Annual Report 2017

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Evolve Story

Remember as a child the excitement of a new discovery? The irrepressible sense of hope and possibility, that the world was a mystery and an adventure to explore? Remember that freedom?

We do.

That thrill of discovery, recalling the magic of the world through a child's point of view, is the ethos that runs through every touchpoint in the Evolve Education Group.

Whether we're nurturing young minds in one of our centres, or educating in-home, we share a common objective - capturing that sense of unbridled possibility. Shaping this possibility for our children by helping nurture happy, caring, independent-thinking, purposeful souls to be their best is our ultimate goal.

We pride ourselves on being welcoming and respecting the rich diversity of culture, tradition, people and circumstance that Evolve children represent. These influences are vital to us, part of our lifeblood, just as their whanau are part of our wider family.

Respect is at the heart of our interaction with our children. Every child is an individual with a voice, every child will respond to some learning styles better than others. We understand that, and offer a variety of teaching methods and philosophies to help any child flourish, whether it's in one of our high quality centres, or in-home.

We are proud to count some of New Zealand's most trusted early childhood professionals among our numbers. These educators have a deep and genuine passion for helping children realise their potential. Through ongoing vocational guidance, we invest in their futures too, to help them to continue to deliver industry-leading teaching and care.

Every parent who entrusts their child to our care can be sure that their child's safety, happiness and personal development is going to be at the forefront of everything we do.

But more than that, as a leader in early childhood education (ECE) in New Zealand, it's vital that our parents and children feel our passion to support and celebrate their children's learning, and that we share their thrill at those moments of understanding and inspiration.

Our delight is the ability to equip our children with the knowledge and skills to face their next challenges with confidence, and embrace a life-long learning journey.

Evolve. The joy of learning lives here.

Vision and Values

Evolve Education Group is comprised of 126 Early Childhood Education centres across New Zealand, as well as the PORSE and Au Pair Link networks.

Our Vision

Evolve will be acclaimed and respected as an authority within ECE. Proud owners of superior, well-resourced learning centres and high quality 'at home' education services. Evolve children are identifiable for their love of learning, and age appropriate life skills.

Evolve will be admired as the undisputed leaders in early childhood education, recognised practitioners and advocates for best practice within the ECE industry, and as a result, staff view Evolve as the premier ECE employer of choice.

Our new brand: bright, uplifting and irrepressible

We wanted our new logo to embody the irrepressible sense of hope and thrill of discovery of the world through the eyes of a child. Capturing the beginning of change; the evolving young mind is entranced by a world filled with light and movement. A logo that carries a sense of wonder, and is broad enough to speak to the diverse ECE communities across New Zealand that the Evolve Education Group serves.

Our logo now represents our passion for learning, for illumination, our quest for those bright points of inspiration, whether they're new ideas or the passionate individuals delivering fresh insight and innovation. Our Evolve bubbles give it an effervescent and optimistic feel.

Bright, uplifting and irrepressible, it's a logo that delivers on the personification of our promise: 'The joy of learning lives here'.

evolve
education group

Our Values
Family values are our high ground

Nurture

The right learning environment
Evolve is a nurturing environment.

For our children: we teach, observe and monitor, ensuring they are happy, stimulated and engaged. With their well-being nurtured, they are free to expand their minds and express themselves.

For our staff: it's about providing the opportunity to fulfil their potential.

Respect

Every child, each other, and our planet
We respect our childrens' culture, ethnicity, personality and individuality. We teach and show respect, and our children respect one other. We extend this respect to our planet by connecting with the natural world and fostering love and a custodial attitude to the environment we live in.

Sustainability

Aligning the three P's
Our people, our planet, our profit. We must look after our people and our planet to ensure our profitability This message resonates with our people, and is inextricably linked to our alignment with our 'New Zealandness' and the promotion of clean, green and healthy values.

Community

Stronger together
Our wider community is important to us: stakeholders, family, staff, supporters, partners. We welcome them into our family and their support makes us stronger, we're all on the same team.

Passion

We have a mission
We are passionate about quality ECE. We're fully engaged. We stand on our principles and our sights are firmly fixed on great outcomes for our children.
It's why we exist, and nothing less will do.

Ethics and Integrity

Trust is everything
Parents are trusting us with the most precious thing in their lives - their children. It's a privilege that we honour with the highest standards of ethical behaviour, and honesty and transparency in our interactions. If we don't have this, we have nothing.

Alistair Ryan
Chairman's Report

Welcome to the 2017 Annual Report, covering Evolve's second full year of operations since listing in December 2014.

2017 - Summary

During the 2017 year, the Evolve Group expanded its operational footprint, delivered revenues in excess of $150m, a robust net profit after tax (NPAT) of $15.9m, and announced a fully imputed full year dividend of 5 cents per share. This is a satisfactory result for our second year and provides a good foundation on which to continue our growth path.

The company is up and running well, with key operational, management and acquisition processes now well-established.

Financial Performance

Whilst revenues and underlying EBITDA increased (by 10.2% and 4.1% respectively), it is fair to say that we would have liked to have seen more of an uplift in year two bottom line (NPAT of $15.9m) over year one (NPAT of $15.6m). However, when the company's profit performance is broken down into its key elements and non-recurring items are identified, robust underlying improvements are evident, which provides a good level of confidence as we move into our third full year as a listed company.

Board Composition

On behalf of the board, I would like to acknowledge Norah Barlow's contribution as Chair of the company since listing. As shareholders will be aware, Norah's other commitments have meant that she has decided to step aside as Chair, effective 1 June 2017, but we are very pleased that Norah will contribute to the company and the board as a continuing director.

We have added executive and governance expertise to the board with the appointment of Grainne Troute, appointed 1 May 2017. In accordance with NZX listing rules, Grainne will stand for election at this year's annual meeting in July. Grainne has extensive corporate and operational executive experience (McDonalds, SKYCITY) and governance capability in the listed environment (SKYCITY, Summerset Holdings, Tourism Holdings). Grainne will add significant strength and diversity to overall board composition and effectiveness and will chair the Remuneration and People Committee.

Following my appointment as Board Chair, Greg Kern has taken over chair responsibility for the Audit and Risk Committee.

Related Parties

In addition to Alan Wham, Managing Director and CEO, Mark Finlay completes our board complement. Mark is our most experienced board member in early childhood operations and property development. We see a greater emphasis on new, purpose-built centres in good locations as we move the company forward. Mark's expertise, knowledge, and delivery capability are therefore important to the company. However, we are also very mindful of the related party relationship that exists between Mark and the company and the important protocols that need to be in place in order to meet good governance requirements, at the same time as fulfilling our obligations to best achieve the company's growth aspirations. This related party intersection is a challenging area for the board and one we need to get right and manage carefully, with full transparency. Related party transactions for the year ended 31 March 2017 are set out at Note 23 of the financial statements.

Acquisitions, Developments and Performance

It is fair to say that, during the last two years, we are generally pleased with the performance of our acquisitions, but also that some have disappointed. In a couple of cases, vendor behaviour, subsequent to reaching a sale agreement, has been unsatisfactory and not in the spirit or intent of the transaction agreed to. In others, subsequent performance has been sluggish and has taken longer than expected to reach expected levels.

In addition, the vendor market is generally well aware that Evolve is looking to acquire centres and vendor expectations have, in many cases, grown beyond our willingness to pay. Put simply, we are not willing to pay more than a certain price level for acquisitions and, if none are available at the right pricing, then we are prepared to be patient to ensure acquisitions are of good quality and will add value to our portfolio.

Accordingly, our strategy is looking to move more onto the new, purpose-built path with a potentially reducing emphasis on acquisitions as part of the overall growth mix. Acquisition of existing operations results in immediate cash flow benefit, whereas new centres take time to build and develop, then take time to build occupancy and reputation, but are likely to deliver better medium to longer term returns.

The half-yearly reporting timeframes and requirements for listed companies are not particularly amenable to a newly-listed company looking to engage in a medium term growth strategy, and the lead times for new centre development and establishment are more demanding of capital funding for the establishment phase. However, we are confident that an increased emphasis on new developments (potentially reducing the proportion of acquisitions), coupled with the increased service and curriculum delivery able to be achieved through economies of scale, will create the best value outcome for shareholders in the years ahead.

2017 has been a year of consolidation and growth as we build towards enhanced economies of scale and a stronger, more established business model. Since listing, we have been integrating and building the business operations and strengthening our curriculum and service delivery.

Evolve's initial centres (as at IPO) have performed to expectations, as have the majority of our subsequent acquisitions, although a number have struggled to sustain their performance levels in the post-acquisition phase. These underperforming centres are the focus of ongoing management attention, either to get back to performance levels previously achieved, or if that is not able to be achieved, then for divestment to be considered so that our capital can be re-deployed elsewhere.

In-Home Education

Early childhood education centres are the core of our business with in-home care as a smaller component of the overall operation. We have experienced reducing revenues in this sector but have been able to maintain earnings through a rigorous approach to costs. But this cost reduction approach cannot continue indefinitely and we must ensure revenues can be turned around.

In addition, we are engaged with IRD in a continuing debate about the GST status of in-home providers and have noted this as a contingency in our financial statements (Note 22). Negotiations to achieve a resolution of this matter in the best interests of shareholders are continuing. The company is not able to predict what the outcome of this process might be, but we remain confident, based on expert advice, that our position is correct.

ECE Environment and Government Support

We believe the prospects for the early childhood sector (and therefore for Evolve) are very promising, with strong underlying fundamentals. However, despite government support for the early childhood initiative and its place in the social and economic fabric, we continue to be disappointed that government has not, in recent years, continued to provide funding rate increases for the sector at least in line with inflation. Continuing Ministry of Education funding support is essential to the success of the sector and will be in the best interests of New Zealanders across the social spectrum.

The early childhood education sector has seen a range of changes over the last 12 months. The Government is in the process of amending the legislation governing child entry at school. The proposed "cohort entry" would allow children to start school at the beginning of each term, enhancing their transition by allowing new entrants to start school together. This will typically mean that some students may start school slightly earlier and others slightly later than their fifth birthday. We will continue to work closely with parents through our "ready for school" programmes to achieve the best outcome for parents and children as this new entry process evolves.

Purpose and Intent

We are here for our families, children, teachers and shareholders. We are providing a strong curriculum-based education for our children and a valuable service to the New Zealand community, at the same time as delivering good results for our shareholders. Balancing these objectives is not an easy task but the board is pleased with how the company is achieving this.

Acknowledgement

I wish to acknowledge all of our Evolve teachers, managers and support staff who collaborate tirelessly to achieve excellent results and are helping to create an organisation of good standing and respect in the New Zealand early childhood sector. To all our people, thank you for your efforts in building the success of our company.

Annual Meeting

We look forward to meeting shareholders at the annual meeting on 17 August.

Alistair Ryan
Board Chair

Alan Wham
CEO's Report

Evolve Education Group has delivered another solid result for the year ended 31 March 2017.

This annual report reflects the engagement and aspirations of our educators that ensures we deliver high quality early childhood education (ECE). Our role is to enable and support our teachers and leaders through best practise and robust operating procedures.

Results

Group revenue for the year grew 10.2% to $151.4m, and underlying EBITDA of $27.6m was up 4.1%.

Our centre revenue was $126.5m, up 14.1% on last year and underlying EBITDA was up 12.4% to $31.0m.

The licensed child places in centres grew to 8,274 because of 15 new centres acquired in the year to 31 March 2017. Total centres numbered 121 at the end of March.

Post the year end an additional 6 centres were acquired and settled on 16th June 2017. This is a group purchase that will add a further 531 licensed places.

One Westport centre that was acquired as part of a group purchase in the initial portfolio (2015) was divested.

Our total centre numbers at the end of June 2017 will be 126. This includes our first development centre that has been operating for five months and is meeting planned occupancy growth. We opened our second development in May 2017 and have a further two properties completing construction for opening this financial year. We have the mapping tools to track competitor centre developments through resource and building consents. This mapping tool provides the licenced capacity of each ECE provider and overlays the age demographics of 0-5 years. This allows us to ensure demand is greater than capacity.

The growth of our centres was driven by a combination of organic growth and new acquisitions made in FY16 and FY17. The original portfolio of 84 centres has performed solidly. As a result, these centres added organic growth of $1.2 million of EBITDA* in this reporting period.

Consolidation of the Evolve centre brands will be rolled out in the coming months with differentiated curriculum and enhanced focus on professional development and learning quality for our children. Teaching staff and management have been engaged in defining the curricula and brands we believe are right for our communities. Elsewhere in this report, we describe the uniqueness of each brand, the teaching philosophy, and the commitments we make to families.

Realising Scale Benefits

Most pleasing to see this year is that Evolve is continuing to realise the benefits of scale. Scale enables a focus on quality education, engaged teaching and quality environments. Exceeding family expectations will lift occupancy for our ECE centres as a result of word of mouth.

Scale allows us to have a dedicated curriculum team with a goal to continually enhance practice and learning outcomes for all our children. This team will establish a structure and clear focus on areas such as group planning and evaluation to document learning and outcomes. They will facilitate professional development and ensure expectations for sharing learning stories with families and for community events in each centre.

We know that if we do this well, we will have great relationships with parents and retain quality teaching staff.

Likewise, our family survey results remain strong with families citing care and nurturing, child enjoyment and a good learning environment as the top indicators for ECE centres.

Scale also underpins the brand change for our centres. This includes investment in a new digital marketing strategy which is very important for new parents and families searching online. Compared to the inefficiency of 60+ different online brands, our new consolidated brand approach will enable families to easily find Evolve centres, enrol online and book tours. This is all tracked and monitored such that we can measure our outcomes.

Healthy Eating

Evolve has an emphasis on healthy eating in all our centres. With many centres participating in the Heart Foundation healthy eating programme which ensures meal plans and nutritional guidelines are met. Evolve Education has won three Gold awards, six Silver awards and six Bronze awards from the Heart Foundation in 2017.

We will continue to build awareness around healthy meal options and are actively working with our food partners to develop meal plans along the healthy heart guidelines.

Home-Based Sector

Porse arranges nannies to undertake ECE in the family home as well as arrange child enrolments in the home of educators.

Au Pair Link relies on supply of au pairs, primarily from Europe, having the highest availability during the Northern Hemisphere summer break. On the quality front the Education Review Office (ERO) has provided a four year review for 10 of the Au Pair licences. This is the highest rating an ECE service can achieve.

Acquisitions

While the centre acquisition market remains bullish we maintain our mandate for purpose built centres with high occupancy and larger licensed capacity. Due diligence processes are now in-house to ensure detailed insights are gained early in the process and clear objectives are identified for integration. This high engagement with the vendor at the outset and personal contact is made early with staff, families and the community.

The purpose of this high engagement strategy is to mitigate the risk of any occupancy drop that can occur with change of ownership.

Our acquisition funding at the end of June 2017 includes $10 million of retained cash and $3.6 million of the remaining acquisition facility. This funding is sufficient to cover our acquisitions and developments through this financial year.

Our People

Evolve's leadership team has been enhanced during the last year with the appointment of key executives. Fay Amaral, Chief Operations Officer, has a strong background in the education sector, acquisition integration and brand management. Fay has made significant strides in enhancing the engagement with centre staff, teaching outcomes and emphasising the importance of family and community interaction with teachers. Stephen Davies joined as Chief Financial Officer in mid 2016. Both are good leaders and have enhanced our senior executive capability.

My thanks to all our staff for their continued commitment and efforts. We are a large group of ECE professionals numbering more than 2,600, the majority being qualified teachers. Retaining our staff through new career pathways, additional employment benefits, professional development and peer support are some of the areas we wish to make work seamlessly for our team members.

Thank you also to our investors for your continued support.

Alan Wham
Chief Executive Officer

[1]EBITDA is defined as earnings before interest, tax, depreciation, amortisation and adjusted for acquisition and integration costs. 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 Evolve Group financial statements, should not be considered in isolation and is not a substitute for those measures.

Board Profile

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, two Non-Executive Directors, and one Executive Director, being the Chief Executive Officer.

Alistair Ryan

Chairperson
(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's Audit Oversight Committee.

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

Norah Barlow

Non-Executive Director
(Independent)

BCA, CA.
Appointed as Director
13 November 2014

Norah is the Managing Director and CEO of Estia Health Limited, an ASX listed company providing aged care in 68 homes through 4 States in Australia. Norah is an accountant by profession, having operated 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 remaining on the Board as a non-executive Director until 2016, when she was appointed to Estia. Norah is also a Ministerial appointee to the National Advisory Council for the Employment of Women. In 2014 she was awarded an ONZM for services to business.

Norah is a member of both Evolve Education's Remuneration and People Committee and the Audit and Risk Committee.

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 (Non-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, a member of the Institute of Internal Auditors and the Australian Institute of Company Directors. Kern Group acted as the lead adviser of the successful listing of Affinity Education Group Limited in Australia. Greg was a promoter of the listing of Evolve Education Group Limited and Affinity Education Group Limited.

Greg is Chair of Evolve Education's Audit and Risk Committee.

Gráinne Troute

Non-Executive Director (Independent)

GradDipBusStuds (HRM)
CMInstD.
Appointed as Director
1 May 2017

Gráinne has extensive experience as a corporate executive and in board and charitable trust governance roles.

She is currently a director of NZX-listed companies Tourism Holdings Limited and Summerset Group Holdings Limited. She was General Manager, Corporate Services at SKYCITY Entertainment Group for 8 years and earlier held senior executive roles at McDonald's Restaurants for 14 years, for the last three of which she was Managing Director, New Zealand.

Gráinne also served for many years as a trustee and chair in the not-for-profit sector, including having been Chair of Ronald McDonald House Charities NZ for five years.

Gráinne is Chair of Evolve Education's Remuneration and People 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 with effect from 1 September 2014. Alan was CEO of Pharmacybrands Limited (now Green Cross Health Limited) from late 2003 to mid-2013.

Alan has been active in governance and advisory roles across the broader health arena, including the governance group for the $370m Community Pharmacy Services Agreement. 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 led the formation of Evolve with a focus on quality education, professional and leadership development, building a strong team and a robust business.

Investing in Our People

Our business is a people business. Critical to success is having an engaged workforce that can make a difference to the development of the children in our care. To ensure that we attract and retain the best people in our industry, we will continue to proactively invest in our people.

All staff are involved in professional appraisal and performance development. This supports our approach to continuous improvement, as well as raising the quality of learning for children. Our approach to professional development is designed to move the whole team forward as well as strengthening and leveraging the attributes of individuals. This approach allows both team-based and individual development so that personal and business outcomes can compliment each other.

We actively invest in team leadership and development days at all levels of the business. This involves reaching our staff at all ends of the country. This work includes providing mentorships, coaching support days for home-based staff, leadership development for centre management staff, and skills development in critical areas such as marketing and people management for all staff. Career paths have been developed and are being refined for both qualified and non-qualified staff. Our approach values on-the-job learning, as well as formal education development, together with effective mentoring and coaching of our staff as they develop.

Each of our Early Childhood Education Centres extends the brand and Evolve's approach to teaching and learning. Our approach encourages relevance, innovation, and development for our staff and the children within the professional framework established groupwide. Retention and valuing our staff are key drivers for Evolve even amidst the scarcity of ECE trained educators and professionals. Evolve continues to invest in additional support and extended training, such as: first aid, supporting teacher registration costs, leveraging our scale advantages to provide discount arrangements for our staff in banking, health care, and other areas of benefit for staff.

Health and Safety

The Evolve Education Group places paramount importance on health, safety, and wellness. The Company has establised a group wide Health and Safety Steering Group that provides input for policy assessment and formulation, ongoing process improvements and incident tracking.

The Steering Group has established an infrastructure and technology platform for better reporting, and root cause analysis, that will enable the business to better understand, prevent and manage key organisational, and business-specific risks in this area. We also provide staff access to Employee Assistance Program (EAP) services to provide them with the support and counsel as required.

Evolve is committed to attracting the best educators and teachers across New Zealand.

Centre Business Update

The focus in the centres has been to lift the overall focus on education, operational processes, quality engagement and educator's professional growth and leadership. Within the last year, the centre support structure has been improved to ensure alignment with the values, vision and goals for the company. Our centres are supported with operational leadership and guidance, as well as our professional teaching and learning development management team. This team ensures that the commercial goals are attained through continuous focus on the core purpose for Evolve. This is achieved through the provision of high quality care and learning for each child at every stage.

The multiple centre brands have been consolidated into five distinct brands Each is clearly differentiated with specific learning philosophies. This will allow Evolve to improve its' digital presence and establish measurable engagement online.

Evolve has also introduced a customer relationship management (CRM) platform - Childcare CRM into the centre business to ensure a more efficient process for families to enquire, book centre visits and enrol with us. The system also enhances workflows and is fully integrated with the support systems in the centres.

The scale that Evolve offers now has improved supplier arrangements, procurement efficiencies and ultimately increased professional support to the centres across New Zealand. Evolve has implemented a fully customised HR support system - MyPeople which ensures that processes, policies and procedures in engaging staff, managing staff and support are consistently applied.

The centre business has grown, with 15 new centres being acquired, and three new developments contracted. The first of these, in Pegasus, Christchurch was opened October 2016, and is performing well with occupancy steadily growing. Due diligence procedures have been improved and brought in-house. The integration process during- and post-acquisition has been streamlined and is managed through the operations leadership to minimize risk and disruption.

Looking ahead, it is anticipated that the business objectives and management strategies around operational excellence, service, learning and care will continue to lift Evolve's performance and positioning in New Zealand. Evolve is entrenching the centres as highly functioning places of learning where the "joy of learning" can be tangibly felt and experienced by all our children, their families and the wider community.


Thank you,
Gerald.
Had a Farm


story by Aimee Said

Parent and Whanau Engagement

Evolve centres focus on parent and family engagement to ensure each child's progress and learning stories are communicated. Exposing parents to our learning process ensures that they see and feel quality provision and lifting each child's potential at every developmental stage.

Evolve conducted its second parent survey in November 2016 yielding a Net Promoter Score* of +38, up 1 point since June 2016, off a base of 2590 respondents. Interestingly, parents who had enrolled a child since the first iteration of the survey (June 2016) had a higher NPS overall (+51). This would suggest improvements in learning and care within the centres is visible.

The top three key areas for positive promoter scores in the centres are staff being caring and nurturing, child enjoyment and the centre providing a good learning environment. It is a key goal for Evolve to continue to improve operationally to deliver increased satisfaction amongst parents and families through parent feedback. Overall, most of our families and parents place great value on care as well as learning outcomes. The survey indicates that parents are mostly content with this.

Our research suggests that a positive experience is strongly based on parents' need to feel like their child is both cared for and educated according to their unique potential and needs. Evolve is seeking to ensure positive engagement with our centres through continuous focus on best practice child-to-teacher ratios, catering to each child's individual needs, communicating about each child's weekly activities or learning via personal engagement and Storypark.

Evolve will continue to focus on developing parent, family and community engagement in each centre - valuing the specific cultural nuances across all our locations.

*Net Promoter Score is an industry standard metric that gauges the satisfaction and loyalty of customers. It is a widely adopted measure, used across the majority of the Fortune 500 companies. The Evolve score of +38 is regarded as good. A score above +50 is regarded as excellent on the scale.

Education Quality in Our Centres

The teaching and curriculum management structures are now in place ensuring increased focus on core developmental learning strategies, teacher practice, and leading curricula by extending Te Whāriki (Te Whāriki is a curriculum guideline first published in 1996, revised in 2017 by the New Zealand Ministry of Education. It outlines the curriculum that the Ministry requires every early childhood service in NZ to follow if it is to retain its licence to operate, care for and educate children.) for all our centres. The focus on each developmental stage ensures the curriculum offered is developmentally appropriate and is critical to lifting quality of learning and care in each of our centres, as well as aligning ourselves with best practice and the latest research in early childhood education. This is achieved through a focused strategic plan for the next three years to develop distinct frameworks for learning outcomes across all age groups, stages of development and key areas such as literacy and numeracy. In time, there will also be a programme developed to enhance children's social competence and resilience, which is proven to be a vital requirement for improving long term outcomes for children well into adulthood.

The teaching and learning team are also involved in redesigning policy and systems for monitoring and improving quality at centre level. This ensures that we are doing what we say we do and this makes it evident to families attending our centres. This will focus on aspects such as effective educational mentoring to improve teacher practice, and high quality internal evaluation which focuses on documenting the continual improvement of outcomes for children at each service.

It is a key goal for Evolve to ensure that all our families have the comfort of knowing that each child has a positive and enhancing learning experience aligned with their individual potential.

There is increased engagement with whanau, with a clear focus on provision of superior quality learning, care and differentiated experiences through the newly positioned centre brands.

Our Learning Pillars

Each of our brands has a distinct learning philosophy that is based on Te Whaariki and extended with specific frameworks per brand along with global best practice for early childhood development. These will set expectations for the learning programme provided in each centre, and are deliberately different for each brand, allowing parents to choose a philosophy of learning which is best suited to their own. Along with the overall focus, we are also developing a very specific curriculum for school readiness, run across all our centres to ensure that every child that reaches school-going age is prepared, confident and ready to face the challenges and new chapter on their learning journey.

Each Brand's Teaching Philosophy

Our brand *Active Explorers* has been developed on an enquiry-based learning philosophy to increase problem solving and creative thinking. The practice encourages seeking out solutions, curiosity, experimentation and active learning.

Lollipops has a philosophy centred on the principles of Ako (reciprocal learning between teacher & child) and experiential based learning philosophy, inspired by Reggio Emilia. Learning is child-led with inspirational and varied provocation stations that lead to creative exploration by every child.

Pascals, focuses on learning extension, experiential and enquiry based learning philosophy in centres of excellence further inspired by leading research in ECE.

Thrive Montessori is grounded in the widely practiced Montessori philosophy, with extensive engagement with each learner structured across accepted milestones but anchored on the foundation of Te Whaariki.

Learning Adventures is a community brand, inspiring curiosity through inspiration and guidance, blended learning philosophy anchored in the community. There will be a higher focus on participation, health and social development and parenting support.

Our Teaching Team

We have structured the team to now include four teaching and learning development managers across New Zealand to lift the practice and learning outcomes for all our children. The focus for this team is to further develop a team of fully certificated, skilled practitioners, with experience of facilitation and communication to extend the curriculum goals and guidelines for Evolve. They will be active researchers in particular areas to enable them to remain current and up-to-date with legislation and to feed this to the broader team. Our teaching and learning development team will ensure that this is structured and clear frameworks are developed. We aim to support all our teaching staff on planning, assessment and evaluation, model best practice and complete observations to support teacher appraisal processes. We actively monitor and facilitate professional development on all aspects of teaching and learning to ensure that there is consistency in delivery across all our services.

Consolidation of All Our Centre Brands

The Evolve Education group is bringing all it's centre's together under five different brands to ensure quality, consistency and optimal communication with our communities, families and staff.

Each brand has a distinct positioning to ensure differentiation and our ability to cater to individual needs and philosophies of learning.

ACTIVE EXPLORERS

Active Explorers

New Zealand's future leaders in the arts, sciences and commerce? Active Explorers may well be their springboard to great things.

Welcome to the home of 'what if?' explorers, enabled by passionate professionals who champion creative thinking. This is where great ideas live. Active Explorers has a vibrant hum that tells us this is a place where the love of learning is genuinely lived out; and these children are loving it. We nurture and celebrate enquiring minds here; if you think outside the box, you're in the right place.

So it's with well-founded conviction that we say Active Explorers is the perfect start for the innovators and entrepreneurs of tomorrow. These are confident children, learning to challenge, not just accept.

In a nature science space, another little girl is mastering mathematics by counting the legs on bugs, and she's comparing her findings with an image on a screen. Tablets and insects; a fusion of nature and technology; expanding young minds.

Take a look at the array of projects pinned to the wall; discoveries gleaned from field trips to local museums and conservation centres. Or the displays constructed from the latest nature walk. These colourful and informed projects are borne of inspired thinking by children mastering the foundation skills they will draw on for a lifetime.

Our parents and whānau get this, and welcoming their support is unconditional. We love those 'hey Dad, did you know?' moments as a child shares that day's discovery. Family and Active Explorers supporting together, broadening the childrens' perspective of a world that we're all helping to prepare them for.

We're loving learning, loving life!

Lollipops

Like a family barbeque on a black sand beach in summer, or a road trip through the South Island's Southern Alps, Lollipops is a quintessentially Kiwi experience.

Lollipops embodies the unspoken but palpable freedom that is the enshrined right of being a child growing up in New Zealand. This unique *New Zealandness* is the experience of growing up in a special country where culture, inclusion and tolerance of differences go hand in hand with the joy of exploration of our natural abundance, fuelled by irrepressible intellectual curiosity.

These words capture the experiential learning environment that defines Lollipops, a place where children learn self-empowerment, finding their own solutions by doing practical things. We grow gardens, pick flowers for the lunch table and even light the lunchtime candles. Daily rituals such as these, together with play-based learning and 'natural' environment-based encounters, help Lollipops children develop resilient and confident personalities.

Our family-orientated and purpose-designed centres feel like the loving home our children left this morning. We have rugs on our wooden floors, and the framed artwork on the walls embraces natural tones to help create an impression of harmony. It's also an environment that positively embraces parents as an integral part of the learning process, even when both parents might be working full time. Being practical and flexible enough to include busy parents underscores Lollipops as an extension of the family.

A Lollipops child goes on a learning journey that ensures they are happy, stimulated and engaged – it's an environment where they are free to expand their minds and express themselves. This is the place where learning comes naturally, Kiwi style.

Wonder, Explore, Learn. Three words that neatly sum us up.

Consolidation of All Our Centre Brands

Thrive Montessori

Montessori is a visionary teaching philosophy that is as vital and contemporary today as it ever was, taking children on a life-long love of learning pathway.

Maria Montessori's teaching principles have nurtured a love of learning in children for over a hundred years; it's a legacy of excellence that seems even more relevant today. In a world that offers so many distractions, and entices children to grow up with unmeasured haste, nurturing learning skills in harmony and with grace and purpose is invaluable.

As a leading practitioner of Montessori methodology, we're committed to helping children to be socially, academically and emotionally well-developed learners who are ready for life's challenges. In beautiful centres equipped with carefully chosen Montessori materials children *thrive* on a learning pathway inspired by passionate educators who foster independent learning as they guide each child to the next level at that child's pace.

We encourage children to be independent, creative, inquisitive and caring through play and performing practical tasks they love. Whether they are setting the table for lunch or growing plants in the gardens, they embrace the opportunity to engage in purposeful endeavour.

These are the developing skills in a child that our parents see happening every week, and we welcome their involvement in that exciting process. Parents are a vital part of our Montessori community; we believe that they are integral to educating their children, and that openness promotes a genuine connection between the family and the centre, leading to wonderful outcomes for the children.

You can identify a Thrive Montessori child by their courageous love of learning and an ability to 'hit the ground running' when they reach school age. They are equipped with the skills they need through learning in a place of harmony, where children blossom in an atmosphere of calm, absorbed concentration and respectful interaction. This sensory-based learning experience has given them the ability to thrive as they grow.

Pascals

These exceptional centres redefine Evolve's commitment to the very best of ECE; they are markers for excellence, research-led centres of innovation that raise the bar for early childhood education.

Pascals is the realization of a vision of excellence; a bold trailblazer who dares to dream, and our commitment to extraordinary early childhood education. This is where research-driven innovation and experience come together to find new ways of delivering the highest quality learning. This is where teachers learn and are mentored to realise their potential, and for the children, where exceptional is the norm.

We draw inspiration from the 17th century child prodigy, mathematician, physicist, inventor, writer and philosopher Blaise Pascal. His was an inspirational story of knowledge seeking and investigation. Cross the threshold into a Pascals centre and you enter a world that's energized by those same values. These centres are beautiful; light, airy, well-designed and furnished spaces, where children can play in nature, read in the library, or work on a project in the science area, using all the creative thinking and problem solving skills their teachers support and encourage them to employ.

At Pascals, we thrive on personal growth and knowledge sharing; we actively seek out and forge meaningful relationships with local schools and museums. The children visit conservation centres, we encourage rich and diverse connections within their communities to further open voraciously enquiring young minds. Then we let them interpret those interactions and discoveries in their own way. They learn about the world and build informed insights by being a part of it.

By elevating early childhood education to a new level, Pascals nurtures the outstanding citizens of tomorrow. This is where our thought-leaders of the future will begin their learning journey.

Consolidation of All Our Centre Brands

Learning Adventures

Learning Adventures are plugged right into the heart of the communities they serve; this is a warm, caring environment where the childrens' well-being comes first and ready-for-life confidence follows.

We embrace this pivotal position; Learning Adventures has a big heart and warm welcoming smile for everyone in all communities, embracing diversity, and we know we make a difference.

What does that look like in practice? It begins with respect. For people, culture, background. We live it and we teach it. You'll find love and warmth in abundance at Learning Adventures. A nurturing, welcoming home-away-from-home is what all our centres aspire to be. That's our starting point.

We welcome parents and whānau to the centre at all times, involving them as much as we can. We enjoy sharing family recipes, and teaching the tamariki how to make our food. Heritage and knowing the oral traditions and practices that guide who we are, are fostered and encouraged.

From there, we lead adventurous learning and play; we dig gardens and make space ships; we visit Marae and aged-care centres, we broaden experiences and minds.

Some of our centres have a van that offers a daily pick-up and drop-off service to ensure every child has the opportunity to participate.

The rewards for us are fantastic. We teach children who have a voracious appetite to learn, they are adventurous knowledge-seekers who can become independent, self-reliant and caring, with a strong sense of their community.

We call this 'ready-for-life confidence'; it's exactly what our children need to be ready for the challenges they'll face. From the hushed circle at reading time, to the mini-boot camps they love, they're experiencing our unique promise – 'Go on an adventure. You're safe!'

Learning Adventures is where we come together, and the children learn to be confident adventurers, with a strong connection to Aotearoa.


A

PORSE

Vision and Values

The PORSE Philosophy

With more than 21 years of experience and learning behind PORSE, we believe in nurturing and educating children within secure, stimulating and positive in-home environments while fostering consistent, connected and supportive relationships between the children, their Educators and their parents. The PORSE approach to home-based childcare is based on experience and research around the importance of play, learning and development through close child-adult relationships, allowing children to grow and explore with confidence.

PORSE is an acronym and supports how we advocate for care and education for children under our umbrella. It stands for:

P - Play

O - Observe

R- Relate

S - Support

E - Evaluate and Extend

The PORSE Vision

Expanding the hearts, minds and wellbeing of a nation through nurturing childcare in-home.

The PORSE Mission

To have all people in New Zealand schooled in nurturing and educating children in their care.

Programme Statement

The PORSE Programme is family directed, using in-home and community learning settings, guided by the New Zealand Early Childhood Curriculum, Te Whaariki.

Business Profile

Home-based ECE

PORSE currently arranges home-based care and education for over 4,000 children and is New Zealand's largest and longest serving home-based ECE operator. Nannies provide one-to-one care for children in their parents' home, while Educators care for up to four children in their own homes, which are set up as dedicated in-home childcare environments. With close to 200 staff working across most communities in New Zealand PORSE is the market leader for quality home-based ECE with well-established practices.

PORSE Education & Training

PORSE Education & Training (PE&T) 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.

PE&T 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.

Over 2016 a key focus for PE&T has been extending our programmes into an online environment to enable greater reach to a greater audience. Over 2016 our Level 3 National Certificate in ECE was rolled out which enabled greater access to our Level 3 programme in the more rural and remote communities.

For Life

For Life Education & Training provides parents and caregivers with ongoing education and training support that is strengths-based and focused on a strong vision for all children to be wired up for life through nurturing and loving relationships. Again, over 2016 a key focus was to grow our reach by introducing more online learning opportunities.

A Foundation of Quality

Highest accolade for PORSE Education & Training

PORSE Education & Training has been recognised as one of the top tertiary providers in New Zealand after a recent external and evaluative review in 2016 lead by the New Zealand Qualifications Authority (NZQA).

PORSE Education & Training was awarded a 'highly confident' rating by the NZQA.

The result places PORSE in the top 22 per cent of tertiary providers in the country, with a Category One status.

This four-yearly assessment is mandatory for tertiary training providers to assure a high standard of compliance and quality in areas of educational performance and capability in self-assessment.

It is a stamp of quality and ensures our learners can be certain they are getting quality education through PORSE.

Well placed to promote positive outcomes for children

PORSE has had 60 of its licences reviewed by the Education Review Office over 2015 and 2016. ERO has confirmed that PORSE is well placed to promote positive outcomes for children across New Zealand.

Quality communication with parents

PORSE is committed to helping educators, families and communities work together in providing the best learning opportunities and outcomes for our precious tamariki. Over 2016 we introduced Storypark – an online tool that records and communicates children's individual learning as it happens. Through Storypark we are strengthening the communication and connection for each child's learning journey between educators, families and our staff. The electronic portfolio of children's learning and development creates an easier path for nurturing life-long learning and allows for increased family engagement and smoother transitions for when children move from ECE to primary school.

Quality Partnerships

PORSE has been working closely with Au Pair Link, our sister-based organisation within Evolve, to support our businesses to grow and maintain our respective market leads and extend the ability for families to have Au Pairs across the most of New Zealand.

PORSE also provided a lot of support with key strategic partnerships across New Zealand and we're proud to support Parents Centre, Multiples New Zealand and the Nappy Lady.

Au Pair Link

This year marks Au Pair Link's 10 year anniversary and the team is celebrating the achievements of their recent Education Review Office reports from Auckland, Taranaki and Wellington, Waikato and Bay of Plenty in which they received the highest level of achievement. Au Pair Link is a proven leader within its industry with a strong focus on high quality home-based early childhood education curriculum.

The Education Review Office (ERO) evaluates and reports on the education and care of children in early childhood services. The organisation reports on how well the early childhood provider is placed to promote positive learning outcomes for children with the highest result being "Very well placed".

Receiving "Very well placed" means that ERO will hold the next review in four years as they judge that the provider is already in a very good position to deliver quality education and care. The team at Au Pair Link couldn't be prouder with this result.

"*We're committed to the delivery of a quality early childhood education curriculum where children are encouraged to extend their interests and their families and au pairs play an integral part of the process. We take pride in being leaders in the field and we are continually improving our services. People often think that because au pairs come from the other side of the world that they would struggle to implement our New Zealand ECE curriculum, however we equip them with all the training and support they need to do just this. It's great to see that the Education Review Office agrees that this is the case*" says Casey Muraahi, Au Pair Link's General Manager.

Au Pair Link has developed their curriculum and teaching philosophy throughout their 10 years of service. Working with families, experienced au pairs and ongoing professional development has allowed Au Pair Link to deliver a consistent and high standard of home-based early childhood education.

The Au Pair Link Wellington ERO report states, "*Children are introduced to a wide range of learning experiences within and outside the home. Well considered, high quality resources and regular excursions further enhance these opportunities. Te Whāriki, the early childhood curriculum, strongly underpins the service's curriculum.*"

Au Pair Link provides weekly playgroups and outings for children and their au pairs to further develop the children's interests and experiences. Au pairs are empowered through their monthly home visits from their Programme Manager who is a qualified teacher where they monitor and support their practices. They receive personalised educational resources, professional learning and individual guidance.

This year, Au Pair Link has the Canterbury ERO reviews and they are fully confident for a positive result. The team will be able to exemplify the different ways children are supported in their early learning and how they continue to provide innovative quality programmes, service and support. The result will be announced later in 2017 and will be found on ERO's website.

Financial and Operational Highlights

Revenue

10.2%

Underlying EBITDA*

4.1%

Full Year Dividend

5.0cps

(4.76 cps 31 March 2016)

Staff Employed

2630
2017
2316
2016

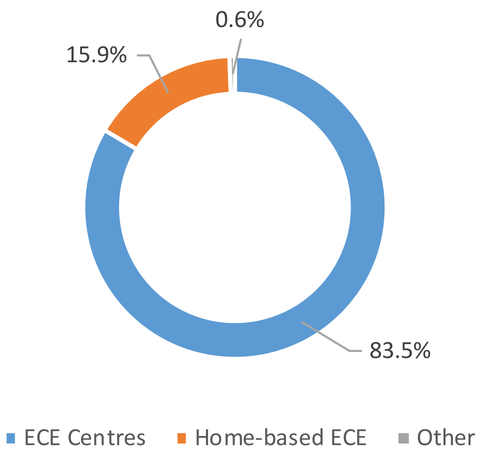
Centre License Places

8274
2017
7162
2016

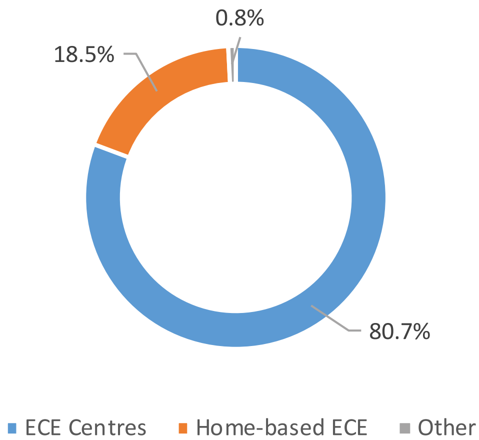
Number of Centres

121
March 2017
105
March 2016

Group Revenue FY17
$151.4m



Group Revenue FY16
$137.4m



**EBITDA is earnings before interest, tax, depreciation and amortisation and also excludes acquisition and integration costs.*

Evolve Education Group Limited

Financial Statements
For the Year Ended 31 March 2017

The Directors have pleasure in presenting the Financial Statements of Evolve Education Group Limited, for the year ended 31 March 2017.

The Financial Statements presented are signed for and on behalf of the Board and were authorised for issue on 22 May 2017.

Norah Barlow
Chair
22 May 2017

Alistair Ryan
Director
22 May 2017

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 MARCH 2017

$'000	Note	YEAR 31 MARCH 2017	YEAR 31 MARCH 2016
Revenue	4	151,439	137,379
Other income		184	1,352
Share of profit of equity accounted joint venture		-	204
Total income		**151,623**	**138,935**
Expenses			
Employee benefits expense	5	(83,283)	(74,793)
Building occupancy expenses	5	(20,332)	(17,474)
Direct expenses of providing services		(15,859)	(15,232)
Acquisition expenses	4, 10	(714)	(1,204)
Integration expenses	4	(624)	(871)
Depreciation	4, 8	(2,027)	(1,687)
Amortisation	4, 11	(602)	(470)
Other expenses	5	(4,558)	(4,922)
Total expenses		**(127,999)**	**(116,653)**
Profit before net finance expense and income tax		**23,624**	**22,282**
Finance income	5	104	159
Finance costs	5	(1,366)	(1,255)
Net finance expense		(1,262)	(1,096)
Profit before income tax		**22,362**	**21,186**
Income tax expense	6	(6,489)	(5,544)
Profit after income tax attributed to the owners of the Company		**15,873**	**15,642**
Other comprehensive income		-	-
Total comprehensive income attributed to the owners of the Company		**15,873**	**15,642**
Earnings per share			
Basic (and diluted) earnings per share (expressed as cents per share)	19	8.9	8.8

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

Consolidated Statement of Movements in Equity

FOR THE YEAR ENDED 31 MARCH 2017

$'000	Note	ISSUED SHARE CAPITAL	RETAINED EARNINGS/ (ACCUMULATED LOSSES)	TOTAL
Balance as at 31 March 2015		**156,926**	**(8,058)**	**148,868**
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	18	-	(4,215)	**(4,215)**
Balance as at 31 March 2016		**157,364**	**3,369**	**160,733**
Total comprehensive income		**-**	**15,873**	**15,873**
Shares issued under Dividend Re-investment Plan	16	655	-	**655**
Share issue costs relating to shares issued	16	(12)	-	**(12)**
Executive share based payment	16	99	-	**99**
Dividends paid	18	-	(8,677)	**(8,677)**
Balance as at 31 March 2017		**158,106**	**10,565**	**168,671**

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

Consolidated Statement of Financial Position

FOR THE YEAR ENDED 31 MARCH 2017

$'000	Note	AS AT 31 MARCH 2017	AS AT 31 MARCH 2016
Current assets			
Cash and cash equivalents	7	4,095	38,624
Assets held for sale		-	1,605
Other current assets		1,924	1,313
Total current assets		**6,019**	**41,542**
Non-current assets			
Property, plant and equipment	8	5,742	5,502
Deferred tax asset	6	840	786
Intangible assets	11	212,121	190,857
Total non-current assets		**218,703**	**197,145**
Total assets		**224,722**	**238,687**
Current liabilities			
Trade and other payables	13	10,376	8,413
Current income tax liabilities		841	1,286
Funding received in advance	14	18,052	16,318
Employee entitlements	15	6,582	6,072
Total current liabilities		**35,851**	**32,089**
Non-current liabilities			
Borrowings	20	20,200	45,865
Total non-current liabilities		**20,200**	**45,865**
Total liabilities		**56,051**	**77,954**
Net assets		**168,671**	**160,733**
Equity			
Issued share capital	16	158,106	157,364
Retained earnings		10,565	3,369
Total equity		**168,671**	**160,733**

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

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 MARCH 2017

$'000	Note	YEAR 31 MARCH 2017	YEAR 31 MARCH 2016
Cash flows from operating activities			
Receipts from customers (including Ministry of Education funding)		151,889	136,779
Dividends received		-	121
Payments to suppliers and employees		(123,229)	(113,525)
Taxes paid		(6,329)	(4,438)
Net cash flows from operating activities	21	**22,331**	**18,937**
Cash flows from investing activities			
Payments for purchase of businesses	10	(21,678)	(23,708)
Receipts from sale of joint venture		1,628	-
Payments for software, property, plant and equipment		(1,872)	(2,296)
Interest received		104	159
Net cash flows from investing activities		**(21,818)**	**(25,845)**
Cash flows from financing activities			
Proceeds from issue of shares	16	655	489
Share issue costs	16	(12)	(51)
Interest paid on borrowings		(1,343)	(1,166)
Bank borrowings drawn		198,340	141,790
Bank borrowings repaid		(224,005)	(95,925)
Dividends paid	18	(8,677)	(4,215)
Net cash flows from financing activities		**(35,042)**	**40,922**
Net cash flows		**(34,529)**	**34,014**
Cash and cash equivalents at beginning of period	7	38,624	4,610
Cash and cash equivalents at end of period	7	**4,095**	**38,624**

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2017

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Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2017

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. 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 2017 were approved and authorised for issue by the Board of Directors on 22 May 2017.

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 20) 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).

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2017

2. Basis of Preparation (continued)

Estimates and Judgements

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

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

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

Business combinations

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

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 intangibles 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, 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.

2. Basis of Preparation (continued)

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 CGU's for impairment testing purposes.

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).

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 period ended 31 March 2017. 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.

Notes to the Consolidated Financial Statements

2. Basis of Preparation (continued)

NZ IFRS 16: Leases

NZ IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. It was issued in February 2016. 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.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2017

3. Significant Accounting Policies (continued)

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.

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.

3. Significant Accounting Policies (continued)

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 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.

3. Significant Accounting Policies (continued)

(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.

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.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2017

3. Significant Accounting Policies (continued)

(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:

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

3. Significant Accounting Policies (continued)

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.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2017

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.

3. Significant Accounting Policies (continued)

(m) Employee Benefits

Short-term employee benefits

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

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

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

Defined contribution plan (KiwiSaver)

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

(n) Expenses

Operating lease payments

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

Finance expenses

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

Share issue costs

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

3. Significant Accounting Policies (continued)

(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 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 2017

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 2017 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 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 reflects a number of adjustments that are separately identified to enable the business to be reported on exclusive of these items. These adjustments are 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.

EBITDA also 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 2017

4. Segment Information (continued)

31 March 2017	ECE Centres $'000	Home-based ECE $'000	Unallocated $'000	Consolidated $'000
Total revenue	**126,495**	**24,060**	**884**	**151,439**
Other income	24	-	160	184
Total income	**126,519**	**24,060**	**1,044**	**151,623**
Operating expenses	**(95,542)**	**(21,449)**	**(7,041)**	**(124,032)**
EBITDA before acquisition and integration expenses	**30,977**	**2,611**	**(5,997)**	**27,591**
Acquisition expenses	-	-	(714)	(714)
Integration expenses	-	-	(624)	(624)
EBITDA	**30,977**	**2,611**	**(7,335)**	**26,253**
Depreciation	(1,715)	(249)	(63)	(2,027)
Amortisation	(60)	(244)	(298)	(602)
Earnings before interest and tax	**29,202**	**2,118**	**(7,696)**	**23,624**
Net finance expense	-	-	(1,262)	(1,262)
Reportable segment profit/(loss) before tax	**29,202**	**2,118**	**(8,958)**	**22,362**
Total assets	**204,561**	**16,819**	**3,342**	**224,722**
Total liabilities	**(22,491)**	**(10,369)**	**(23,191)**	**(56,051)**

Included within Total Revenue is revenue from the Ministry of Education totalling $104.5m for the year (2016: $93.6m).

Other income includes $160k from the reversal of a contingent consideration provision relating to the acquisition of an ECE centre in 2015.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2017

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 income relates to the reversal of a contingent consideration provision of $1.35m arising from the December 2014 acquisitions of the home-based ECE businesses.

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

Other expenses

$'000s	Note	YEAR 31 MARCH 2017	YEAR 31 MARCH 2016
Included in other expenses are:			
Audit fees	24	205	210
Directors' fees	23	385	385
Other items		3,968	4,327
Total other expenses		**4,558**	**4,922**

Other items includes corporate and support 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.

Building occupancy expenses

Building occupancy expenses of $20.3m (2016: $17.5m) include $18.6m (2016: $16.1m) of expenditure in relation to minimum operating lease payments.

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

Employee benefits expense

$'000s	YEAR 31 MARCH 2017	YEAR 31 MARCH 2016
Wages and salaries	78,078	70,258
Kiwisaver contributions	1,946	1,615
Payments to agency contractors	1,029	883
Other	2,230	2,037
Total employee benefits expense	**83,283**	**74,793**

Net finance expense

$'000s	YEAR 31 MARCH 2017	YEAR 31 MARCH 2016
Interest received		
Bank deposits	104	159
Total interest received	**104**	**159**
Interest expense		
Interest on acquisition facility borrowings	(1,366)	(1,119)
Unwind of discount relating to contingent consideration	-	(134)
Other	-	(2)
Total interest expense	**(1,366)**	**(1,255)**
Net finance expense	**(1,262)**	**(1,096)**

6. Taxation

Income tax expense

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

$'000s	YEAR 31 MARCH 2017	YEAR 31 MARCH 2016
Current income tax:		
Current income tax expense	6,609	6,112
Prior year adjustments	(184)	(359)
	6,425	5,753
Deferred tax:		
Relating to origination and reversal of temporary differences	(106)	(218)
Prior year adjustments	170	9
	64	(209)
Total income tax expense	**6,489**	**5,544**

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2017

6. Taxation (continued)

Reconciliation of tax expense

Tax expense may be reconciled to accounting profit as follows:

$'000	YEAR 31 MARCH 2017	YEAR 31 MARCH 2016
Profit/(Loss) before income tax	**22,362**	**21,186**
At statutory income tax rate of 28%	6,261	5,932
Non-assessable income and non-deductible expenses for tax purposes:		
Contingent consideration re-measurement	-	(379)
Non-deductible expenses	242	341
Prior year adjustments	(14)	(350)
Total income tax expense	**6,489**	**5,544**
Effective income tax rate	29.02%	26.17%

Deferred tax

Deferred tax relates to the following:

	31 MARCH 2017			31 MARCH 2016		
$'000	Consolidated Statement of Comprehensive Income	Arising from Acquisition of Businesses	Consolidated Statement of Financial Position	Consolidated Statement of Comprehensive Income	Arising from Acquisition of Businesses	Consolidated Statement of Financial Position
Property, plant and equipment	(48)	118	1,283	(305)	127	1,213
Intangible assets	66	-	(1,529)	7	-	(1,595)
Employee entitlement provisions	58	-	895	337	-	837
Other timing differences	(140)	-	191	170	-	331
Deferred tax (expense)/benefit	**(64)**	**118**		**209**	**127**	
Net deferred tax assets			**840**			**786**

Imputation credits

Imputation credits available for use in subsequent reporting periods is $9,053,076 (2016: $5,054,461), 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.

7. Cash and Cash Equivalents

$'000	31 MARCH 2017	31 MARCH 2016
Cash at banks and on hand	1,968	1,914
Short-term deposits	2,127	36,710
Total cash and cash equivalents	**4,095**	**38,624**

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.

8. Property, Plant and Equipment

31 March 2017		Plant and Equipment	Office Furniture and Fittings	Leasehold Improvements	Motor Vehicles	Work in Progress	Total
$'000	Note						
Cost							
Opening balance		251	5,424	956	317	371	7,319
Additions/Transfers		92	655	1,100	44	(137)	1,754
Acquisition of businesses	10	90	466	19	21	44	640
Disposals		(5)	(321)	(111)	(171)	-	(608)
Closing balance		**428**	**6,224**	**1,964**	**211**	**278**	**9,105**
Depreciation and impairment							
Opening balance		(49)	(1,518)	(173)	(77)	-	(1,817)
Depreciation charge for period		(94)	(1,502)	(364)	(67)	-	(2,027)
Disposals		1	264	73	143	-	481
Closing balance		**(142)**	**(2,756)**	**(464)**	**(1)**	**-**	**(3,363)**
Net book value		**286**	**3,468**	**1,500**	**210**	**278**	**5,742**

31 March 2016	Plant and Equipment	Office Furniture and Fittings	Leasehold Improvements	Motor Vehicles	Work in Progress	Total
$'000						
Cost						
Opening balance	202	4,303	584	152	13	5,254
Additions	55	800	577	260	153	1,845
Acquisition of businesses	-	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**

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2017

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%

10. Business Combinations

During the 12 months ended 31 March 2017 the Group acquired 15 ECE centres from several separate vendors, for a combined purchase price of $21.9m (net of purchase price adjustments). Of this, $21.7m was paid in cash by balance date. Net assets acquired was $0.1m resulting in goodwill on acquisition of $21.7m. Total acquisition costs incurred during the year were $714k 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 assets acquired is included in the following table.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2017

10. Business Combinations (continued)

Assets and liabilities acquired and consideration paid	$'000
Assets	
Other current assets	91
Property, plant and equipment	640
Deferred tax	118
	849
Liabilities	
Funding received in advance	(698)
Other current liabilities	(18)
	(716)
Total identifiable net assets at fair value	**133**
Goodwill arising on acquisition	21,748
Purchase consideration transferred	**21,881**
Purchase consideration	
Cash paid	21,678
Cash payable relating to retentions	203
Total consideration	**21,881**

The goodwill of $21.7m 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 under one centrally managed group. Goodwill is allocated to each of the segments identified at Note 4, as appropriate.

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

At balance date the acquisitions have contributed revenue of $7.2m and a net profit after tax of $0.5m to the Group's results before allowing for upfront acquisition and integration expenses but after interest on the purchase price. As the acquisitions were made at different times during the year it is anticipated these acquisitions would have contributed revenue of $17.1m and a net profit after tax of $1.5m (excluding upfront and non-recurring acquisition costs of $0.7m and integration costs of $0.6m, but including interest on the purchase price) had they all been acquired on 1 April 2016.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2017

11. Intangible Assets

31 March 2017		Customer Lists	Syllabus Material	Management Contracts	Software	Brands	Goodwill	Total
$'000	**Note**							
Cost								
Opening balance		301	200	372	1,458	4,787	184,346	191,464
Additions		-	-	-	118	-	-	118
Acquisition of businesses	10	-	-	-	-	-	21,748	21,748
Closing balance		**301**	**200**	**372**	**1,576**	**4,787**	**206,094**	**213,330**
Amortisation and								
Opening balance		(100)	(67)	(124)	(316)	-	-	(607)
Amortisation for period		(75)	(50)	(93)	(384)	-	-	(602)
Closing balance		**(175)**	**(117)**	**(217)**	**(700)**	**-**	**-**	**(1,209)**
Net book value		**126**	**83**	**155**	**876**	**4,787**	**206,094**	**212,121**

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		-	-	-	507	-	-	507
Acquisition of businesses		-	-	-	-	-	22,447	22,447
Completion adjustments		-	-	-	-	-	(139)	(139)
Disposals		-	-	-	(13)	-	-	(13)
Closing balance		**301**	**200**	**372**	**1,458**	**4,787**	**184,346**	**191,464**
Amortisation and								
Opening balance		(25)	(17)	(31)	(65)	-	-	(138)
Amortisation for period		(75)	(50)	(93)	(252)	-	-	(470)
Disposals		-	-	-	1			1
Closing balance		**(100)**	**(67)**	**(124)**	**(316)**	**-**	**-**	**(607)**
Net book value		**201**	**133**	**248**	**1,142**	**4,787**	**184,346**	**190,857**

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 2017	ECE Centres	Home-based ECE	ECE Management	Total
$'000				
Goodwill	194,828	10,600	666	206,094
Brands with indefinite useful lives	3,104	1,683	-	4,787

Notes to the Consolidated Financial Statements

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

31 March 2016	ECE Centres	Home-based ECE	ECE Management	Total
$'000				
Goodwill	173,080	10,600	666	184,346
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 Care Providers - Goodwill

The recoverable amount of the ECE Centres and Home-Based ECE Provider CGUs was $253.3m (2016: $238.4m) at balance date. The assessment has been approved by the Board and determined by management based on a value in use calculation using cash flow projections, along with financial forecasts covering a five year period. The pre-tax discount rate applied to cash flow projections is 15.4% (2016: 15.4%) and cash flows beyond the five-year period are extrapolated using a 2% (2016: 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.

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 through the forecast period
- 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. ECE revenue is assumed to grow by 1% (2016: 1%) per annum on average, with Home-Based ECE revenue assumed to grow by 0.7% (2016: 1%) per annum on average. It is assumed the Ministry of Education continues to support early childhood education to the value of approximately 67% of ECE revenue earned and 90% of Home-Based ECE revenue earned. If the Government reduces its funding it could lead to the increased requirement of parents and caregivers to make up the difference. Also affecting operating earnings are centre wages and other operating expenses such as operating lease costs. Expenses are forecast to grow by 1% (2016: 0.5%) 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 0.7% to 1% revenue growth and 1% expense growth

	ECE CENTRES	HOME-BASED ECE
1. Revenue and expense growth 0%	No impairment	No impairment
2. Revenue growth 1%, expense growth 1%	No impairment	No impairment
3. Revenue growth 0%, expense growth 1%	No impairment	No impairment
4. Revenue growth -1%, expense growth 0%	Impairment	No impairment

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2017

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

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% (2016: 17.5%) and 25.0% (2016: 20%) would lead to an impairment in the ECE Centre and Home-care Centre 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.

ECE Centres and Home-based ECE Providers – Brands

The recoverable amount of the ECE Centres and Home-based ECE brands was $5.5m (2016: $5.6m) at balance date. The assessment has been approved by the Board and determined by management based on the discounted estimated royalty payments that have been avoided as a result of the brands being owned ("relief from royalty method") using revenue projections from the Group's financial forecasts covering a 12-month period. The pre-tax discount rate applied to cash flow projections is 15.4% (2016: 15.4%) and cash flows beyond the one year period are extrapolated using a 2% (2016: 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 17% 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 2% could lead to an impairment in the Home-based ECE brand.

Royalty rate – the relief from royalty method assumes a royalty rate of 1%. Any reduction in the rate below 0.8% 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 18.1% and 15.7% could lead to 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 0.2% (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 1.9% could result in an impairment of the Home-based ECE brand.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2017

13. Trade and Other Payables

$'000	31 MARCH 2017	31 MARCH 2016
Trade payables	877	838
Amounts accrued in respect of business combinations	203	115
Goods and services tax	5,324	4,652
Other payables	3,972	2,808
Total trade and other payables	**10,376**	**8,413**

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 2017 funding received in advance relates to April to June 2017. Funding receivable relates to the remaining 25% of funding, adjusted for any changes in occupancy levels, in respect of February and March 2017.

$'000	31 MARCH 2017	31 MARCH 2016
Funding received in advance	21,853	20,216
Funding receivable	(3,801)	(3,898)
Total funding received in advance	**18,052**	**16,318**

15. Employee Entitlements

$'000s	31 MARCH 2017	31 MARCH 2016
Employee leave provisions	2,999	2,812
Accrued wages and salaries	3,363	2,930
Other	220	330
Total employee entitlements	**6,582**	**6,072**

16. Issued Capital

Authorised shares

	31 MARCH 2017		31 MARCH 2016	
	Number	$'000	Number	$'000
Ordinary shares authorised, issued and fully paid				
Opening balance	177,576,018	157,364	177,082,724	156,926
Ordinary shares issued:				
Issue of shares in relation to dividend reinvestment plan ("DRP")	702,238	655	493,294	489
Less share issue costs relating to shares issued under DRP	-	(12)	-	(51)
Executive share based payment	-	99	-	-
Closing balance	**178,278,256**	**158,106**	**177,576,018**	**157,364**

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2017

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 available 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 current dividend policy of the Group is to pay dividends between 40% and 60% of net profit after tax in respect of the preceding period subject to the discretion of the Board.

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. Dividends

Dividends paid during the year

	2017	2016	2017	2016
	Cents	Cents	$'000	$'000
Interim dividend for the year ended 31 March 2017	2.50		4,451	
Final dividend for the year ended 31 March 2016	2.38		4,226	
Interim dividend for the year ended 31 March 2016		2.38		4,215
			8,677	**4,215**

Policies

Dividends are paid in cash in accordance with the dividend policy of the Group. The dividends paid were fully imputed.

Supplementary dividends

Supplementary dividends of $0.6m (2016: $0.3m) were paid to shareholders not tax resident in New Zealand of which the Company received a foreign investor tax credit entitlement.

Dividend reinvestment plan

Under the Company's dividend reinvestment plan, holders of ordinary shares may elect to reinvest the net proceeds of cash dividends payable or credited to acquire further fully paid ordinary shares in the Company. In respect of the year ended 31 March 2017, 702,238 shares with a total value of $0.7m were issued in lieu of cash dividends (2016: $0.5m).

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FOR THE YEAR ENDED 31 MARCH 2017

19. 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 2017	YEAR 31 MARCH 2016
Profit attributed to ordinary equity holders of the parent ($'000s)	**15,873**	**15,642**
Weighted average number of ordinary shares for basic and diluted EPS	178,007,882	177,222,895
Basic (and diluted) earnings per share (expressed as cents per share)	8.9	8.8

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.

20. 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 currently 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 $20.2m (2016: $45.9m) of the Group's $90.0m lending facilities exposing the Group to interest rate risk. Exposure to interest rate risk is reduced as the borrowings are typically partially repaid 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).

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2017

20. 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 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 2017	31 MARCH 2016
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	20,200	25,865
Total borrowings	**20,200**	**45,865**
Total unused facilities	**69,800**	**44,135**

During the year ended 31 March 2017 the terms of the Acquisition facility were amended to allow the company to temporarily apply surplus cash against drawings under the facility, to ensure efficient use of cash during the working capital cycle. Cash applied against the facility is available to be redrawn.

20. Financial Assets and Liabilities (continued)

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.

21. Reconciliation of Profit After Tax to Net Operating Cash Flows

$'000	YEAR 31 MARCH 2017	YEAR 31 MARCH 2016
Profit after tax	15,873	15,642
Adjustments for:		
Depreciation and amortisation	2,629	2,157
Contingent consideration adjustments	-	(1,352)
Net finance expense	1,262	1,096
Deferred tax	(54)	(336)
Share of profits in joint venture	-	(204)
Other non cash items	96	1,364
Changes in operating assets and liabilities:		
Working capital movements:		
Increase/(decrease) in funding received in advance	1,036	(511)
(Increase)/decrease in other current assets	(611)	(226)
Increase/(decrease) in trade and other payables	2,035	(2,837)
Increase/(decrease) in current income tax liabilities	(445)	612
Increase/(decrease) in employee entitlements	510	957
Other items:		
Business combination completion payment classified as investing	-	937
Change in contingent consideration provided classified as investing	-	1,638
Net cash flows from operating activities	**22,331**	**18,937**

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2017

22. 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:

	31 MARCH 2017	31 MARCH 2016
	$'000	$'000
Within one year	20,500	17,429
After one year but not more than five years	62,004	48,848
More than five years	51,179	33,015
Total	**133,683**	**99,292**

Guarantees

$2,325,915 (2016: $2,362,980) of the lease guarantee facility disclosed at Note 20 has been utilised.

Taxation

Porse In-home Childcare (NZ) Limited ("PIHCL"), a wholly owned subsidiary of the Company, is in discussion with the Inland Revenue Department ("IRD") on the GST status of home-based care delivery, as are other operators in the home-based ECE sector. The IRD has challenged PIHCL's treatment in respect of payments made to home-based educators and nannies. PIHCL, based on its own view, supported by expert legal and tax advice, remains confident that its treatment of GST in respect of home-based educators and nannies is correct. PIHCL will continue to engage with the IRD to understand the basis of its position in an endeavour to negotiate a resolution of this matter in the best interests of the shareholders.

The assessment of the carrying value of home-based ECE intangible assets has been undertaken on this basis and the continuing application of the current GST treatment is a key assumption and judgement in determining the value in use of the home-based ECE cash generating unit.

23. 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, Gráinne Troute (appointed 1st May 2017) 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.

23. Related Party Transactions (continued)

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

- Acquisition related costs paid to Wraith Capital Group NZ Ltd (2016: $239,000) and Kern Group (2016: $230,000). Greg Kern continues to be related through his directorship of the company.
- Payments for consultancy services to Mark Finlay (2016: $40,000). Mark Finlay continues to be a related party through his directorship of the company.
- Rents paid to interests of Jenny Yule former Chief Executive Officer of Porse Group (2016: $242,000). Jenny Yule ceased to be a related party on 31 December 2015.
- Vivek Singh ceased to be key management personnel in June 2016.

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. A summary of Directors remuneration follows:

	YEAR 31 MARCH 2017	YEAR 31 MARCH 2016
$'000s		
Norah Barlow	135	135
Alistair Ryan	90	90
Mark Finlay	80	80
Greg Kern	80	80
Total Directors Remuneration	**385**	**385**

  - ***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:***

    - LEP Limited is the landlord of the Group's head office and it is the landlord of six of the groups ECE centres. Rent of $1,161,000 (2016: $739,000) has been paid by the Group to LEP Limited during the period. A further commitment to make future rent payments of $3,942,000 (2016: $3,154,000) over the next 2 to 6 years (depending on the term of each lease) is included in Note 21.
    - Management fee income from centres related to Mark Finlay of $72,698 (2016: $140,525).
    - Shares issued pursuant to the company's dividend reinvestment plan to Alan Wham (27,214 shares valued at $25,857), Alistair Ryan and Norah Barlow (3,959 shares each valued at $3,762 each) and Greg Kern (561 shares valued at $534).

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2017

23. Related Party Transactions (continued)

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

	YEAR 31 MARCH 2017	YEAR 31 MARCH 2016
	$'000	$'000
Short-term employee benefits	865	813
Total compensation paid to key management personnel	**865**	**813**

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

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

	2017	2016
Shareholder	No of shares	No of shares
Mark Finlay	21,347,382	21,347,382
Kern Group NZ Limited & Gregory Kern	2,347,808	2,347,247
Vivek Singh	321,555	306,711
Alan Wham	589,518	562,304
Norah Barlow	85,749	81,790
Alistair Ryan	85,749	81,790
	24,777,761	**24,727,224**

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

Related party transactions arising during the prior period:

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.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2017

24. Auditor's Remuneration

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

$'000	YEAR 31 MARCH 2017	YEAR 31 MARCH 2016
Audit services:		
Audit of Group consolidated financial statements	175	150
Porse assurance engagements	30	41
Fees paid to PricewaterhouseCoopers	**205**	**191**
Audit of financial statements of PORSE Group as at 31 December 2014	-	19
Fees paid to Gardiner Knobloch	**-**	**19**
Total audit services	**205**	**210**
Other services provided by PricewaterhouseCoopers:		
Taxation services	43	54
Consultancy services	8	15
Total other services	**51**	**69**

Taxation services relate to compliance services and general tax advice.

Consultancy services relate to advice regarding executive remuneration.

25. Events after the reporting period

Dividend

On 22 May 2017 the Board approved a fully imputed final dividend of $4.5m or 2.5 cents per share in respect of the year ended 31 March 2017. The dividend is payable on 21 June 2017.

Acquisition

The Group has entered into an agreement for the acquisition of six ECE centres for $8.0m total consideration. At the date of signing these financial statements the agreement is unconditional and due for settlement in June 2017.

Independent auditor's report

To the shareholders of Evolve Education Group Limited

The consolidated financial statements comprise:

- the statement of financial position as at 31 March 2017;
- the statement of comprehensive income for the year then ended;
- the statement of movements in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements of Evolve Education Group Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 31 March 2017, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

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

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

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

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

PricewaterhouseCoopers, 188 Quay Street, Private Bag 92162, Auckland 1142, New Zealand
T: +64 9 355 8000, F: +64 9 355 8001, pwc.co.nz

Our audit approach

Overview

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

Overall group materiality: $1.1 million, which represents 5% of profit before tax.

We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark.

We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above $111,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

We have one key audit matter: goodwill impairment assessment.

Materiality

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

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

Audit scope

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

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

Key audit matters

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

Key audit matter

Goodwill impairment assessment

As disclosed in Note 12 of the financial statements, the Group balance sheet includes goodwill of $206.1 million which relates to business acquisitions arising in the current and prior years. Of that balance, $194.8 million relates to ECE Centres and $10.6 million relates to Home-based ECE businesses.

To assess the ongoing carrying value of the goodwill that arose on acquisition of the businesses, management performs an annual impairment review of each cash generating unit (CGU) using a 'value in use' basis. This was an audit area of focus due to the fact that the assessment is complex and judgmental in nature.

Management's calculations included the following key estimates and assumptions:

- Management determined that the CGUs are consistent with their operating segments, represented by ECE Centres and Home-based ECE.
- Expected future trading results are based on management's forecasts.
- As described in note 22, the assessment of the carrying value of the Home-based ECE CGU has been undertaken on the basis of the continuing application of the current GST treatment adopted by management.
- A pre-tax discount rate of 15.4%.
- Per annum revenue growth of 1% and 0.7% for ECE Centres and Home-based ECE, respectively.
- 1% expense growth across both CGUs.
- A long term growth rate of 2%.

The impairment assessment completed by management and approved by the Directors calculated the value of each CGU as higher than the carrying value of applicable net assets and no impairment was identified.

Management determined that the model was most sensitive to a possible scenario where revenue declined by 1% with no decrease in expenses.

How our audit addressed the key audit matter

The assessment of goodwill includes significant judgement.

We considered management's identification of CGUs by gaining an understanding of the business, how it is managed, and how the balance sheet balances and results are reported to management and the Directors.

We tested management's value in use calculations including the inputs and mathematical accuracy of the models and comparison to the relevant net assets value of the CGUs.

We also assessed key estimates and assumptions made by management and our audit procedures included the following:

- We gained an understanding of the business process applied by management in determining whether there are any indicators of impairment in the value of goodwill and indefinite life intangible assets.
- We obtained an understanding of management's forecasting and budgeting process and reviewed the past years actual performance against budget performance to determine the rigour and accuracy of the budgeting process.
- We reviewed the independent expert advice received by management in respect of the ongoing discussions with the Inland Revenue Department on the GST status of the Home-Based ECE. We note that the advice is consistent with the approach adopted by management when forecasting its future cash flows for the value in use calculation.
- We considered the reasonableness of key assumptions in the cash flow forecast with reference to the historical performance of the Group, in particular revenue growth, expense growth and terminal growth rates.
- We performed sensitivity analysis over the key assumptions including:
  - decreasing the revenue growth rates;
  - increasing the expense growth rates;
  - increasing the discount rate;
  - decreasing the long term growth rate;

  and determined if this indicated any impairment of the carrying value of goodwill.
- We engaged our internal independent expert who compared the terminal growth rates and discount rates used by management against those used by similar market participants and determined that the rates were within a reasonable range.
- We reviewed the disclosure in the financial statements for compliance with the requirements of NZ accounting standards.

The results of our procedures were consistent with the conclusions of management.

Information other than the financial statements and auditor's report

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

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

Responsibilities of the Directors for the consolidated financial statements

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

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

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

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

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:
https://xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page1.aspx

This description forms part of our auditor's report.

Who we report to

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

The engagement partner on the audit resulting in this independent auditor's report is Richard Day.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
22 May 2017

Auckland

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 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 are broadly consistent with the New Zealand Financial Markets Authority's Corporate Governance in New Zealand – Principles and Guidelines (the "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. Copies of key policies are available on the Company's website (www.evolveeducation.co.nz).

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

Principle 1 – 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.

Corporate Governance and Statutory Information

Board Charter

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

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

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

Delegation

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

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

Diversity Policy

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

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

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

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

Corporate Governance and Statutory Information

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 2016		As at 31 March 2017	
Position	Women	Men	Women	Men
Board	1 (20%)	4 (80%)	1 (20%)	4 (80%)
Senior Management (including Executive Directors)	4 (50%)	4 (50%)	3 (43%)	4* (57%)
Company-wide	>92.5%	<7.5%	>96.5%	<3.5%

*Senior management includes the CEO and employees who report directly to the CEO. As at 31 March 2017 the senior management team consists of seven positions.

At balance date the Group employs 2,406 women which represents 96.5% of the workforce (FY16: 2,099 women which represented 92.5% of the workforce).

Performance Management

The Board has established a Remuneration and People Committee which is responsible for evaluating the performance of the CEO, and makes recommendations to the Board in relation to remuneration and incentive arrangements for the CEO.During the reporting period, a formal review of the senior management team performance was undertaken by the CEO. The CEO's conclusions and recommendations were then reviewed by the Remuneration and People Committee, and were taken into consideration when setting remuneration and incentive arrangements for the senior management team.

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

Principle 2 – Structure 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.

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, Gráinne Troute, 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 Guidelines.

With regard to the NZX Listing Rules and the indicators of independence set out in the Guidelines:

- Mark Finlay is not considered independent given his shareholding in the Company on completion of the initial public offering; and
- 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 (to ensure the Board is comprised of a majority of 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 considered by the Board and Remuneration and People Committee on an ongoing basis.

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 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 Greg Kern (Chair appointed 19 May 2017), Norah Barlow and Alistair Ryan (Chair until 19 May 2017). The Board is of the belief that the Audit and Risk Committee is appropriately constituted having regard to the scale and complexity of the Company's business and the particular expertise and experience of each current member.

- **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 Gráinne Troute (Chair appointed 19 May 2017), Mark Finlay, and Norah Barlow. (Greg Kern Chair until 19 May 2017)

Board Access to Information and Advice

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

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

Director Education

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

Corporate Governance and Statutory Information

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 apply regardless of whether the Company's securities are quoted on NZX or ASX and provides that insider trading is prohibited at all times. The policy applies to all directors, officers and employees of the Company, with 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.

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 2017 and the date of approving the financial statements (that is, 22 May 2017), as compared to the number of scheduled meetings (in brackets) is shown in the table below.

	Board	Audit and Risk Committee	Remuneration and People Committee
Norah Barlow	10 (10)	5 (5)	5 (5)
Mark Finlay	10 (10)	-	5 (5)
Greg Kern	10 (10)	5 (5)	5 (5)
Alistair Ryan	10 (10)	5 (5)	-
Alan Wham	10 (10)	-	-
Gráinne Troute	2 (2)	-	-

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; and
- use the Company's resources and property properly.

Corporate Governance and Statutory Information

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

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 10 and the number of Committee members and attendance records is disclosed on page 81.

Before the Board approves the financial statements for a particular financial period, 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 2017.

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 2017 is set out in note 24 of the financial statements included in this annual report.

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

Corporate Governance and Statutory Information

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.

Corporate Governance and Statutory Information

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.

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

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

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 a primary responsibility of management.

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

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

During the reporting period, the Audit and Risk Committee conducted regular assessments of the effectiveness of the Company's risk management and internal control processes, including the Company's risk management plan framework.

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

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

Corporate Governance and Statutory Information

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 for staff, contractors and our children is effectively governed and managed. The Board has adopted measures that will allow the Company to monitor and affect proactive identification of risks and events to ensure continuous improvement, and ultimately, a reduction in the rate of accidents. A group wide Health and Safety Management system which accommodates all aspects of the Company's health and safety requirements has been 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.

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

- establish a clear framework for oversight and management of the Company's remuneration structures, policies, procedures and practices;
- consider and recommend new appointments to the Board and oversee management succession planning;
- fairly and responsibly reward directors and senior management and other employees of the Company having regard to the performance of the Company, the performance of these officers and employees and the general pay environment; and
- implement policies, procedures and practices for the Company and Board to ensure compliance with all laws, rules and regulations which are applicable to the Company and the directors, including the Companies Act 1993

(Companies Act), the Constitution, the NZX Listing Rules, and the ASX Listing Rules as they apply to entities listed in the ASX Foreign Exempt category.

The number of committee meetings and attendance records of committee members is specified on page 81.

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

Director Remuneration

The Chairperson receives $135,000 per annum. The non-executive directors each receive $80,000 per annum. The Chair of the Audit and Risk Committee and Remuneration and People 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 $475,000 per annum.

However, the Company has set the Director fee pool for all directors at $500,000 per annum in aggregate to allow further payments to be made to directors should additional work be required and allow for some level of increase and for Committee work, if appropriate. 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.

The annual remuneration review process requires "one over one" approval (approval from a higher authority than the person or committee recommending the remuneration). This means that approval of the Board is required for any changes to the 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.

Corporate Governance and Statutory Information

The Company has adopted a performance share rights long-term executive incentive scheme for the CEO and the 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.

Director Remuneration Statement

The Company's directors holding office during the year ended 31 March 2017 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 2017 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	-	450	**450**
Total	**385**	**450**	**835**

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 2017 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 2017 are specified below.

Remuneration Band	Total
$100,001 - $110,000	2
$110,001 - $120,000	1
$120,001 - $130,000	1
$130,001 - $140,000	2
$140,001 - $150,000	2
$150,001 - $160,000	1
$160,001 - $170,000	3
$190,001 - $200,000	1
$230,001 - $240,000	1
Total	**14**

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

Corporate Governance and Statutory Information

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 2017 are as follows:

Director	Position	Company
Norah Barlow	Non-executive Director/Shareholder (ceased 29 April 2016)	Summerset Group Holdings Limited
	Director	Merseyside Holdings Limited
	Trustee	Kensington Trust
Mark Finlay	Director and Indirect Shareholder	LEP 1 Limited
	Director and Indirect Shareholder	LEP 2 Limited
	Director and Shareholder	Pink Beluga Limited
	Director and Shareholder	25 Broadway (2014) Limited

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 2017:

Norah Barlow:
- Issue of 2,013 shares by the Company on 20 June 2016 under the Company's dividend reinvestment plan.
- Issue of 1,946 shares by the Company on 21 December 2016 under the Company's dividend reinvestment plan.

Mark Finlay:
- Nil

Greg Kern:
- Issue of 285 shares by the Company on 20 June 2016 under the Company's dividend reinvestment plan.
- Issue of 276 shares by the Company on 21 December 2016 under the Company's dividend reinvestment plan.

Alistair Ryan:
- Issue of 2,013 shares by the Company on 20 June 2016 under the Company's dividend reinvestment plan.
- Issue of 1,946 shares by the Company on 21 December 2016 under the Company's dividend reinvestment plan.

Alan Wham:
- Issue of 13,837 shares by the Company on 20 June 2016 under the Company's dividend reinvestment plan.
- Issue of 13,377 shares by the Company on 21 December 2016 under the Company's dividend reinvestment plan.

Corporate Governance and Statutory Information

Disclosure of Directors' Interests in Shares

Directors disclosed the following relevant interests in Shares as at 31 March 2017:

Director	Number of Shares in which a relevant interest is held
Norah Barlow	85,749
Mark Finlay	21,347,382
Greg Kern	2,347,808
Alistair Ryan	85,749
Alan Wham	589,518

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
- 11,313 shares were issued to Gregory 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 remain listed on the ASX. The Company is primarily regulated by the NZX, complies with the NZX Listing Rules, and is exempt from complying with most of the ASX Listing Rules (based on the principle of substituted compliance).

Dividend Policy

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

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

Corporate Governance and Statutory Information

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

For the financial year ended 31 March 2017, the Company authorised the following dividends:

- an interim dividend of 2.50 cents per share paid on 21 December 2016; and
- a final dividend of 2.50 cents per share paid on 21 June 2017.

The last date for the receipt of an election notice to participate in the Company's dividend reinvestment plan is 5:00pm on the business day following the record date for a dividend.

Net Tangible Assets

The Company's net tangible assets as at 31 March 2017 were ($0.25) per share (31 March 2016 ($0.17) per share). Due to the nature of the Company's business, intangible assets are a major component of total assets. Accordingly the net assets per security is considered a more useful measure and as at 31 March 2017 it was $0.95 (2016: $0.91).

Donations

The Company made donations of $2,671 during the year ended 31 March 2017 (31 March 2016 $6,980).

Credit Rating

The Company has no credit rating.

NZX and ASX Waivers

On 9 December 2016, NZX Regulation granted Evolve a waiver from NZX Main Board Listing Rule 8.1.7 in respect of the Evolve Group Performance Share Rights Plan (the *Plan*) to allow Evolve to change the number of underlying securities under the Plan in certain circumstances. The waiver was granted on the conditions that:

- the Plan is submitted to NZX Regulation for approval under Listing Rules 6.1.1 and 6.1.2(e); and
- if it is necessary to make an adjustment to the number of underlying securities under the Plan, then:
  - Evolve will provide NZX Regulation with at least 10 Business Days' notice prior to the adjustment that sets out a description of the circumstances giving rise to the adjustment, the proposed adjustment to the share rights, and a copy of advice from an independent party that the adjustment is fair and reasonable to Evolve and its shareholders; and
  - the directors of Evolve certify to NZX Regulation that they are satisfied with the advice from the independent party and, in their opinion, the proposed amendment to the share rights is fair and reasonable to Evolve and its shareholders.

Annual Meeting

The Company's Annual Meeting of shareholders will be held in Auckland on 17 August 2017 at 2 pm. A notice of Annual Meeting and Proxy Form will be circulated to shareholders in July.

Shareholder Information

Analysis of Shareholding at 29 May 2017

Size of holding	Number of Shareholders	%	Number of Shares	Holding Quantity %
1 to 1,000	98	7.80%	62,281	0.03%
1,001 to 5,000	317	25.22%	1,068,937	0.60%
5,001 to 10,000	315	25.06%	2,534,828	1.42%
10,001 to 100,000	464	36.91%	13,931,242	7.81%
100,001 and over	63	5.01%	160,680,968	90.13%
Total	**1,257**	**100.00%**	**178,278,256**	**100.00%**

Twenty Largest Shareholders at 29 May 2017

The 20 largest shareholders of fully paid ordinary shares as at 29 May 2017 were:

Name	Number of Shares	% of Shares
New Zealand Central Securities Depository Limited	49,676,218	27.86%
Mark Finlay & Geoffrey Hosking	20,138,542	11.30%
Citicorp Nominees Pty Limited	14,172,810	7.95%
National Nominees Limited	12,283,943	6.89%
Forsyth Barr Custodians Ltd	9,592,150	5.38%
JBWERE (Nz) Nominees Limited	8,668,933	4.86%
Leveraged Equities Finance Limited	6,008,035	3.37%
Scottfin Ece Limited	5,605,450	3.14%
HSBC Custody Nominees (Australia) Limited	5,134,055	2.88%
Brispot Nominees Pty Ltd	4,835,608	2.71%
Russell Thompson & Geoffrey Hosking	3,257,069	1.83%
FNZ Custodians Limited	2,981,670	1.67%
J P Morgan Nominees Australia Limited	2,095,399	1.18%
UBS Nominees Pty Ltd	1,692,861	0.95%
Mark Finlay & Mark Dobson Trustee Company Limited	1,208,840	0.68%
Investment Custodial Services Limited	1,072,680	0.60%
Custodial Services Limited	1,040,000	0.58%
Kevin Glen Douglas & Michelle Mckenney Douglas	785,000	0.44%
JBWERE (Nz) Nominees Limited	712,153	0.40%
Alan Wham	589,518	0.33%
Total - twenty largest shareholders	**151,550,934**	**85.01%**
Total number of shares on issue	**178,278,256**	

* 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 29 May 2017, the shareholdings in the Company held through NZCSD were:

Shareholder Information

Name	Number of Shares Held by NZCSD	% of NZCSD Shares
NATIONAL NOMINEES NEW ZEALAND LIMITED	15,829,185	31.86%
HSBC NOMINEES (NEW ZEALAND) LIMITED	10,320,936	20.78%
ACCIDENT COMPENSATION CORPORATION	9,204,930	18.53%
GUARDIAN NOMINEES NO 2 LIMITED	4,976,794	10.02%
BNP PARIBAS NOMINEES NZ LIMITED	4,219,977	8.49%
JPMORGAN CHASE BANK	2,349,038	4.73%
CITIBANK NOMINEES (NZ) LIMITED	1,741,694	3.51%
TEA CUSTODIANS LIMITED	783,711	1.58%
HSBC NOMINEES (NEW ZEALAND) LIMITED	241,720	0.49%
PRIVATE NOMINEES LIMITED	8,233	0.02%
Total - shares held by NZCSD	**49,676,218**	**100.00%**

Substantial Shareholders

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

Name	Number of Shares	% of Shares
Geoffrey Hosking*	23,395,611	13.12%
Mark Finlay**	21,347,382	11.97%
Milford Asset Management Limited	14,560,808	8.17%
Regal Funds Management Pty Limited	14,700,870	8.25%
Westpac Banking Corporation	13,692,696	7.68%
Paradice Investment Management Pty Limited	10,505,000	5.89%
Salt Funds Management Limited	10,747,762	6.03%
Accident Compensation Corporation	9,655,000	5.42%
Total number of shares on issue	**178,278,256**	

* 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 3,257,069 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.

Subsidiary Company Directors

The following persons held office as Directors of the Company's subsidiaries during the year ended 31 March 2017 or, in the case of acquired subsidiaries, from the date of acquisition:

Company Name	Directors
Evolve Group 1 Limited	Rachel Nottingham (appointed 11 July 2016, ceased 15 February 2017) Stephen Davies (appointed 17 February 2017) Vivek Singh (ceased 8 July 2016) Alan Wham
Evolve Group 2 Limited	Vivek Singh (ceased 8 July 2016) David Smith (ceased 24 March 2016) Alan Wham Rachel Nottingham (appointed 11 July 2016, ceased 15 February 2017) Stephen Davies (appointed 17 February 2017)
Evolve Group 3 Limited	Vivek Singh (ceased 8 July 2016) Alan Wham Rachel Nottingham (appointed 11 July 2016, ceased 15 February 2017) Stephen Davies (appointed 17 February 2017)
Evolve Group 4 Limited	Vivek Singh (ceased 8 July 2016) Alan Wham Rachel Nottingham (appointed 11 July 2016, ceased 15 February 2017) Stephen Davies (appointed 17 February 2017)
Evolve Group 5 Limited	Vivek Singh (ceased 8 July 2016) Alan Wham Rachel Nottingham (appointed 11 July 2016, ceased 15 February 2017) Stephen Davies (appointed 17 February 2017)
Evolve Group 6 Limited	Vivek Singh (ceased 8 July 2016) Alan Wham Rachel Nottingham (appointed 11 July 2016, ceased 15 February 2017) Stephen Davies (appointed 17 February 2017)
Evolve Management Group Limited	Vivek Singh (ceased 8 July 2016) Alan Wham Rachel Nottingham (appointed 11 July 2016, ceased 15 February 2017) Stephen Davies (appointed 17 February 2017)
ECE Management Limited	Vivek Singh (ceased 8 July 2016) Rachel Nottingham (appointed 11 July 2016) Alan Wham
Lollipops Educare Holdings Limited	Mark Finlay Vivek Singh (ceased 8 July 2016) Alan Wham
Lollipops Educare Limited	Mark Finlay Vivek Singh (ceased 8 July 2016) Alan Wham
Lollipops Educare Centres Limited	Mark Finlay Vivek Singh (ceased 8 July 2016) Alan Wham

Subsidiary Company Directors

Lollipops Educare (Hastings) Limited	Mark Finlay Vivek Singh (ceased 8 July 2016) Alan Wham
Lollipops Educare (Birkenhead) Limited	Vivek Singh (ceased 8 July 2016) Alan Wham
Lollipops Educare (Halfmoon Bay) Limited (50%)	Kristin Colthurst Alan Wham (ceased 13 June 2016)
Evolve Home Day Care Limited	Vivek Singh (ceased 8 July 2016) Alan Wham Rachel Nottingham (appointed 11 July 2016, ceased 15 February 2017) Stephen Davies (appointed 17 February 2017)
Au Pair Link Limited	Vivek Singh (ceased 8 July 2016) Alan Wham Rachel Nottingham (appointed 11 July 2016, ceased 15 February 2017) Stephen Davies (appointed 17 February 2017)
Porse In-home Childcare (NZ) Limited	Vivek Singh (ceased 8 July 2016) Alan Wham Rachel Nottingham (appointed 11 July 2016, ceased 15 February 2017) Stephen Davies (appointed 17 February 2017)
Porse Franchising (NZ) Limited	Vivek Singh (ceased 8 July 2016) Alan Wham Rachel Nottingham (appointed 11 July 2016, ceased 15 February 2017) Stephen Davies (appointed 17 February 2017)
Porse Education & Training (NZ) Limited	Vivek Singh (ceased 8 July 2016) Alan Wham Rachel Nottingham (appointed 11 July 2016, ceased 15 February 2017) Stephen Davies (appointed 17 February 2017)
For Life Education & Training (NZ) Limited	Vivek Singh (ceased 8 July 2016) Alan Wham Rachel Nottingham (appointed 11 July 2016, ceased 15 February 2017) Stephen Davies (appointed 17 February 2017)

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 2017.

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

Alistair Ryan (Chair, since 1 June 2017)
Norah Barlow (Chair, until 31 May 2017)
Mark Finlay
Greg Kern
Gráinne Troute (appointed 1 May 2017)
Alan Wham

Senior Management Team

Fay Amaral – Chief Operating Officer
Stephen Davies – Chief Financial Officer
Kerry Henderson – General Manager, Porse
Paul Matthews – Chief Information Officer
Allan McGilvray – General Manager, People and Capability
Casey Muraahi – General Manager, Au Pair Link
Alan Wham – Chief Executive Officer

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

At Evolve Education Group we support sustainable practices. In selecting print paper stocks for we ensure paper is milled from sustainable forestry and/or post consumer material. The paper stocks used for the Annual Report 2017 are FSC certified from the paper mill. Our printers have a sustainability policy and equipment utilised in the production of this document meet best standard in terms of water & power conservation and utilise environmentally responsible consumables.

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evolveeducation.co.nz