder Communications Policy requires the Company to:

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

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

The 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.

Both the Shareholder Communications Policy and Continuous Disclosure Policy can be found on the Company's website (www.evolveeducation.co.nz).

Principle 6 – Respect the Rights of Security Holders

A listed entity should respect the rights of its security holders by providing them with appropriate information and facilities to allow them to exercise those rights effectively.

The Company's Shareholder Communications Policy (as referred to under Principle 5) is designed to ensure that communications with Shareholders and all other stakeholders are managed efficiently.

The Company currently keeps shareholders informed through:

- the annual report;
- the interim report;
- the annual meeting of shareholders;
- disclosure to the NZX and ASX in accordance with the

Company's Shareholder Communications Policy and Continuous Disclosure Policy; and

- the Investor Announcements section on the Company website.

The Chair, CEO and CFO are the points of contact for shareholders and analysts.

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 Chair will provide an opportunity for shareholders to raise questions for their Board. The Chair may ask the CEO and any relevant manager of the Company to assist in answering questions if required. 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.

Principle 7 – Recognise and Manage Risk

A listed entity should establish a sound risk management framework and periodically review the effectiveness of that framework.

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 also the responsibility of management.

The Board has delegated certain activities to the Audit and Risk Committee and has adopted a Risk Management Policy (as referred to under Principle 4 above).

The Audit and Risk Committee is responsible for ensuring there are adequate policies in relation to risk management, compliance and internal control systems. They monitor 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.

During the reporting period, the Audit and Risk Committee conducted a review of the effectiveness of the Company's risk management and internal control processes, including the Company's risk management plan framework, and deemed that it is operating effectively.

Senior Management must report 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.

The Company considers that it does not currently have any material exposure to environmental, economic or social sustainability risks.

Health and safety

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 both for staff and our children is effectively governed and managed. Improving our health and safety performance is important to us and for this reason the Board has adopted lead and lag measures that will allow the Company to monitor and effect proactive improvements for the successful implementation of new standards on process safety, and achieving a reduction in the rate of injuries. Further, a group wide Health and Safety Management system which accommodates all aspects of the Company's health and safety requirements has been developed and is being implemented.

Principle 8 – Remunerate Fairly and Responsibly

A listed entity should pay director remuneration sufficient to attract and retain high quality directors and design its executive remuneration to attract, retain and motivate high quality senior executives and to align their interests with the creation of value for security holders.

The Board has a Remuneration and People Committee (as referred to in Principle 1 above and under Director and Employee Remuneration below). One of that Committee's principal functions is to oversee the remuneration strategies and policies of the Company.

The Company distinguishes the structure of non-executive Directors' remuneration from that of executive Directors.

Corporate Governance and Statutory Information

Director and Employee Remuneration

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 role and membership of the Committee is set out above.

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 external 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 80.

The performance of all Directors and Senior Management is reviewed periodically in accordance with the terms of the Remuneration and People Committee Charter. As discussed above, during the reporting period, the performance of Senior Management was reviewed and, this being the first full year of operations, the performance of Directors will be conducted during June and July 2016.

In its annual report, meeting documents, ASX and NZX announcements and on its website, the Company has provided fulsome disclosure in relation to the skills, experience and diversity of its Board and as such it does not consider that a separate 'skills matrix' (as suggested by Recommendation 2.2) will enhance the Company's disclosure in relation to these matters.

The Board does not consider it necessary, in light of the size of the Board and relatively low turnover of Directors, to have a separate induction program for new Directors (as suggested by Recommendation 2.6). All new Directors will of course be given sufficient support from the Board in order to familiarise themselves with the Company and its governance protocols.

Director Remuneration

Norah Barlow, as Chairperson, receives $135,000 per annum. The non-executive Directors each receive $80,000 per annum. Alistair Ryan, as Chairperson of the Audit and Risk Committee, receives an additional $10,000 per annum. Alan Wham as CEO does not receive additional remuneration in his capacity as a Director. The Directors' fees currently total $385,000 per annum.

However, the Company has set the Director fee pool for all Directors at $500,000 per annum in aggregate in order to accommodate the appointment of an additional director if required and to allow further payments to be made to Directors should additional work be required. 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.

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 to ensure comparability and competitiveness, along with consideration of an individual's performance, skills, expertise and experience.

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

Corporate Governance and Statutory Information

The annual remuneration review process requires "one over one" approval. This means that approval of the Board is required for any changes to the CEO's remuneration, on recommendation by the Remuneration and People Committee. Further, recommendations from the CEO in relation to remuneration of the Senior Management team require Remuneration and People Committee approval.

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

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

The Company is considering the adoption of a performance share rights long-term executive incentive scheme for the CEO and its Senior Management.

CEO Remuneration

The CEO has a base salary of $450,000 per annum (gross) and is entitled to the use of a mobile telephone, laptop and car park. The Company reimburses the CEO for any expenses reasonably incurred by him in the performance of his duties under his employment agreement. There is no prescribed limit on the expenses that can be reimbursed to the CEO, but all expenses must be incurred in accordance with expense policies authorised by the Board. Alan Wham was also issued 550,000 Shares in the Company in 2015.

Director Remuneration Statement

The Company's Directors holding office during the year ended 31 March 2016 are listed below. Pursuant to section 211(f) of the Companies Act 1993, the total amount of remuneration and other benefits received by each Director during the year ended 31 March 2016 are provided below.

($000's)	Directors Fees	Cash Salary and Other Payments	Total
Norah Barlow	135	-	135
Alistair Ryan	90	-	90
Greg Kern	80	-	80
Mark Finlay	80	-	80
Alan Wham	-	508	508
Total	**385**	**508**	**893**

Directors of Subsidiary Companies

The remuneration of employees acting as Directors of subsidiaries is disclosed in the relevant banding of remuneration set out under the heading "Employee Remuneration" below. During the year ended 31 March 2016 employees did not receive additional remuneration for acting as Directors of subsidiary companies.

Employee Remuneration

The number of employees or former employees (including employees holding office as Directors of subsidiaries, but not including the CEO who is a Director of the Company) who received remuneration and other benefits (including share-based payments) valued at or exceeding $100,000 during the year ended 31 March 2016 are specified below.

Corporate Governance and Statutory Information

Remuneration Band	Total
$100,001 - $110,000	5
$110,001 - $120,000	4
$120,001 - $130,000	3
$130,001 - $140,000	1
$140,001 - $150,000	1
$150,001 - $160,000	1
$160,001 - $170,000	1
$170,001 - $180,000	1
$180,001 - $190,000	2
$200,001 - $210,000	1
$300,001 - $310,000	1
$320,001 - $330,000	1
$500,001 - $510,000	1
Total	**23**

In the case of businesses acquired, the analysis above relates to remuneration and benefits paid from the date the Company acquired those businesses.

Disclosure of Directors' Interests

Section 140(1) of the New Zealand Companies Act 1993 requires a director of a company to disclose certain interests. Under subsection (2) a director can make disclosure by giving a general notice in writing to the company of a position held by a director in another named company or entity. Details of directors' general disclosures entered in the relevant interests register for the Company during the year to 31 March 2016 are as follows:

Director	Position	Company
Norah Barlow	Director	Careerforce
	Director/Shareholder (ceased 31 July 2015)	Cooks Global Foods Limited
	Trustee	Pataka Foundation Trust
	Appointee	Allied Health, Science & Technical Workforces Governance Group
	Member	Governance Board, Aging Well, National Health Sciences
Mark Finlay	Director and indirect shareholder	LEDC1 Limited
	Director (ceased 13 August 2015)	Lollipops Educare Halfmoon Bay Ltd

There were no entries in the interests register for Alistair Ryan, Alan Wham or Greg Kern during the year.

Disclosure of Directors' Interests in share transactions

Directors disclosed the following acquisitions and disposals of relevant interests in shares during the year ended 31 March 2016:

Norah Barlow:

- Issue of 1,790 shares by the Company on 18 December 2015 under the Company's dividend reinvestment plan.

Mark Finlay:

- Nil

Greg Kern:

- Issue of 51,126 shares by the Company to Kern Group NZ Limited on 18 December 2015 under the Company's dividend reinvestment plan.

Corporate Governance and Statutory Information

- Issue of 252 shares by the Company to Gregory James Kern on 18 December 2015 under the Company's dividend reinvestment plan.

Alistair Ryan:

- Issue of 1,790 shares by the Company on 18 December 2015 under the Company's dividend reinvestment plan.

Alan Wham:

- Issue of 12,304 shares by the Company on 18 December 2015 under the Company's dividend reinvestment plan.

Disclosure of Directors' Interests in Shares

Directors disclosed the following relevant interests in Shares as at 31 March 2016:

Director	Number of Shares in which a relevant interest is held
Norah Barlow	81,790
Mark Finlay	21,347,382
Greg Kern	2,347,247
Alistair Ryan	81,790
Alan Wham	562,304

Of the shares held by Mark Finlay:

- 20,138,542 ordinary shares were issued to Mark Finlay and Geoffrey Hosking as trustees of the Mark Finlay Investment No.2 Trust, and
- 1,208,840 fully-paid ordinary Shares were issued to Mark Finlay and Mark Dobson Trustee Company Limited as trustees of the HR Finlay Family Trust.

Mark Finlay is a beneficiary of the Mark Finlay Investment No.2 Trust but is not a beneficiary of the HR Finlay Family Trust.

Of the shares held by Greg Kern:

- 2,336,495 ordinary shares were issued to Kern Group NZ Limited, and
- 10,752 shares were issued to Gregory James Kern

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 are still listed on the ASX. The Company is primarily regulated by the NZX, complies with the NZX Listing Rules, and is exempt from complying with most of the ASX Listing Rules (based on the principle of substituted compliance).

Dividend Policy

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

- current 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; and
- available imputation credits.

The current intention of the Board is to pay dividends on a half-yearly bases of between 40% and 60% of net profit after tax in respect of the preceding half-year period.

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.

In respect of the year ended 31 March 2016, a final and fully imputed dividend of 2.38 cents per share was paid on 20 June 2016 to all shareholders on the company's register at the close of business on 8 June 2016. The company's Dividend Reinvestment Plan (announced in November 2015) applied to this final dividend with no discount. The closing date for electing to participate in the Dividend Reinvestment Plan for this final dividend was 5.00pm (New Zealand time) on 9 June 2016. Full details of the company's Dividend Reinvestment Plan are available on the Company's website at www.evolveeducation.co.nz. This brings the total dividend paid in respect of the year ended 31 March 2016 to 4.76 cents per share, fully imputed, following the payment of an interim dividend on 18 December 2015.

Net Tangible Assets

The Company's net tangible assets as at 31 March 2016 were ($0.17) per share (31 March 2015 ($0.11) per share).

Corporate Governance and Statutory Information

Donations

The Company made donations of $6,980 during the year ended 31 March 2016.

Credit Rating

The Company has no credit rating.

NZX and ASX Waivers

The Company did not rely upon any waiver granted by NZX Limited during the year ended 31 March 2016.

As part of its application to list on the ASX, the Company applied for and was granted waivers from the ASX Listing Rules that are standard for a New Zealand company listed on both the NZX Main Board and the ASX. The Company relied on these waivers for the period ending 31 March 2016:

- A waiver from listing rule 6.10.3 to the extent necessary to permit the Company to set the "specified time" to determine whether a shareholder is entitled to vote at a shareholders' meeting in accordance with the requirements of the relevant New Zealand legislation.
- A waiver from listing rule 7.1 to the extent necessary to permit the Company to issue more than 15% of its shares without shareholder approval on the following conditions:
  - The Company remains subject to, and complies with, the NZX Listing Rules of NZX Limited ("NZX") with respect to the issue of new securities.
  - The Company certifies to ASX on an annual basis (on or about 30 June each year) that it remains subject to, has complied with, and continues to comply with, the NZX Listing Rules with respect to the issue of new securities.
  - If the Company becomes aware of any changes to the application of the NZX Listing Rules with respect to the issue of new securities, or that the Company is no longer in compliance with the NZX Listing Rules with respect to the issue of new securities, it must immediately advise ASX.
- Without limiting ASX's right to vary or revoke its decision under listing rule 18.3, ASX reserves the right to revoke the waiver from listing rule 7.1 above if:
  - the Company fails to comply with any of the above conditions; or
  - there are changes to the NZX Listing Rules in respect of the issue of new securities such that, in ASX's opinion, the regulation of the issue of new securities under those NZX Listing Rules ceases to be comparable to the regulation of the issue of new securities under the ASX Listing Rules.
- A waiver from listing rule 15.7 to the extent necessary to permit the Company to permit announcements simultaneously to both ASX and NZX.
- A waiver from listing rules 15.13, 15.13A and 15.13B to the extent necessary to permit the Company to divest shareholders of less than a minimum holding in accordance with the requirements of the NZX Listing Rules and the procedures set out in the Company's constitution.

Annual Meeting

The Company's Annual Meeting of Shareholders will be held in Auckland on 25 August 2016 at 2 pm. A notice of Annual Meeting and Proxy Form will be circulated to Shareholders in July 2016.

Shareholder Information

Shares on Issue

The total number of ordinary shares on issue as at 31 March 2016 and at 31 May 2016 was 177,576,018. Each share confers on its holder the right to attend and vote at a meeting of Evolve Education, including the right to cast one vote in a poll on any resolution.

Analysis of Shareholding at 31 May 2016

Size of holding	Number of Shareholders	%	Number of Shares	Holding Quantity %
1 to 1,000	53	4.99%	34,663	0.02%
1,001 to 5,000	218	20.53%	792,522	0.45%
5,001 to 10,000	244	22.98%	2,029,993	1.14%
10,001 to 100,000	492	46.32%	15,109,187	8.51%
100,001 and over	55	5.18%	159,609,653	89.88%
Total	**1,062**	**100.00%**	**177,576,018**	**100.00%**

Twenty Largest Shareholders at 31 May 2016

The 20 largest shareholders of fully paid ordinary shares as at 31 May 2016 were:

Name	Number of Shares	% of Shares
New Zealand Central Securities Depository Limited	46,276,925	26.06%
Mark Finlay & Geoffrey Hosking	20,138,542	11.34%
Citicorp Nominees Pty Limited	15,139,141	8.53%
National Nominees Limited	14,241,902	8.02%
Forsyth Barr Custodians Ltd	9,720,726	5.47%
Russell Thompson & Geoffrey Hosking	8,257,069	4.65%
Scottfin ECE Limited	6,605,450	3.72%
JPMorgan Nominees Australia Limited	5,831,995	3.28%
HSBC Custody Nominees (Australia) Limited	3,990,923	2.25%
Brispot Nominees Pty Ltd	3,487,772	1.96%
Kern Group NZ Limited	2,336,495	1.32%
Wraith Capital Group NZ Limited	2,285,369	1.29%
Stuart Bruce James & Gillian Doreen James	2,285,369	1.29%
HSBC Custody Nominees (Australia) Limited A/C 3	2,272,724	1.28%
CS Fourth Nominees Pty Limited	2,073,776	1.17%
UBS Nominees Pty Ltd	1,896,598	1.07%
Investment Custodial Services Limited	1,215,196	0.68%
Mark Finlay & Mark Dobson Trustee Company Limited	1,208,840	0.68%
RBC Investor Services Australia Nominees Pty Limited	1,044,069	0.59%
BNP Paribas Noms Pty Ltd	844,813	0.48%
Leveraged Equities Finance Limited	833,090	0.47%
Total - twenty largest shareholders	**151,986,784**	**85.60%**
Total number of shares on issue	**177,576,018**	

Shareholder Information

* 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 31 May 2016, the shareholdings in the Company held through NZCSD were:

Name	Number of Shares Held by NZCSD	% of NZCSD Shares
National Nominees New Zealand	18,666,484	40.34%
Accident Compensation	8,612,685	18.61%
HSBC Nominees (New Zealand)	7,683,843	16.60%
BT NZ Unit Trust Nominees Ltd	2,277,339	4.92%
Guardian Nominees No 2 Ltd	2,191,544	4.74%
Citibank Nominees (NZ) Ltd	1,365,535	2.95%
New Zealand Permanent Trustees	1,330,000	2.87%
BNP Paribas Nominees NZ	1,289,317	2.79%
JPMorgan Chase Bank	1,046,178	2.26%
Cogent Nominees Limited	702,611	1.52%
Public Trust RIF Nominees	449,244	0.97%
Tea Custodians Limited	354,013	0.76%
Cogent Nominees (NZ) Limited	249,899	0.54%
New Zealand Permanent Trustees	50,000	0.11%
Private Nominees Limited	8,233	0.02%
Total - shares held by NZCSD	**46,276,925**	**100.00%**

Substantial Shareholders

According to notices given under Section 293 of 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 balance date in respect of the number of shares set opposite their names.

Name	Number of Shares	% of Shares
Evolve Education Group Limited*	44,765,446	25.21%
Geoffrey Hosking**	28,395,611	15.99%
Mark Finlay***	21,347,382	12.02%
Milford Asset Management Limited	16,249,648	9.15%
Regal Funds Management Pty Limited	14,700,870	8.28%
Westpac Banking Corporation	11,687,874	6.58%
Paradice Investment Management Pty Limited	10,505,000	5.92%
Total	**147,651,831**	**83.15%**
Total number of shares on issue	**177,576,018**	

According to notices given under ASX Listing Rule 4.10.4, the following persons were substantial shareholders in the Company at 31 May 2016 being a date on or after the entity's balance date and not more than 6 weeks before the annual report is given to ASX.

Shareholder Information

Name	Number of Shares	% of Shares
Evolve Education Group Limited*	44,765,446	25.21%
Geoffrey Hosking**	28,395,611	15.99%
Mark Finlay***	21,347,382	12.02%
Milford Asset Management Limited	16,249,648	9.15%
Regal Funds Management Pty Limited	14,700,870	8.28%
Westpac Banking Corporation	11,687,874	6.58%
Paradice Investment Management Pty Limited	10,505,000	5.92%
Total	**147,651,831**	**83.15%**
Total number of shares on issue	**177,576,018**	

*Refer Restricted Securities below.

** Geoffrey Hosking as trustee of the Mark Finlay Investment No. 2 Trust together with the other trustee (Mark Finlay) are the registered holders and beneficial owners of 20,138,542 shares. Geoffrey Hosking as trustee of the 111 Investment Trust together with the other trustee (Russell Thompson) are the registered holders and beneficial owners of 8,257,069 shares.

***Mark Finlay as trustee of the Mark Finlay Investment No. 2 Trust together with the other trustee (Geoffrey Hosking) are the registered holders and beneficial owners of 20,138,542 shares. Mark Finlay as trustee of the HR Finlay Family Trust together with the other trustee (Mark Dobson Trustee Company Limited) are the registered holders and beneficial owners of 1,208,840 shares.

Restricted Securities

44,765,446 shares, representing 25.21% of the total shares on issue, are subject to escrow arrangements whereby the respective shareholders have agreed not to sell, transfer or otherwise dispose of their Shares until at least the day that is two years after the date of commencement of quotation and trading of shares on the NZX Main Board (being 5 December 2014). See pages 60 - 61 of Evolve Education's Investment Statement dated 14 November 2014 for further information.

Shareholders Holding Less Than a Marketable Parcel

As at 31 May 2016 based on the market price of A$0.885, there were five holders that held less than a marketable parcel of A$500 of Evolve Education shares under the ASX Listing Rules.

Subsidiary Company Directors

The following persons held office as Directors of the Company's subsidiaries during the year ended 31 March 2016 or, in the case of acquired subsidiaries, from the date of acquisition:

Company Name	Directors
Evolve Group 1 Limited	Greg Kern (ceased 1 October 2015) Vivek Singh David Smith (ceased 24 March 2016) Alan Wham
Evolve Group 2 Limited	Greg Kern (ceased 1 October 2015) Vivek Singh David Smith (ceased 24 March 2016) Alan Wham
Evolve Group 3 Limited	Greg Kern (ceased 1 October 2015) Vivek Singh David Smith (ceased 24 March 2016) Alan Wham
Evolve Group 4 Limited	Greg Kern (ceased 1 October 2015) Vivek Singh David Smith (ceased 24 March 2016) Alan Wham
Evolve Group 5 Limited	Greg Kern (ceased 1 October 2015) Vivek Singh David Smith (ceased 24 March 2016) Alan Wham
Evolve Group 6 Limited	Vivek Singh David Smith (ceased 24 March 2016) Alan Wham
Evolve Management Group Limited	Greg Kern (ceased 1 October 2015) Vivek Singh David Smith (ceased 24 March 2016) Alan Wham
ECE Management Limited	Vivek Singh David Smith (ceased 24 March 2016) Alan Wham
Lollipops Educare Holdings Limited	Mark Finlay Vivek Singh Alan Wham
Lollipops Educare Limited	Mark Finlay Vivek Singh Alan Wham
Lollipops Educare Centres Limited	Mark Finlay Vivek Singh Alan Wham
Lollipops Educare (Hastings) Limited	Mark Finlay Vivek Singh Alan Wham
Lollipops Educare (Birkenhead) Limited	Mark Finlay Russell Warren Thompson Vivek Singh (appointed 29 October 2015) David Smith (appointed 29 October 2015, ceased 24 March 2016) Alan Wham (appointed 29 October 2015)

Subsidiary Company Directors

Lollipops Educare (Halfmoon Bay) Limited (50%)	Mark Finlay (ceased 13 August 2015) Kristin Colthurst Alan Wham (appointed 13 August 2015)
Evolve Home Day Care Limited	Greg Kern (ceased 1 October 2015) Vivek Singh David Smith (ceased 24 March 2016) Alan Wham
Au Pair Link Limited	Vivek Singh David Smith (ceased 24 March 2016) Alan Wham
Porse In-home Childcare (NZ) Limited	Vivek Singh Alan Wham Jenny Lee Yule (ceased 1 December 2015)
Porse Franchising (NZ) Limited	Vivek Singh Alan Wham Jenny Lee Yule (ceased 1 December 2015)
Porse Education & Training (NZ) Limited	Vivek Singh Alan Wham Jenny Lee Yule (ceased 1 December 2015)
For Life Education & Training (NZ) Limited	Vivek Singh Alan Wham Jenny Lee Yule (ceased 1 December 2015)

Disclosure of Subsidiary Directors Interests

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

In addition to the directorships in the Company and in fellow subsidiary companies (as applicable) referred to above, there were no directors' general disclosures entered in the relevant interests register for the Company's subsidiaries during the year to 31 March 2016.

Corporate Directory

Evolve Education Group Limited Registered Office

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

Contact Details in Australia

C/- Minter Ellison Rudd Watts
Level 40, Governor Macquarie Tower
1 Farrer Place
Sydney, New South Wales 2000
Phone: +61 2 9921 8888

Directors

Norah Barlow (Chair)
Mark Finlay
Greg Kern
Alistair Ryan
Alan Wham

Senior Management Team

Alan Wham – Chief Executive Officer
Vivek Singh – Chief Financial Officer and Company Secretary
Rachel Nottingham – Acquisitions and Property Manager
Allan McGilvray – General Manager, People and Capability
Paul Matthews – Chief Information Officer
Paula Hawkings – General Manager, Lollipops Educare
Kerry Henderson – Acting General Manager, Porse
Casey Muraahi – General Manager, Au Pair Link

Solicitors

Chapman Tripp
Level 35, ANZ Centre
23 – 29 Albert Street
Auckland 1010
Phone: +64 9 357 9000

Auditor

PricewaterhouseCoopers
188 Quay Street
Auckland 1142
Phone: +64 9 355 8000

New Zealand Share Registrar

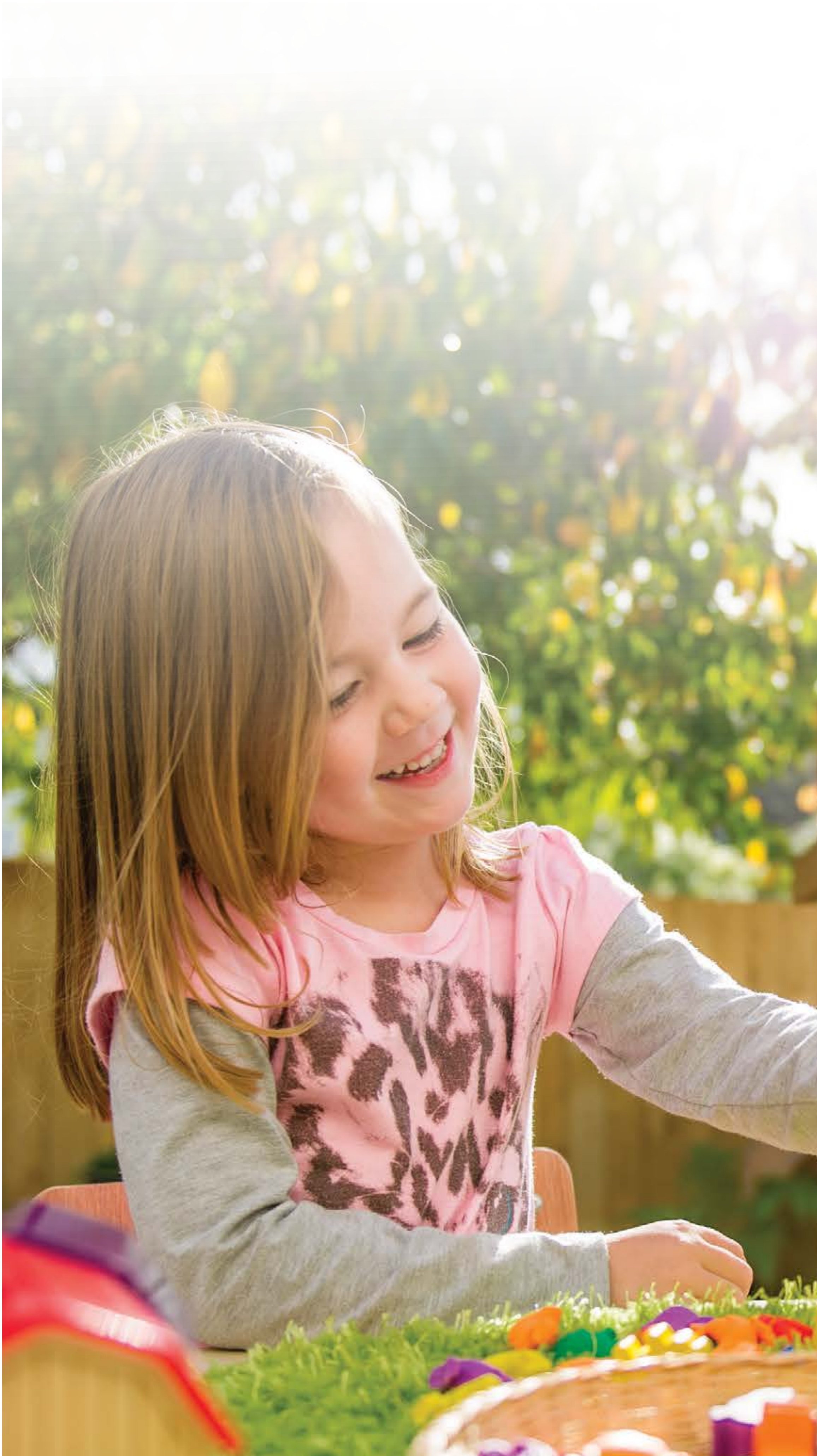
Link Market Services Limited
Level 11, Deloitte Centre
80 Queen Street
Auckland 1010
Phone: +64 9 375 5998

Australian Share Registrar

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

Banker and Lender

ASB Bank Limited
12 Jellicoe Street
Auckland 1140
Phone: +64 9 337 4819



evolve
education group

PO BOX 105843 - Auckland City 1143
Level 2, 54 Fort Street - Auckland CBD
Phone: +64 9 377 8700

evolveeducation.co.nz