Interim Financial Report

For the Six Month Period Ended
30 September 2017

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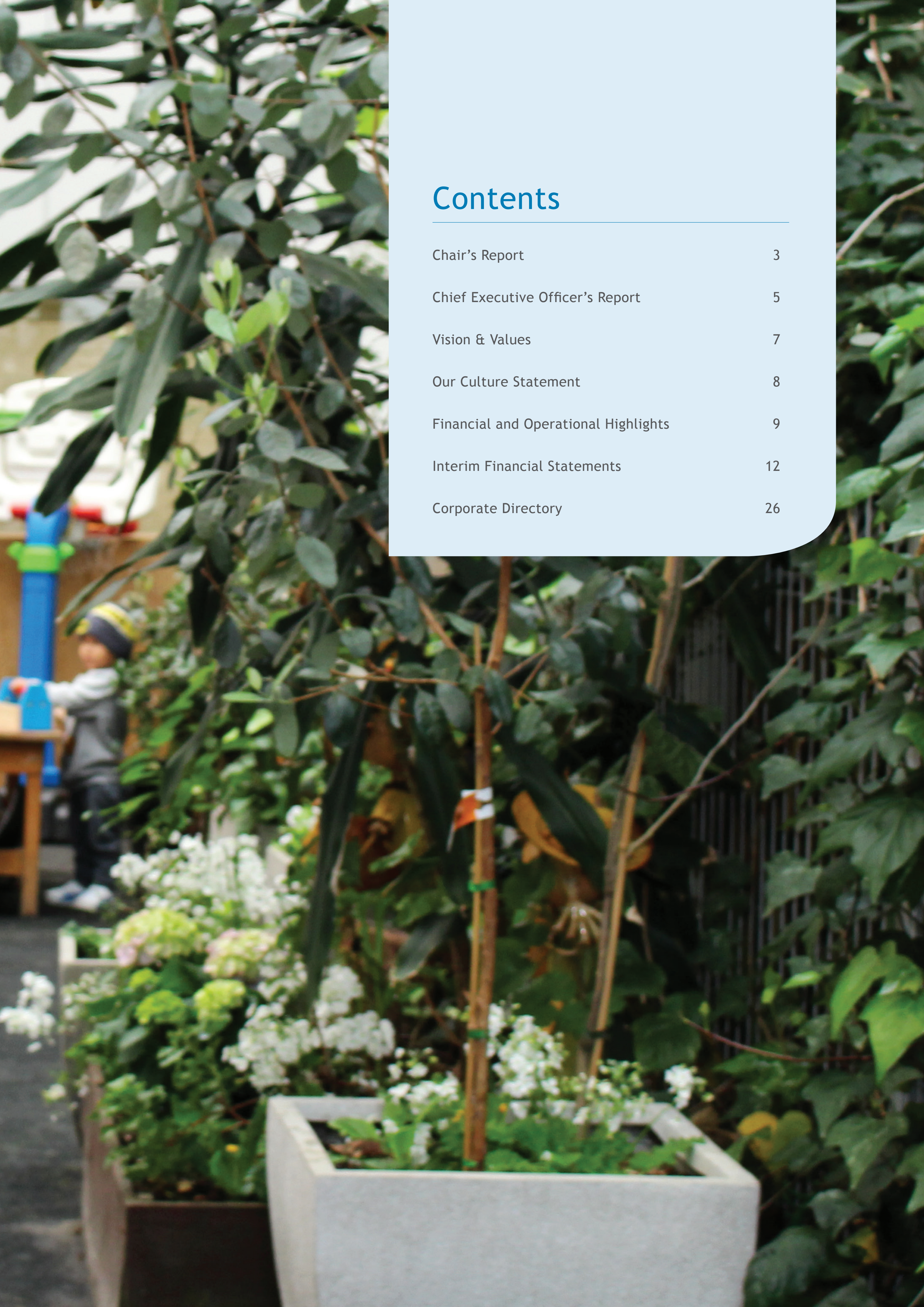


Chair's Report

FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2017

Alistair Ryan

Chair
Evolve Education Group Limited

Dear Shareholders,

December marks the three-year milestone since Evolve first listed. While much has been achieved over this period, the past six months has been characterised by a refocusing of the business supported by changes at the board and management level. These changes have been necessary to ensure that Evolve is best placed to consolidate its current activities following a period of rapid expansion through acquisition.

Specific actions are being undertaken to drive performance through lifting occupancy levels, delivering operational efficiencies, and driving a disciplined brand strategy and enhanced customer experience.

Key to this performance uplift has been the appointment of Mark Finlay as Chief Executive Officer (CEO), supported by changes to the composition of the board. Additionally, we have taken the decision to slow the pace of new centre acquisitions, while at the same time seeking to increase the development of new centres.

Performance

Net profit after tax and before non-recurring items for the six months ended 30 September 2017 was $7.0 million, consistent with guidance provided at the annual shareholders' meeting in August. This compares with $8.8 million in the prior corresponding period.

Net profit after tax and non-recurring items was $4.0 million. The non-recurring item was a $3.0 million provision for settlement of the GST claim relating to the Porse In-Home childcare business, which we have been actively managing with the Inland Revenue Department.

Total revenue grew by 6.5% to $81.3 million and was driven by new centre acquisitions and the development of new centres.

The occupancy level on a same-centre basis for the first six months was 2% lower than the prior comparable period, however, there were some signs of recovery in the second quarter. Occupancy levels can fluctuate due to shifting demographics, changes in family requirements, as well as market shifts. Evolve is improving its capability and support to ensure greater responsiveness to these changes, through centralising the enrolment process, and improved management support processes and alignment over the 128 centres. Positive engagement with staff and families remains critical to lifting participation levels, learning quality and retention. The early results from these initiatives are encouraging.

The marketplace for home-based early childhood education services continues to attract new participants. Whilst both PORSE and Au Pair Link continue to lead their respective segments and retain good enrolment numbers, both saw income decline in the half by 14%. To help offset this reduction, cost savings of $1m were achieved. A new two year strategic plan will be implemented in FY19 in an endeavour to lift performance of the home-based division.

Centre Acquisitions

At the end of the period, Evolve had a total of 128 centres in operation, up from 110 at the same time in the prior year.

Acquiring existing early childhood education centres requires significant management attention following the acquisition and the growth through acquisition of existing centres has stretched management resources at times.

We consequently decided to scale back our centre acquisition programme so that we can focus on lifting the performance of our existing portfolio. We have also adopted this more patient approach because vendor price expectations have continued to rise, in many cases above our willingness to pay, and due to a lack of quality centres being offered for sale. During the six month period, seven existing centres were acquired and these have been integrated and are performing well.

In addition, we developed and opened one new centre.

With new developments, we are able to ensure that they are well-located, purpose-built facilities that are attractive to parents and teachers alike. While new centre developments take longer to come on stream than acquisitions, they carry no goodwill payment.

Key to the development of new centres is a strong brand strategy. During the period we made good progress in rationalising the many brands we have down to six, with each of these six brands having clear points of differentiation and a distinctive learning philosophy. Underpinning each of these brands is a commitment to delivering what families want: quality early childhood education through caring and nurturing staff and a good learning environment that lifts child enjoyment every day.

Board Changes

During the interim report period we announced the appointment of three new directors - Gráinne Troute, Lynda Reid and Anthony Quirk. Mark Finlay and Greg Kern retired from the Board in August and Alan Wham resigned as Chief Executive Officer and Managing Director also in August.

CEO Appointment

In early November we announced the appointment of Mark Finlay as CEO of the company. Mark had been CEO in an interim capacity since August following the resignation of Alan Wham. The Board undertook a thorough search process with an external recruitment firm, and Mark emerged as the candidate best placed to ensure that the momentum in the business is maintained and enhanced. Mark has 12 years' experience in early childhood education in New Zealand and was the founder and Managing Director of Lollipops Educare Group which successfully developed and managed 40 early childhood education centres across New Zealand.

We believe Mark's deep operational experience, expertise, energy, and operational effectiveness will be especially beneficial to getting Evolve back on track and to restoring momentum in the business.

We have put in place specific governance arrangements with Mark given he is a related party. These include an independent appraisal process to ensure any transactions involving Evolve and interests related to Mark are on fully commercial, arms-length, market-relative terms.

Dividend

Evolve will pay an interim dividend of 2.50c per share on 20 December 2017. The dividend will be fully imputed for New Zealand taxation purposes.

Outlook

For the full year we continue to target net profit after tax and before non-recurring items in the range of $14 million to $15 million. Achievement of this earnings target will be dependent on strong enrolment levels in early calendar 2018, and further cost reduction initiatives.

Alistair Ryan

Chief Executive Officer's Report

FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2017

Mark Finlay

Chief Executive Officer
Evolve Education Group Limited

Prior to joining Evolve I was founder and Managing Director of Lollipops Educare for 12 years. During that time we grew from a modest base and developed, licensed and managed over 40 ECE centres throughout New Zealand. Five of my six children attended a Lollipops centre and I remain deeply committed to the ECE sector. I was delighted to have been appointed CEO of Evolve and to be in a position to help drive the business forward.

Evolve has acquired and integrated 128 ECE Centres and over 80 home-based ECE licenses in less than three years. We now employ over 2,500 dedicated teachers and provide education to over 12,000 children. Our corporate support function is developing well and our portfolio is fundamentally of high quality. However, the process of driving brand and culture integration and consolidation has placed significant pressure on our operational resources. The current year has become one of transition while we consolidate our activities. Management focus is on undertaking the changes necessary to drive improved performance from our existing portfolio. Most importantly we must ensure that we lift occupancy in the 2018 calendar year consistent with previous cycles. We have the benefit of another year of consolidation with consistent management and teaching teams. This will ensure that our existing families will help drive enrolment through referrals and recommendations.

Our branding platform including website and physical signage will be in place after completing the disruptive task of merging our centres into six brands with their own distinctive educational philosophies. We will have installed a centralised call centre assisting centre managers to ensure that our family enquiries materialise into centre visits and formal enrolment. We will provide educational services appropriate to all community needs with competitive fees and discount options.

While top line growth is crucial to financial year 2019 and beyond we will also target operational efficiencies across both centre-based and home-based businesses, ensuring that our centres have a cost base consistent with the number of children in attendance.

A key priority for me will be to ensure that Evolve develops a people first culture focused on supporting our teachers to the extent of our capabilities. Evolve has over 2,500 dedicated and passionate teachers who help us deliver positive outcomes for our children, families, stakeholders and communities, ultimately ensuring sustainable value for all. I will be focusing on lifting employee engagement and giving our teachers a sense of pride and ownership. Initiatives I will encourage include a broad-based employee share scheme, strong staff interaction and professional development and utilising our scale to facilitate buying opportunities for all teachers.

In conjunction with the board I will also be examining larger structural changes to Evolve including the option to own and develop our own freehold property portfolio alongside and complementary to our core operations. This is traditionally the preferred ECE model in New Zealand and has many inherent advantages over a strictly leasehold offering.

Evolve has a quality portfolio and operational base from which to thrive in a strong New Zealand ECE sector. I am excited about the future and the opportunity that I have to be part of a unique success story.

Mark Finlay

Vision and Values

Evolve Education Group is comprised of 128 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 Evolve brand: bright, uplifting and irrepressible

We wanted our 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 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’.

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 another. 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 by 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.

Our Culture Statement

Within our walls, we live the values Evolve stands for, and we champion those across the ECE industry.

For our children and each other, that's about respecting individuality, recognising our children as people, hearing their voice, allowing them to feel valued and understood. That goes for our day-to-day interactions with each other too. Genuine respect is at the heart of our organisation.

So we celebrate individual achievements, remember birthdays, laud the effort that goes above and beyond; we care about each other.

We encourage our young enquiring minds, we share their joy of discovery, and bolster their confidence to explore and learn more.

Wherever possible, we are a collaborative team, sharing our knowledge across the Evolve group, leveraging our diverse skills, supporting our pioneering spirit in the pursuit of improvement.

We are the Evolve Education group; the joy of learning lives here, welcome.

Financial and Operational Highlights

Revenue

6.5%

Interim Dividend

2.5cps

(2.5 cps 30 Sept 2016)

Centre Licence Places

9062
Sept 2017

7545
Sept 2016

Number of Centres

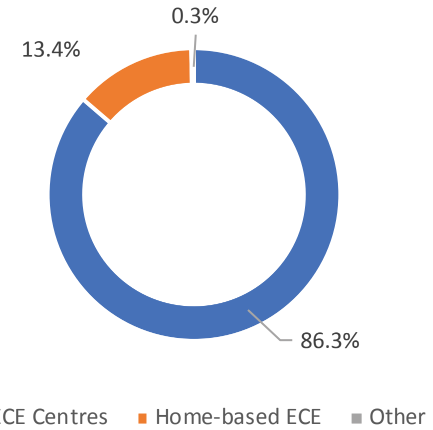
128
Sept 2017

110
Sept 2016

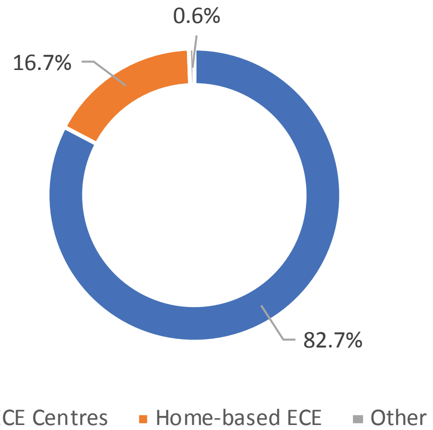
Newly Developed Centres

1

Group Revenue September 2017
$81.3m



Group Revenue September 2016
$76.4m




Peas
&
Carrots

Evolve Education Group Limited

Interim Financial Statements
For the Six Month Period Ended 30 September 2017

The Directors have pleasure in presenting the Interim Financial Statements of Evolve Education Group Limited, for the six month period ended 30 September 2017.

The Financial Statements presented are signed for and on behalf of the Board and were authorised for issue on 20 November 2017.

Alistair Ryan
Chairman
20 November 2017

Anthony Quirk
Chairman of Audit and Risk Committee
20 November 2017

Consolidated Statement of Comprehensive Income

FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2017

$'000	Note	UNAUDITED 6 MONTHS 30 SEPTEMBER 2017	UNAUDITED 6 MONTHS 30 SEPTEMBER 2016
Revenue	2	81,337	76,368
Total income		**81,337**	**76,368**
Expenses			
Employee benefits expense		(46,692)	(41,217)
Building occupancy expenses		(11,302)	(9,727)
Direct expenses of providing services		(8,714)	(8,039)
Acquisition expenses		(88)	(451)
Integration expenses		(264)	(328)
Depreciation		(1,343)	(1,004)
Amortisation		(322)	(300)
Porse GST Provision	3	(3,000)	-
Other expenses		(2,082)	(2,240)
Total expenses		**(73,807)**	**(63,306)**
Profit before net finance expense and income tax		**7,530**	**13,062**
Finance income		7	52
Finance costs		(752)	(599)
Net finance expense		(745)	(547)
Profit before income tax		**6,785**	**12,515**
Income tax expense		(2,778)	(3,678)
Profit after income tax attributed to the owners of the Company		**4,007**	**8,837**
Other comprehensive income		-	-
Total comprehensive income attributed to the owners of the Company		**4,007**	**8,837**
Earnings per share			
Basic (and diluted) earnings per share (expressed as cents per share)		2.2	5.0

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

Consolidated Statement of Movements in Equity

FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2017

$'000	ISSUED SHARE CAPITAL	RETAINED EARNINGS	TOTAL
As at 31 March 2016 (audited)	**157,364**	**3,369**	**160,733**
Total comprehensive income	**-**	**8,837**	**8,837**
Shares issued under Dividend Re-investment Plan	428	-	**428**
Share issue costs relating to shares issued	(7)	-	**(7)**
Dividends paid	-	(4,226)	**(4,226)**
As at 30 September 2016 (unaudited)	**157,785**	**7,980**	**165,765**
As at 31 March 2017 (audited)	**158,106**	**10,565**	**168,671**
Total comprehensive income	-	**4,007**	**4,007**
Shares issued under Dividend Re-investment Plan	672	-	**672**
Share issue costs relating to shares issued	(8)	-	**(8)**
Dividends paid	-	(4,456)	**(4,456)**
As at 30 September 2017 (unaudited)	**158,770**	**10,116**	**168,886**

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

Consolidated Statement of Financial Position

AS AT 30 SEPTEMBER 2017

$'000	Note	UNAUDITED AS AT 30 SEPTEMBER 2017	AUDITED AS AT 31 MARCH 2017	UNAUDITED AS AT 30 SEPTEMBER 2016
Current assets				
Cash and cash equivalents		5,572	4,095	3,085
Funding receivable	6	1,308	-	1,279
Current income tax receivable		138	-	-
Other current assets		1,218	1,924	2,204
Total current assets		**8,236**	**6,019**	**6,568**
Non-current assets				
Property, plant and equipment		7,238	5,742	5,879
Deferred tax asset		989	840	840
Intangible assets	5	219,814	212,121	197,606
Total non-current assets		**228,041**	**218,703**	**204,325**
Total assets		**236,277**	**224,722**	**210,893**
Current liabilities				
Trade and other payables	7	4,685	10,376	5,099
Current income tax liabilities		-	841	556
Funding received in advance	6	-	18,052	-
Provisions	3	3,000	-	-
Employee entitlements		7,206	6,582	6,273
Total current liabilities		**14,891**	**35,851**	**11,928**
Non-current liabilities				
Borrowings	8	52,500	20,200	33,200
Total non-current liabilities		**52,500**	**20,200**	**33,200**
Total liabilities		**67,391**	**56,051**	**45,128**
Net assets		**168,886**	**168,671**	**165,765**
Equity				
Issued share capital		158,770	158,106	157,785
Retained earnings		10,116	10,565	7,980
Total equity		**168,886**	**168,671**	**165,765**

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

Consolidated Statement of Cash Flows

FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2017

$'000	Note	UNAUDITED 6 MONTHS 30 SEPTEMBER 2017	UNAUDITED 6 MONTHS 30 SEPTEMBER 2016
Cash flows from operating activities			
Receipts from customers (including Ministry of Education funding)		62,398	58,320
Dividends received		-	76
Payments to suppliers and employees		(73,620)	(65,755)
Taxes paid		(3,956)	(4,508)
Net cash flows from operating activities	9	**(15,178)**	**(11,867)**
Cash flows from investing activities			
Payments for purchase of businesses		(9,882)	(6,983)
Receipts from sale of joint venture		-	1,550
Receipts from sale of business		100	-
Payments for software, property, plant and equipment		(1,326)	(1,269)
Interest received		7	52
Net cash flows from investing activities		**(11,101)**	**(6,650)**
Cash flows from financing activities			
Share issue costs		(8)	(7)
Interest paid on borrowings		(752)	(599)
Bank borrowings drawn		69,300	163,840
Bank borrowings repaid		(37,000)	(176,505)
Dividends paid		(3,784)	(3,751)
Net cash flows from financing activities		**27,756**	**(17,022)**
Net cash flows		**1,477**	**(35,539)**
Cash and cash equivalents at beginning of period		4,095	38,624
Cash and cash equivalents at end of period		**5,572**	**3,085**

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

Notes to the Consolidated Financial Statements

FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2017

1. Basis of Presentation and Accounting Policies

(a) Reporting Entity

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

The 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 2, Segment Information).

These condensed interim financial statements were approved for issue on 20 November 2017.

(b) Basis of Preparation

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

These consolidated condensed interim financial statements of the Group are unaudited and have been prepared using the same accounting policies, methods of computation, significant judgements, estimates and assumptions, as the financial statements and related notes included in the Group's audited financial statements for the year ended 31 March 2017. Accordingly, these interim financial statements are to be read in conjunction with those audited financial statements.

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

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 8) with its bank to meet all its current obligations. Accordingly, the preparation of the financial statements on a going concern basis is appropriate.

Functional and Presentation Currency

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

Comparative Period

The comparative period is for the six months ended 30 September 2016.

Notes to the Consolidated Financial Statements

FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2017

2. Segment Information

The Group has two reportable operating segments, as described below, which are the strategic business models the Group invests in within the early childhood education ("ECE") industry in New Zealand. The Group operates entirely within New Zealand. Each segment is managed separately. For each of the segments, the Group's Chief Executive Officer ("CEO" and the "Chief Operating Decision Maker") reviews internal management reports at least on a monthly basis. The following summary describes the operations in each of the Group's reportable segments:

- **ECE Centres** – generally purpose built facilities that offer all day or part-day early childhood services, and
- **Home-based ECE** – involves an independent educator delivering services to a small group of children in a home setting and is supported by a registered teacher coordinator who oversees the children's learning progress.

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

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

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

EBITDA excluding acquisition and integration costs reflects a number of adjustments that may be defined as:

- **Acquisition expenses** – in acquiring the businesses and net assets in Note 4 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 of establishing for example, IT and communications with the Group and the transfer of employment/payroll records to the Group's payroll provider.

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

Notes to the Consolidated Financial Statements

FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2017

2. Segment Information (continued)

UNAUDITED 30 SEPTEMBER 2017	Note	ECE Centres $'000	Home-based ECE $'000	Unallocated $'000	Consolidated $'000
Total income		**70,201**	**10,903**	**233**	**81,337**
Porse GST Provision	3	**-**	**(3,000)**	**-**	**(3,000)**
Operating expenses		**(54,746)**	**(10,266)**	**(3,778)**	**(68,790)**
EBITDA before acquisition and integration expenses		**15,455**	**(2,363)**	**(3,545)**	**9,547**
Acquisition expenses		-	-	(88)	(88)
Integration expenses		-	-	(264)	(264)
EBITDA		**15,455**	**(2,363)**	**(3,897)**	**9,195**
Depreciation		(1,144)	(164)	(35)	(1,343)
Amortisation		(30)	(125)	(167)	(322)
Earnings before interest and tax		**14,281**	**(2,652)**	**(4,099)**	**7,530**
Net finance expense		-	-	(745)	(745)
Reportable segment profit/(loss) before tax		**14,281**	**(2,652)**	**(4,844)**	**6,785**

UNAUDITED 30 SEPTEMBER 2016	ECE Centres $'000	Home-based ECE $'000	Unallocated $'000	Consolidated $'000
Total income	**63,149**	**12,727**	**492**	**76,368**
Operating expenses	**(46,413)**	**(11,272)**	**(3,538)**	**(61,223)**
EBITDA before acquisition and integration expenses	**16,736**	**1,455**	**(3,046)**	**15,145**
Acquisition expenses	-	-	(451)	(451)
Integration expenses	-	-	(328)	(328)
EBITDA	**16,736**	**1,455**	**(3,825)**	**14,366**
Depreciation	(791)	(182)	(31)	(1,004)
Amortisation	(76)	(122)	(102)	(300)
Earnings before interest and tax	**15,869**	**1,151**	**(3,958)**	**13,062**
Net finance expense	-	-	(547)	(547)
Reportable segment profit/(loss) before tax	**15,869**	**1,151**	**(4,505)**	**12,515**

Notes to the Consolidated Financial Statements

3. Porse GST Provision

Porse In-home Childcare (NZ) Limited ("PIHCL"), a wholly owned subsidiary of the Company, has been in discussion with the Inland Revenue Department ("IRD") on the GST treatment of certain payments made to home-based educators and nannies. A provision of $3m has been recorded in the current period in anticipation of resolving this historic matter. At 31 March 2017, this matter was disclosed as a contingent liability.

4. Business Combinations

During the six months ended 30 September 2017 the Group acquired 7 centres, for a combined purchase price of $9.9m. Total net assets acquired were $1.9m resulting in goodwill on acquisition of $8.0m. Total acquisition costs incurred during the period were $88k and these are included in the Statement of Comprehensive Income and cash flows from operating activities in the Statement of Cash Flows. No cash was acquired.

Assets and liabilities acquired and consideration paid	$'000
Assets	
Other current assets	7
Property, plant and equipment	1,603
Funding receivable	398
	2,008
Liabilities	
Employee entitlements	(15)
Other current liabilities	(118)
	(133)
Total identifiable net assets at fair value	**1,875**
Goodwill arising on acquisition	8,017
Purchase consideration transferred	**9,892**
Purchase consideration	
Cash paid	9,772
Cash payable relating to retentions	120
Total consideration	**9,892**

The goodwill of $8.0m predominantly comprises the future earnings potential of the acquired ECE centres and the value expected from continuing to bring together a group of ECE centres and home-based ECE providers under one centrally managed group. Goodwill is allocated to each of the segments identified at Note 2, as appropriate.

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

Year to date the acquisitions have contributed revenue of $2.6m and a net profit after tax of $190k to the Group's results before allowing for upfront acquisition expenses and integration costs. As the acquisitions were made at different times during the six month period it is anticipated these acquisitions would have contributed revenue of $4.9m and a net profit after tax of $390k (excluding upfront and non-recurring acquisition costs of $88k and integration expenses of $264k) had they all been acquired on 1 April 2017 and operated for the full six month period covered by these interim financial statements.

Notes to the Consolidated Financial Statements

FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2017

5. Intangible assets

	UNAUDITED AS AT 30 SEPTEMBER 2017	AUDITED AS AT 31 MARCH 2017	UNAUDITED AS AT 30 SEPTEMBER 2016
$'000			
Goodwill	214,030	206,094	191,472
Brands	4,787	4,787	4,787
Other	997	1,240	1,347
Total Intangible assets (net book value)	**219,814**	**212,121**	**197,606**

Intangible assets comprise goodwill, brands, customer lists, software, syllabus material and management contracts. Total cost of intangible assets has increased by $7.7m during the period. This is mainly due to the acquisitions detailed in Note 4 which have resulted in additional goodwill of $8.0m. A total of $81k of goodwill was disposed as a result of the sale of an ECE Centre. The remaining change in the net book value of intangible assets is due to software additions less amortisation for the six month period ended 30 September 2017 of $322k (30 September 2016: $300k).

6. Funding Receivable and Funding Received in Advance

	UNAUDITED AS AT 30 SEPTEMBER 2017	AUDITED AS AT 31 MARCH 2017	UNAUDITED AS AT 30 SEPTEMBER 2016
$'000			
Funding received in advance	(7,289)	(21,853)	(7,000)
Funding receivable	8,597	3,801	8,279
Total funding receivable/(received in advance)	**1,308**	**(18,052)**	**1,279**

Ministry of Education funding is received three times per year on 1 March, 1 July and 1 November. Each funding round includes 75% of the estimated funding for the four months ahead. At 30 September 2017 funding received in advance relates to October 2017. Funding receivable relates to the remaining 25% of funding, adjusted for any changes in occupancy levels, in respect of June to September 2017.

Notes to the Consolidated Financial Statements

FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2017

7. Trade And Other Payables

	UNAUDITED AS AT 30 SEPTEMBER 2017	AUDITED AS AT 31 MARCH 2017	UNAUDITED AS AT 30 SEPTEMBER 2016
$'000			
Trade payables	898	877	1,054
Amounts accrued in respect of business combinations	140	203	180
Goods and services tax	84	5,324	98
Other payables	3,563	3,972	3,767
Total trade and other payables	**4,685**	**10,376**	**5,099**

The timing of Ministry of Education funding, as disclosed at Note 6, affects the timing of goods and services tax ("GST") payable. GST on funding received in March remains payable at the end of March, whereas no GST on funding is payable at September as the GST relating to July funding is paid in August.

8. Borrowings

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

	UNAUDITED AS AT 30 SEPTEMBER 2017	AUDITED AS AT 31 MARCH 2017	UNAUDITED AS AT 30 SEPTEMBER 2016
$'000			
Facility Limits			
Senior revolving facility	30,000	30,000	30,000
Acquisition facility	60,000	60,000	60,000
Total lending facilities	90,000	90,000	90,000
Utilisation			
Senior revolving facility	-	-	-
Acquisition facility	52,500	20,200	33,200
Total borrowings	52,500	20,200	33,200
Total unused facilities	37,500	69,800	56,800

The terms of the acquisition facility allows the Group to temporarily apply surplus cash against drawings under the facility to ensure efficient use of cash during the working capital cycle. Cash applied against the facility in this manner is available to be redrawn.

Notes to the Consolidated Financial Statements

FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2017

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

$'000	UNAUDITED 6 MONTHS 30 SEPTEMBER 2017	UNAUDITED 6 MONTHS 30 SEPTEMBER 2016
Profit after tax	4,007	8,837
Adjustments for:		
Depreciation and amortisation	1,665	1,304
Net finance expense	745	547
Deferred tax	(149)	(54)
Other non cash items	-	9
Changes in operating assets and liabilities:		
Working capital movements:		
Increase/(decrease) in funding received in advance	(19,360)	(17,810)
(Increase)/decrease in other current assets	706	(891)
Increase/(decrease) in trade and other payables	(5,691)	(3,280)
Increase/(decrease) in current income tax liabilities	(979)	(730)
Increase/(decrease) in provisions	3,000	-
Increase/(decrease) in employee entitlements	624	201
Other items:		
Business combination completion payment classified as investing	254	-
Net cash flows from operating activities	**(15,178)**	**(11,867)**

As per Note 6, Ministry of Education (“MOE”) funding is received by Evolve every four months. In the six months to 30 September 2017 MOE funding was received on 1 July 2017 only.

10. Commitment and Contingencies

Guarantees

In addition to the lending facilities disclosed at Note 8, the Group has a lease guarantee facility of $3,000,000 at 30 September 2017 (31 March 2017: $3,000,000; 30 September 2016: $3,000,000). At the reporting date utilisation of the facility was $2,543,000 (31 March 2017: $2,326,000; 30 September 2016 $2,395,000).

Notes to the Consolidated Financial Statements

FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2017

11. Related Parties

Parent entity

Evolve Education Group Limited is the parent entity.

Identity of Related Parties

Related parties of the Group are:

- The Board of Directors comprising Norah Barlow, Alistair Ryan, Grainne Troute (appointed 1st of May 2017), Anthony Quirk (appointed 2nd August 2017), Lynda Reid (appointed 2nd August 2017) and Mark Finlay (ceased his directorship 17th August 2017).
- Mark Finlay was appointed Chief Executive Officer on 1st November 2017 and had been acting in this capacity since 25th August 2017.
- LEP Limited, LEDC Limited, LEP Construction Limited, LEP1 Limited, LEDC1 Limited, Little Wonders Childcare (Aoraki) Limited, Little Wonders Childcare (Timaru) Limited, Little Wonders Childcare (Cromwell) Limited, Little Wonders Childcare (St Kilda) Limited, Little Wonders Childcare (Roslyn) Limited, Little Wonders Childcare (Oamaru) Limited, and Wildfire Consultants Limited, companies associated with Mark Finlay.

Related party transactions and related party relationships that have ceased during the current period or in the prior period are:

The following related party transactions and relationships that ceased during the period or in the prior period are:

- Greg Kern ceased his directorship on 17th August 2017.
- Kern Group (Paddington) Pty Limited and Kern Group NZ Limited, companies associated with Greg Kern.
- Shares issued pursuant to the Company's dividend reinvestment plan to Alan Wham (September 2017: 14,056 shares valued at $13,714, September 2016: 13,837 shares valued at $12,453).
- Alan Wham resigned as Chief Executive Officer effective 15th September 2017.
- Vivek Singh ceased to be key management personnel in June 2016.

Related party transactions arising during the period:

In addition to salaries paid to certain key personnel of the Group, the following related party transactions occurred between 1 April 2017 and 30 September 2017:

- Directors' fees paid of $248,528 (30 September 2016: $195,833).
- Shares issued pursuant to the Company's dividend reinvestment plan to Alistair Ryan and Norah Barlow who were both issued 2,045 shares each valued at $1,995 (September 2016: 2,013 shares each valued at $1,812).
- Rent, in respect of twelve ECE properties and the support office, paid to interests of Mark Finlay of $903,000 (30 September 2016: $578,000 relating to six ECE centres and the support office).
  To facilitate the acquisition of the six Little Wonders businesses, Mark Finlay and associated interests, acquired the premises out of which these businesses operate and lease these premises to the Group.
- Management fee income from centres related to Mark Finlay of $17,500 (30 September 2016: $43,000).
- On 1 September 2017, the Group acquired one centre from LEDC Limited, a company that Mark Finlay is a director of and shareholder in, for $1,600,000.

12. Events after the Reporting Period

On 10 November 2017, the Group completed the purchase of the land and buildings located at 1-5 Pembroke Street, Ashhurst for cash consideration of $920,000. The land and buildings were previously leased by the Group for Centre operational purposes.

On 20 November 2017, the Board approved the payment of a fully imputed dividend of 2.50 cents per share, payable 20 December 2017. The Company's dividend re-investment plan will be in effect.

Independent review report

to the shareholders of Evolve Education Group Limited

Report on the interim financial statements

We have reviewed the accompanying consolidated interim financial statements of Evolve Education Group Limited (the Company), which comprise the consolidated statement of financial position as at 30 September 2017, and the consolidated statement of comprehensive income, the consolidated statement of movements in equity and the consolidated statement of cash flows for the period ended on that date, and selected explanatory notes.

Directors' responsibility for the financial statements

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

Our responsibility

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

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

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

Conclusion

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

Who we report to

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants — Auckland

20 November 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)
Anthony Quirk (appointed 2 August 2017)
Lynda Reid (appointed 2 August 2017)
Gráinne Troute (appointed 1 May 2017)

Senior Management Team
Mark Finlay – Chief Executive Officer
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

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

PO BOX 105843 - Auckland City 1143
Level 2, 54 Fort Street - Auckland CBD,1010
Phone: + 64 9 377 8700

evolveeducation.co.nz