

evolve
education group



INITIAL PUBLIC OFFERING

OF ORDINARY SHARES
IN EVOLVE EDUCATION
GROUP LIMITED.

PROSPECTUS
dated 14 November 2014

SOLE BOOKRUNNER
AND ARRANGER,
JOINT LEAD
MANAGER

JOINT
LEAD
MANAGER

Goldman
Sachs



FORSYTH BARR

Important Information

Important Notice

This document (**Offer Document**) is for an initial public offer of Shares in Evolve Education Group Limited (**Evolve Education**). It is a prospectus for the purposes of the Securities Act and the Securities Regulations, and has been prepared at, and dated, 14 November 2014.

This Offer Document is an important document and should be read carefully before deciding whether or not to invest in Evolve Education. You should read all of the Offer Document and the accompanying documentation before deciding whether or not to invest under this Offer.

No person is authorised by the directors of Evolve Education, or Kern Group NZ Limited and Wraith Capital Group NZ Limited and those of its directors who are not also directors of Evolve Education (namely Samuel (Chris) Giufre) (**Promoters**) to give any information or make any representation in connection with the Offer which is not contained in this Offer Document, the Investment Statement or in any other communications from the Directors. Any information or representation in connection with the Offer not so contained may not be relied on as having been authorised by Evolve Education, the Directors or the Promoters.

If you are in any doubt as to any aspect of the Offer you should consult your financial adviser or legal adviser or a NZX Firm.

Consideration Period

Pursuant to section 43C of the Securities Act, the Financial Markets Authority will be notified once this Offer Document is registered with the Registrar of Financial Service Providers. The Financial Markets Authority will have the opportunity to consider whether the Offer Document: (a) complies with the Securities Act and the Securities Regulations; (b) contains any material misdescription or error or any material matter that is not clearly legible; or (c) is false or misleading as to a material particular or omits any material particular. Nothing in this section or in any other provision of the Securities Act limits the Financial Markets Authority's power to consider or reconsider these matters at any time. The nature and extent of the consideration (if any) that the Financial Markets Authority gives to this Offer Document is at the Financial Markets Authority's discretion.

Pursuant to section 43D of the Securities Act, Evolve Education cannot accept any Applications, and shares cannot be allotted to you, during the Financial Markets Authority's "Consideration Period".

The Consideration Period commences on the date of registration of this Offer Document and ends at the close of the day that is five working days after that date.

The Financial Markets Authority may shorten this Consideration Period or extend it by no more than five additional working days.

No Guarantee

No person guarantees the Shares offered under this Offer Document, nor warrants or guarantees the future performance of Evolve Education, the Shares or any return on any investment made pursuant to this Offer Document.

Forward-Looking Statements

This Offer Document contains certain statements that relate to the future. Such statements are not a guarantee of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond the control of Evolve Education and which may cause actual returns, performance or achievements of Evolve Education to differ materially from those expressed or implied by such statements.

Given these uncertainties, you are cautioned not to place undue reliance on any forward-looking statements contained in this Offer Document. Under no circumstances should you regard the inclusion of forward-looking statements as a representation or warranty by Evolve Education, the Promoters, their respective officers, the directors of Evolve Education or any other person referred to in this Offer Document with respect to the achievement of the results set out in any such statement, or that the underlying assumptions used will in fact be realised.

Selling Restrictions

The Offer is being made to members of the public in New Zealand and Australia and Institutional Investors in New Zealand, Australia and certain other overseas jurisdictions only (excluding the United States). This Offer Document is intended for use only in connection with the proposed Offer and does not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation.

No person may offer, sell (including resell), distribute or deliver, or invite any other person to offer, sell (including resell), distribute or deliver, any Shares or distribute any documents (including this Offer Document) in relation to the Shares to any person outside New Zealand or Australia except in accordance with all of the legal requirements of the relevant jurisdiction.

In particular, this Offer Document (including an electronic copy) may not be distributed to, or relied upon by, persons in the United States. In particular, Evolve Education's securities have not been, and will not be, registered under the United States Securities Act of 1933, as amended (**US Securities Act**) or the securities laws of any state of the United States and

may not be offered or sold in the United States or to, or for the account or benefit of, any person in the United States unless such securities are registered under the US Securities Act, or an exemption from the registration requirements of the US Securities Act and applicable US state securities laws is available.

Unless otherwise agreed with Evolve Education, any person or entity subscribing for Shares under the Offer shall, by virtue of such subscription, be deemed to represent that he, she or it is not in a jurisdiction which does not permit the making to him, her or it of an offer or invitation of the kind described in this Offer Document, and is not acting for the account or benefit of a person within such a jurisdiction.

None of Evolve Education, the Promoters, the Joint Lead Managers nor any of their respective directors, officers, employees, consultants, agents, partners or advisers accepts any liability or responsibility to determine whether a person is able to participate in the Offer.

Registration

A copy of this Offer Document duly signed by or on behalf of the Directors of Evolve Education and by the Promoters, and having endorsed thereon or attached thereto copies of the documents and other materials required by section 41 of the Securities Act, has been delivered to the Registrar of Financial Service Providers for registration in accordance with section 42 of the Securities Act.

The documents required by section 41 of the Securities Act are:

- the Audit Report of PricewaterhouseCoopers in respect of certain financial information included in this Offer Document (set out in Section 7.8 *Statutory Audit Report*);
- the signed consent of PricewaterhouseCoopers to the following reports being included in this Offer Document:
 - audit report in respect of certain financial information included in this Offer Document;
 - audit report in respect of the financial statements of Evolve Education for the period ended 31 August 2014; and
 - investigating accountant's report;
- copies of the material contracts referred to under the heading "Material Contracts" in Section 10 *Statutory Information*; and
- letters of authority authorising this Offer Document to be signed by an agent on behalf of a Director (if and where required).

Risk and Suitability of an Investment in Evolve Education

This Offer Document does not take into account your investment objectives, financial situation and particular

needs. You should read this Offer Document in full before deciding whether to subscribe for Shares under the Offer. In particular, you should consider the nature of the investment in the Shares and the risk factors that could affect Evolve Education's performance (including those risks set out in Section 5 *Risks* of this Offer Document), having particular regard to your own personal circumstances. If you are in any doubt as to any aspect of the Offer you should consult your financial or legal adviser or an NZX Firm before deciding to invest.

Definitions

Capitalised terms used in this Offer Document have the specific meaning given to them in the *Glossary* in Section 11 of this Offer Document.

Unless otherwise indicated, any reference to \$, NZ\$, NZD or cents refer to New Zealand dollars and cents, and references to dates and times are to dates and times in New Zealand.

Takeovers Code (Evolve Education Group Limited) Exemption Notice 2014

Under the Lollipops Educare Acquisition Agreement referred to in this Offer Document, the current shareholders of Lollipops Educare will be issued, in aggregate, 36,209,901 Shares in Evolve Education on completion of the Lollipops Educare Acquisition (which will comprise 20.5% of the total voting rights in Evolve Education at the time of issue). The current shareholders of Lollipops Educare are likely to be considered "associates" under the Takeovers Code and have obtained an exemption from the Takeovers Code, effective from 13 November 2014, to allow them to hold the Shares issued on completion of the Lollipops Educare Acquisition without having to obtain shareholder approval or make a takeover offer under the Takeovers Code. The maximum number of Shares that the current shareholders of Lollipops Educare can be issued, in aggregate, under the Lollipops Educare Acquisition Agreement is 36,209,901 Shares and the maximum percentage of voting rights that will be held by the current shareholders of Lollipops Educare on completion of the Lollipops Educare Acquisition is 20.5%. The maximum number of Shares that each current shareholder of Lollipops Educare can be issued (and their respective maximum percentage of voting rights) are as follows: Mark Finlay and Geoffrey Hosking as trustees of the Mark Finlay Investment No.2 Trust – 20,138,542 Shares (11.4%), Russell Thompson and Geoffrey Hosking as trustees of the 111 Investment Trust – 8,257,069 Shares (4.7%), ScottFin ECE Limited – 6,605,450 Shares (3.7%), and Mark Finlay and Mark Dobson Trustee Company Limited as trustees of the HR Finlay Family Trust – 1,208,840 Shares (0.7%). In approving the granting of the exemption to the current shareholders of Lollipops Educare, the Takeovers Panel does not approve or endorse the terms of the Offer.

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1. Offer at a Glance

1.1 What is this Offer?

This is an initial public offer of ordinary shares in Evolve Education Group Limited (**Evolve Education**) by Evolve Education.

Evolve Education is a newly established company that will be built around a solid foundation of ECE brands, being Lollipops Educare and PORSE, in the ECE Centre and Home-based ECE categories, respectively.

The principal purpose of the offer of shares under this Offer Document (**Offer**) is to provide funding for the acquisition by Evolve Education of an initial portfolio of ECE Centres, Home-based ECE businesses and other related businesses¹ including:

- all the shares in Lollipops Educare Holdings Limited (**Lollipops Educare**), which owns and operates 30 ECE Centres (**Lollipops Educare Owned ECE Centres**) and the infrastructure that will be used by Evolve Education to manage the additional ECE Centres that it will acquire;
- a further 55 ECE Centres (**Additional Owned ECE Centres**); and
- all the shares in the PORSE group of companies, which owns and operates a Home-based ECE business and is an accredited training provider

(together the **Initial Portfolio**).

Evolve Education will borrow the remaining funds required to complete these acquisitions. Funds raised as part of the Offer will also be used to pay for costs incurred in connection with the Offer and the acquisition of the Initial Portfolio. Details of the sources and uses of funds in relation to this Offer are detailed in the table below and described in more detail in Section 7.9 *Description of the Evolve Education Group's Financing Arrangements* and Section 8 *Details of the Offer*.

Sources	\$'000	Uses	\$'000
Offer proceeds	132,317	Acquisition cost of the Initial Portfolio	167,243
Shares issued to Lollipops Educare vendors	36,210	Issue expenses relating to Offer ²	12,357
Funds borrowed under New Financing Arrangements	20,000	Acquisition, listing and integration costs ³	7,130
Advances received under the Loan Agreements to fund Evolve Education's pre-Offer costs	1,798	Repayment of advances received under the Loan Agreements, plus a return amount equal to the advances received	3,596
Total Sources of Funds	190,325	Total Uses of Funds	190,325

Following completion of the Offer, Evolve Education's core business activity will be to own and operate the Initial Portfolio. Each of the businesses and companies to be acquired by Evolve Education

¹ The other related businesses comprise a company that operates a Home-based ECE business and a company that manages 20 ECE Centres for third parties.

² These expenses include AUD\$1,000,000 (plus GST) fees payable to Kern Group (Paddington) Pty Limited (a company of which Greg Kern is a director and shareholder) in its capacity as financial adviser to Evolve Education. Further details are set in Section 10 *Statutory Information* in the Prospectus under the heading "Remuneration for services or recovery of expenses".

³ These expenses include AUD\$300,000 (plus GST) fees payable to Wraith Capital Group NZ Limited (a company of which Samuel (Chris) Giufre is a director and shareholder) in its capacity as consultant to Evolve Education. Further details are set in Section 10 *Statutory Information* in the Prospectus under the heading "Remuneration for services or recovery of expenses".

operates from leased premises and no freehold land is being acquired by Evolve Education under any of the initial acquisitions.

In addition, the Offer will enhance Evolve Education's financial ability to pursue further growth opportunities outlined in Section 4.2 *Business Description*.

Your decision whether or not to invest in ordinary shares in Evolve Education should be based on your consideration of this Offer Document taken as a whole (and of the Investment Statement) and not just this section, which provides an overview of the Offer.

As with any investment, there are risks associated with an investment in the Shares. Therefore, you should consider the risk factors that could affect Evolve Education's performance described in Section 5 *Risks*.

1.2 How is the Offer structured?

The Offer comprises an offer by Evolve Education of 132.3 million new Shares. The gross proceeds from the Offer will be \$132.3 million, based on the Offer Price of \$1.00.

The Offer Shares will rank equally in all respects with existing Shares currently on issue in Evolve Education.

The minimum amount that must be raised in order for the Offer to proceed is \$132,317,278 (being the amount required to provide funding for the acquisition of the Initial Portfolio and pay issue expenses associated with the acquisition of the Initial Portfolio and the Offer). You can find more detail about the minimum amount to be raised in Section 10 *Statutory Information*.

The Offer comprises the Broker Firm Offer and the Institutional Offer. You can find more information about the Offer in Section 8 *Details of the Offer*.

1.3 Key Dates

Offer Document registered	14 November 2014
Broker Firm Offer Opening Date	9:00am, 24 November 2014
Broker Firm Offer Closing Date	12:00pm, 3 December 2014
Allotment for NZX and ASX listed Shares	4 December 2014
Expected settlement of Lollipops Educare Acquisition Agreement and PORSE Acquisition Agreement	4 December 2014
Expected commencement of quotation and trading of the Shares on the NZX Main Board and ASX	5 December 2014
Expected despatch of holding statements and any refund payments if required	by 5 December 2014
Expected settlement of Additional Acquisition Agreements	Mid-December 2014 to 31 March 2015
Expected payment of initial dividend	December 2015

This timetable is indicative only. Evolve Education reserves the right to amend these dates at its discretion. The Offer may also be withdrawn by Evolve Education at any time before the allotment of Shares, at Evolve Education's sole discretion.

1.4 Key Offer Details and Statistics

Offer Price	\$1.00
Offer Shares offered by Evolve Education	132.3 million
Offer size	\$132.3 million
Total number of Shares on issue at the date of this Offer Document	8.1 million
Total number of Shares on issue upon completion of the Offer	177.1 million
Indicative market capitalisation ⁴	\$177.1 million
Prospective Net Debt ⁵	\$9.5 million
Indicative enterprise value ⁶	\$186.6 million

Certain Shareholders have entered into an agreement with Evolve Education under which they have agreed they will not sell, transfer or otherwise dispose of Shares for a period of time. More details about this are explained in Section 8 *Details of the Offer*.

1.5 Key Investment Metrics

	FY16F
Indicative Enterprise Value / EBITDA multiple	7.3x
Indicative Enterprise Value / EBIT multiple	7.8x
Offer Price / Earnings ratio	10.65x
Gross yield ⁷	6.52%
Net yield ⁸	4.69%

These metrics are provided to help you assess the value of Evolve Education. The calculations are explained in the table set out at the end of the *Glossary* in Section 11.

⁴ The indicative market value of the equity of Evolve Education, based on the Offer Price multiplied by the number of Shares on issue on completion of the Offer.

⁵ Evolve Education defines Net Debt as the value of borrowings, finance leases, and the balance sheet liability for Ministry of Education funding received in advance, less cash and cash equivalents. Prospective Net Debt is calculated as Net Debt as at 31 March 2015, reflecting (i) Evolve Education's capital structure as a result of the Offer; and (ii) the unearned income liability on the balance sheet at the point in time.

⁶ The indicative value of Evolve Education, being the indicative market capitalisation plus Prospective Net Debt.

⁷ Total cash dividend forecast to be payable in respect of the prospective financial year ending 31 March 2016 plus imputation credits assumed to be attached to the dividend, divided by the Indicative Market Capitalisation. The Directors assume that the dividend in respect of the prospective financial year ending 31 March 2016 will be fully imputed. Full disclosure of Evolve Education's dividend policy is stated in Section 6.5 *Board Policies and Procedures* under the heading "Dividend Policy".

⁸ Cash dividend forecast to be payable in respect of the prospective financial year ending 31 March 2016 divided by the Indicative Market Capitalisation.

1.6 Selected Financial Information

NZ\$000s (except per share data)	Govt Funding - % of Total Revenue	Parental Revenue - % of Total Revenue	Other Revenue - % of Total Revenue	FY16F
Revenue	69%	26%	4%	136,221
· Owned ECE Centres	66%	34%	0%	105,131
· Home-based ECE	84%	0%	16%	29,973
· Other revenue	0%	0%	100%	1,117
EBITDA (Non-GAAP)				25,705
EBIT (Non-GAAP)				23,768
NPAT				16,627
Earnings per share (cents)				9.4

Prospective financial information

Wherever Prospective Financial Information appears in this Offer Document (including in the selected financial information and the key investment metrics presented in this section) you should read that financial information together with the assumptions set out in Section 7.2 *Prospective Financial Information* and also the risk factors set out in Section 5 *Risks*. There is no guarantee that the results set out in the Prospective Financial Information will be achieved. The future is uncertain and actual results may differ from those projected in the Prospective Financial Information and the differences may be material.

Key profitability drivers have been forecast based on observed data for mature ECE Centres⁹ where available. For ECE Centres that are not mature, Evolve Education has assessed profitability drivers on a centre-by-centre basis and derived forecasts with reference to the historical experience of mature ECE Centres in the Initial Portfolio. The forecasts do not include any growth potentially achievable through the acquisition of additional ECE services.

Historic financial information

The historic financial information usually required under clauses 12(3)(a) to (e) of Schedule 1 of the Securities Regulations in respect of the Additional Owned ECE Centres and other related businesses that Evolve Education has contracted to acquire is not provided in this Offer Document on the basis of exemptions granted to Evolve Education under the Securities Act (Evolve Education Group Limited) Exemption Notice 2014, further details of which are set out in Section 7 *Financial Information*. Evolve Education considers it is impractical to provide the required information in respect of each of these businesses. In addition, the quality and reliability of the information for each Additional Owned ECE Centre and other related business is of varying quality, inconsistent and would not in every case reflect the cost base of the business once it has been acquired by Evolve Education. Evolve Education considers that compiling and providing the information required by these clauses does not provide useful information and may be misleading. Risks relating to the acquisition of the Initial Portfolio are set in Section 5 *Risks*.

Non-GAAP Financial Information

In order to assist readers to better understand Evolve Education's financial performance, Evolve Education also provides non-Generally Accepted Accounting Practice (**Non-GAAP**), but commonly used, financial measures being EBITDA and EBIT, as defined below. These measures should not be considered in isolation of, or as a substitute for, NZ GAAP measures such as net profit and cash flow

⁹ A mature ECE Centre is an ECE Centre that has been licensed and operating for two years or more.

measures. For a reconciliation of the Non-GAAP measures to NZ GAAP measurements, please see Section 7.4 *Reconciliation of Non-GAAP Financial Information*.

The Non-GAAP financial information used in this Offer Document has the following meaning:

EBITDA	Earnings before interest, income tax, depreciation and amortisation
EBIT	Earnings before interest and income tax
Prospective Net Debt	Net Debt is defined as the value of borrowings, finance leases, and the balance sheet liability for Ministry of Education funding received in advance, less cash and cash equivalents. Prospective Net Debt is calculated as Net Debt as at 31 March 2015, reflecting (i) Evolve Education's capital structure as a result of the Offer; and (ii) the unearned income liability on the balance sheet at the point in time

1.7 Evolve Education's Ownership Structure

The ownership structure of Evolve Education as at the date of this Offer Document, and the indicative ownership structure upon completion of the Offer (following allotment of the Offer Shares and completion of the Lollipops Educare Acquisition), is illustrated in the table below. No Current Shareholder is selling any Shares under the Offer and none of the persons identified in the table guarantees or undertakes any liability in respect of the Shares.

Shareholder	Ownership of Evolve Education as at the date of this Offer Document		Indicative Ownership of Evolve Education following completion of the Offer and completion of the Lollipops Educare Acquisition	
	Ordinary Shares	%	Ordinary Shares	%
Current Shareholders				
Kern Group NZ Limited	2,285,369	28.19%	2,285,369	1.29%
Wraith Capital Group NZ Limited	2,285,369	28.19%	2,285,369	1.29%
Stuart and Gillian James as trustees of the S.B. James Superannuation Fund	2,285,369	28.19%	2,285,369	1.29%
Alan Wham	550,000	6.79%	550,000	0.31%
Vivek Singh	300,000	3.70%	300,000	0.17%
Norah Barlow	80,000	0.99%	80,000	0.05%
Alistair Ryan	80,000	0.99%	80,000	0.05%
David Smith	80,000	0.99%	80,000	0.05%
Beverley Gordon	80,000	0.99%	80,000	0.05%
Paula Hawkings	80,000	0.99%	80,000	0.05%
Other Shares issued				
Vendors under the Lollipops Educare Acquisition	-	-	36,209,901	20.45%
Hayes Knight Business Services (QLD) Pty Ltd (or nominees) ¹⁰	-	-	449,438	0.25%
New Shareholders pursuant to the Offer	-	-	132,317,278	74.72%
Total	8,106,107	100%	177,082,724	100%

¹⁰ Evolve Education has agreed to issue 449,438 fully paid ordinary Shares to Hayes Knight Business Services (QLD) Pty Ltd (or its nominees) on completion of the Offer in consideration for the provision by Hayes Knight Business Services (QLD) Pty Ltd of management assistance in connection with the acquisition of the Additional Owned ECE Centres. Further details of this arrangement are contained in Section 10 *Statutory Information* under the heading "Securities paid up otherwise than in cash".

2. Letter from the Chair

Dear Investor

On behalf of the Board of Directors, I am delighted to invite you to become a shareholder in Evolve Education, a newly formed company that has been established to acquire existing early childhood education businesses.

Our vision for Evolve Education is for it to become a leading provider of early childhood education in New Zealand. We believe that we can achieve this through adopting an approach of providing high quality education and childcare services through the curriculum we will teach, the educators we will train and the learning environments we will create.

The early childhood education sector in New Zealand represents an attractive investment opportunity. Demand for childcare continues to strengthen year-on-year, driven by underlying trends, such as increasing female participation in the labour force, rising household income levels and continued Government support.

Evolve Education is well-positioned to benefit from offering both centre-based and home-based education and childcare, as we will have the capability to offer parents and caregivers the choice about the type of service in which they think their child will flourish. We will also look to leverage the collective expertise of the combined entities to promote and pursue best practice in early childhood education. I believe that this is fundamental to establishing Evolve Education as a leading provider of education to young children.

Evolve Education Group has initially contracted to acquire 85 early childhood education centres and 91 home-based education licences located throughout New Zealand to form the initial portfolio and will be headlined by two established New Zealand ECE brands in Lollipops Educare and PORSE. These brands have been providing childcare for over 15 years and provide invaluable knowledge and expertise in the sector. Notably, the ability to leverage off Lollipops Educare's existing operating platform significantly mitigates integration risks, which will be a key focus of our team over the next few months.

Our Board and management team are confident in the Evolve Education business strategy and believe we can successfully execute our plan for growth. We will aim to continue to grow organically through providing childcare services that are enjoyed by children and truly valued by their parents / caregivers. Additionally, the highly fragmented nature of the industry provides scope to increase scale of the service offering beyond the initial portfolio and leverage efficiencies in the business.

This Offer Document contains a significant amount of information about Evolve Education and the sector in which we will operate, along with important information in relation to the Offer. I encourage you to read this Offer Document in its entirety and carefully consider the risks which are described in Section 5.

On behalf of the Board and management team, we are confident about the future prospects for Evolve Education and look forward to welcoming you as a shareholder.

Yours sincerely,



Norah Barlow

Chair

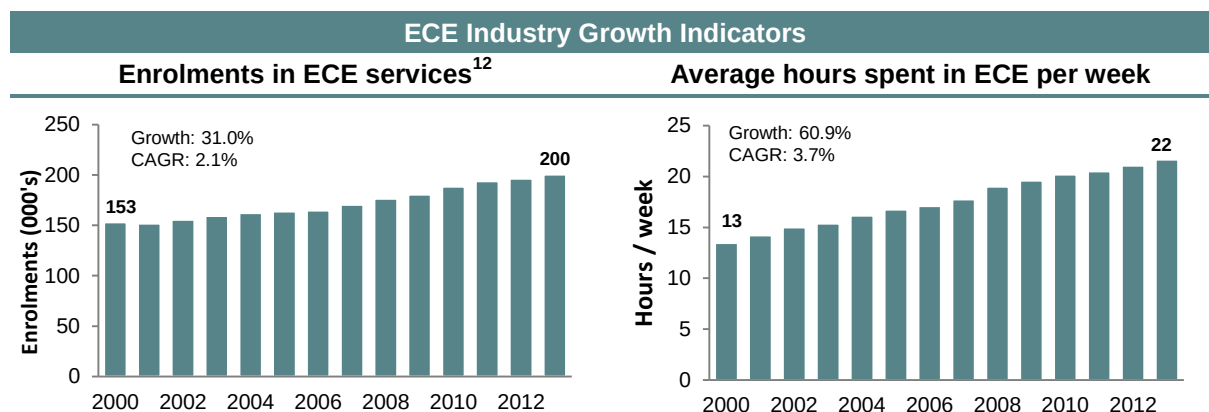
Evolve Education Group Limited

3. Investment Highlights

The investment highlights in this section should be read in conjunction with other parts of this Offer Document, including the risks set out in Section 5 *Risks*.

1. ***Underlying economic indicators are supportive of industry growth***

- Early childhood education (**ECE**) has been shown to positively affect a child's literacy, numeracy and problem-solving skills¹¹, and demand for ECE services has increased consistently from 2000 to 2013.



Source: Ministry of Education, Education Counts - Enrolments in ECE, Education Counts - Hours of participation in ECE. Data as at June 2013, last updated March 2014

- This growth has been driven by a number of favourable economic drivers:
 - Increased female employment and higher rates of participation;
 - Stronger household income levels;
 - Increased Government funding in ECE services; and
 - Sustained population growth for children under 6 years old across New Zealand.

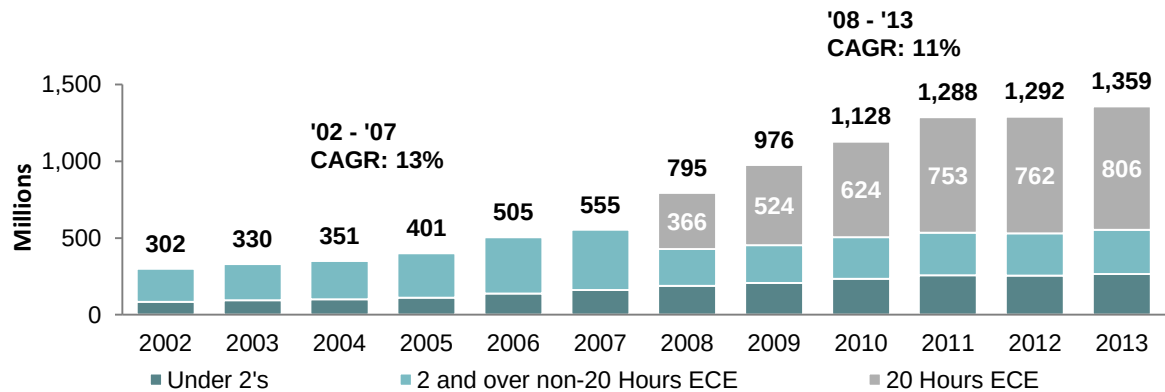
¹¹ "Participation in ECE" paper, pg 2. Stated source: OECD, 2011, Statistics NZ and Ministry of Pacific Island Affairs, 2010, and Whyllie et al, 2009.

¹² Excludes number of enrolments in correspondence schools, casual education & care and hospital based care.

2. Supportive Government policies provide cashflow stability

- Government funding is expected to represent approximately 69% of Evolve Education's revenue. This provides some confidence around the business' cashflow, assuming continuity of Government funding, along similar lines as has historically been the case.

New Zealand Government ECE funding (\$m)



Source: Ministry of Education, Education Counts – ECE expenditure. Data as at June 2013, last updated May 2014

- The New Zealand Government has acknowledged the importance of ECE both in terms of support to working parents and developmental benefits to children¹³.
- From 2007 to 2013, funding has increased 145% as the Government has further increased its support of ECE with significant funding boosts, primarily through the introduction of 20 Hours ECE in June 2007¹⁴.

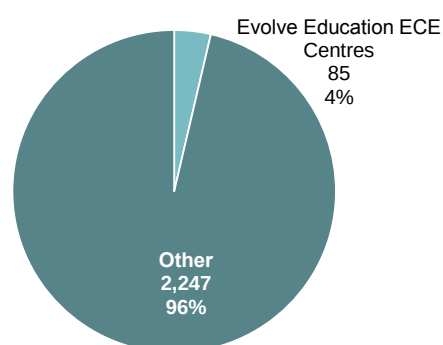
¹³ Ministry of Education, "Participation in ECE" paper.

¹⁴ Ministry of Education, Education Counts – ECE expenditure. Data as at June 2013, last updated May 2014.

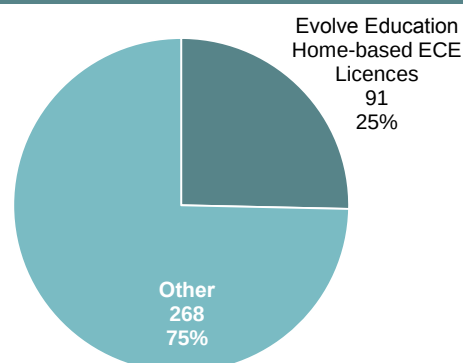
3. New Zealand ECE market is highly fragmented which provides an opportunity to consolidate and derive efficiencies

- Evolve Education's ECE Centres are expected to comprise approximately 4% of the ECE Centre market. Evolve Education's Home-based Licences are expected to comprise approximately 25% of the Home-based Licence market¹⁵.
- Consolidation of individual or small groups of centres into a unified corporate structure offers distinct advantages to the existing fragmented structure if risks relating to integration of the centres can be managed. This is discussed further in Section 4.2.3.2 *Driving efficiencies and improving the education experience* and in Section 5 *Risks*. In addition, there are risks associated with Evolve Education's limited operating history, which are also discussed in Section 5 *Risks*.

Evolve Education's share of the ECE Centre market (number of ECE Centres)



Evolve Education's share of the Home-based ECE Market (number of Home-based Licences)



Source: Evolve Education / Ministry of Education, Education Counts – Number of ECE services. Excludes casual education & care and hospital based care. Data as at June 2013, last updated April 2014

¹⁵ Evolve Education / Ministry of Education, Education Counts – Number of ECE services. Excludes casual education & care, and hospital based care. Data as at June 2013, last updated April 2014.

4. Evolve Education aims to operate a portfolio of high quality early childhood education services

- Evolve Education will be built around a solid foundation of ECE brands, including Lollipops Educare and PORSE, which operate in the ECE Centre and Home-based ECE categories, respectively.
- Offering both centre-based and home-based ECE gives parents and caregivers the option to choose which type of ECE service best suits their child's learning and care needs.

ECE service	Brand
ECE Centres	
Home-based ECE	

- Evolve Education has agreed to acquire 55 additional ECE Centres from 39 separate vendors. The number of ECE Centres being sold by each vendor ranges from one to nine ECE Centres. Evolve Education has contracted to acquire these ECE Centres through the application of selection criteria, further details of which are set out in Section 4.2.3 *Business Model*.
- The result will be a portfolio of ECE service providers and brands with the following key metrics.

Summary metrics for Initial Portfolio ¹⁶	ECE Centres	Home-based ECE
FY16F Revenue (\$ millions)	105.1	30.0
Number of ECE Centres / Home-based Licences ¹⁷	85	91
Number of Licensed Child Places ¹⁸	5,954	7,280
FY16F MOE occupancy ¹⁹	87.0%	NA

¹⁶ See table under the heading "Key drivers of profitability" in Section 4.2 *Business Description* for further explanation of these metrics.

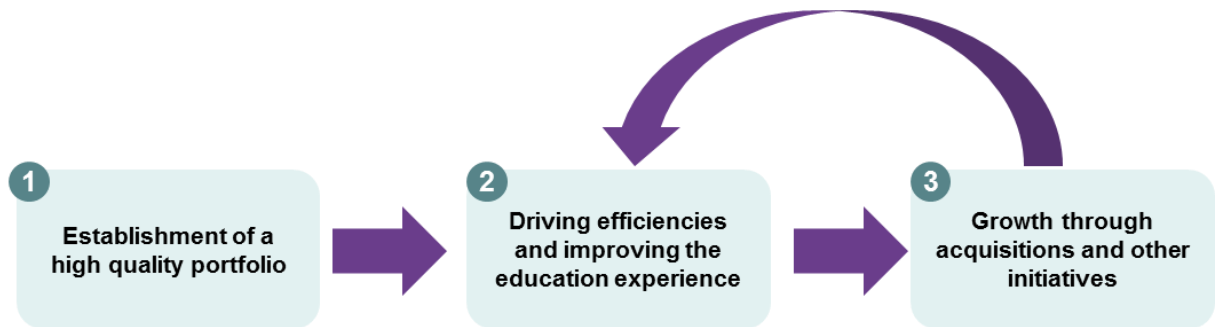
¹⁷ A Home-based Licence refers to the licence required for a Home-based ECE service provider to provide ECE services to a specified number of children. Typically, one Home-based Licence would be for 80 Licensed Child Places.

¹⁸ Specified number of child places that represents the regulatory limit on the number of children that can attend an ECE service at any one time.

¹⁹ The total Ministry of Education funded child hours attended, as a percentage of the maximum funded hours available (licensed capacity x 30hours/week).

5. ***Business model focused on achieving efficiencies and growth to support quality ECE service delivery***

- Evolve Education's business model is focused on three key aspects:



1. **Establishment of a high quality portfolio.** The Initial Portfolio coupled with a corporate support structure based around Lollipops Educare's existing infrastructure will provide a platform for future growth.
2. **Driving efficiencies and improving the education experience.** Streamlining systems and operations, continuing development for teachers and facilitating administration and compliance activity, all allow educators to remain focused on the core service delivery in the centres they operate.
3. **Growth through acquisitions and other initiatives.** Evolve Education will be a relevant industry participant and have the ability to further extend its national presence. This is intended to be achieved through both organic and acquisition growth.

For further information on Evolve Education's growth strategy see Section 4.2.3.3 *Growth through acquisitions and other initiatives*.

6. *Evolve Education team capable of executing growth strategy*

- The Evolve Education team, led by Alan Wham, is highly experienced and equipped to execute Evolve Education's integration plan and growth strategy.
- Overall, the combined team is balanced to provide the required skills including detailed knowledge of the ECE industry and commercial experience, combined with experience in integrating businesses into a successful operating model.

For details on the experience of the Directors and for further details on the experience of the senior management team see Section 6.1 *Evolve Education's Board of Directors* and Section 6.2 *Evolve Education's Senior Management Team*.



4. About Evolve Education

4.1 Industry Overview – Early Childhood Education in New Zealand

4.1.1 What is the Early Childhood Education industry in New Zealand?

The early childhood education (ECE) industry in New Zealand provides care and early childhood education to children until they attend primary school. ECE has been shown to positively affect a child's literacy, numeracy and problem-solving skills²⁰. Demand for ECE services has been increasing consistently over the 2000 to 2013 period as the level of female workforce participation increases, Government support of the industry has risen and household income levels have increased.

Services Provided

Licensed ECE services in New Zealand provide education and care services to children until they attend primary school, from both purpose-built facilities and home-based locations. The industry can be divided into two distinct forms of service, being teacher-led services and parent-led services.

Teacher-led services	A teacher-led ECE service is one where one or more ECE qualified and registered teachers are responsible for the overall programme in the ECE service. A qualified teacher would have a Diploma of Teaching in ECE or an equivalent qualification. A wide range of ECE services are led by teachers, ranging from kindergarten to private ECE services and home-based ECE services ²¹ .
Parent-led services	In parent-led services, the parents or caregivers of the children are primarily responsible for implementing the curriculum and working with the children. The parents or caregivers may manage the ECE service. Parent-led ECE services do not usually employ teachers and do not have to meet the teacher registration requirements ²² .

The total number of licensed ECE services in New Zealand has grown from approximately 3,370 in 2000 to approximately 4,250 in 2013, representing a compound annual growth rate of 1.8%. This growth has been driven by teacher-led services, which have grown by approximately 3% per annum since 2000, and now comprise nearly 80% of licensed ECE services in New Zealand. In contrast, the number of parent-led services has declined 1.5% per annum since 2000 and now there are only 917 licensed services throughout New Zealand²³. This trend has been driven by the increasing number of families where both parents work and the increased affordability of teacher-led services due to Government funding and higher household incomes (see Section 4.1.2 *Industry growth and demand drivers* for further detail on industry growth).

Evolve Education's Initial Portfolio will only comprise teacher-led services. Management believe the long-term growth in teacher-led services will continue and have therefore positioned Evolve Education to focus on this segment of the industry.

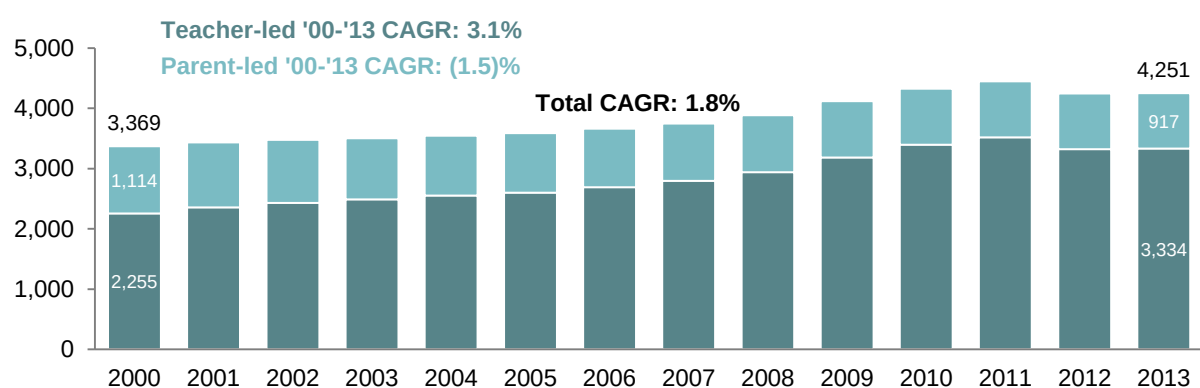
²⁰ Ministry of Education, "Participation in ECE". Stated source: OECD, 2011, Statistics NZ and Ministry of Pacific Island Affairs, 2010, and Whyllie et al, 2009).

²¹ 20 Hours ECE Information and Guidance for Parents – Oct 12.

²² 20 Hours ECE Information and Guidance for Parents – Oct 12.

²³ Ministry of Education, Education Counts - Number of ECE services. Excludes casual education & care and hospital based care. Data as at June 2013, last updated April 2014.

Number of licensed ECE services in New Zealand by group²⁴



Source: Ministry of Education, Education Counts - Number of ECE services. Excludes casual education & care and hospital based care. Data as at June 2013, last updated April 2014

Teacher-led services employ a number of different models, including early childhood education centres (**ECE Centres**) and home-based early childhood education (**Home-based ECE**). Descriptions of each of these models and key New Zealand industry metrics are set out in the table below:

Service type	Description	Key metrics as at 30 June 2013
ECE Centres	- Generally private or community owned, ECE Centres offer all day or part-day ECE services and depending on the centre may accept children from birth to school age - At least 50% of the teachers working as educators at the ECE Centre must be registered teachers who hold a Diploma in Teaching (ECE) or equivalent - The number of licensed places per ECE Centre varies depending on the size and facilities in the ECE Centre, but is on average, 44 Licensed Child Places with a maximum of 150 Licensed Child Places	# ECE Centres: 2,332 # licensed places: 102,287 Average occupancy: 80% Average participation hours / week: 24.7
Home-based ECE	- This service 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 - Provides all day or part day education and care and may also provide emergency care - A service provider is an agency or person who arranges / manages education and care for the children and is the holder of the licence. The Home-based ECE service provider can operate a maximum of 80 child places for each licence	# licences: 359 # licensed places: 26,281 Average participation hours / week: 22.9
Kindergartens	- Most kindergartens offer services to children between two and five years with session times provided separately for older and younger children or all day care sessions - For kindergartens that offer morning and afternoon sessions, all teachers must be registered teachers who hold a Diploma in Teaching (ECE) or equivalent - Kindergartens are members of kindergarten associations which are community based	# services: 643 # licensed places: 24,949 Occupancy: 85% Average participation hours / week: 16.7

Source: Ministry of Education – Choices in early childhood education, Education Counts – Number of ECE services as at June 2013, Education Counts – Number of licensed ECE places as at June 2013, Education Counts – Hours of participation in ECE as at June 2013, Education Counts – Occupancy rates as at June 2013

Evolve Education's Initial Portfolio will only include ECE Centres and Home-based ECE services, which have been the highest growth teacher-led business models since 2000. ECE Centres currently comprise 55% of the licensed New Zealand ECE market, while licensed Home-based ECE represents

²⁴ The fall in the number of licensed services does not reflect a real decline in the sector. It reflects a change to licensing rules in July 2011, where the maximum number of places any one service could be licensed for, increased from 50 to 150. As a result, over 250 services decided to merge their previously separate services.

- Premises and facilities
 - The premises and facilities must provide sufficient and suitable space for a range of activities, food preparation, eating, sleeping, storage, toileting and washing, as well as sufficient and suitable heating, lighting, noise control, ventilation, and equipment.
- Health and safety
 - The ECE service provider must take all reasonable steps to promote the good health and safety of children and take precautions to prevent accidents and the spread of infection. The ECE service provider must also ensure that the premises and equipment are kept in good repair and maintained regularly. Appropriate emergency procedures need to be in place.
- Governance, management and administration
 - The ECE service provider must maintain effective governance and management, and regular collaboration with parents and families. Appropriate documentation and information about the operations must be made available to parents and / or families of enrolled children. Staff must be provided with adequate support, development opportunities and resources.
- For all ECE services, the person responsible must hold a recognised qualification and for teacher-led services, 50% of the required staff must hold a recognised qualification.
- Adult to child ratios vary depending on the type of service, length of session, age of children and number of children attending e.g. 1 staff member per 5 children under 2 years old for an all-day centre-based service.
- ECE Centre services may have no more than 150 children aged 2 and over, 25 children aged under 2, 50 children with mixed range of ages and 16 children overnight. Home-based ECE services may have no more than 80 children per licence.
- ECE Centre services must have 2.5m² per child indoors and 5m² per child outdoors. Home-based ECE services must have 2.5m² per child indoors and some outdoor space.

Government Support of Early Childhood Education

The New Zealand Government has been supportive of the wider education sector and the ECE industry through its public funding. In 2011, New Zealand ranked 3rd equal out of the OECD countries for Government expenditure on all levels of education as a percentage of GDP²⁷. In 2009, New Zealand had the 7th highest public expenditure on ECE as a proportion of total public expenditure for OECD countries²⁸.

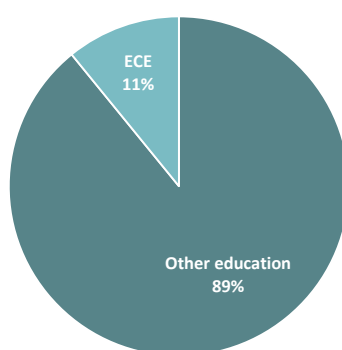
As at June 2013, Government funding for education was \$12.5 billion and of this, 11% was allocated to the ECE industry, which was a Government contribution of \$1.36 billion²⁹.

²⁷ OECD Education at a Glance 2014.

²⁸ Ministry of Education, Education Counts – ECE Expenditure Indicator Report.

²⁹ Ministry of Education, Education Counts – ECE expenditure. Data as at June 2013, last updated May 2014.

Portion of education funding allocated to ECE



Source: Financial Statements of the Government of New Zealand for the year end June 2013

The Government funding has encouraged participation in, and the supply of, ECE services. Licensed ECE service providers are funded by the Government through a number of initiatives but predominantly through the ECE Funding Subsidy and 20 Hours ECE³⁰.

ECE Funding Subsidy

The ECE Funding Subsidy is the primary form of Government funding for licensed ECE services. This subsidy contributes to an ECE service's operating costs by paying a fixed sum for each hour that a child spends in ECE, up to a maximum of six hours per day, and up to 30 hours per week. There are separate funding subsidy rates for teacher-led and parent-led services for children aged under two, and children aged two and over.

20 Hours ECE

20 Hours ECE is a programme fully funded by the Government that enables children to attend ECE services for up to six hours per day, and up to 20 hours per week free of charge. All children three years and above are entitled to receive 20 Hours ECE up to the point where they attend school.

Children eligible for 20 Hours ECE are also entitled to receive an additional 10 hours per week subsidised ECE as part of the ECE Funding Subsidy programme.

Prior to the implementation of 20 Hours ECE, Government funding for ECE was \$555 million (or 6% of total education funding in New Zealand) for the year ended June 2007 and as at June 2013 this figure was approximately \$1.36 billion (or 11% of total education funding), up 145%. Of this, 20 Hours ECE makes up nearly 60% of total ECE funding³¹.

Funding that is received by ECE service providers depends on a range of factors, including:

- The type of ECE service provided;
- The number of qualified teachers employed by the ECE service provider;
- The quality of education provided; and
- The age of the child.

³⁰ ECE Funding Handbook – Glossary.

³¹ Ministry of Education, Education Counts – ECE expenditure. Data as at June 2013, last updated May 2014.

The Government attempts to encourage ECE services that offer more quality education and care by providing higher funding rates to services with more qualified teachers. In June 2011, a Government-commissioned independent advisory ECE Taskforce published a report on the Government's investment in ECE in New Zealand. The report highlighted the importance of quality ECE in New Zealand and recommended that the Government take action in the coming years to raise the quality of ECE. Key messages from the report included³²:

- *An impressive body of research evidence confirms that returns from quality ECE are high and long lasting. Therefore, this is one of the most important investments a country can make.*
- *Early investments in citizens will increase their ability to contribute to society as productive adults, equipped and willing to give more than they take.*
- *Due to economic pressures and changing patterns of workforce participation by parents of very young children, in the coming years an important and sizeable shift will be needed to meet demand for places for one-to-two year olds and ensure they can access quality ECE.*
- *Funding and regulatory mechanisms must be reformed in ways that drive up and reward the provision of higher quality services.*

Fees

Fees received by ECE service providers come from two primary sources:

- Fees received from the Government through 20 Hours ECE and ECE Funding Subsidy; and
- Fees received directly from parents and caregivers for enrolment hours not subsidised by the Government, and for the payment for optional services offered by the ECE service provider, beyond the standard regulation requirement.

A condition of receiving 20 Hours ECE funding from the Government is that for eligible children the ECE service provider cannot charge parents or caregivers fees for any hours which are claimed as 20 Hours ECE funding, irrespective of the quality of service provided³³. Hours additional to those claimed as 20 Hours ECE, but within 30 hours per week are partially subsidised through Government subsidies and partially funded by the parents or caregivers. Enrolment hours above 30 hours per week will be entirely funded by parents or caregivers. Unlike the Government-subsidised hours, the level of fees charged to parents or caregivers for non-subsidised hours are at the discretion of the ECE service provider³⁴.

However, ECE service providers can earn additional revenue during Government-subsidised hours through requesting optional charges for ECE Centre services above the required minimum standard level. Higher quality providers would typically provide more of these optional charges services. Optional charges for additional services can only be requested for:

- The services provided that are not required by regulation, such as meals, extra-curricular activities, excursions and nappies;
- Additional staff beyond the minimum regulated adult / child ratios; and
- Items that parents may either provide for their own children or pay for the service to provide.

³² *An Agenda for Amazing Children*, Final Report of the ECE Taskforce, June 2011.

³³ *20 Hours ECE Information and Guidance for Parents* – Oct 12.

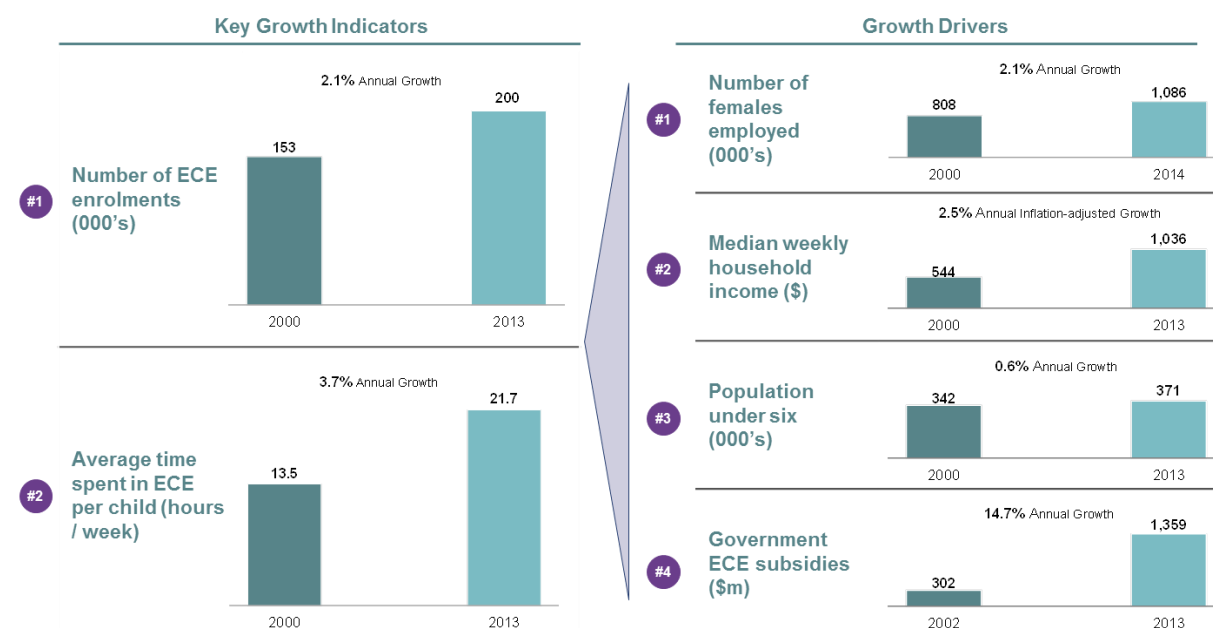
³⁴ *ECE Funding Handbook* – Chapter 4: *20 Hours ECE*.

4.1.2 Industry growth and demand drivers

The ECE industry has shown positive historical growth, which has been supported by a number of fundamental drivers.

As indicated in the diagrams below, since 2000, the number of ECE enrolments and the average time spent in ECE per child have both shown consistent and stable growth. This has been driven by increasing female employment, higher average household incomes, population growth and increases in Government ECE funding.

Industry growth indicators and drivers



Note: Growth reflects per annum growth rate from 2000 - 2013 except for female labour participation (2000 - 2014) and Government ECE subsidies (2002 - 2013).

Source: Ministry of Education, Education Counts - Enrolments in ECE, Ministry of Education, Education Counts - Hours of participation in ECE, Statistics New Zealand, Ministry of Education, Education Counts - ECE expenditure

These growth indicators and drivers are discussed in further detail in the following sections.

Industry Growth

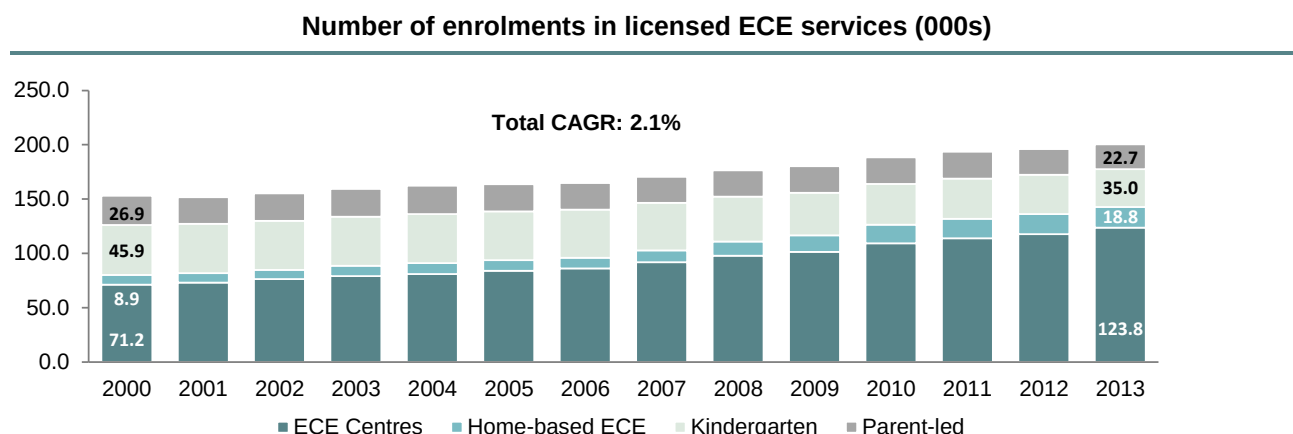
Number of ECE enrolments

The number of children enrolled in ECE services has grown significantly since the year 2000, up 31% to approximately 200,000 children in 2013³⁵. This growth has been led by Home-based ECE and ECE Centres, which have grown at an annual rate of 5.9% and 4.3% respectively over this period. In 2013, ECE Centres represented 62% of the industry, which is a significant increase from 47% in 2000, while Home-based ECE increased from 6% to 9%³⁶.

³⁵ Excludes enrolments in correspondence services.

³⁶ Ministry of Education, Education Counts - Enrolments in ECE. Data as at June 2013, last updated March 2014.

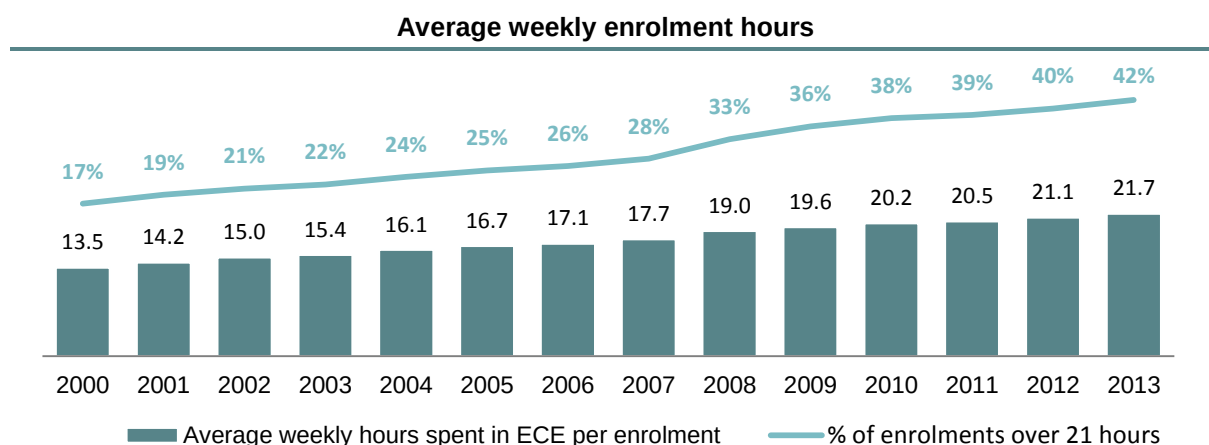
The reduction in kindergarten enrolments is due to a shift in the services offered from sessional to all-day services, resulting in the number of enrolments falling and the average hours of enrolment rising³⁷.



Source: Ministry of Education, Education Counts - Enrolments in ECE. Data as at June 2013, last updated March 2014

Time spent in ECE

Time spent by children in ECE per week has been increasing since 2000 and now, on average, a child enrolled in ECE spends 21.7 hours in ECE per week, up from 13.5 hours in 2000. Notably, in 2000 only 17% of children spent over 21 hours per week in ECE, while in 2013 this percentage was 42%³⁸.



Source: Ministry of Education, Education Counts - Hours of participation in ECE. Data as at June 2013, last updated March 2014

Demand drivers for ECE services

Female employment and labour participation

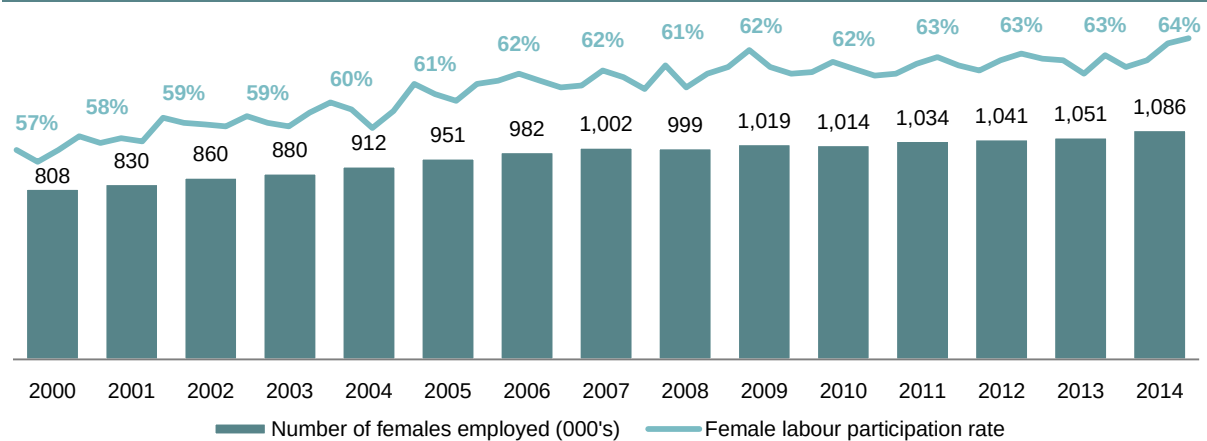
Women entering the workforce are a significant contributing factor of demand for ECE services. The number of females employed in New Zealand has increased by 34% since 2000 to 1.1 million women in March 2014. Female participation in the labour force is currently at 64%, having increased from 57% in 2000³⁹.

³⁷ MOE "Participation in early childhood education".

³⁸ Ministry of Education, Education Counts - Hours of participation in ECE. Data as at June 2013, last updated March 2014.

³⁹ Statistics New Zealand: Key Labour Force Measures by Qualification, Age and Sex. Extracted 5 August 2014.

Female employment and participation by quarter (ending March 2014)



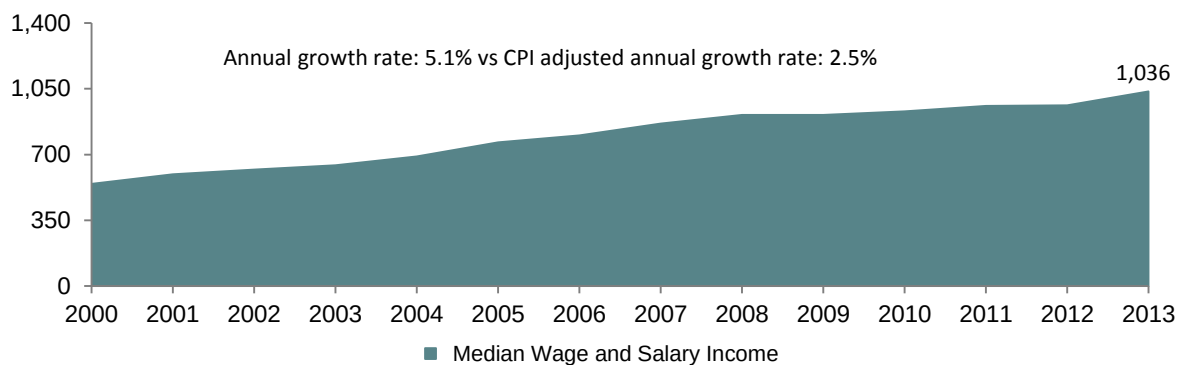
Source: Statistics New Zealand: Key Labour Force Measures by Qualification, Age and Sex. Extracted 5 August 2014

The increase in female labour participation is associated with the affordability of childcare costs. The Ministry of Women's Affairs recently conducted a review of the evidence about the labour participation of mothers in response to changes in early childhood costs⁴⁰. This review found that there is a general consensus that labour force participation among mothers of pre-school children is sensitive to childcare costs.

Household income

Along with the introduction of 20 Hours ECE, an increase in household income over the past 13 years has made ECE services more affordable for New Zealand families. Average and median wage and salary income has grown at a compound annual growth rate of 5.0% and 5.1% respectively since 2000. This is significantly above the CPI compound annual growth rate of 2.6%, indicating that household incomes can buy more goods and services than they could 13 years ago⁴¹.

New Zealand weekly household income levels (\$)



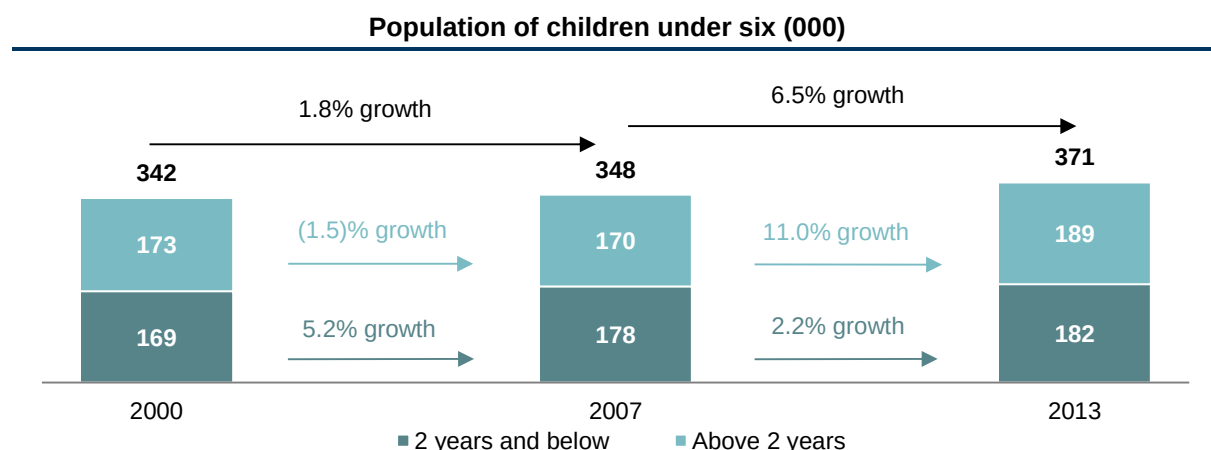
Source: Statistics New Zealand

⁴⁰ Ministry of Women's Affairs - The labour participation response of mothers to changes in early childhood education costs. July 2012.

⁴¹ Statistics New Zealand.

Population

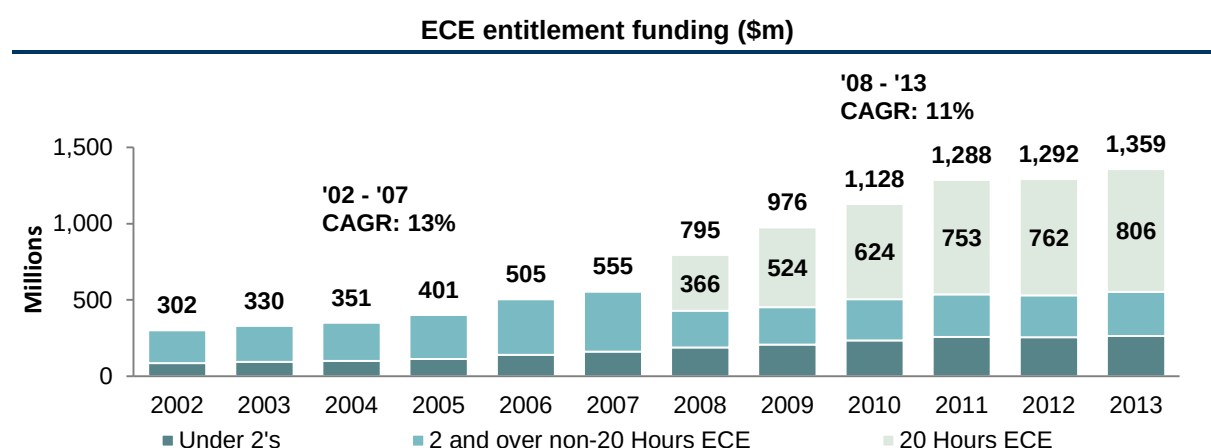
Population is a major driver of ECE enrolments. From 2000 to 2013 the population of under six-year-olds grew 8.4%. Of this growth, the population of children aged above two grew by 9.4% with meaningful positive growth occurring from 2007 to 2013⁴².



Source: Statistics New Zealand

Government funding

Government funding of ECE increased by over 350% between 2002 and 2013, reflecting the Government's increased focus on the development of this sector. Growth in ECE funding accelerated in 2008 following the introduction of 20 Hours ECE, but slowed in 2010 when the average hours spent by children in ECE services reached 20. 20 Hours ECE now represents 59% of the Government's total entitlement funding in the ECE sector⁴³.



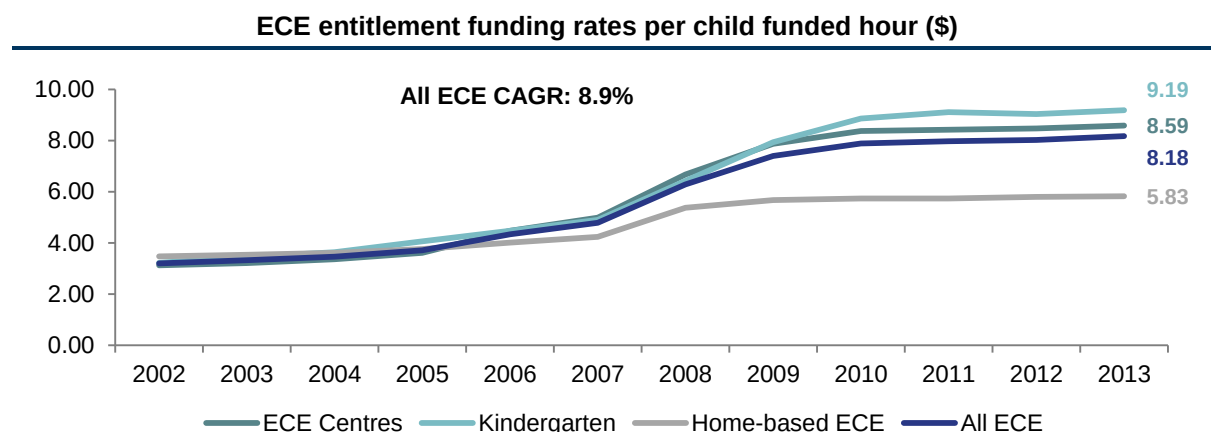
Source: Ministry of Education, Education Counts – ECE expenditure. Data as at June 2013, last updated May 2014

Across the various ECE services, ECE Centres and kindergartens have received the largest increases in Government funding rates per child. This is largely due to the fact that 20 Hours ECE applies primarily to the three year to five year child age bracket rather than the below three year child age bracket. In the last 11 years, overall funding rates have increased approximately 9% annually on a

⁴² Statistics New Zealand. Population by age.

⁴³ Ministry of Education, Education Counts – ECE expenditure. Data as at June 2013, last updated May 2014.

per child basis across all ECE services, with a substantial amount of the increase resulting from the introduction of the 20 Hours ECE programme⁴⁴.



Source: Ministry of Education, Education Counts – ECE expenditure. Data as at June 2013, last updated May 2014. Funding includes 20 Hours ECE, under 2 and over 2 subsidised funding and equity funding

Government support of ECE services has occurred irrespective of which major political party has been in Government.

⁴⁴ Ministry of Education, Education Counts – ECE expenditure. Data as at June 2013, last updated May 2014.

4.1.3 Market fragmentation

The New Zealand ECE industry consists of approximately 4,250 licensed public and private ECE services.

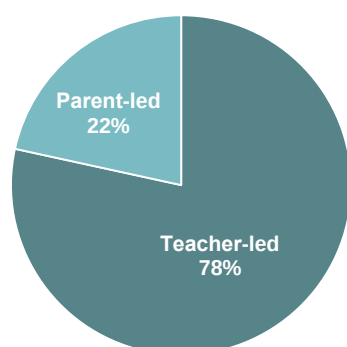
Evolve Education's primary focus will be on teacher-led ECE services which make up just under 80% of all ECE services⁴⁵.

The ECE service market is highly fragmented, with the majority of the industry being comprised of smaller operators, of which many are single site service providers. Evolve Education considers the key industry participants in the ECE Centre market to be Kidicorp and Kindercare, and the key industry participants in the Home-based ECE market to be Barnardos, Footsteps Education, Paua and Home Grown Kids.

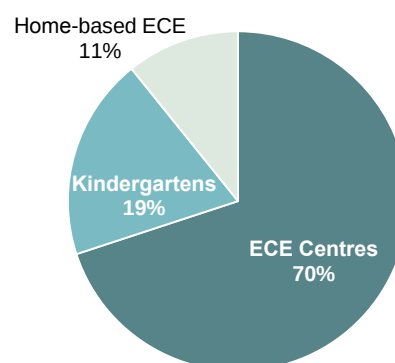
Evolve Education's ECE Centres are expected to comprise approximately 4% of the ECE Centre market and approximately 6% of the total Licensed Child Places within the ECE Centre market. On average, an ECE Centre has 44 Licensed Child Places whereas Evolve Education will, on average, have 70 Licensed Child Places per ECE Centre. This larger than average capacity is a reflection of Evolve Education's acquisition criteria one of which was to acquire ECE Centres that are purpose built or recently renovated. A larger ECE Centre is more profitable given that it provides ECE services to more children with similar costs structures to a smaller ECE Centre. The average ECE Centre size has been increasing for a number of years since maximum Licensed Child Capacity was increased from 50 to 150 children and purpose built facilities replaced smaller ECE Centres typically in converted houses.

Evolve Education's Home-based Licences are expected to comprise approximately 25% of the Home-based Licence market⁴⁶.

Teacher-led vs parent-led ECE services



Teacher-led ECE Services

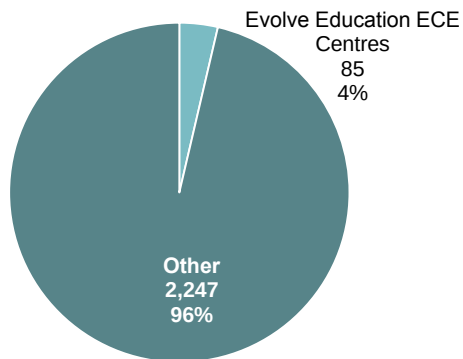


⁴⁵ Ministry of Education, Education Counts – Number of ECE services. Excludes casual education & care and hospital based care. Data as at June 2013, last updated April 2014.

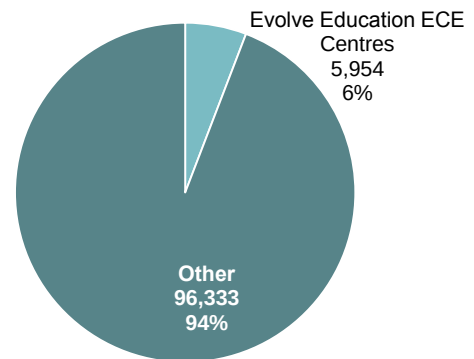
⁴⁶ Evolve Education / Ministry of Education, Education Counts – Number of ECE services and Number of Licensed Places as at June 2013. Excludes casual education & care and hospital based care.

Evolve Education's Market Share

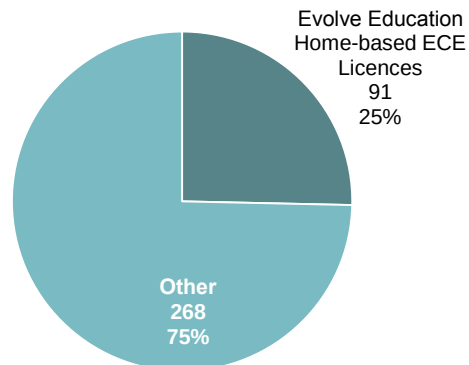
**ECE Centre Market
(Number of ECE Centres)**



**ECE Centre Market
(Number of Licensed Child Places)**



**Home-based ECE Market
(Number of Home-based ECE Licences)**



Source: Evolve Education / Ministry of Education, Education Counts – Number of ECE services and Number of Licensed Places, as at June 2013. Excludes casual education & care and hospital based care

The industry fragmentation presents an attractive opportunity for aggregation. Consolidation of smaller operators into a unified corporate structure offers distinct advantages to the existing fragmented structure, including:

- Improved service offering through the introduction of best practice guidelines and advanced teacher training programmes;
- Cost efficiencies with operational support, teacher development and curriculum as well as some procurement synergies; and
- Aggregation across centre-based and home-based services to provide choice for parents where children may move from Home-based ECE services to an ECE Centre.

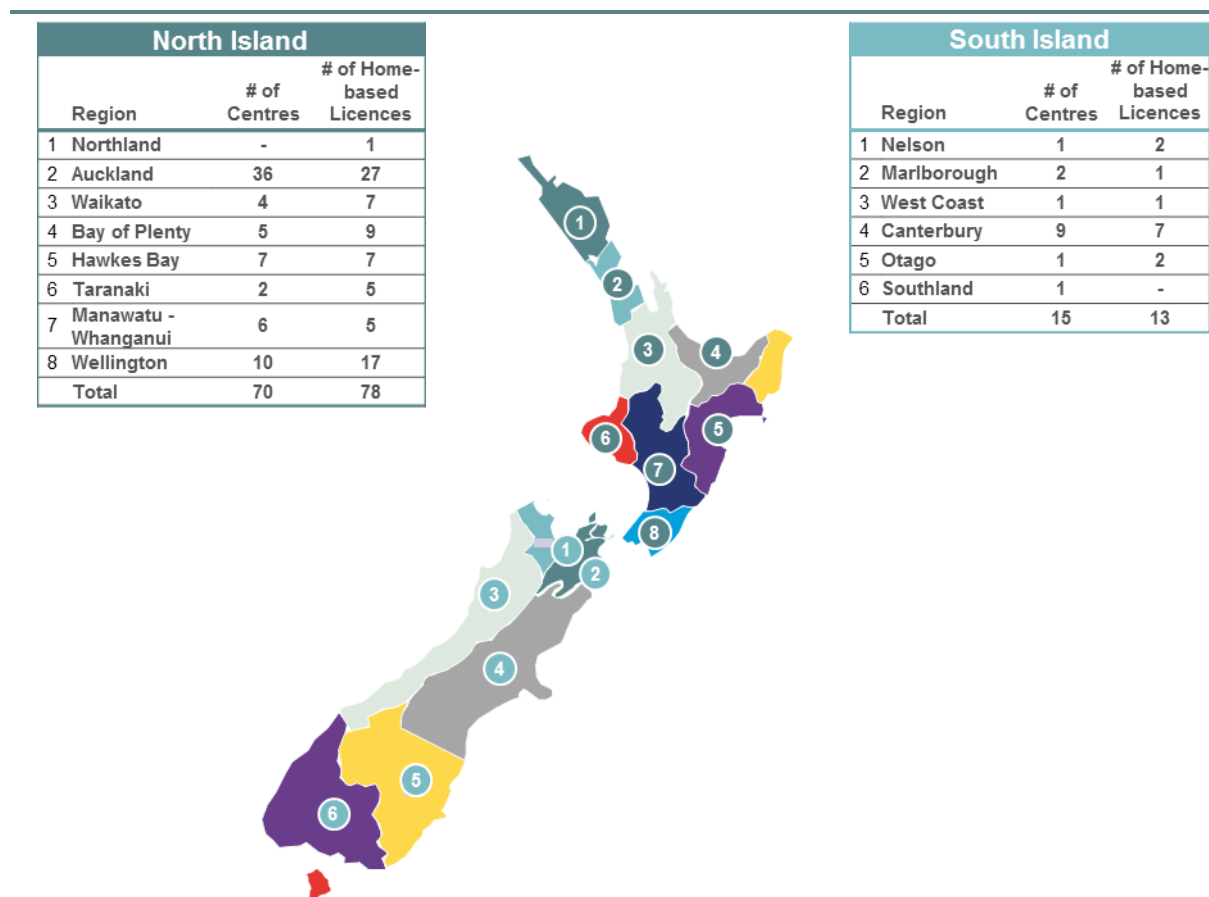
4.2 Business Description

The purpose of Evolve Education is to provide 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.

Evolve Education will acquire two leading ECE service providers being Lollipops Educare and PORSE, as well as smaller ECE businesses that will provide education and care to children from birth to primary school. Together, the Evolve Education Group will look to leverage its combined expertise and scale to provide quality ECE services covering ECE Centre and Home-based ECE services.

For investors, Evolve Education will provide exposure to New Zealand's growing ECE industry. Evolve Education has entered into contracts to acquire Lollipops Educare (which owns and operates 30 ECE Centres), an additional 55 ECE Centres and the Home-based ECE service of PORSE. Proceeds from the Offer, along with bank finance, will be used to fund these acquisitions and also to position the Evolve Education Group to pursue further acquisition opportunities.

Location of Initial Portfolio



Source: Evolve Education

Lollipops Educare, PORSE, the Additional Owned ECE Centres and the other related businesses to be acquired by Evolve Education will, on completion of its acquisition, be owned by Evolve Education or a wholly owned subsidiary of Evolve Education.

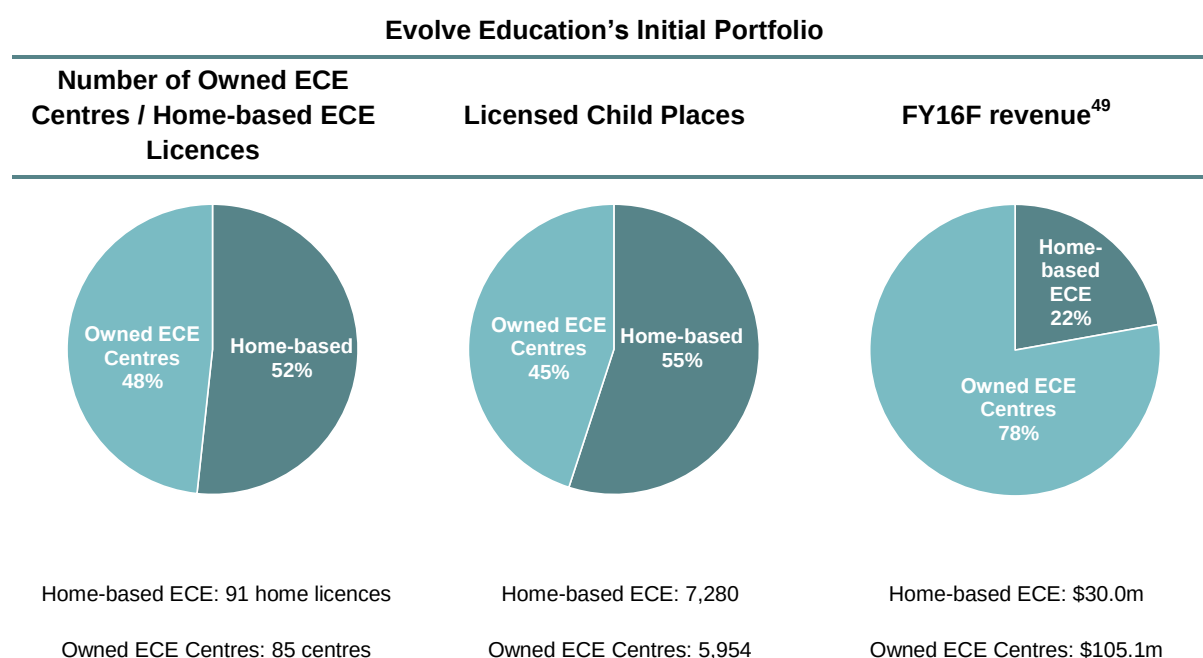
4.2.1 Portfolio of leading ECE brands

Evolve Education is a newly established childcare business that will be built around a solid foundation of existing ECE brands in both the ECE Centre and Home-based ECE categories. The key ECE Centre brand will be Lollipops Educare and the key Home-based ECE brand will be PORSE, which have both been providing high quality education and care services in New Zealand for many years.

Following listing, Evolve Education will look to leverage the collective expertise of its operations to promote and pursue best practice in ECE across the Evolve Education Group. Nevertheless, Evolve Education currently intends that each Owned ECE Centre will to the extent practicable retain its existing branding and trading name. Evolve Education intends to introduce its branding only at the corporate level, allowing the Owned ECE Centres to maintain their existing local presence and goodwill.

Following listing, it is expected Evolve Education Group's Initial Portfolio will have 85 licensed ECE Centres⁴⁷ and 91 Home-based Licences⁴⁸ across its ECE services.

This Initial Portfolio is presented below.



Source: Evolve Education

⁴⁷ Evolve Education will not own any freehold land.

⁴⁸ 76 of these Home-based Licences are held by PORSE. One Home-based Licence provides the ability to operate approximately 80 child places across a group of homes (typically 1 - 4 children per home).

⁴⁹ Excludes approximately \$1.1 million of corporate revenue (commissions, consulting, courses and seminars, teacher registration, sundry income and web hosting) and management fees, franchise fees and royalties.

Overview of Lollipops Educare

Founded in 1997, Lollipops Educare has grown to become a recognised leader in New Zealand's ECE sector with nationwide operations. The Lollipops Educare ECE Centre at Auckland Airport was to be the first of 14 new centres licensed between 1997 and 2004.



In 2004, Mark Finlay and Russell Thompson (franchise owners themselves) purchased the business and have grown it to where it is today.

The original franchise concept of 'owner-operated community services under the support of a group umbrella' remains a core philosophy within the business.

Lollipops Educare offers modern purpose-built facilities, professional qualified staff and high staff to child ratios. All centres are required to provide nutritious meals – mostly from an in-house kitchen. In addition, all staff are supported with regular opportunities to attend professional development courses and in-house training. Across the 30 ECE Centres that Evolve Education will acquire, Lollipops Educare currently provides childcare and education to approximately 2,500 children nationwide and has approximately 750 staff.

Overview of PORSE



PORSE currently provides home-based care and education for over 5,000 children. PORSE also offers accredited training services.

With a strong focus on education and training, PORSE is committed to supporting individuals, families and communities by using the latest scientific research in early brain development and attachment theory to inform programme delivery and address education needs.

Founded in 1994, PORSE has developed from an initial programme to guide early childhood students providing education in family homes to be New Zealand's largest and longest serving Home-based ECE and training provider. PORSE has 240 staff working across 38 Community Teams across New Zealand, supported by a National Support Office based in Hawke's Bay.

For further information on Lollipops Educare and PORSE see Appendix 1 – *Historical Financial Information*. For further information on the selection criteria used to select the ECE service providers that will comprise the Initial Portfolio see Section 4.2.3.1 *Establishment of a high quality portfolio*.

4.2.2 Key drivers of profitability

Key revenue drivers include the number of Licensed Child Places, child occupancy and Government and parent funding. The major expense drivers are employee expenses, followed by building occupancy expenses. These are summarised in further detail below:

Key drivers of profitability

	Owned ECE Centres	Home-based ECE
Revenue Drivers		
Licensed Child Places	- Each ECE Centre has a specified number of child places that represents the regulatory limit on the number of children who can attend at any one time - Total centre Licensed Child Places for Evolve Education will be primarily increased through acquisitions. However there is an opportunity to increase places at existing sites through optimisation of the built environment in some cases	- Home-based ECE Licences typically provide for 80 licensed places, which will be allocated across homes that typically take between 1 – 4 children each - As demand for Home-based ECE increases, Evolve Education is able to apply for further Home-based Licences to expand the number of child places it can operate (providing suitable homes are available)
MOE Occupancy Percentage	- Total number of Ministry of Education funded child hours attended, as a percentage of the maximum funded hours available (30 hours Ministry of Education funding limit x licensed capacity) - Occupancy is impacted by a range of factors including amount of Ministry of Education funding, quality of service, competition factors and economic factors	Not applicable
Funding	- Key sources of revenue are: - Ministry of Education funding, received three times a year with 75% in advance - Revenue received from parents - The number of educators is important to receiving Government funding. An operator must have over 50% of educators as registered teachers to receive funding - The level of funding increases if the ratio of registered teachers is over 80%. During the Prospective Period, Evolve Education expects to have a Qualified Teacher Ratio of above 80% for each of its ECE Centres - Minimum adult-to-child ratio for ECE Centres vary depending on the ages and number of children but is typically 1:5 for under 2 years old and 1:10 for over 2 years old	Each Educator can look after four children under the age of six
Expense Drivers		
Employee expenses	- Employee expenses are the largest expense - Important to retain qualified teachers and staff, who are integral to providing high quality services to the children	- Employee expenses are the largest expense - The educator is contracted by the parent and the coordinator (registered teacher responsible for validating outcomes) is contracted by Evolve Education
Building occupancy expenses	- As Evolve Education will not own any land underlying its Owned ECE Centres, property lease expenditure will represent the second largest expense item - Evolve Education's leases vary, but the term of the majority of leases will be for approximately 15 years or more (including rights of renewal)⁵⁰ - All of the leases are subject to regular price (rent) reviews. Typically, the rent will be subject to review annually or bi-annually to the Consumer Price Index and/or market rent reviews at longer intervals - The premises will be leased from a variety of owners, typically individual operators and family trusts	Regional centre building occupancy expense
Other	Governance costs, central office, consumables, insurance, marketing, travel and motor vehicle expenses	Regional centre costs, training educators, governance costs, consumables, insurance, marketing, travel and motor vehicle expenses

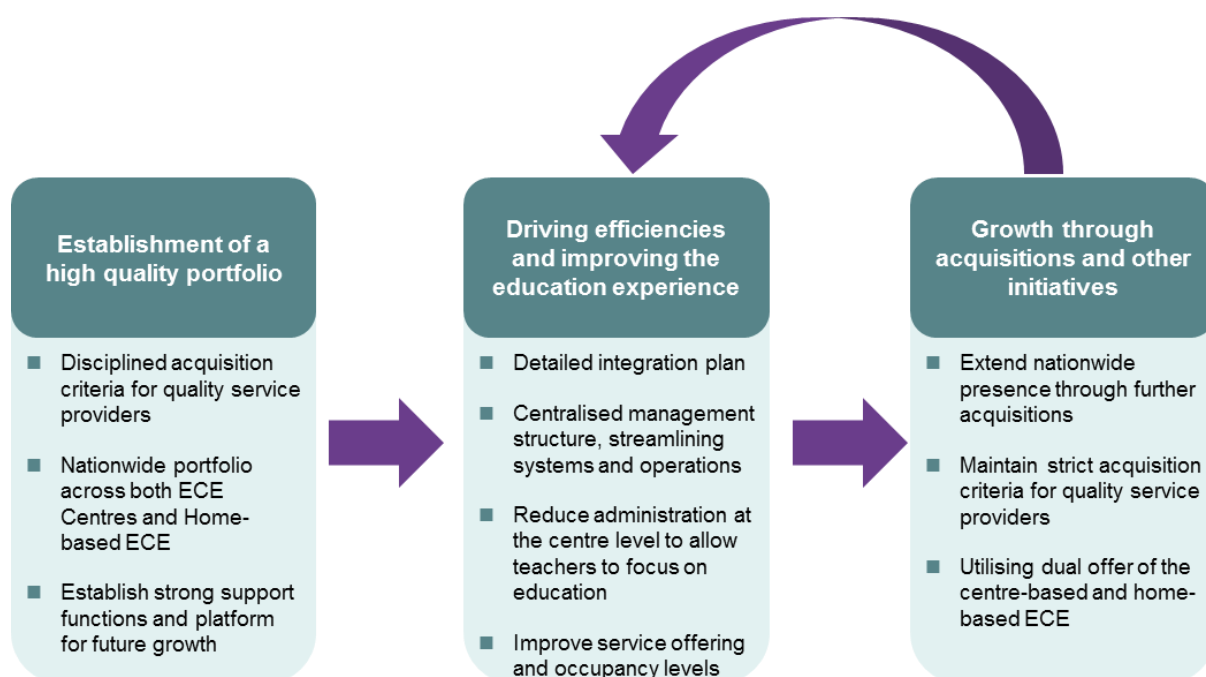
⁵⁰ The terms and conditions of each Evolve Education lease also vary, but typically the leases take the Auckland District Law Society standard form with some amendments in each case. As at the date of this Offer Document, the remaining term of the leases of the Owned ECE Centres where due diligence has been conducted (excluding any early or short-notice termination rights) is as follows (expressed as a percentage of the Owned ECE Centres where due diligence has been conducted) – approximately 1% 0-5 years, 12% 5-10 years, 22% 10-15 years, 30% 15-20 years, and 35% 20+ years. For leases of the Owned ECE Centres that are due to expire in less than 15 years, Evolve Education intends to seek the landlord's agreement to add further rights of renewal (or extend the term) up to a minimum of 15 years at the time it seeks the landlord's consent to the assignment of the lease, though any such agreement is at the landlord's sole and absolute discretion.

4.2.3 Business model

Evolve Education's business model is focused on achieving efficiencies through the consolidation of ECE services into a quality operational platform.

The model is focused on three key aspects:

Evolve Education Business Model



Management consider this to be the appropriate model to capitalise on the inefficiencies present in the existing highly fragmented market. Management consider that driving efficiencies and improving the overall education experience provided by Evolve Education's services, coupled with the management capability and capital capacity to pursue acquisitions, will provide a platform for growth.

Each of the three key business model aspects are explained in further detail in the following sections.

4.2.3.1 Establishment of a high quality portfolio

This section summarises the process Evolve Education has implemented to establish its Initial Portfolio, the key operating metrics and statistics of the Initial Portfolio, and the key drivers of profitability for the Initial Portfolio.

Initial Portfolio selection process

A disciplined approach has been undertaken to select the ECE service providers that will comprise the Initial Portfolio, which includes applying a set acquisition criteria to the possible targets, due diligence and site visits.

ECE Centre selection and acquisition process

Selection	ECE Centres are selected based on a number of factors including but not limited to: profitability, location, physical environment, capability of staff, occupancy, quality of Educational Review Office (ERO) reporting and other operational metrics.
Review	Extensive review of each ECE Centre is undertaken to confirm the performance of the business against the key acquisition criteria. The decision is then made to proceed to offer to purchase or decline.
Negotiation	Offers are made and terms and conditions agreed in principle. Contract negotiation is undertaken to agree terms and conditions between both parties.
Due Diligence	A period of due diligence is completed to review operational, financial and legal aspects of each business prior to accepting, renegotiating or declining the acquisition. Once due diligence is complete, acquisitions remain subject to finance and other conditions that need to be satisfied prior to settlement.
Initial Portfolio Acquired	Transactions are settled and added to the Evolve Education Initial Portfolio. This process will be occurring in the weeks following listing.

Key acquisition criteria

The key criteria for selection of ECE Centres is an integral step in the acquisition process and forms the basis for being able to evaluate the potential acquisition targets for suitability. The table below sets out the five key acquisition criteria that Evolve Education has considered or will consider in its portfolio selection. Judgement is applied to the relative importance placed on each of these criteria, depending on the particular centre characteristics.

Criteria	ECE Centres
Profitability	Efficient and profitable operations that can be maintained and improved through Evolve Education management
Location	- Locations with high demand for ECE services and areas with future growth opportunity - Targeted areas to create efficiency through operational clusters of ECE Centres throughout New Zealand
Physical environment	- Generally targeted purpose built or recently renovated premises - These well-maintained facilities offer a nurturing environment for children and generally limited capital expenditure upon acquisition
Capability of staff	- All acquisitions include educational teams achieving the 80%+ registered teacher funding ratio - Educators are qualified and relate well to parents, children and the wider community
Occupancy	Occupancy levels are consistently at high levels, indicating customer satisfaction and demand for the quality of service being offered

In addition to the profitability, occupancy and capability of staff criteria discussed above, the following criteria were also used to select key Home-based ECE services:

- Larger organisations with more than 500 children in the network; and
- Well-developed operational systems in place.

Total number of ECE Centres considered

Excluding Lollipops Educare centres, a total of 112 centres were considered in detail. Of these, 55 were selected and successfully negotiated to contract.

There were a number of reasons for ECE Centres not being successfully contracted, such as:

- Analysis identified operational performance did not meet the mandate for Evolve Education;
- Location did not support efficient operation or development of a cluster of ECE Centres;
- Contract negotiation could not reach agreement between the parties; and
- The vendor withdrew the business from market.

Due diligence process

The due diligence phase is a very important part of the acquisition process. Due diligence is where Evolve Education seeks to determine the suitability of each business for inclusion in the Initial Portfolio. Evolve Education has conducted a robust and detailed diligence process covering operational, financial and legal aspects of each acquisition. This has included the analysis of:

- Area demographics, population growth expectations and labour force analysis;
- Location factors, which involves an assessment of the centre's proximity to primary schools and major hubs of employment;
- Competitive landscape, including research on the number of competitor centres within a certain distance, relative fee structure, services offered and capacity;
- Quality of the physical site including the building, property and facilities;
- Historical, current and projected financial and operational performance; and
- Leases, licences, resource consents and other important contracts.

Evolve Education's management team will maintain a focus on the improvement of its key profitability drivers through a range of operational strategies and initiatives. One particular area of focus for Evolve Education will be on the design and feel of its physical locations and the quality of service provided by its staff. Management consider this to be important to drive increases in occupancy and the daily rate it can charge, and will therefore look to upgrade certain facilities and introduce advanced training programmes for staff.

Specific risks relating to the Initial Portfolio, including relating to due diligence are set out in Section 5 *Risks*.

Key operating metrics and statistics

Evolve Education Group has contracted to acquire 85 Owned ECE Centres and 91 Home-based Licences as shown in the table below.

Summary of Initial Portfolio

	ECE services			
	Owned ECE Centres	Home-based ECE	Other	Total Evolve Education
FY16F Revenue	\$105.1m	\$30.0m	\$1.1m ⁵¹	\$136.2m
FY16F EBITDA	\$27.5m	\$3.0m	\$(4.8m) ⁵²	\$25.7m
Number of Owned ECE Centres / Home-based Licences	85	91	-	176
Number of Licensed Child Places	5,954	7,280	-	13,234
FY16F MOE occupancy⁵³	87.0%	NA	-	NA
Employee expenses ratio⁵⁴	52.5%	44.9%	-	53.2% ⁵⁵
Building occupancy expenses ratio⁵⁶	13.3%	6.3%	-	11.8%

4.2.3.2 Driving efficiencies and improving the education experience

Management's focus will initially be on integration and ensuring effective management where owner-operators were actively managing their business prior to being acquired by Evolve Education. Management will ensure that the appropriate oversight and resources are allocated to these centres to maintain operating performance in the absence of the previous owner-operator, who may have been the key centre manager.

Alan Wham and Vivek Singh have significant integration experience in their previous roles in Pharmacybrands Limited (now Green Cross Health) where they worked on a consolidation strategy of the health services sector through mergers and acquisitions. Greg Kern, Director, will be available to assist management with the integration process given his in-depth experience in integrating ECE services through his previous experience in the listing of Affinity Education Group Limited in Australia.

On a portfolio basis, management consider significant efficiency improvements can be made, primarily in the form of:

- Implementation of a corporate structure to support the overall management of the Initial Portfolio;
- Streamlining administration and compliance reporting so that educators have more time to focus on providing a quality service to their children;
- Streamlining core systems to enable efficient operation of the Owned ECE Centres;
- Potential consolidation of suppliers across the Owned ECE Centres; and

⁵¹ Includes corporate revenue (commissions, consulting, courses and seminars, teacher registration, sundry income and web hosting) and management fees, franchise fees and royalties.

⁵² Includes corporate and head office expenses including corporate salaries and wages, advertising, insurance, training and governance expenses.

⁵³ This occupancy comprises forecasts for both mature ECE Centres and ECE Centres that are not mature. The occupancy for FY16F is based on historical experience, supplemented by a centre-by-centre analysis conducted by Evolve Education.

⁵⁴ Employee expenses / revenue.

⁵⁵ Includes corporate and head office employee expenses.

⁵⁶ Building occupancy expenses / revenue.

- Utilising dual offer of the centre-based and home-based ECE.

To optimise the integration process, Evolve Education, in conjunction with its advisers, has formulated a detailed step-by-step plan for the integration of the Owned ECE Centres focused on the key elements of activity management, human resources, systems, change and communications management, and finance and operations.

Management is aware of the complexities surrounding this integration and consider that protecting revenue, managing costs (including meeting staff payments) and communicating with stakeholders in a coordinated and consistent way, are essential. The integration of the Owned ECE Centres should have minimal impact on the day-to-day operations of the individual centres and the centres continuing to operate under existing branding and trading names.

The key focus of the integration process will be to see that the overall service quality provided by Evolve Education to its children is of a high standard. Management considers this to be the most important factor to facilitate organic growth in the business.

By 31 March 2015, Evolve Education's management expects integration of the Initial Portfolio will be substantially complete to a level satisfactory to the Board, which is intended to include achieving stabilised earnings evidenced by consistency of weekly actual performance versus forecasts, and on time and on-budget delivery of the integration programme.

Weekly Operational and Financial Flash Reports will provide snapshots of the business' key financial drivers: occupancy, Government funding, parent fees, employee expenses and debtors. This will be supported across the business by the Infocare Child Management Software, a software system designed specifically for use in childcare in New Zealand.

Secondary integration activity, at a time to be determined following the initial integration, will look to achieve further efficiency improvements between the Owned ECE Centres and the Home-based ECE services.

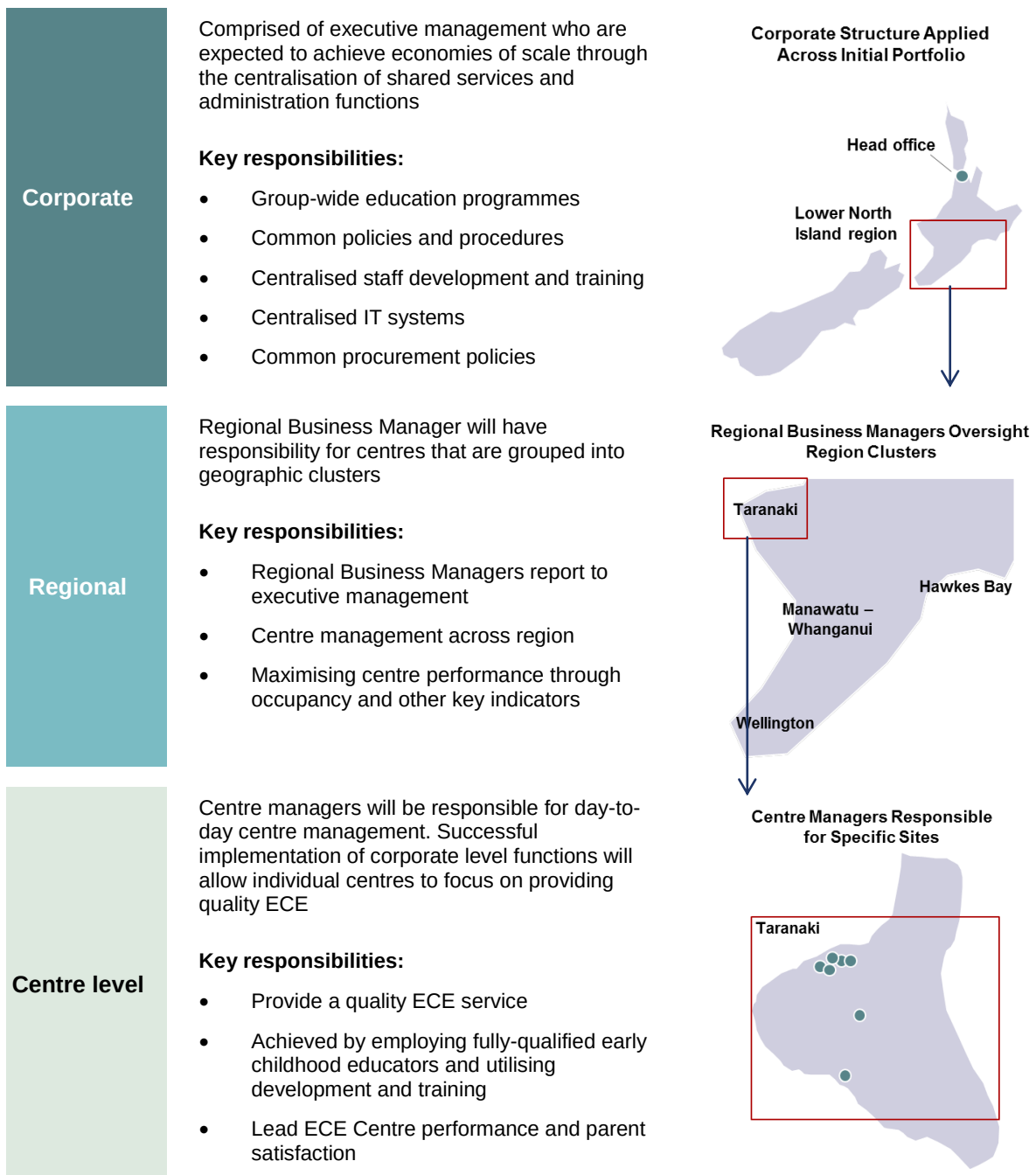
However, there are risks relating to the integration of the Initial Portfolio which are set out in more detail in Section 5 *Risks*.

Corporate structure

After listing, Evolve Education will operate a tiered management structure. At the corporate level, the business will be responsible for providing centralised executive management and shared services. Responsibility for the day-to-day running of individual centres will be delegated to centre managers with oversight provided by regional business managers. Existing Lollipops Educare staff will be augmented to provide the infrastructure to manage the additional centres.

Management is currently undertaking a process of finding and filling outstanding positions to supplement the key executives and support teams of Lollipops Educare and PORSE. A number of these positions are in the process of being filled.

Corporate Structure



Management believes there are likely to be significant benefits from operating a centralised management structure. These are expected to include:

- The ability to roll out “best practice” guidelines across the Evolve Education Group. These will include:
 - a well-presented and functional built environment;
 - provision of quality educational equipment and resources;
 - a focused cultural identity;
 - comprehensive set of Ministry of Education approved operational manuals covering management, administration, curriculum, learning and development and communication;

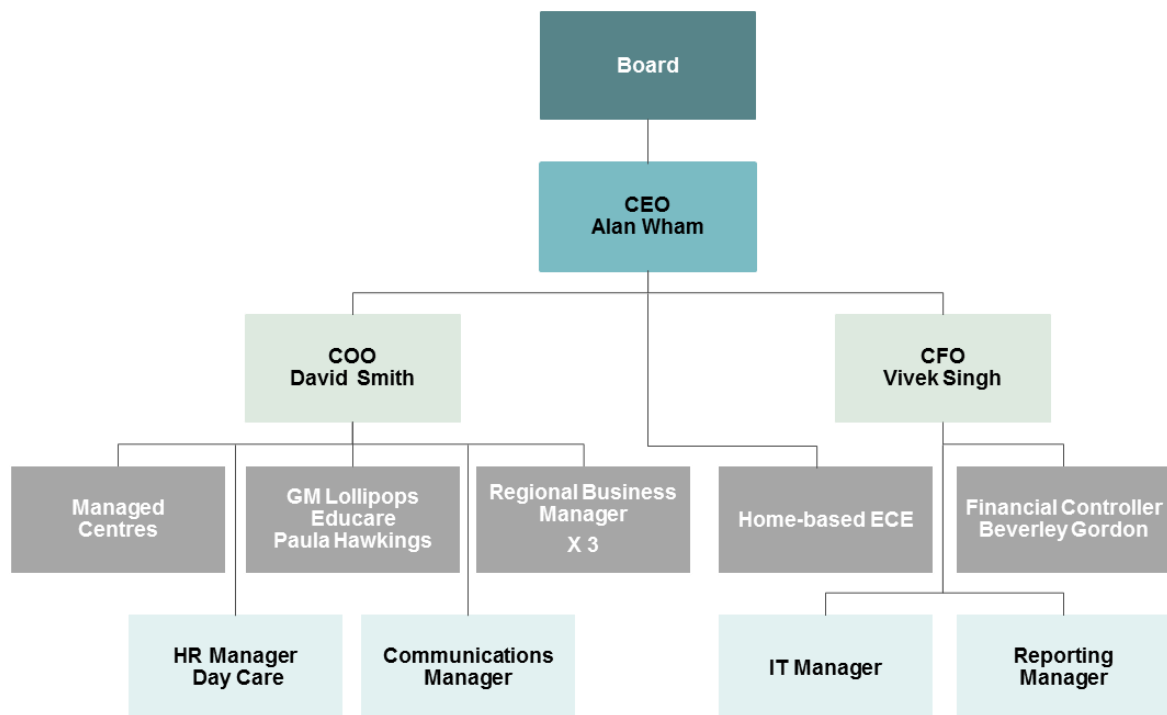
- instant and targeted reporting information across all facets of ECE Service performance – child occupancy, Government funding, parental revenue, staff qualifications;
 - strong, competent and professional centre management;
 - excellent internal professional development programmes for both management and teaching staff;
 - open and consistent communications across all levels of the Evolve Education management team and teaching staff; and
 - relationships with families built on trust and wanting the best for the children;
- Targeted capital expenditure investment programmes to maintain or improve the current operating environment, which is essential to maintain and grow occupancy levels;
 - Group compliance programmes within a portfolio of ECE Centres allowing sharing of costs and planning;
 - An Education Advisory Committee to oversee the quality and implementation of the educational programmes across Evolve Education services. Jenny Yule, the PORSE CEO will head this committee, which will report directly to the Board;
 - Procurement synergies through economies of scale with a larger portfolio of centres able to source goods and services at better rates than smaller operators. Together with added sophistication to supply chain management and better information and negotiation capabilities, Evolve Education will seek to deliver benefits that smaller operators would likely find difficult to replicate;
 - An improved platform for geographic clusters which can benefit through rostering and optimising qualified teachers; and
 - Increased staff retention through a larger portfolio of centres able to provide improved career path training and progression, with increased vocational options across multiple centres.

PORSE

In addition to the corporate structure that will be rolled out across Evolve Education, key management from PORSE will have continued involvement with their business following listing.

Jenny Yule, the founder of PORSE, will continue to operate the business as CEO of PORSE under a fixed term contract through to at least 31 December 2015. PORSE has an experienced management team based in Hawke's Bay that will continue to manage the business for this period. Evolve Education expects that the PORSE business will be carried on in a manner similar to its recent operations under an agreed business plan, with oversight from Evolve Education's appointees to the board of PORSE.

Group Structure Diagram



4.2.3.3 Growth through acquisitions and other initiatives

Following listing, Evolve Education considers it will have the management capability and capital capacity to pursue a range of growth initiatives. These initiatives will focus on both organic growth (optimising the performance of the Initial Portfolio) and acquisition growth (from the acquisition and integration of additional ECE services). The Prospective Financial Information does not reflect the earnings impact of any potential acquisitions. Given the uncertainty of potential acquisitions and any associated earnings effects, Evolve Education has been conservative in excluding these from its forecasts.

Organic growth

Evolve Education will look to leverage the strength of its management team and corporate structure to drive occupancy growth, rate per day increases and the management of expenses in the Initial Portfolio. Specific initiatives to drive this are intended to include:

- Targeted marketing efforts;
- Widening its existing service offering to include before and after school care and vacation care, where not already provided;
- Improving quality of services by establishing an education panel and advanced training for staff;
- Cost optimisation through the implementation of the corporate structure and focus from the experienced management team; and
- Utilising dual offer of the centre-based and home-based ECE.

The Home-based ECE market is a particular area of focus for Evolve Education as this sector is experiencing the highest growth with enrolment growth at 6% per annum since 2000⁵⁷.

⁵⁷ Source: Ministry of Education, Education Counts - Enrolments in ECE. Data as at June 2013, last updated March 2014.

With 20 years of experience in pioneering the home-based childcare and training market in New Zealand, PORSE has recently fielded interest from a number of Australian childcare providers, associations and Government representatives who are eager to look at how the home care model could be applied to early childhood learning and care in Australia. While Evolve Education is not actively looking to expand these services into Australia at this stage, this may present a future opportunity for the business.

Acquisition growth

Evolve Education intends to continue to grow the size of its portfolio through the acquisition of additional ECE service providers. The acquisition selection process will be conducted in a similar way to the acquisition process for establishment of the Initial Portfolio (see Section 4.2.3.1 *Establishment of a high quality portfolio*) and will be supported by a capital management plan.

Evolve Education's acquisition growth strategy will primarily focus on the acquisition of existing ECE Centres. This is because Evolve Education currently believes there is significant value to be harnessed through the acquisition of other ECE service providers which does not expose Evolve Education to the risk of new ECE Centre developments.

Through contract negotiations during the Initial Portfolio acquisition process, Evolve Education has been able to obtain a right of first refusal to purchase further ECE Centres from approximately 20% of the vendors of the Initial Portfolio. These comprise a mix of established centres owned by the vendors and new developments that the vendors have planned for the future.

Evolve Education's acquisition growth strategy will continue to focus on building clusters for efficiency and ECE services that meet the requirements of the community, including sessional and full day care. Evolve Education intends to work strategically with partners to target areas of interest to continue to build a portfolio of purpose-built centres in prime locations throughout New Zealand to meet the demand of each community.

In addition, Evolve Education intends to establish and maintain a new ECE Centre development pipeline through the provision of intellectual property licences to selected ECE Centre developers throughout New Zealand, whereby those developers can use Evolve Education's brands and other intellectual property rights in relation to the development of new ECE Centres. Intellectual property licence holders will be required to offer to sell these ECE Centres to Evolve Education upon agreed child occupancy levels being reached. On completion of the Lollipops Educare Acquisition, Evolve Education will enter into such an arrangement with LEP Limited (LEP Limited is currently a company owned by Lollipops Educare but will not form part of the Lollipops Educare Acquisition) and certain of its related companies.

Capital Management Strategy

Evolve Education has developed a detailed capital management plan to support its growth strategy.

Evolve Education will have three sources of funding in place:

- \$30 million senior revolving facility for general corporate and working capital purposes. A draw under this facility will be used to fund part of the consideration for the Initial Portfolio;
- \$60 million acquisition facility to provide funding for future acquisitions; and
- \$3 million lease guarantee facility for bonds required for certain leasehold properties.

Evolve Education will have approximately \$20 million drawn down on the senior revolving facility upon listing, while the acquisition facility and lease guarantee facility will be undrawn.

Evolve Education considers this debt position will provide adequate capacity to fund future acquisitions. However, Evolve Education considers Net Debt to be a better reflection of the Company's leverage, which is expected to be \$9.5 million based on the FY15F period.

Evolve Education intends to maintain a core debt facility of approximately 1.0x EBITDA and has a policy of funding acquisitions with debt subject to not exceeding a gross debt / EBITDA of 2.0x.

4.2.4 Internal Risk Mitigation Procedures

Evolve Education has a comprehensive range of internal risk mitigation procedures in place for the protection of children and staff and ensuring operational efficiency in line with best practices. A specific range of risk mitigation procedures that it intends to implement, which will assist building a powerful brand identity include:

- Best practice guidelines which will assist in building a high quality ECE offering across all centres;
- Child protection policies;
- Long-term commercially appropriate occupancy agreements;
- Current Building Warrants of Fitness, Codes of Compliance and Fire Reports;
- Ministry of Education Licence Certificates;
- A strong mix of fully qualified and registered staff; and
- Full health and safety reporting standards.

5. Risks

An investment in shares involves risks, and this investment is no exception. These risks may adversely affect your returns (if any) from your investment or may mean you may not be able to get back some or all of your original investment.

There are a number of factors, both specific to Evolve Education and of a general nature, which may affect Evolve Education's future operating performance and financial position and the value of the Shares. A number of these risk factors are described below. These risks and uncertainties are not the only ones Evolve Education faces. Additional risks and uncertainties that Evolve Education is unaware of, or that are currently deemed immaterial, may in the future become important factors that affect Evolve Education. You should note that these risk factors may not be exhaustive, and you should consider these in conjunction with other information disclosed in this Offer Document. In particular, you should read Section 4.2 *Business Description*.

Actual events may be materially different from those described below and may therefore affect Evolve Education in a different way. Descriptions of the risks and uncertainties necessarily include forward-looking statements. Such forward looking statements involve matters which have not yet occurred or may not occur. Changes in variables affecting risk factors may offset each other or may be cumulative. If any of the following events actually occur, Evolve Education's business, financial condition or results of operations could be negatively impacted to a significant degree. In that event, the trading price of the Shares could decline and you may not be able to get back some or all of your original investment or you may not receive the returns you expect.

You should specifically consider the factors in this section in order to appreciate the risks associated with an investment in Shares. You should carefully consider these factors in light of your personal circumstances and seek professional advice from your financial adviser before deciding whether to invest.

5.1 Evolve Education's Key Risks

The risks set out under this heading are those identified as the key risks which could reduce or eliminate the value of your Shares, or the returns on them.

Regulatory risks

Changes to Government funding

The Government provides substantial assistance to the ECE industry through the ECE Funding Subsidy and 20 Hours ECE. This funding is currently utilised in the operations of the Initial Portfolio and will represent a significant proportion of Evolve Education's revenues. This funding is subject to review at any time by the Government. In addition, the Government can at any time change the regulations that need to be complied with in order to obtain this funding. Any reduction in the level of this funding, a reallocation of this funding between ECE services or if the level of funding does not increase as assumed in the Prospective Financial Information or in line with the rate of inflation (which would have the effect of increasing Evolve Education's costs) and Evolve Education cannot otherwise increase the fees that it charges to parents and caregivers to reflect this increase in costs, then this would have a material effect on Evolve Education's profitability. Evolve Education may not be able to increase the fees it charges to parents or caregivers due to regulations or market-driven events or circumstances, such as competition from other ECE service providers. The imposition of more onerous regulations with which Evolve Education may need to comply in order to obtain government funding, and any associated costs of complying with those regulations may also have an effect on Evolve Education's profitability. Evolve Education is not currently aware of any significant changes that are proposed to Government funding for the ECE industry. However, given Government funding will represent a significant proportion of Evolve Education's revenues, even a small change in the level of funding or the allocation of funding, or any failure to increase funding as assumed in the Prospective Financial Information in a situation where fees charged to parents and caregivers could not be increased, would have a material adverse effect on Evolve Education's profitability.

Review of Home-based ECE

A review of Home-based ECE services was announced in September 2012 and was cancelled in July 2013. The Ministry of Education has indicated that a review of Home-based ECE will be reconsidered after the implementation of the Early Learning Information System (a new online method of managing funding in the ECE industry) and the annual ECE Funding System Review in 2015. The Ministry of Education has stated that it believes that many of the funding, transparency and quality concerns that gave rise to the proposed review of Home-based ECE can be resolved through these two projects. If the consequences of these projects or any subsequent review of Home-based ECE are a reduction in the level of Home-based ECE funding or the imposition of more onerous regulations that Evolve Education may need to comply with in order to obtain funding, then this could have a significant adverse impact on the operations and profitability of Evolve Education.

Changes in law and Government policy

The ECE industry in New Zealand is heavily regulated. The Education Act 1989 and supporting regulations provide a detailed and prescriptive framework for the management and operation of ECE businesses in New Zealand.

Any change or addition to the regulatory framework of the ECE industry could affect the operation of the Initial Portfolio and could impact on the profitability of Evolve Education. Any regulatory change could include but not be limited to sources of additional funding provided by the Government and changes that may increase current forecast operating costs.

Other Government legislation, including changes to the taxation system, may affect future earnings and the relative attractiveness of investing in Evolve Education.

Obtaining regulatory approvals for Additional Owned ECE Centres

The ability of Evolve Education to operate the Additional Owned ECE Centres is dependent on receiving regulatory approval for the transfer of the existing licence for each centre. If any of these approvals is not obtained Evolve Education will not be permitted to operate the relevant ECE Centre. This could materially impact Evolve Education's future earnings. However, the Board expects that by the time of listing it will have received indicative approvals from relevant Government departments in connection with the transfer of relevant licences for each of the Additional Acquisition Agreements.

Risks relating to the Initial Portfolio

Integration risks

To achieve its FY15F and FY16F forecasts Evolve Education will need to integrate effectively the Initial Portfolio as part of its integration plan (see Section 4.2.3.2 *Driving efficiencies and improving the education experience*). There is a risk that fully integrating the Initial Portfolio may take longer or cost more than anticipated, which could affect the profitability of Evolve Education.

There is no guarantee the Initial Portfolio will operate as profitably after integration as the relevant businesses within the Initial Portfolio did prior to being acquired by Evolve Education. The performance of the businesses may be adversely affected by changes such as an increase in overheads, any change in the management of an ECE Centre, a reduction in custom from parents who do not view the acquisition of the Initial Portfolio by Evolve Education favourably or additional costs that may need to be incurred as a consequence of a move away from the owner-operator model. The integration plan referred to above is intended to mitigate this risk. However, if the plan is not implemented, whether due to factors within or outside of Evolve Education's control, then this is likely to impact Evolve Education's revenue and profitability.

Due diligence risk

Management has performed or will perform pre-acquisition due diligence on each of the Owned ECE Centres and Home-based ECE businesses to be acquired. There is a risk that due diligence has not identified or will not identify issues that would have been material to the decision to acquire the Owned ECE Centres and Home-based ECE businesses. Further, there is a specific risk that information

provided by the vendors regarding the historical occupancy of the Owned ECE Centres and Home-based ECE businesses may not be reliable, and that this could affect Evolve Education's view on forecast occupancy levels, particularly in the early months after acquisition. Evolve Education considers that the extensive due diligence conducted by Evolve Education and its advisers in relation to the acquisition of the Initial Portfolio reduces the likelihood of this risk occurring but can never eliminate this risk.

Limited operating history

While some of Evolve Education's Board and senior management have experience in business, management and the ECE industry, Evolve Education was only incorporated in May 2014. Accordingly, Evolve Education has a limited financial and operating history. Evolve Education's ability to achieve its objectives depends on the ability of its Board and senior management to implement the proposed business plans and to respond in a timely and appropriate manner to any unforeseen circumstances. There is a risk that Evolve Education cannot meet forecast occupancy or other key performance indicators or will incur additional costs of operation which might have an adverse effect on profitability.

Completion of Additional Acquisition Agreements

If any of the Additional Acquisition Agreements are not completed, the composition of the Initial Portfolio will change. Most of the Additional Acquisition Agreements are expected to be completed during December 2014 and January 2015, but there can be no guarantee that this will occur. Due to circumstances beyond the control of Evolve Education, it is possible that one or more of the Additional Acquisition Agreements are not ultimately settled or settlement may be delayed. If Evolve Education becomes aware of this prior to allotment then Evolve Education expects that it would still allot the Shares under the Offer and, to the extent Acquisition Agreements did not settle, Evolve Education would look to acquire additional ECE Centres to replace those that did not settle. To the extent settlement is delayed or Evolve Education is unable to acquire additional ECE Centres in a timely manner to replace those that did not settle then this could reduce the profitability of Evolve Education in the Prospective Period.

Risks relating to future growth

Competition

Evolve Education faces competition from other companies based in New Zealand and Australia involved in the consolidation of ECE Centres when seeking to acquire additional centres. This competition may increase the price that Evolve Education must pay to acquire centres or limit the centres that Evolve Education can acquire. This may adversely affect Evolve Education's profitability and growth prospects.

Risks arising from new acquisition opportunities

Future growth in operating results depends to a large extent on management's ability to manage expansion and growth successfully. This will require expansion of some or all of the business operations of Evolve Education and associated management disciplines, such as revenue forecasting, addressing new markets, controlling expenses, implementing infrastructure and systems and managing assets. Inability to control the costs and organisational impacts of business growth or an unpredicted decline in the growth rate of revenues without a corresponding and timely reduction in expense growth or a failure to manage other issues arising from growth could adversely affect Evolve Education's operating results.

Availability of funding

Evolve Education's acquisition strategy is intended to be financed by a combination of debt and equity funding. Evolve Education's ability to pursue its strategy beyond the Initial Portfolio may be constrained by access to further debt and equity funding.

Operational risks

Reputation risk

Having a reputation as being a provider of high quality ECE services is an important factor in ensuring that Evolve Education maintains the occupancy rates and earnings at the ECE Centres and Home-based ECE businesses it will own. As Evolve Education will be the owner of a large number of ECE Centres, there is a risk that an isolated incident or incidents occurring at one or a number of ECE Centres, homes or the corporate office may impact on the reputation of Evolve Education and impact adversely on the profitability of all of Evolve Education's ECE Centres and Home-based ECE businesses. Adverse publicity concerning reported incidents or allegations of physical or sexual abuse or medical mismanagement, physical injury or other harm to a child at any ECE service, including by one or more centre managers, teachers, educators or contractors, or reports of disease, contamination or other illness at any ECE service, whether or not directly relating to or involving Evolve Education or within Evolve Education's control, may damage Evolve Education's brands and reputation, and lead to a reduction in the numbers of parents and caregivers that use Evolve Education's ECE services. This may result in demand for services diminishing significantly, which, if it occurred, would have a material adverse effect on Evolve Education's profitability. While Evolve Education will attempt to manage reputation risks that are within its control, thereby reducing the likelihood of them occurring, many of the risks relating to reputation are outside of its control. For the risk relating to the use of Evolve Education's brands and other intellectual property by third parties, see "Intellectual property and brand risk" below.

Intellectual property and brand risk

Evolve Education has applied for trademark registrations and owns other common law marks in New Zealand. It also intends to operate the Owned ECE Centres and Home-based ECE businesses under their existing brands. If the trademarks are not registered or there is a subsequent challenge to a trademark registration or common law mark owned or used by Evolve Education, it may have an effect on the business and financial performance of Evolve Education as rebranding costs may be incurred. In addition, Evolve Education has agreed to license its intellectual property rights in relation to the Lollipops Educare brand to LEP Limited (LEP Limited is currently a company owned by Lollipops Educare but will not form part of the Lollipops Educare Acquisition) and certain of its related companies. Lollipops Educare has also licensed its intellectual property rights in the Lollipops Educare brand to third parties who operate six ECE Centres under the Lollipops Educare brand. These licences place restrictions on how the licensees are entitled to use the intellectual property and Lollipops brand. While Evolve Education will attempt to manage this risk by monitoring the licensees, if those licensees do not comply with the terms of the licence or otherwise act in a manner that causes adverse publicity to the Lollipops Educare brand, then this may reduce the confidence that parents and caregivers have in the Lollipops Educare brand which may have a material adverse effect on Evolve Education's profitability.

Liability and insurance risks

Evolve Education and its directors will be exposed to the risk of civil and criminal liability in relation to the operation of the Evolve Education business. Evolve Education intends to maintain insurance policies, having regard to business risks and insurance costs. However, insurance may not always be available on acceptable terms or where available, provide cover to indemnify Evolve Education and its directors fully against the occurrence of insured risks. In certain cases it may also not be legal to insure against the relevant liability. The occurrence of an event that is not covered (either fully or in part) by insurance could have a material effect on the business, financial condition or results of Evolve Education. As with all insurance policies, there is also no guarantee that Evolve Education's insurance will respond in all situations where risks that Evolve Education faces materialise.

Operational risk and control

Operational risk relates to the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events which affect Evolve Education's business. Evolve Education is exposed to operational risks present in the current business including risks arising from fraud, system failure, failure of security and physical protection systems. Operational risk has the

potential to have an effect on Evolve Education's financial performance and position as well as reputation.

In accordance with standard commercial practice Evolve Education maintains policies of insurance. However, similar to all businesses, it is vulnerable to having operations influenced and interrupted by loss or destruction of premises by natural disaster, fire or service disruptions caused by industrial action. In addition, these events may prevent access to Evolve Education's premises even if they are not damaged.

Evolve Education will be reliant on its information technology systems in efficiently undertaking the management of a large number of ECE Centres and Home-based ECE services located across the country. A major hardware or software failure could create delays in business processes, resulting in abnormal costs and potential losses if the failure cannot be addressed quickly and decisively. Any significant change to the technology employed could result in a substantial increase in costs.

No market sector diversification

Evolve Education will primarily be an ECE Centre and Home-based ECE business. As such, Evolve Education's performance depends entirely on the performance of those businesses as a whole. If the ECE industry performs poorly or there is a general reduction in demand for ECE services across the industry, or if specific issues arise or events occur including health-related outbreaks that reduce demand for ECE services, Evolve Education's performance may be adversely affected.

Lease arrangements

The Owned ECE Centres will be operated on land and buildings leased from third parties. Each lease or proposed lease requires Evolve Education to comply with various obligations including the payment of rent and other monies due. In the event of default by Evolve Education under a lease, the landlord may terminate the lease if the default is not remedied. There is also no guarantee that leases will be renewed at the end of their term. Termination or expiry (particularly of key centre sites) could have an adverse effect on Evolve Education's profitability. Mark Finlay is a director of both Evolve Education and LEP Limited. LEP Limited is the landlord of Evolve Education's head office and is or will be the landlord of four Lollipops Educare Owned ECE Centres. LEP Limited has also entered into agreements to acquire three freehold properties of the Additional Owned ECE Centres.

Material litigation

Due to the nature of the business that Evolve Education will carry on and the wide range of parties with which it will deal, Evolve Education may be exposed to complaints, investigations and litigation from third parties such as customers, regulators, employees and business associates. Any such claims or the publicity arising from it could have an adverse effect on Evolve Education.

The early years demographic structure of the New Zealand population

Any decline in the zero to six-year age bracket of the New Zealand population could reduce the profitability of Evolve Education. As the underlying demand for ECE is driven by the numbers of children in this age bracket, changes in the expected numbers of children in this bracket will have an effect on the sector and on Evolve Education.

Inability to increase fees

Evolve Education assumes some indexation of fee income to offset the level of inflationary cost increases. If fee increases cannot be passed on to parents or caregivers due to regulation or market-driven events or circumstances then the lower fee income could result in reduced profitability for Evolve Education.

Debt covenants

Evolve Education will be subject to various covenants under its banking facilities. Factors such as a decline in Evolve Education's operational and financial performance could lead to a breach of such banking covenants, giving rise to enforcement rights by the lender (including, potentially, the enforcement of security interests in respect of Evolve Education's assets).

Competition risks

Increased competition from existing and new industry participants may reduce Evolve Education's revenues and profits. Competition is based on a range of factors including the quality of ECE services offered, the reputation of the ECE service provider, the quality of the ECE Centre or Home-based ECE service and the location of the ECE Centre. New ECE Centres may be established in proximity to Evolve Education's Owned ECE Centres which may result in increased competition. In addition, Home-based ECE services could be established in areas in which Evolve Education will be operating. These services may compete directly with Evolve Education.

Personnel risks

Evolve Education's business model depends on a management team, both at the head office and at each ECE Centre, with the talent and experience to integrate and manage new ECE Centres into Evolve Education's core business operations. In addition, Jenny Yule will be the CEO of PORSE on a fixed term contract until December 2015. Evolve Education also depends on its ability to identify and retain high quality centre managers who, with the assistance of Evolve Education's management team, execute the strategies of Evolve Education at a centre level.

There is a risk that operating and financial performance could be adversely affected by the loss of key personnel, including Mark Finlay as an Executive Director, or the inability to attract new personnel.

Evolve Education expects that the PORSE business will be carried on by existing PORSE management in a manner similar to its recent business operations and under an agreed business plan, with oversight from Evolve Education's appointees to the full board of PORSE. Evolve Education will be reliant on PORSE management in this regard and there is a risk that the business could be affected by the loss of key management staff or that management do not execute the strategies in accordance with the business plan. This could adversely affect PORSE's profitability.

Sourcing of high quality staff

Evolve Education requires high quality staff in order to deliver its ECE services. While Evolve Education believes that it will have appropriate policies and procedures to attract and retain high quality staff, this may not always be possible. There is a risk that a lack of high quality staff or if obtaining high quality staff takes longer than expected that this would negatively affect Evolve Education's performance. At the ECE Centre level Evolve Education will consider providing performance incentives to the ECE Centre managers, opportunities for professional development, career development and growth within the wider Evolve Education Group in order to mitigate risk.

5.2 Other Business Risks

Price of Shares

There are significant risks associated with any share market investment. In the case of the Shares, these include:

- the Shares may trade on the NZX and ASX at, above or below the Offer Price;
- as the Shares have not previously been listed, they have no trading history and there is therefore no indication of the prices at which they may trade, or of the liquidity of the market for Shares; and

- the market price of the Shares may be affected by factors unrelated to the operating performance of Evolve Education, such as those listed under the heading “Macro economic Risks” below, investor sentiment, New Zealand and international share market conditions, and the performance of other businesses and assets.

Macro-economic risks

Changes in the general economic outlook both in New Zealand and globally may impact the performance of Evolve Education. Such changes may include:

- contractions in the New Zealand economy or increases in the rate of inflation resulting from domestic or international conditions (including movements in domestic interest rates and reduced economy activity);
- increases in expenses (including the cost of goods and services used by Evolve Education);
- increase in unemployment rates; and
- fluctuations in equity markets in New Zealand and internationally.

Licence risk

The regulation and availability of the ECE Funding Subsidy and 20 Hours ECE is dependent upon individual ECE Centres and Home-based ECE service providers being licensed by the Ministry of Education. The Education Review Office (**ERO**) evaluates and reports on the education and care of students in ECE. The majority of licences to be acquired by Evolve Education are on three year review cycles, though some newer ECE Centres and Home-based ECE services to be acquired have not yet had an ERO review. Negative evaluations could result in Evolve Education incurring additional expenses to reach required standards. This would have a negative impact on Evolve Education’s operations, financial position and viability.

Interest rate risk

The level of interest rates on Evolve Education’s financing facilities (and any subsequent refinancing) and the terms of any interest rate hedging (if any) and subsequent movements in the market interest rates will affect the financial position of Evolve Education.

Evolve Education may change the interest rate risk management strategy from time to time when it believes it is in the interests of Evolve Education to do so. The availability and terms of such arrangements, and the level of interest rates at the relevant time, will affect the interest expense incurred by Evolve Education and, as a result, the value of, and returns from, an investment in the Shares.

General change in capital structure

Changes in the capital structure of Evolve Education, for example from the raising of further debt or the issue of further equity to repay or refinance debt facilities or to fund the acquisition of additional ECE Centres or Home-based ECE businesses, may affect the value of, and returns from, an investment in the Shares.

General change in laws

Changes in laws (including tax laws) or their interpretation may affect the value of, and returns from, an investment in the Shares. For instance, changes in the taxation treatment of companies may adversely affect the market price of Evolve Education.

Dividend ranking

Dividends rank after the payment of interest on debt facilities. If Evolve Education does not generate sufficient cashflow to meet certain interest coverage ratios, gearing requirements and other covenants under its debt facilities, Shareholders may not receive any dividends. If Evolve Education defaults on

the payment of interest on its debt facilities, Shareholders may not receive any dividends and may suffer loss of capital due to financial institutions exercising their rights under security held over the assets of Evolve Education.

No guarantee

Neither Evolve Education, nor any other person gives a guarantee as to the amount of dividend from the Shares or the performance of Evolve Education or the price at which the Shares may trade, nor do they guarantee the repayment of capital by Evolve Education.

Accounting standards

New Zealand accounting standards are set by the New Zealand Accounting Standards Board (**NZASB**) and are outside Evolve Education's control. Changes to accounting standards issued by the NZASB could adversely affect the financial performance and position reported in Evolve Education's financial statements.

Impact of Hostilities, Terrorism or Other Force Majeure Events

War, other hostilities, terrorism or major catastrophes can adversely affect global and New Zealand market conditions. Such events can have direct and indirect impacts on the Evolve Education's business and earnings.

Liquidity

Following the completion of the Offer, Current Shareholders, the vendors under the Lollipops Educare Acquisition and Hayes Knight Business Services (QLD) Pty Ltd (or nominees) will own 25.28% of Evolve Education. As part of their commitment to Evolve Education, Current Shareholders have entered into, and the vendors under the Lollipops Educare Acquisition and Hayes Knight Business Services (QLD) Pty Ltd (or nominees) will enter into, voluntary escrow arrangements that will see all of the Shares that they hold prior to listing escrowed for two years after listing (refer to Section 8.1 *Details of the Offer* for details of the escrow agreements). This escrow and the high level of ownership by the Current Shareholders may affect the liquidity of Shares post-listing.

There is currently no public market for the Shares. There can be no guarantee that an active market in the Shares will develop or that the Shares will trade in any such market subsequent to completion of the Offer, at or above the Offer Price. Further, failure to achieve listing on ASX will not, of itself, prevent the issue or sale of the Shares under the Offer from proceeding. However, it would mean that there would be no active trading market on the ASX, potentially decreasing the overall liquidity of the Shares.

There will almost certainly be more limited trading of Shares on ASX (as compared to NZX) at any time. This may increase the volatility of the market price of your Shares on ASX. It may also affect the prevailing market price at which you are able to sell your Shares on ASX. Future issues of Shares may dilute your interest in Evolve Education and affect the trading price of Shares.

5.3 Consequences of Insolvency

Shareholders will not be liable to pay any money to any person in the event of Evolve Education's insolvency.

All of Evolve Education's creditors would rank ahead of claims by Shareholders if Evolve Education were liquidated. After all such creditors have been paid, the remaining assets, if any, would be available for distribution among Shareholders who would rank equally among themselves. There may not be sufficient surplus assets to enable you to recover all or any of your investment.

6. Board, Senior Management and Corporate Governance

6.1 Evolve Education's Board of Directors

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 Chairperson, one independent non-executive Director, one non-executive Director and two executive Directors.



Norah Barlow
Chairperson (Independent)
BCA, CA

Norah was previously the CEO of Summerset Group Holdings Limited for 12 years and retired from the role in April 2014, but remains as a non-executive Director. She is an accountant by profession, operating her own partnership for a number of years, prior to becoming the Group Accountant, and then CEO of Summerset Group. Summerset is a large developer and operator of retirement villages, and aged care, and is listed on both the NZX and ASX.

Norah now holds a number of directorships, including Cigna Life Insurance New Zealand Limited, Cooks Global Foods Limited and Ingenia Communities Limited in Australia. She 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.



Mark Finlay
Executive Director (Non-Independent)
BEd

Mark has 13 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 Finlay is also a director and indirect shareholder of LEP Limited, a company that will be the landlord (and owner of the freehold title) of Evolve Education's head office at Level 2, 54 Fort Street, Auckland, four of the Lollipops Educare Owned ECE Centres and three of the Additional Owned ECE Centres. LEP Limited and certain of its related companies will also be granted a licence to use the Lollipops brands on completion of the Lollipops Educare Acquisition Agreement. Further details of these arrangements and other arrangements between LEP Limited and Evolve Education are set out in Section 10 *Statutory Information* under the heading "Interested Persons".

**Greg Kern**

Non-Executive Director (Non-Independent)

BCom, GradDip in Applied Finance and Investment, CA

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 Affinity Education Group Limited.

**Alistair Ryan**

Non-Executive Director (Independent)

MCom, CA

Alistair is an experienced company director and corporate executive. He is a professional company director, 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 companies Metlifecare Limited and Moa Group Limited, a board member and chair of the audit and risk committee of the New Zealand Racing Board, and a director of private companies Christchurch Casinos Limited and Lewis Road Creamery Limited. Alistair is also a member of the FMA-appointed Auditor Regulation Advisory Group.

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

**Alan Wham**

Chief Executive Officer (Non-Independent)

BPharm

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. The Pharmacybrands business was transformed during this period from a small pharmacy services company to a NZX-listed company with a market capitalisation of approximately \$200 million. This was achieved by sector consolidation through mergers and acquisitions, raising capital via existing shareholders, delivering significant synergies and enhancing the performance of pharmacy and medical centre acquisitions. Alan was a director of a large number of subsidiary and joint venture companies within the Pharmacybrands group and built strong relationships across the sector.

Since mid 2013 Alan has been active in governance and advisory roles across the broader health arena, including roles in the governance group for the Community Pharmacy Services Agreement, SimpliHealth, The Ultimate Care Group Limited and Southern Clinical Trials Group Limited. 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.

6.2 Evolve Education's Senior Management Team

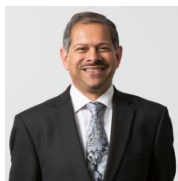
Evolve Education's senior management team will comprise a Chief Executive Officer, a Chief Financial Officer, a Chief Operating Officer, an Executive Director, a General Manager Lollipops, a Financial Controller and a CEO PORSE.



Alan Wham

Chief Executive Officer

See Alan's full biography under the heading "Evolve Education's Board of Directors".



Vivek Singh

Chief Financial Officer and Company Secretary

CA (NZ), CA (India), Grad ICWA (India) and BCom, Mumbai University

Vivek was appointed as Chief Financial Officer of Evolve Education on 1 September 2014. Prior to joining Evolve Education, Vivek was CFO of Pharmacybrands Limited (now Green Cross Health Limited). Vivek has also been CFO and Company Secretary of Radius Security Limited and Evergreen Forests Limited. He has also worked in various finance roles with Repco in New Zealand, Affco New Zealand Limited and Enerco New Zealand Limited. Prior to moving into commerce and industry, Vivek was a Senior Manager at KPMG in Auckland.

Vivek's experience includes acquisitions and mergers, integration of acquired businesses, change management, group financial reporting, group tax management, capital and debt raising, and treasury and money market management.

Vivek is a member of Chartered Accountants Australia and New Zealand and The Institute of Chartered Accountants of India. He is also a graduate member of the Institute of Cost and Works Accountants of India. Vivek completed his Bachelor of Commerce at the Sydenham College of Commerce and Economics, Mumbai University, India.



David Smith

Chief Operating Officer

David was appointed Chief Operating Officer of Evolve Education with effect from 16 September 2014. David has for the last 20 years held several senior management roles in the manufacturing, food, importing/exporting, service and more recently the childcare industry. Before joining Evolve Education, David was a Regional Manager for four years for Kidicorp Education and Care Centres, the largest provider of early childcare education in New Zealand. In this capacity he had financial and operational responsibility for 70 ECE Centres.

David's previous management roles include being a Regional Manager for Compass Group PLC. Prior to that David held two senior leadership roles with Chubb Security, initially as their Auckland Manager and then as the General Manager of a start-up business, Key Hardware, a subsidiary importing, wholesaling and manufacturing business.



Mark Finlay

Executive Director

See Mark's full biography under the heading "Evolve Education's Board of Directors".



Paula Hawkings

General Manager Lollipops

Diploma of Teaching

For the past 11 years Paula has worked in the position of Operations Manager for Lollipops Educare. As a mother of three children, two of whom having been through Lollipops Educare, Paula has a range of skills from understanding the needs of children and managing the day-to-day operations of centres and the Ministry of Education requirements.



Beverley Gordon

Financial Controller

Bachelor of Business

Beverley has spent the last four years as the Financial Controller of the Lollipops Educare Group. During this time she has implemented an Enterprise Resource Planning consolidated computer system and IFRS reporting standards across the group.

Prior to that Beverley spent several years as the Financial Controller for Two Degrees Mobile, the third largest mobile operator in New Zealand. During this time Two Degrees launched in the New Zealand market, and Beverley implemented the integration with Oracle of the recharge platform for prepaid and post paid billing systems. Prior to this Beverley spent 16 years with TVNZ, as Finance Manager for areas such as Technology, Emerging Business, Marketing and Public Relations.

Beverley is a member of Chartered Accountants Australia and New Zealand.



Jenny Yule

CEO PORSE

BEd, Diploma in Teaching

Jenny founded the PORSE Group in 1994 and is currently the CEO. Jenny is the President of HELO (Home Early Learning Organisation) and sits on a number of national advisory and governance groups – New Zealand Teachers Council ECE Advisory Group, Education Review Office External Reference Group, NZQA review of ECE qualification's levels 1-6, Ministry of Education Home-Based Early Childhood Advisory Group and the Royston Hospital Trust Board in Hawke's Bay.

6.3 Directors and Senior Management's interest in Shares

The following table sets out the number of Shares in Evolve Education that the Directors and senior managers (or their associated persons) own prior to, and will own, after the Offer:

Director / senior manager	Shareholding person or entity	Ownership of Evolve Education as at the date of this Offer Document		Indicative ownership of Evolve Education following completion of the Offer on basis that Offer is fully subscribed	
		Ordinary Shares	%	Ordinary Shares	%
Mark Finlay	Mark Finlay and Geoffrey Hosking as trustees of the Mark Finlay Investment No.2 Trust	–	–	20,138,542	11.4%
	Mark Finlay and Mark Dobson Trustee Company Limited as trustees of the HR Finlay Family Trust	–	–	1,208,840	0.7%
Greg Kern	Kern Group NZ Limited	2,285,369	28.19%	2,285,369	1.29%
Alan Wham	Alan Wham	550,000	6.79%	550,000	0.31%
Vivek Singh	Vivek Singh	300,000	3.70%	300,000	0.17%
Norah Barlow	Norah Barlow	80,000	0.99%	80,000	0.05%
Alistair Ryan	Alistair Ryan	80,000	0.99%	80,000	0.05%
David Smith	David Smith	80,000	0.99%	80,000	0.05%
Beverley Gordon	Beverley Gordon	80,000	0.99%	80,000	0.05%
Paula Hawkings	Paula Hawkings	80,000	0.99%	80,000	0.05%

On completion of the Lollipops Educare Acquisition, Evolve Education will issue 36,209,901 fully-paid shares (in aggregate) to the vendors of Lollipops Educare. Of those shares, 20,138,542 fully paid ordinary shares will be 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 will be 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. Mark Finlay is also likely to be considered an associate (as that term is defined in the Takeover Code) of the other vendors of Lollipops Educare under the Takeovers Code.

Directors may apply for Shares under the Broker Firm Offer, in the same manner as any Applicant. To the extent that any Directors acquire Shares, those acquisitions must be disclosed to the market as required by law.

None of the persons named above guarantees, or undertakes any liability in respect of, the Shares.

All the persons noted in the table above have agreed with Evolve Education that, following completion of the Offer, they will not sell any Shares for a period of two years after listing. These restrictions are subject to certain customary exceptions. For further details please see "Escrow Arrangements" in Section 8 *Details of the Offer*.

Evolve Education does not intend to adopt a long term executive incentive scheme prior to listing but the Board will give consideration to developing such a scheme following listing. Evolve Education considers that the shares issued to senior management prior to the date of this Offer Document provide sufficient incentive to management in relation to the performance of the business.

6.4 Corporate Governance

The Evolve Education Board is committed to upholding standards in corporate governance, business behaviour and accountability in order to promote investor confidence. Consistent with this, the Board will adopt the Corporate Governance Best Practice Code set out in the NZX Listing Rules, and, from listing, will have approved corporate governance policies and charters. These corporate governance policies and charters will also reflect the principles and recommendations outlined in the third edition of the Corporate Governance Principles and Recommendations issued by the ASX Corporate Governance Council.

The main policies and practices adopted by Evolve Education, which will take effect from listing, are summarised in Section 6.5 *Board Policies and Procedures*. In addition, many governance elements are contained in Evolve Education's Constitution. Evolve Education's code of conduct outlines the standards of conduct expected of its business and personnel in a range of circumstances. In particular, the code articulates the high standards of honesty, integrity, ethical and law-abiding behaviour expected of Directors, senior management and employees. Details of Evolve Education's key policies and the charters for the Board and each of its committees will be available from listing at www.evolveeducation.co.nz.

Evolve Education is seeking a listing on ASX. The ASX Corporate Governance Council has developed and released corporate governance recommendations for Australian-listed entities in order to promote investor confidence and to assist companies to meet stakeholder expectations. The recommendations are not prescriptions, but guidelines. However, under the ASX Listing Rules, Evolve Education will be required to provide a statement in its annual report disclosing the extent to which it has followed the recommendation in the reporting period. Where Evolve Education does not follow a recommendation, it must identify the recommendation that has not been followed and give reasons for not following it. The Board does not anticipate that Evolve Education will depart from the recommendations of the ASX Corporate Governance Council; however, it may do so in the future if it considers that such a departure would be reasonable.

The Board considers that each of Norah Barlow and Alistair Ryan is an independent director, both under NZX Listing Rules and the ASX Listing Rules. Mark Finlay, Greg Kern and Alan Wham are currently considered by the Board not to be independent under the NZX Listing Rules and the ASX Listing Rules.

With regard to the NZX Listing Rules and the indicators of independence set out in the Corporate Governance Principles and Recommendations issued by the ASX Corporate Governance Council, Mark Finlay is not considered independent given his shareholding in Evolve Education on completion of the Offer, Greg Kern is not considered independent given his association with Kern Group NZ Limited and Alan Wham is currently CEO of Evolve Education and is therefore not independent.

Role of the Board

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

- monitoring the financial performance of Evolve Education, including approving dividend policies and financial forecasts;
- monitoring Evolve Education's compliance and risk management systems;
- providing a specific governance focus on risks relating to Evolve Education'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.

The Board will establish a regular schedule of board meetings in order to carry out its obligations under its Board Charter.

The main policies and practices adopted by the Board, which will take effect from listing, are set out below.

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 Evolve Education's records and 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 Governance and Remuneration 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 following listing.

Audit and Risk Committee

The Audit and Risk Committee is responsible for overseeing the risk management, treasury, insurance, accounting and audit activities of Evolve Education, 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.

If Evolve Education is included in the S&P/ASX 300 Index following admission to the official list of the ASX it will comply with the recommendations set by the ASX Corporate Governance Council in relation to the composition and operation of the Audit and Risk Committee.

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

Governance and Remuneration Committee

The Governance and Remuneration 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 Evolve Education 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.

If Evolve Education is included in the S&P/ASX 300 Index following admission to the official list of the ASX it will ensure that the Governance and Remuneration Committee comprises solely of non-executive independent directors.

The current members of the Governance and Remuneration Committee are Norah Barlow (Chair), Mark Finlay and Alistair Ryan.

6.5 Board Policies and Procedures

Key policies and procedures of Evolve Education, which will be effective from listing, are summarised below. These key policies, as well as the committee charters noted below, will be available from listing on Evolve Education's website (www.evolveeducation.co.nz).

Board Charter

The Board has adopted a Board Charter which sets out the Board's Code of Ethics, encompassing conflicts of interest, corporate information and property, compliance with laws, NZX Listing Rules, ASX Listing Rules, regulations and policies and Directors' obligations. The Board Charter provides guidance on a number of 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.

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 take effect from Evolve Education listing, 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 Evolve Education and in the reasonable expectations of shareholders;
- act in accordance with all applicable laws, regulations, policies and procedures;
- have responsibility and accountability for individuals for reporting and investigating reports of unethical practices; and
- use Evolve Education's resources and property properly.

The code of conduct sets out Evolve Education's policies on various matters including ethical conduct, business conduct, compliance, privacy, security of information and integrity.

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.

Evolve Education is committed to providing a high standard of communication to its Shareholders so that they have available sufficient information in order to make informed assessments of Evolve Education'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.

Once Evolve Education's Shares are quoted on the NZX Main Board and on ASX, it will be required to comply with the NZX Listing Rules, ASX Listing Rules and the disclosure requirements of securities and other laws in New Zealand and Australia. The Board has adopted a Continuous Disclosure Policy to seek to ensure that timely and balanced disclosures are communicated to the market.

Risk management

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

Dividend Policy

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

- current profitability;
- current and medium-term capital expenditure requirements;
- working capital requirements; and

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

The payment of dividends is not guaranteed and Evolve Education'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 Evolve Education, the Board's discretion, and the impact on Evolve Education's business of the risk factors (discussed in Section 5 *Risks*).

Subject to the above, Evolve Education intends to make dividend payments to Shareholders twice each year in respect of the half years ending 30 September and full years ending 31 March. The current intention of the Board is to pay dividends between 40% and 60% of NPAT in respect of the preceding half year period. However, the actual percentage of dividends paid to NPAT is expected to vary over time reflecting the above factors. The first dividend is expected to be made for the half year period ending 30 September 2015 (which would, if declared, be paid in December 2015). It is the Board's intention to attach imputation credits to dividends to the extent they are available. However the extent of available imputation credits will be a factor the Board will consider in determining whether to pay a dividend.

You can find full details of Evolve Education's dividend policy (including tax implications for investors) in Section 7.2 *Prospective Financial Information* under the heading "Dividends".

Securities Trading Policy and Guidelines

Evolve Education's Securities Trading Policy and Guidelines details Evolve Education's policy on, and rules for dealing in, shares and other securities in Evolve Education and applies regardless of whether those securities are quoted on NZX or ASX. The fundamental rule is that insider trading is prohibited at all times. The policy will apply to all Directors, officers and employees of Evolve Education, with further more specific and stringent rules also applying to trading in Evolve Education's securities by Directors and certain senior employees, or employees performing certain functions. The policy, which reflects the requirements of ASX Listing Rule 12.7, also prescribes certain 'black-out' periods in which it is not permissible, subject to a limited number of exceptions, for any Evolve Education officer or employee to deal in Evolve Education securities.

Conflict of Interest Policy

Evolve Education's Conflict of Interest Policy provides guidance regarding the impartial conduct of Directors, and identifying and impartially managing any conflicts of interest. Where there is a conflict of interest, there is an obligation to disclose that conflict to the Board and enter it in the interests register in accordance with the Board Charter. The 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.

Diversity Policy

Evolve Education has adopted a diversity policy which obligates the Board to set objectives in achieving diversity. Evolve Education will ensure effective promotion of diversity in the workplace and will review its policies in order to maximise the outcomes so they are utilised at management level.

6.6 Director Remuneration

Director remuneration

Norah Barlow, as Chairperson, will receive \$135,000 per annum. The non-executive Directors will each receive \$80,000 per annum. Alistair Ryan, as Chairperson of the Audit and Risk Committee, will receive an additional \$10,000 per annum. Alan Wham as Chief Executive Officer will not receive additional remuneration in his capacity as a Director. The Directors fees currently total \$385,000. However, Evolve Education has set the Director fee pool for all Directors at \$500,000 per annum in aggregate in order to accommodate the appointment of an additional director if required and to allow further payments to be made to Directors should additional work be required. The Directors are also

entitled to be paid for reasonable travel, accommodation and other expenses incurred by them in connection with their attendance at Board or Shareholder meetings, or otherwise in connection with Evolve Education's business.

Directors' indemnity and insurance

Evolve Education 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 Evolve Education, in each case to the extent permitted by the Companies Act and the Securities Act. The Deed of Indemnity and Access by Deed Poll is described further in Section 10 *Statutory Information* under the heading "Material Contracts".

7. Financial Information

This Section contains certain historical and prospective financial information for Evolve Education. The financial information should be read in conjunction with the risk factors set out in Section 5 *Risks* and the other information contained in this Offer Document.

Included within this section is:

7.1 Introduction to Evolve Education's Financial Information

An overview of how Evolve Education makes money and the main drivers of its financial performance to help readers better understand the financial information provided in this Offer Document.

7.2 Prospective Financial Information

PFI for the period commencing on incorporation of Evolve Education and ending 31 March 2015 (**FY15F**), and the year ending 31 March 2016 (**FY16F**). This forecast is presented on the same basis that future NZ GAAP compliant financial statements will be prepared.

7.3 Pro forma Prospective Consolidated Income Statement

The Pro forma Prospective Consolidated Income Statement presents the Prospective Financial Information that has been adjusted for specific items to assist potential investors with understanding the underlying forecast performance of the Evolve Education business.

7.4 Reconciliation of Non-GAAP Financial Information

A reconciliation from the Non-GAAP measures of profitability to the PFI. This section details how Non-GAAP measures are used by Evolve Education to monitor performance. The reconciliation of Non-GAAP information adjusts the statutory prospective financial information to reverse certain costs relating to:

- the Offer process;
- the purchase of the Initial Portfolio, such as legal fees and commissions; and
- the integration of business processes and systems.

7.5 Pro Forma Statement of Financial Position

The Pro Forma Statement of Financial Position shows Evolve Education's expected financial position immediately upon completion of the Offer and completion of the acquisition of the entire Initial Portfolio (on the basis that completion of the acquisition of the entire Initial Portfolio is shown to have occurred immediately on completion of the Offer as if these had occurred on 31 August 2014).

7.6 Accounting Policies

7.7 Investigating Accountant's Report

7.8 Statutory Audit Report

7.9 Description of Evolve Education's Financing Arrangements

Included in Appendix 1 – *Historical Financial Information* are:

- Summary financial statements in tabular form for Evolve Education in respect of the period commencing on incorporation of Evolve Education and ending on 31 August 2014.
- Summary financial statements in tabular form based on special purpose audited financial statements for Lollipops Educare Holdings Limited in respect of the financial years ended 31 March 2014 and 31 March 2013.

- Summary financial statements in tabular form for PORSE In-Home Childcare (NZ) Limited, PORSE Franchising (NZ) Limited and PORSE Education & Training (NZ) Limited in respect of the financial years ended 31 December 2013, 2012, 2011, 2010 and 2009 and summary financial statements in tabular form for FOR Life Education & Training (NZ) Limited in respect of the financial years ended 31 December 2013 and 2012.
- Audited financial statements for Evolve Education for the period commencing on incorporation of Evolve Education and ending on 31 August 2014, being a date that is not more than 4 months prior to the date of this Offer Document, as required by clause 23(3) of Schedule 1 of the Securities Regulations.
- Special purpose audited financial statements for Lollipops Educare Holdings Limited for the financial year ended 31 March 2014.
- Audited financial statements for PORSE In-Home Childcare (NZ) Limited, PORSE Franchising (NZ) Limited, PORSE Education & Training (NZ) Limited, and FOR Life Education & Training (NZ) Limited for the financial year ended 31 December 2013.

Declarations

The Financial Information presented relates to Evolve Education Group Limited and subsidiaries. Full details of the entities that comprise the Evolve Education Group are set out in Section 10 *Statutory Information* under the heading “Principal subsidiaries of issuer”.

Certain information included in this section (including EBITDA, EBITDA before one-off acquisition, integration and listing-related costs) is Non-GAAP financial information. The statutory financial statements will be prepared in accordance with NZ GAAP and comply with New Zealand equivalents to International Financial Reporting Standards (NZIFRS).

This Offer Document contains a detailed description and analysis of Evolve Education’s industry (see Section 4.1 *Industry Overview – Early Childhood Education in New Zealand*) and business (see Section 4.2 *Business Description*). You are strongly encouraged to read that detail in conjunction with the financial information set out below, and also Section 5 *Risks*.

Securities Act Exemptions

Evolve Education (and any person acting on its behalf) were granted the Securities Act (Evolve Education Group Limited) Exemption Notice 2014 (**Exemption Notice**), which came into force on 14 November 2014. Under the Exemption Notice, Evolve Education has been granted exemptions from clauses 12(3)(a) to (e) of Schedule 1 of the Securities Regulations in respect of the Additional Owned ECE Centres and the other related businesses to be acquired by Evolve Education (other than Lollipops Educare and PORSE) (each an **Exempt Business**, and together the **Exempt Businesses**). Evolve Education has also been granted exemptions from clauses 12(3)(d) and (e) of Schedule 1 of the Securities Regulations in respect of Lollipops Educare.

Exempt Businesses

- The exemption from clause 12(3)(a) of Schedule 1 permits Evolve Education to not include in this Offer Document the name of the member of the issuing group that will acquire each Exempt Business. Instead this Offer Document contains in Section 4.2 *Business Description* a map of New Zealand showing the town or city where each Exempt Business to be acquired is located and a statement that each Exempt Business will on completion of the acquisition be owned by Evolve Education or a wholly owned subsidiary of Evolve Education.
- The exemption from clause 12(3)(b) of Schedule 1 permits Evolve Education to not include in this Offer Document the amount of consideration payable for each Exempt Business. Instead this Offer Document contains under the heading “Other Acquisitions” in Section 10 *Statutory Information* a statement of the total purchase price payable for all Exempt Businesses in aggregate.
- The exemption from clause 12(3)(c) of Schedule 1 permits Evolve Education to not include in this Offer Document a brief description of the business of each Exempt Business in the course

of the five years before the date this Offer Document is delivered to the Registrar of Financial Service Providers for registration. Instead this Offer Document contains in Section 4.2 *Business Description* a brief description of the general nature of the Exempt Businesses as a whole rather than a separate description of each Exempt Business.

- The exemption from clause 12(3)(d) of Schedule 1 permits Evolve Education to not include in this Offer Document summary financial statements for each Exempt Business in respect of the five accounting periods preceding the date this Offer Document is delivered to the Registrar of Financial Services Providers for registration that comply with clause 9(2) to (4) of Schedule 1 of the Securities Regulations.
- The exemption from clause 12(3)(e) of Schedule 1 permits Evolve Education to not include in this Offer Document either (i) a reference to the latest financial statement for each Exempt Business that comply with and have been registered under the Financial Reporting Act 1993, the accounting period covered by those statements and the date of registration, or (ii) audited financial statements for each Exempt Business prepared in accordance with generally accepted accounting practice for the relevant accounting period.

Directors' confirmations in respect of the Exempt Businesses exemptions

- The financial information usually required under clauses 12(3)(a) to (e) of Schedule 1 in respect of the Exempt Businesses is identified under the heading "Exempt Businesses" above.
- The financial information usually required under clauses 12(3)(a) to (e) of Schedule 1 in respect of the Exempt Businesses is not provided because it is impractical to provide the required information in respect of every Exempt Business. Additionally, in respect of clauses 12(3)(d) and (e) of Schedule 1, the quality and reliability of the information for each Exempt Business is of varying quality, inconsistent and would not in every case reflect the cost base of the Exempt Business once it has been acquired by Evolve Education. Evolve Education considers that compiling and providing the information required by these clauses does not provide any useful information and may be misleading.
- It is the opinion of the Directors of Evolve Education that not including the information required by clauses 12(3)(a) to (e) of Schedule 1 in respect of the Exempt Businesses will not have a material adverse effect on subscribers.
- This Offer Document contains prospective financial information of the issuing group for the period commencing on incorporation of Evolve Education and ending 31 March 2015 and the year ending 31 March 2016 consistent with clause 11(1)(c)(ii) of Schedule 1 of the Regulations, and an investigating accountants report. The reasons why the Directors of Evolve Education consider it appropriate to provide the alternative financial information set out in this Offer Document and the reasons why the Directors consider that this alternative financial information is more useful in assessing the merits of the offer, are that it shows the prospective financial information of the entire Evolve Education Group (including the Exempt Businesses) based on the assumptions made in relation to the acquisition of the entire Initial Portfolio (including the Exempt Businesses).

Lollipops Educare

- The exemption from clause 12(3)(d) of Schedule 1 permits Evolve Education to not include in this Offer Document summary financial statements for Lollipops Educare in respect of the five accounting periods preceding the date this Offer Document is delivered to the Registrar of Financial Services Providers for registration that comply with clause 9(2) to (4) of Schedule 1 of the Securities Regulations. Instead this Offer Document includes in Appendix 1 – *Historical Financial Information* summary financial statements based on special purpose audited financial accounts for FY14 and FY13 for Lollipops Educare that include Lollipops Educare and only those subsidiaries of Lollipops Educare at completion of the acquisition Lollipops Educare, which the Directors consider better illustrates the Lollipops Educare business as it will be acquired by Evolve Education.
- The exemption from clause 12(3)(e) of Schedule 1 permits Evolve Education to not include in this Offer Document either (i) a reference to the latest financial statement for Lollipops Educare that comply with and have been registered under the Financial Reporting Act 1993,

the accounting period covered by those statements and the date of registration, or (ii) audited financial statements for Lollipops Educare prepared in accordance with generally accepted accounting practice for the relevant accounting period. Instead this Offer Document contains in Appendix 1 – *Historical Financial Information* special purpose audited financial statements for Lollipops Educare for FY14 with comparatives for FY13 that include Lollipops Educare and only those subsidiaries of Lollipops Educare at completion of the acquisition Lollipops Educare, which the Directors consider better illustrates the Lollipops Educare business as it will be acquired by Evolve Education.

Directors' confirmations in respect of the Lollipops Educare exemptions

- The financial information usually required under clauses 12(3)(a) to (e) of Schedule 1 in respect of Lollipops Educare is identified under the heading “Lollipops Educare” above.
- The financial information usually required under clauses 12(3)(a) to (e) of Schedule 1 in respect of Lollipops Educare is not provided because:
 - it will not provide any useful information beyond that already provided in the summary financial statements and special purpose financial accounts for Lollipops Educare included in this Offer Document; and
 - it is likely to be misleading as it would include financial information about companies that will not be part of the Lollipops Educare Group at completion of the Lollipops Educare Acquisition.
- It is the opinion of the Directors of Evolve Education that not including the information required by clauses 12(3)(a) to (e) of Schedule 1 in respect of Lollipops Educare will not have a material adverse effect on subscribers.
- The reasons why the Directors of Evolve Education consider it appropriate to provide the alternative financial information set out in this Offer Document are as set out above and the Directors consider that this alternative financial information is more useful in assessing the merits of the Offer as it more accurately reflects the historic financial performance of Lollipops Educare as it will be acquired by Evolve Education.

7.1 Introduction to Evolve Education's Financial Information

A Summary of how Evolve Education makes money

The following provides a simplified overview of the key drivers of Evolve Education's financial performance as an introduction to assist in reading the detail in the rest of this section. Evolve Education's business model is to identify, acquire, integrate and manage childcare related businesses and operations throughout New Zealand.

Evolve Education ultimately makes money through the provision of quality childcare services, based both within ECE Centres and through Home-based ECE.

Key Drivers of Evolve Education's Financial Performance

The following factors will have a significant impact on the financial performance and net cash flows generated by Evolve Education, but they are not an exhaustive list of all the relevant factors.

- **Occupancy:** Each ECE Centre needs to care for a certain number of children in order to operate profitably. This varies from centre to centre and will be a key area of focus for Evolve Education. Occupancy can also be influenced by new ECE Centres being established by other ECE operators in areas that Evolve Education also operates.
- **Government funding of early childhood:** The level of Government funding provided to subsidise the cost of preschool aged children using ECE services has a direct impact on the demand for the services that Evolve Education provides. Changes in funding and changing the focus on funding could result in changing levels of demand and cost structures for Evolve Education.
- **Parent fees:** A key component of revenue for ECE Centres is parent fees, which are fees that ECE service providers can charge to parents or caregivers for child enrolment hours over 20 Hours ECE. In Evolve Education's case, parent fees are forecast to contribute approximately 34% of its ECE Centre revenue in FY16F. Parent fees are set on a centre by centre basis having regard to demand, cost and occupancy.
- **Staffing Levels:** Each ECE Centre and Home-based ECE business requires appropriate levels of qualified or trained staff and other staff to ensure the safe and compliant operation while at the same time ensuring that employment costs relative to child numbers, on a daily basis, are controlled. A higher level of Ministry of Education funding is available for the use of qualified teachers.
- **Building occupancy costs:** Building occupancy costs relate to lease costs and related property expenses. Evolve Education leases all of its buildings. The rental expenses have been set at market rates, with provision for periodic review to market rates.
- **ECE Centre Direct Expenses:** Direct expenses of providing services represent non-employee and non-occupancy expenses incurred at the centre level as part of providing childcare services. Forecast costs include nappies, food, IT, consumables and costs associated with local marketing and advertising. The centre manager is responsible for the day to day management of these costs, with oversight from the executive management.
- **Home-based Licences and number of children:** Government funding is received according to the number of licensed children that are provided services by the Home-based ECE service provider. Sufficient licences need to be held to ensure that appropriate funding is received for children under care.
- **Corporate Overheads:** Corporate overheads relate to management costs, governance and costs incurred on behalf of the Evolve Education Group companies such as insurance. These costs will be managed within a budget developed for the purposes of the PFI.

- **Other factors** which will drive future performance are Evolve Education's ability to identify and acquire additional businesses at an appropriate price and to successfully integrate them into Evolve Education.

7.2 Prospective Financial Information

7.2.1 Introduction

This section includes the prospective financial information as required by clause 11(1)(c) of Schedule 1 of the Securities Regulations. The prospective financial information relates to the consolidated group position of Evolve Education and includes:

- The basis of preparation for the PFI of Evolve Education;
- Prospective Consolidated Statement of Comprehensive Income;
- Prospective Consolidated Statement of Movements in Equity;
- Prospective Consolidated Statement of Financial Position;
- Prospective Consolidated Statement of Cash Flows;
- Notes to the Prospective Financial Information including a description of the general and specific assumptions on which the PFI has been prepared and an analysis of the sensitivities of the PFI to changes in key assumptions; and
- A summary of the significant accounting policies adopted by Evolve Education in the preparation of the PFI.

The statutory auditor's report in relation to the PFI, as required by clause 28 of Schedule 1 of the Securities Regulations, is included in Section 7.8.

All amounts disclosed in the tables are presented in New Zealand dollars and, unless otherwise noted, are rounded to the nearest thousand dollars.

7.2.2 Basis of Preparation

The PFI for FY15F and FY16F has been prepared in accordance with the requirements of FRS-42 Prospective Financial Statements, as required by the Securities Regulations.

The PFI has been prepared with reference to the actual historical financial information for the following companies being acquired: Lollipops Educare; PORSE; and the other related businesses to be acquired⁵⁸. Based on FY16F, these entities make up 30 of the ECE Centres and all the Home-Based ECE businesses to be acquired and 53% of Evolve Education's revenue for that financial year. The Directors consider that due to the varying levels of availability and consistency of financial information in respect of the 55 Additional ECE Centres, and the inconsistent application of accounting policies across these centres, prospective investors are better informed by the use of consistent assumptions across all individual Additional ECE Centres and this better reflects the cost base under Evolve Education ownership. This includes the level of fixed assets and working capital at each ECE Centre. It is in respect of the unavailability or unreliability of historical financial information for all Additional ECE Centres that Evolve Education received the exemption as described earlier in this Section 7 *Financial Information*.

The PFI, including the assumptions underlying it, is the responsibility of, and has been prepared by management and approved by the Directors. It is based on the Directors' assessment of events and conditions existing at the date of this Offer Document and the accounting policies and assumptions set out under the headings "Notes to the Prospective Financial Information" below. These assumptions

⁵⁸ These being a company that operates a Home-based ECE business and a company that manages 20 ECE Centres for third parties.

should be read in conjunction with the sensitivity analysis and Evolve Education's accounting policies set out further below, and the risk factors set out in Section 5 *Risks*.

PFI by its nature involves risks and uncertainties, many of which are beyond the control of Evolve Education. The Directors believe that the PFI has been prepared with due care and attention, and consider the assumptions, when taken as a whole, to be reasonable at the time of preparing this Offer Document.

Actual results are likely to vary from the information presented as anticipated events and results may not occur as expected, and the variations may be material. Accordingly, neither the Directors nor any other person can provide any assurance that the PFI will be achieved and investors are cautioned not to place undue reliance on the PFI.

The PFI is presented in New Zealand dollars and is rounded to the nearest thousand.

The PFI FY15F will only include a maximum of three and a half months trading revenue and expenses as the acquisitions that comprise the Initial Portfolio are anticipated to be purchased in the December 2014 to March 2015 period, with the majority being completed in December 2014 and January 2015.

There is no present intention to update the PFI or to publish PFI in the future. Evolve Education will present a comparison of the PFI with actual financial results when reported in accordance with NZ GAAP and Regulation 44 of the Securities Regulations.

The Directors are responsible for and have authorised for issue the PFI on 14 November 2014 specifically for use in this Offer Document and not for any other purpose.

Prospective Consolidated Statement of Comprehensive Income

	Period ending 31 March 2015	Year ending 31 March 2016
\$'000s	Forecast	Forecast
Revenue from continuing operations	29,028	136,221
Share in equity accounted investee's profit	55	272
Employee expenses	(17,492)	(72,474)
Building occupancy expenses	(3,789)	(16,082)
Direct expenses of providing services	(3,852)	(16,560)
Acquisition expenses	(4,126)	-
Other expenses	(6,137)	(5,673)
Total expenses	(35,397)	(110,788)
EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTISATION	(6,313)	25,705
Depreciation	(339)	(1,520)
Amortisation	(121)	(418)
Net finance expense	(2,117)	(674)
(LOSS)/PROFIT BEFORE TAX	(8,891)	23,094
Income tax expense	(607)	(6,466)
(LOSS)/PROFIT AFTER TAX	(9,498)	16,627
Other comprehensive income	-	-
Total comprehensive income	(9,498)	16,627

Prospective Consolidated Statement of Changes in Equity

	Contributed Equity	Reserves	Retained Earnings / (Losses)	Total
\$'000s	Forecast	Forecast	Forecast	Forecast
Balance as at 20 May 2014	-	-	-	-
Profit for the Period	-	-	(9,498)	(9,498)
Other comprehensive income for the period	-	-	-	-
Total Comprehensive income	-	-	(9,498)	(9,498)
Dividends Paid	-	-	-	-
Share based payment reserve	-	-	-	-
Issue of share capital (net of costs)	156,945	-	-	156,945
Balance as at 31 March 2015	156,945	-	(9,498)	147,447
Profit for the Period	-	-	16,627	16,627
Other comprehensive income for the period	-	-	-	-
Total Comprehensive income	156,945	-	7,129	164,075
Dividends Paid	-	-	(4,154)	(4,154)
Share based payment reserve	-	-	-	-
Issue of share capital (net of costs)	489	-	-	489
Balance as at 31 March 2016	157,434	-	2,975	160,409

Prospective Consolidated Statement of Financial Position

	As at 31 March 2015	As at 31 March 2016
\$'000s	Forecast	Forecast
Current assets		
Cash and cash equivalents	22,822	39,318
Trade, receivables and other current assets	3,188	2,908
Total current assets	26,010	42,226
Non-current assets		
Property, plant and equipment	5,657	4,901
Investments	1,832	2,104
Intangibles	163,804	163,386
Total non-current assets	171,292	170,392
Total assets	197,302	212,618
Current liabilities		
Trade and other payables	(8,197)	(10,674)
Funding received in advance	(12,285)	(13,326)
Employee entitlements	(5,060)	(5,299)
Lease liabilities	(589)	(682)
Other current liabilities	(2,364)	(868)
Total current liabilities	(28,495)	(30,849)
Non-current liabilities		
Deferred tax liability	(1,340)	(1,340)
Bank borrowings	(20,000)	(20,000)
Finance lease liability	(19)	(19)
Total non-current liabilities	(21,360)	(21,360)
Total liabilities	(49,855)	(52,209)
Net Assets	147,447	160,409
Equity		
Issued share capital	156,945	157,434
(Accumulated losses)/Retained earnings	(9,498)	2,975
Total Equity	147,447	160,409

Prospective Consolidated Statement of Cash Flows

	Period ending 31 March 2015	Year ending 31 March 2016
\$'000s	Forecast	Forecast
Cash flows from operating activities		
Receipts from customers (incl MOE funding)	33,503	137,489
Payments to suppliers and employees	(31,921)	(109,786)
Taxes paid	(303)	(4,608)
Net cash flows from operating activities	1,279	23,095
Cash flows from investing activities		
Payments for purchase of businesses	(115,680)	(1,140)
Payments for property, plant and equipment	(682)	(764)
Net cash flows from investing activities	(116,362)	(1,904)
Cash flows from financing activities		
Proceeds from issue of Shares	132,317	-
Share issue costs	(12,357)	-
Financing costs	(2,056)	(540)
Bank borrowing drawn/(repaid)	20,000	-
Pre-Listing funding received	1,798	-
Pre-Listing funding repaid	(1,798)	-
Proposed Dividend Payment	-	(4,154)
Net cash flows from financing activities	137,905	(4,695)
Net cash flows	22,822	16,496
Cash and Cash Equivalents at Beginning of Period	-	22,822
Cash and Cash Equivalents at End of Period	22,822	39,318

7.2.3 Segment analysis

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 Evolve Education Group, has been identified as the CEO.

It is intended that Evolve Education will operate as two reporting segments, being ECE Centres and Home-based ECE. The operating results are expected to be reviewed on this basis in the short to medium term.

To provide further information on the split between centre-based and home-based ECE services, the table below has been included.

	Period ending 31 March 2015	Year ending 31 March 2016
\$'000s	Forecast	Forecast
Revenue		
ECE Centre based revenue	21,564	105,131
Home-based ECE revenue	7,195	29,973
Other revenue	269	1,117
Total revenue	29,028	136,221
EBITDA		
ECE Centre based EBITDA	4,048	27,460
Home-based ECE EBITDA	696	3,042
Total EBITDA for ECE Centres and Home-based ECE	4,744	30,502
Corporate and Management	(3,928)	(4,797)
EBITDA before acquisition, integration and listing costs	816	25,705

7.2.4 Notes to the Prospective Financial Information

The PFI has been prepared based upon various assumptions concerning future events, including those set out below. In preparing the PFI, Evolve Education has undertaken an analysis of the historical performance of the Initial Portfolio and applied assumptions in order to forecast future performance for the period ending 31 March 2015 and the year ending 31 March 2016.

The analysis of the historical performance included historical operational and financial information including, but not limited to, occupancy reports provided by the vendors of the businesses that comprise the Initial Portfolio (Vendor Occupancy Reports), reports made to the Ministry of Education to obtain funding and, to the extent available, financial statements for the year ended 31 March 2014 (or 31 December 2013 where relevant) or more recent periods where information was available (**Vendor Financial Information**).

The Vendor Financial Information was used to provide a basis for the preparation of the PFI. Evolve Education judged that it was not appropriate to include all the Vendor Financial Information in this Offer Document because it had not been uniformly prepared in accordance with the recognition and measurement principles of NZ GAAP and in most cases had not been the subject of an audit or review. References to Vendor Financial Information in this Offer Document have been provided to add context to Evolve Education's assumptions and should be read with consideration of the limitations outlined above.

The assumptions set out below should be read in conjunction with the sensitivity analysis set out below, the risk factors set out in Section 5 *Risks* and the *Investigating Accountant's Report* set out in Section 7.7.

7.2.5 General Assumptions

In preparing the PFI, the following general assumptions have been adopted:

- Other than the entry of Evolve Education, no significant change will occur in the competitive environment in which Evolve Education operates;
- No material changes in the statutory, legal or regulatory environment that applies to Evolve Education's business will occur, in particular the ECE regime. This includes the continuation of Government support and funding for the ECE sector, and the basis of the existing funding model will continue with no material changes in the Prospective Period. The PFI assumes an increase in Ministry of Education funding of 0.69% from 1 July 2015;
- No material changes in general economic and business conditions will occur including levels of inflation, employment and interest rates;

- No changes in current income tax legislation will occur;
- No material changes in NZ GAAP, other mandatory professional reporting requirements, or the accounting policies of Evolve Education will occur which would have a material impact on the financial results of Evolve Education;
- No material impact from the loss of key personnel will occur. There is a risk that there will be a level of employee turnover which may become more pronounced after the change to Evolve Education ownership, for example with respect to centre managers. Evolve Education has incentivised certain key executives in order to retain the executive management team;
- No material litigation or dispute to which Evolve Education is a party will occur;
- The Offer proceeds in accordance with the timetable set out in Section 1.3 *Key Dates* of this Offer Document; and
- The PFI has been compiled on the basis that general inflation will be at 1.6% per annum on all costs from 1 July 2015. This is based on inflation rates for the New Zealand economy.

7.2.6 Specific Assumptions

Offer Proceeds and acquisition

As part of the Offer process, contributed equity will be \$156.9 million representing the issue of share capital of \$169.3 million offset by issuance costs of \$12.4 million. These issuance costs relate to adviser costs and brokerage costs. The issue of share capital of \$169.3 million is equal to that raised under the Offer (\$132.3 million), issued to the Lollipops Educare vendors (\$36.2 million) and issued to employees, advisers and directors (valued at \$0.775 million at grant date). The shares issued to employees, advisers and directors equal 1,699,438 shares.

Acquisition of the Initial Portfolio

The table below provides a summary of the acquisitions which are expected to occur during the period from December 2014 to March 2015. The total acquisition cost is equal to \$167.2 million. The acquisition cost includes expected earn-out payments which will be payable to the vendors should the entities meet the earnings expectations as detailed in the Prospective Period. These earn-out payments have been discounted back to a present value estimate as at December 2014, as required by NZ IFRS.

Acquisition Cost	\$'m
Additional Owned ECE Centres	77
Lollipops	67
Other related businesses	1
Total ECE Centres	145
PORSE	11
Other related businesses	2
Total Home-based ECE	14
Total ECE Centres and Home-based ECE during December 2014 and January 2015	158
Additional Owned ECE Centres to be acquired by 31 March 2015	9
Total ECE Centres and Home-based ECE assumed to be acquired during Prospective Period (FY15F)	167

The further details relating to the acquisition of the following companies are set out in Section 10 *Statutory Information* under the headings “Acquisition of business or subsidiary” and “Material Contracts”:

- Lollipops Educare Holdings Limited (100%);

- PORSE In-Home Childcare (NZ) Limited (100%);
- PORSE Franchising (NZ) Limited (100%);
- PORSE Education & Training (NZ) Limited (100%); and
- FOR Life Education & Training (NZ) limited (100%).

Revenue

The PFI assumes Evolve Education earns revenue from two main sources:

- Owned ECE Centre fees; and
- Home-based ECE fees.

Owned ECE Centre fees

The level of childcare fees is dependent upon three drivers:

Occupancy

Evolve Education has forecast occupancy at a centre by centre level. Where an ECE Centre operated at mature levels (long run expected occupancy levels) throughout the year ended 31 March 2014, Evolve Education has assumed occupancy levels in line with historical levels for FY15F and FY16F. This is based on management's analysis of the centres being acquired.

Where an ECE Centre was not at maturity for the whole of the year ended 31 March 2014, management has based its occupancy assumptions on the monthly occupancy rates being achieved prior to the Offer and those expected as the ECE Centres reach maturity. The forecast occupancy in these ECE Centres during the Prospective Period has been assessed on a centre-by-centre basis, applying local market conditions such as competition and with reference to historical experience of current mature centres when at the same stage of growth.

An allowance has been made for the seasonality in occupancy occurring over the 2014/2015 Christmas holiday period. Management has also made an allowance for a small decline in occupancy over the period January 2015 and March 2015 to allow for the integration of the Additional Owned ECE Centres into the Evolve Education Group. The assumed declines are -4% in January 2015, -3% in February 2015 and -2% in March 2015.

Average occupancy rates for FY16F are forecast to be 87%. Occupancy is calculated relative to the maximum Ministry of Education's funding hours.

Daily rates - Ministry of Education Funding

Management has forecast the funding is to be received from the Ministry of Education based on the number of children forecast to attend the Owned ECE Centres. A higher level of funding is received from the Ministry of Education for children under two years of age, compared to those over the age of two. An increase of 0.69% received per child has been assumed from July 2015 in the PFI. This is based on average historical increases over the last four years.

Daily rates – Parent Fees

The PFI assumes increases of between 3.0% and 1.6% for the parent fees from 1 April 2015 in respect of the Lollipops Educare ECE Centres and 1 July 2015 in respect of the Owned ECE Centres. The assessment of increase has been based on a centre by centre analysis and has regard to historical price increases, demand at those ECE Centres and local competition. Where management is less familiar with the Owned ECE Centres, an approach has been taken with little or no increase in the forecast. This increase is being targeted to recover inflation expected to occur over the Prospective Period and the provision of a statutory holiday on a Monday when Waitangi Day and Anzac Day fall on the weekend.

The PFI assumes 34% of Owned ECE Centre revenue is received from the parents in FY16F. This assumption is based upon Vendor Financial Information on the proportion of parent funding currently being achieved at each ECE Centre and assumes that there is no change in the mix of the age of children currently in the ECE Centres.

Home-based ECE fees

The majority of revenue is received from the Ministry of Education. Reported revenue does not include the 20 Hours ECE subsidy which is passed on to the educators.

The level of Home-based ECE fees is dependent upon the following drivers:

The number and age of children

A higher level of funding is received from the Ministry of Education for children under two years of age, compared to those over the age of two.

Daily Rates – Ministry of Education Funding

An increase in the amount received of 0.69% from July 2015 from the Ministry of Education per licensed child has been assumed in the PFI. This is based on the average increase received over the last four financial years.

Number of Licences Held

Forecast funding from the Ministry of Education is based on the standard of care provided and the number of licences held. Up to 80 children per licence are funded. The PFI assumes an increase of 4.0% in child numbers in the Home-based ECE business based on the movement in children between 31 March 2015 and 31 March 2016. The Home-based ECE business holds sufficient licences to cater for the projected growth in child numbers.

Expenses

Employee expenses

Employee expenses comprise the wages and salaries (and related expenses such as ACC levies and Kiwisaver contributions) of Owned ECE Centres, Home-based ECE and corporate office employees.

Employee numbers at the ECE Centre level have been based upon staff to child ratios as required by the Ministry of Education and as presently operated in the ECE Centres. The Home-based ECE businesses budget for employee numbers based on a ratio of staff to children.

Corporate office employee numbers have been calculated using a bottom up approach based upon existing numbers and the expected number of staff required to operate Evolve Education following completion of the Offer. The existing organisational structure of Lollipops Educare Holdings Limited has been used as a basis for the human resource requirements of Evolve Education with additional resource assumed to reflect the further businesses acquired.

Corporate office salary assumptions are based upon existing employee agreements and market based remuneration for vacant roles.

The PFI forecasts assume an inflationary increase of 1.6% in employee expenses from July 2015 for ECE Centres and Home-based ECE.

Building occupancy expenses

Building occupancy expenses comprise primarily ECE Centre rent per the current lease, adjusted in line with NZ IFRS to reflect fixed future rent increases. The lease terms and rents are at market rates.

LEP Limited, a company of which Mark Finlay is a director and indirect shareholder (along with the other vendors of Lollipops Educare) is the landlord (and owner of the freehold title) of Evolve Education's head office at Level 2, 54 Fort Street, Auckland and is or will be the landlord of four of the Lollipops Educare Owned ECE Centres and three of the Additional Owned ECE Centres.

The PFI assumes an inflationary increase of 1.6% in building occupancy expenses from July 2015. This is based on inflation rates for the New Zealand economy.

Direct expenses of providing ECE Centre services

Direct expenses of providing ECE Centre services represent non-employee and non-occupancy expenses incurred at the ECE Centre level as part of providing childcare services. Forecast costs include cleaning, learning and development resources, nappies, food, IT, repairs and maintenance, consumables and costs associated with local marketing and advertising.

These assumptions are based on a bottom up analysis, utilising Management's experience combined with historical expenditure in the Vendor Financial Information as a benchmark.

The PFI assumes an inflationary increase of 1.6% in direct expenses from July 2015.

Other expenses

Other expenses comprise predominantly non-employee corporate office expenses including governance related expenditure e.g. audit, listing and share registry fees, travel, legal and insurance. Other expense assumptions are based on a bottom up approach.

Transaction costs that relate to the issue of shares are treated as costs that relate to the issue of an equity instrument and in accordance with NZ IFRS are recorded as a deduction of the Offer proceeds. All other transaction costs are recorded as part of the one-off acquisition, integration and listing costs in the profit and loss statement.

The PFI assumes an inflationary increase of 1.6% in other expenses from July 2015.

Depreciation and amortisation

Depreciation is calculated on a basis consistent with the Accounting Policy detailed later in this section.

Net finance expenses

Net finance expenses represent interest charged on the drawn facilities offset by interest earned on the cash in bank, establishment fees, interest on earn outs, plus a return amount on the loans provided by Kern Group NZ Limited, Wraith Capital Group NZ Limited, and Stuart and Gillian James as trustees of the S.B. James Superannuation Fund (as referred to in Section 10 *Statutory Information* under the heading "Material Contracts"), which will be repaid on completion of the Offer from the Offer proceeds. The interest expense, being the return amount, relating to these loans is \$1.798 million. This expense will be incurred in period ending 31 March 2015.

Evolve Education is forecast to draw down \$20 million of debt on completion of the Offer. This debt will be used to fund acquisition and related costs, and ensure that the company is adequately capitalised to trade over the first quarter of 2015. The PFI has treated this as term debt on the basis that it is the intention of the company to consider further acquisitions, which are not forecast in the PFI. Evolve management will implement capital management strategies having regard to the liquidity requirements, dividend policy and future acquisitions being considered by Evolve Education.

Taxation

A corporate income tax rate of 28% has been assumed in the PFI, being the current rate applicable in New Zealand. The tax expense reflects the extent to which expenses incurred by Evolve Education are deductible. Evolve Education is expected to be in a tax paying position during FY15F and later periods.

Capital expenditure

Capital expenditure is based on Management's assessment of a general level of refurbishment required on acquisition of the Initial Portfolio, plus a specific provision in instances where this has been identified for a particular ECE Centre. Capital expenditure of \$100,000 has been budgeted for the establishment of Evolve management head office. Management is forecasting total capital expenditure over the Prospective Period of \$1.4 million. The allocation of this expenditure is detailed in the table below.

Capital expenditure	Period ending 31 March 2015 (\$'000)	Year ending 31 March 2016 (\$'000)
ECE Centres	465	410
Home-based ECE	117	354
Other	100	-
Total	682	764

Accounts Receivable, accounts payable and other current assets and liabilities

Accounts Receivable, accounts payable and other current assets and liabilities have been forecast on terms materially the same as those experienced historically.

The pre funding of childcare by the Ministry of Education results in significant movements in the working capital position and cash balances of Evolve Education. The funding cycle for the Ministry of Education Funding is in March, July and November. Evolve Education will manage its cash position and term debt having regard to future working capital requirements, acquisitions, capital expenditure and dividends.

Ministry of Education Liabilities and employee entitlement liabilities

At acquisition, Evolve Education will acquire a service obligation to provide services to the Ministry of Education with respect to funding which has already been provided to the business. At settlement, the purchase price of the entities will be adjusted to reflect the Ministry of Education liabilities acquired to the extent that these liabilities are unfunded by the vendors. Likewise, provision has been made within the PFI forecasts for employee entitlements which are expected to be acquired at settlement. These adjustments will likely require modification to allow for the date of settlement with each of the respective vendors.

Financing and Bank Facilities

Evolve Education intends to enter into the New Financing Arrangements with ASB Bank Limited (**ASB**) during the Offer period. Further details of the New Financing Arrangements are set out in Section 7.9 *Description of Evolve Education Group's Financing Arrangements*. The new banking facilities will be available upon successful completion of the Offer (subject to customary conditions precedent being satisfied). Evolve Education forecasts that it will draw down \$20 million under the senior revolving facility on completion of the Offer.

	Facility commitment	Drawdown at IPO
Senior revolving facility	\$30 million	\$20 million
Acquisition facility	\$60 million	-
Lease guarantee facility	\$3 million	
Total New Banking Facilities	\$93 million	\$20 million

Senior Revolving Facility

The senior revolving facility will be used to enable the initial acquisition of childcare businesses and as core bank debt to support the business. This facility will expire on 30 April 2018. However, the facility may be extended by a further 12 months on the anniversary of the date of the facilities agreement with the approval of ASB.

Acquisition Facility

The acquisition facility will be used to fund future acquisitions of childcare ECE Centres. This facility will expire on 30 April 2018. However, the facility may be extended by a further 12 months on the anniversary of the date of the facilities agreement with the approval of ASB.

Lease guarantee Facility

The lease guarantee facility will be used for bonding purposes for rental leases.

Financial Undertakings

The agreement under which the New Financing Arrangements will be made available will contain undertakings given by Evolve Education Group which will be usual for facilities of this nature. The undertakings will include financial undertakings which will be tested at regular intervals during the year based upon historical results. The financial undertakings are described in Section 7.9 *Description of Evolve Education Group's Financing Arrangements*.

The PFI does not indicate any issues in relation to this and Evolve Education expects to remain in compliance with these undertakings.

Dividends

The current intention of the Board is to pay dividends on a half yearly basis of between 40% and 60% of NPAT in respect of the preceding half year period, with the first dividend expected to be paid for the half-year period ending 30 September 2015 (which would, if declared, be paid in December 2015).

In determining whether to declare future dividends, the Directors will have regard to Evolve Education's earnings, overall financial condition and requirements, the outlook for the childcare industry, the taxation position of Evolve Education and future capital requirements. Further details of Evolve Education's dividend policy are set out in Section 6.5 *Board Policies and Procedures* under the heading "Dividend Policy".

Dividends, if any, will be paid as an interim dividend prior to 31 December each year and as a final dividend prior to 30 June each year. Any interim dividend will be determined after taking into consideration all relevant matters including half year and forecast trading results. Any final dividend will be determined after taking into account the final trading results for the year, the interim dividend and other considerations. No assurance or guarantee can be given about the future dividend policy, the extent of future dividends or the timing or imputation credits attached to any dividend.

Dividends, when declared, are expected to be fully imputed for New Zealand tax purposes but no franking credits are expected to be available for Australian tax purposes.

In line with the Board's current intention, the PFI assumes the proposed payment of an interim dividend in December 2015 of \$4.2 million. The interim dividend represents 50% of the total forecast dividend. The total forecast dividend is 50% of the FY16F NPAT. This dividend is presented gross of any resident withholding tax payable.

Sensitivity Analysis

The PFI is based upon a number of estimates and assumptions as described above. These estimates and assumptions are subject to business, economic and competitive uncertainties and contingencies, many of which are beyond the control of Evolve Education, the Directors and Management. These estimates are also based on assumptions with respect to future business decisions, which are subject to change.

Set out below is a summary of the key sensitivities of the forecast statement of comprehensive income for FY16F to changes in a number of key assumptions. The changes in the key assumptions set out in the sensitivity analysis are intended to provide a guide only and are not intended to be indicative of the complete range of variations that may be experienced. They are for information purposes only to

allow potential investors to gain an understanding of the sensitivities of financial outcomes to changes in these key assumptions.

Care should be taken in interpreting these sensitivities as they consider movements in an assumption on an isolated basis, whereas in reality the effects of movements in an assumption may be offset or compounded by movements in other assumptions. Furthermore in the normal course of business, Management would be expected to respond to any changes in these key variables to minimise the net effect on financial performance.

The four key assumptions that are considered to have a significant impact on the prospective financial performance are set out below.

- **Average Occupancy:** As detailed in the key assumptions, the occupancy of the Owned ECE Centres is a key driver of revenue. This could be impacted by a number of different factors such as the extent of funding provided by the Ministry of Education and the quality of the employees at the Owned ECE Centres. For the purposes of the sensitivity calculation above, it is assumed that a 1% movement occurs evenly across all the Owned ECE Centres and has nil effect on employee expenses.
- **Daily rate per child:** The daily rate per child is calculated from the Ministry of Education and, in the case of ECE Centres, also parents/caregivers. This rate is a function of local market conditions. If there was a change in the level of competition in the areas in which Evolve Education operates or a perceived change in the quality of individual ECE Centres, it may impact the daily rate able to be recovered. This sensitivity assumes a movement in the daily rate across all ECE Centres with no change in cost base.
- **Employee expenses:** Employee expenses are forecast based on Ministry of Education regulations regarding child to staff ratios and current wage levels adjusted for future wage inflation. The sensitivity below addresses a 1% movement in employee expenses across all the Owned ECE Centres and Home-based ECE.
- **Number of ECE Centres acquired:** ECE Centres are forecast based on those expected to settle on completion of the Offer or within a period of three and a half months following completion of the Offer. The sensitivity below demonstrates the impact of an increase / (reduction) in the number of ECE Centres acquired.
- **Building occupancy expenses:** Building occupancy expenses relate largely to lease costs. The sensitivity below demonstrates the impact of a movement of 1% in building occupancy costs.
- **Number of children in Home Care:** The movement in child numbers in the Home-based ECE businesses measures the sensitivity of profitability to changes in demand.

Summary of key sensitivities

The table below ranks the sensitivities according to significance.

Assumption	Increase/ decrease	FY16F NPAT impact
Average occupancy - ECE Centres	+/- 1%	\$0.9 million
Daily rate per child - ECE Centres and Home-based ECE	+/- 1%	\$0.9 million
Employee expenses - ECE Centres and Home-based ECE	+/- 1%	\$0.5 million
Number of Centres Acquired	+ / -1 Centre	\$0.2 million
Building occupancy expenses - ECE Centres and Home-based ECE	+/- 1%	\$0.1 million
Number of children - Home-based ECE	+/- 1%	\$0.1 million

7.3 Pro forma Prospective Consolidated Income Statement

The following Non-GAAP financial information represents prospective financial information that has been adjusted for specific items to assist potential investors with understanding the underlying forecast performance of the Evolve Education business.

Pro forma Prospective Consolidated Income Statement

	Period ending 31 March 2015	Year ending 31 March 2016
\$'000s	Forecast	Forecast
Revenue from continuing operations (3)	29,028	136,221
Share in equity accounted investee's profit (4)	55	272
Employee expenses (5)	(17,492)	(72,474)
Building occupancy expenses (6)	(3,789)	(16,082)
Direct expenses of providing services (7)	(3,852)	(16,560)
Other expenses (8)	(3,134)	(5,673)
Total expenses	(28,267)	(110,788)
EBITDA before acquisition, integration and listing related costs	816	25,705
Depreciation (10)		(1,520)
Amortisation (10)		(418)
Net finance expense (11)		(674)
Net Profit before Tax		23,094
Income Tax Expense (12)		(6,466)
Net Profit after Tax		16,627

Notes:

1. The Pro Forma Prospective Consolidated Income Statement excludes acquisition, integration and listing related costs as shown in 7.4 *Reconciliation of Non-GAAP Financial Information*. Refer to Section 7.2 *Prospective Financial Information* for information on key assumptions used in preparing the PFI. The numbers shown have not been rounded.
2. The period ending 31 March 2015 represents the financial performance of Evolve Education since 20 May 2014, being the date of incorporation, to 31 March 2015. The results assume completion of the Acquisition Agreements occurs in the period from December 2014 to March 2015, with the majority being completed during December 2014 and January 2015. As such the period to 31 March 2015 will include a maximum of three and a half months trading.
3. Revenue is comprised of childcare fees and government funding in respect of Owned ECE Centres and Home-based ECE businesses.
4. Share in equity accounted investee's profits is comprised of Evolve Education's share of earnings derived from a jointly controlled operation.
5. Employee expenses comprise the wages and salaries (and related expenses such as ACC levies and Kiwisaver contributions) of Owned ECE Centres, Home-based ECE and corporate office employees.
6. Building occupancy expenses is comprised of property lease expenses and related property costs. Evolve Education leases all of its premises.
7. Direct expenses of providing services are those incurred in the direct provision of ECE services.
8. Other expenses are comprised predominantly of corporate office expenses such as audit, travel and insurance.
9. The one-off acquisition, integration and listing costs excluded are described in Section 7.4 *Reconciliation of Non-GAAP Financial Information*.

10. Depreciation and amortisation relates to tangible and intangible assets to be acquired by Evolve Education and arising on acquisition of the Initial Portfolio. These assets are depreciated/amortised over their useful economic lives. The amortisation charge relates to software assets, customer lists and training materials acquired.
11. Net finance expenses represent interest charged on drawn facilities offset by interest earned on the cash in bank (refer to Section 7.2.6 *Specific Assumptions* under the heading "Net finance expenses"). The interest charge includes a payment of \$1.798 million to Stuart and Gillian James as trustees of the S.B. James Superannuation Fund, Kern Group NZ Limited and Wraith Capital Group NZ Limited under the Loan Agreements referred to in Section 10 *Statutory Information* under the heading "Material contracts" and interest charges in relation to earn-outs agreed with respect to the acquisition of PORSE and other entities included in the Initial Portfolio.
12. Income tax expense reflects a 28% company tax rate for the Prospective Periods.

Explanation of Non-GAAP financial information

Evolve Education's audited financial statements to 31 August 2014 set out in Appendix 1 have been prepared in accordance with NZ GAAP. They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) as applicable for profit orientated entities. The Prospective Financial Information set out in Section 7.2 also complies with NZ IFRS.

In addition to GAAP measures of profitability, Evolve Education will also monitor its profitability using the Non-GAAP financial measures, such as of EBITDA. A reconciliation between EBITDA and NPAT is presented in Section 7.4 *Reconciliation of Non-GAAP Financial Information*.

EBITDA and EBITDA excluding one-off acquisition, integration and listing related costs

EBITDA is not defined by NZ GAAP, IFRS or any other body of accounting standards and therefore Evolve Education's calculation of this measure may differ from similarly titled measures presented by other companies. This measure is intended to supplement the NZ GAAP measures presented in Evolve Education's financial information, should not be considered in isolation and is not a substitute for those measures.

EBITDA excluding one-off acquisition, integration and listing related costs reflects a number of adjustments relating to the acquisition of the Initial Portfolio and listing (see Section 7.4 *Reconciliation of Non-GAAP Financial Information*).

7.4 Reconciliation of Non-GAAP Financial Information

Set out below is a reconciliation of Non-GAAP profitability measures (as described in Section 7.3 *Pro forma Prospective Consolidated Income Statement* under the heading “Explanation of Non-GAAP financial information”) with the prospective financial information set out in Section 7.2, together with a description of the various adjustments. EBITDA is a key metric which management monitors to operate the business. The measure provides a metric which measures the operating performance of the business and which is often used by the analysts to assess the enterprise value of the business.

Reconciliation of Non-GAAP Financial Information

	Period ending 31 March 2015 (1,2)	Year ending 31 March 2016
\$'000s	Forecast	Forecast
Statutory NPAT	(9,498)	16,627
Net Finance Expense	2,117	674
Income Tax Expense	607	6,466
EBIT	(6,774)	23,768
Depreciation	339	1,520
Amortisation	121	418
EBITDA including one-off acquisition, integration and listing related costs	(6,313)	25,705
Acquisition Expenses	4,126	-
Integration Expenses	1,430	-
Listing Costs	1,253	-
Other	320	-
Total adjustments for one-off items	7,130	-
EBITDA excluding one-off acquisition, integration and listing related costs	816	25,705

Notes:

1. Refer to Section 7.2 *Prospective Financial Information* for information on key assumptions used in preparing the PFI.
2. The period ending 31 March 2015 represents the actual financial performance of Evolve Education since 20 May 2014 and the projected financial performance to 31 March 2015. The results assume completion of the Acquisition Agreements occurs in the period from December 2014 to March 2015, with the majority being completed over the period December 2014 to January 2015.

Explanations of adjustments made in arriving at EBITDA excluding one-off acquisition, integration and listing related costs

The Non-GAAP measures of EBITDA, EBITDA excluding one-off acquisition, integration and listing related costs have been described under the heading “Explanation of Non-GAAP Financial Information” in Section 7.3 *Pro forma Prospective Consolidated Income Statement* under the heading “Explanation of Non-GAAP financial information”.

- Acquisition expenses:** In acquiring the Initial Portfolio, Evolve Education will incur certain expenses directly relating to those acquisitions including agents’ commissions, legal fees, financing fees and financial, tax and operational due diligence fees.
- Integration expenses:** Non-recurring costs associated with the integration of the businesses will be expensed.
- Listing costs:** These relate to NZX and ASX listing costs and non-recoverable GST. All listing costs are expensed in the statutory forecast results. These expenses are not tax-deductible.

- d. **Other expenses:** These relate to a provision for legal expenses and settlement costs that have been incurred by Evolve Education in connection with an employment related dispute, which has now been settled.

7.5 Pro Forma Statement of Financial Position

The Pro Forma Statement of Financial Position set out below shows Evolve Education's expected financial position immediately upon completion of the Offer and completion of the acquisition of the entire Initial Portfolio (on the basis that completion of the acquisition of the entire Initial Portfolio is shown to have occurred immediately on completion of the Offer as if these had occurred on 31 August 2014).

Pro forma Statement of Financial Position 31 August 2014

	As at 31 August 2014 (1)	IPO Proceeds (2)	Bank Debt raised at IPO (3)	Acquisition, Integration and Listing Costs incurred since 31 August (4)	Acquisitions (5) (6)	Pro Forma Balance Sheet as at 31 August 2014 (7)
\$'000s	Actual					Pro-forma
Current assets						
Cash and cash equivalents	35	120,735	20,000	(4,992)	(108,422)	27,357
Trade and other receivables	673	-	-	-	618	1,291
Other current assets	2,092	-	-	-	542	2,634
Total current assets	2,800	120,735	20,000	(4,992)	(107,262)	31,282
Non-current assets						
Property, plant and equipment	-	-	-	-	5,074	5,074
Investments (8)	-	-	-	-	482	482
Intangibles	13	-	-	-	153,974	153,987
Total non-current assets	13	-	-	-	159,529	159,542
Total assets	2,813	120,735	20,000	(4,992)	52,267	190,824
Current liabilities						
Trade and other payables	(3,969)	-	-	-	(4,282)	(8,251)
Funding received in advance	-	-	-	-	(5,302)	(5,302)
Employee entitlements	-	-	-	-	(4,291)	(4,291)
Lease liabilities	-	-	-	-	(559)	(559)
Other current liabilities	(1,677)	-	-	-	(1,605)	(3,282)
Total current liabilities	(5,646)	-	-	-	(16,038)	(21,684)
Non-current liabilities						
Bank borrowings	-	-	(20,000)	-	-	(20,000)
Other	-	-	-	-	(19)	(19)
Total non-current liabilities	-	-	(20,000)	-	(19)	(20,019)
Total liabilities	(5,646)	-	(20,000)	-	(16,057)	(41,703)
Net Assets	(2,833)	120,735	-	(4,992)	36,210	149,121
Equity						
Issued share capital	-	120,735	-	-	36,210	156,945
Retained earnings	(2,833)	-	-	(4,992)	-	(7,825)
Total equity	(2,833)	120,735	-	(4,992)	36,210	149,121
Parent Shareholder Equity	(2,833)	120,735	-	(4,992)	36,210	149,121
Non-controlling Interests	-	-	-	-	-	-
Total Equity	(2,833)	120,735	-	(4,992)	36,210	149,121

Basis of preparation

1. Sourced from the audited statement of financial position for Evolve Education as at 31 August 2014 (set out in full in Appendix 1 – *Historical Financial Information*). Evolve Education was established for the purpose of acquiring the Initial Portfolio.
2. The net proceeds raised will be used to acquire the Initial Portfolio. These proceeds are reflected net of issuance costs incurred by Evolve Education. Issuance costs are forecast to be \$12.4 million.
3. Evolve Education intends to draw down \$20 million of revolving debt on completion of the Offer to partially fund the acquisition of the Initial Portfolio and ensure that Evolve Education has adequate liquidity. The high cash position on Completion of the Offer is required to fund the business over the period to March 2015, when Evolve Education will receive its first payment from the Ministry of Education. The Ministry of Education part funds the provision of services in advance.
4. Acquisition and Listing costs are incurred over the period leading up to and including the completion of the Offer. Expenses incurred in acquiring the Initial Portfolio will be expensed through the profit and loss account.
5. The acquisitions comprising the Initial Portfolio will be concluded during the period from December 2014 to March 2015 following completion of the Offer. The PFI assumes that on average the acquisitions will occur on 31 December. The purchase price for these acquisitions has been allocated based on an estimate of the split between tangible and intangible assets. The fair value of the tangible assets to be acquired is estimated to be approximately \$40,000 per ECE Centre. The intangible assets are expected to include brands, customer contracts and software assets in Lollipops and the PORSE Group. No separately identifiable intangible assets have been identified for the Owned ECE Centres. The final allocation of the purchase price between these elements will occur following completion of the Offer. As part of the settlement process on acquisitions, Evolve Education will acquire Ministry of Education service obligations. The purchase price for the acquisitions will be reduced to the extent that these liabilities are not funded in the target companies and businesses. The Pro-forma balance sheet contains an estimate of the liabilities expected to be acquired, based on assumptions as to revenue and timing of the transactions. The net tangible assets acquired are based on Lollipops at 31 March 2014, the PORSE Group at 31 August 2014, and the other related businesses that Evolve Education has contracted to acquire at 31 March 2014⁵⁹. Due to the lack of GAAP historical financial information available in respect of the 55 Additional ECE Centres, assumptions on the net assets have been applied consistently across these centres for inclusion in the Pro Forma Statement of Financial Position based on underlying financial metrics and supporting analysis. The Pro Forma Statement of Financial Position has been prepared assuming that these transactions occurred on 31 August 2014.
6. The intangible asset balance of \$153.99 million is comprised of goodwill, brands, software, customer lists and training material assets to be acquired. The brands acquired relate to Lollipops Educare and PORSE.
7. The Pro Forma balance sheet presents an estimate of the opening balance sheet following the acquisitions of the Initial Portfolio, as if the transactions and Offer had been completed on 31 August 2014.
8. This relates to an equity accounted investee held by Lollipops Educare Holdings Limited.

⁵⁹ These being a company that operates a Home-based ECE business and a company that manages 20 ECE Centres for third parties.

7.6 Accounting Policies

The PFI has been prepared based on the significant accounting policies adopted by Evolve Education which are in accordance with NZ IFRS. Significant accounting policies are summarised below.

The preparation of financial information requires the application of accounting policies. The selection of accounting policies requires judgement and application of policies requires estimates and assumptions to be applied. Actual results may differ to those derived from the application of accounting policies where actual outcomes vary to assumptions and estimates made.

Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in the PFI and have been applied consistently across all Evolve Education entities.

a. Basis of consolidation

i. 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 Evolve Education. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, Evolve Education takes into consideration potential voting rights that currently are exercisable.

Evolve Education 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 and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in the Statement of Comprehensive Income. Consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts generally re recognised in profit and loss.

ii. Subsidiaries

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

iii. Investments in associates and jointly controlled entities (equity accounted investees)

Associates are those entities in which Evolve Education has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when Evolve Education holds between 20% and 50% of the voting power of another entity. 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 associates and jointly controlled entities 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 Evolve Education'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 significant influence or joint control commences until the date that significant influence or joint control ceases.

When Evolve Education'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 Evolve Education has an obligation or has made payments on behalf of the investee.

iv. Loss of control

On the loss of control, Evolve Education 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 Statement of Comprehensive Income. If Evolve Education 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.

v. 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. 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 entity, and specific criteria have been met for each of Evolve Education's activities as described below:

Ministry of Education funding

Ministry of Education funding is recognised initially as income received in advance and is then recognised in the Statement of Comprehensive Income on a systematic basis over the period to which the funding relates. 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 or when a contractual right to the income arises, whichever is earlier.

Interest income

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

c. Income tax

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in the 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 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. Current tax also includes any tax liability arising from the declaration of dividends.

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 Evolve Education takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. Evolve Education 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. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes Evolve Education to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

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.

d. 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 Statement of Comprehensive Income.

Property, plant and equipment expenses with individual values under \$500 are not capitalised, they are recognised as an expense in the Statement of Comprehensive income.

Depreciation

Depreciation is charged based on the cost of an asset less its residual value. Depreciation is charged to the Statement of Comprehensive income on a straight line basis over the estimated useful lives of each component of an item of property, plant and equipment. Leased assets are depreciated over a shorter of the lease term and their useful lives unless it is reasonably certain that Evolve Education will obtain ownership by the end of the lease term. The following depreciation rates ranges have been used:

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 reporting date and adjusted if appropriate.

e. Intangible assets

Goodwill

Goodwill 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.

Subsequent measurement

Goodwill is 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.

Other intangible assets

Other intangible assets that are acquired by Evolve Education and have finite and indefinite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses. Other intangible assets have been amortised over their estimated useful lives:

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

Subsequent expenditure

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

Amortisation

Except for goodwill and intangible assets that have indefinite lives or are not yet available for use, intangible assets are amortised on a straight-line basis in the Statement of Comprehensive Income over their estimated useful lives, from the date that they are available for use.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

f. Leased assets

Leases in terms of which Evolve Education 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 Evolve Education's statement of financial position.

g. Financial instruments

i. Non-derivative financial assets

Non-derivative financial assets

Evolve Education classifies non-derivative financial assets into the following category: loans and receivables. Evolve Education initially recognises loans and receivables on the date that they are originated.

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.

Loans and receivables comprise cash and cash equivalents, trade and other receivables and loans to subsidiaries and other related parties.

Evolve Education derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by Evolve Education is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, Evolve Education 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.

ii. Non-derivative financial liabilities

Evolve Education initially recognises financial liabilities on the date that they are originated.

Evolve Education derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Evolve Education classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other payables.

Bank overdrafts that are repayable on demand and form an integral part of Evolve Education's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

iii. Share capital

Ordinary shares

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.

h. Impairment

i. Non-derivative financial assets

A financial asset not carried at fair value through the 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, restructuring of an amount due to Evolve Education on terms that Evolve Education would not consider otherwise, indications that a debtor will enter bankruptcy and adverse changes in the payment status of debtors.

ii. Financial assets measured at amortised cost

Evolve Education considers evidence of impairment for financial assets measured at amortised cost (loans and receivables) at both a specific asset and collective level. All individually significant assets are assessed for specific

impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment Evolve Education uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

Any impairment losses are recognised in the Statement of Comprehensive Income and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. Interest on the impaired asset continues to be recognised. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the Statement of Comprehensive Income.

iii. Non-financial assets

The carrying amounts of Evolve Education'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 aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

Impairment losses are recognised in the Statement of Comprehensive Income. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

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.

i. 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 business combinations 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.

Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on the market approach and cost approaches using quoted market prices for similar items when available and depreciated replacement cost when appropriate. Depreciated replacement cost reflects adjustments for physical deterioration as well as functional and economic obsolescence.

j. Employee benefits

Provision is made for the Company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs are measured at the amounts expected to be paid when the liabilities are settled.

k. Provisions

A provision is recognised if, as a result of a past event, Evolve Education has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

l. Trade and other payables

These amounts represent liabilities for goods and services provided to Evolve Education prior to the end of financial year which are unpaid. Trade and other payables are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

m. Expenses

Operating lease payments

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

Determining whether an arrangement contains a lease

At inception of an arrangement, Evolve Education determines whether such an arrangement is or contains a lease. This will be the case if the following two criteria are met:

- the fulfilment of the arrangement is dependent on the use of a specific asset or assets; and
- the arrangement contains a right to use the asset(s).

At inception or upon reassessment of the arrangement, Evolve Education separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If Evolve Education concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using Evolve Education's incremental borrowing rate.

Finance expenses

Finance expenses comprise interest expense on borrowings, seed capital, establishment fees and earn outs agreed upon the acquisition of certain entities within the Initial Portfolio. All borrowing costs are recognised in the Statement of Comprehensive Income using the effective interest method.

n. Goods and services tax

All amounts are shown exclusive of Goods and Services Tax (GST), except for trade receivables and trade payables that are stated inclusive of GST.

It is assumed that there will be no unanticipated changes to Accounting Standards, the Companies Act 1993 or other financial reporting requirements that may have a material effect on Evolve Education's accounting policies during the Prospective Period.

7.7 Investigating Accountant's Report



The Directors
Evolve Education Group Limited
Level 2, 54 Fort Street
Auckland 1010
New Zealand

14 November 2014

Investigating Accountant's Limited Assurance Report on Prospective Financial Information

We have prepared this investigating accountant's limited assurance report (Report) in accordance with the terms of our engagement letter dated 21 August 2014, on certain prospective financial information of Evolve Education Group Limited ("Evolve") and its subsidiaries (together "Evolve Group"), for inclusion in a prospectus to be dated 14 November 2014 (the Prospectus) relating to the Initial Public Offering of ordinary shares in Evolve Education Group Limited (the Offer). Expressions defined in the Prospectus have the same meaning in this Report. This Report is an independent limited assurance report, the scope of which is set out below.

Directors' responsibilities for the Prospective Financial Information

The Directors are responsible for the preparation and presentation of the Prospective Financial Information, including the assumptions based on best information that are reasonable and supportable (as required in FRS-42 Prospective Financial Information issued in New Zealand), on which the Prospective Financial Information is based.

Our responsibility

You have requested PricewaterhouseCoopers to prepare this Report which covers the prospective financial information of the Evolve Group for the period ending 31 March 2015 and the year ending 31 March 2016, including notes and assumptions thereto, on pages 69 to 81, referred to as the "Prospective Financial Information".

Our responsibility is to express a conclusion as a result of our limited assurance engagement on the Prospective Financial Information in accordance with International Standard on Assurance Engagements (New Zealand) 3000, issued in New Zealand, applicable to assurance engagements other than audits or reviews of historical financial information.

Our procedures consisted primarily of enquiry, discussion and comparison and other such analytical review procedures we considered necessary so as to form an opinion as to whether anything has come to our attention which causes us to believe that in all material respects:

- a) the Directors' assumptions based on best information do not provide a reasonable and supportable basis (as defined by FRS-42) for the Prospective Financial Information;
- b) the Prospective Financial Information was not properly prepared on the basis of the assumptions based on our understanding; and



- c) the Prospective Financial Information is not presented fairly in accordance with the recognition and measurement principles prescribed in New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and the accounting policies adopted by Evolve Group disclosed on pages 89 to 96 of this prospectus.

The Prospective Financial Information has been prepared by the Directors to provide investors with a guide to Evolve Group's potential future financial performance based upon the achievement of certain economic, operating, development and trading assumptions about future events and actions that have not yet occurred and may not necessarily occur. There is a considerable degree of subjective judgement involved in the preparation of the Prospective Financial Information. Actual results may vary materially from the Prospective Financial Information and the variation may be materially positive or negative. Accordingly, investors should have regard to the risk factors set out in Section 5 - Risks.

The scope of this engagement has not extended to performing any procedures by way of audit, review or verification of the underlying records or other sources from which the amounts included in the Prospective Financial Information were extracted. The procedures performed do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than that given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion on the Prospective Financial Information.

Conclusion on the Prospective Financial Information

Based on our limited assurance procedures on the Prospective Financial Information and the Director's assumptions, which is not an audit, nothing has come to our attention which causes us to believe that, in any material respect:

- a) the Directors' assumptions based on best information set out in the Prospective Financial Information section of the Prospectus, and subject to the risks set out elsewhere in the Prospectus, do not provide a reasonable and supportable basis (as defined by FRS-42) for the Prospective Financial Information;
- b) the Prospective Financial Information was not properly prepared on the basis of the assumptions based on best information; and
- c) the Prospective Financial Information is not presented fairly in accordance with the recognition and measurement principles prescribed in NZ IFRS and other mandatory professional reporting requirements in New Zealand, and the accounting policies adopted by the Evolve Group disclosed on pages 89 to 96 of this prospectus.

The assumptions set out in the Prospective Financial Information section of the Prospectus which form the basis of the Prospective Financial Information are subject to significant uncertainties and contingencies, which are often outside the control of Evolve Group. If events do not occur as assumed, actual results and distributions achieved by Evolve Group may vary significantly from the Prospective Financial Information. Accordingly, we do not confirm or guarantee the achievement of the Prospective Financial Information, as future events, by their very nature, are not capable of independent substantiation.

Independence or disclosure of interest

PricewaterhouseCoopers does not have any interest in the outcome of the Offer other than the preparation of this Report and participation in due diligence in connection with the Prospectus and



integration advisory services being performed in respect of the Evolve Group businesses, for which normal professional fees will be received. We have no relationship with or interests in any member of the Evolve Group other than in our capacities as auditor, investigating accountant, tax adviser and providers of other advisory and assurance services. These services have not impaired our independence as investigating accountant of Evolve Group.

Restrictions on Use of our Report

This report is made solely to the directors of Evolve for inclusion in the Prospectus. We disclaim any assumption of responsibility for any reliance on this Report or on the Prospective Financial Information to which this Report relates for any purpose other than the purpose for which it was prepared. This Report should be read in conjunction with the Prospectus. However, we take no responsibility for, nor do we report on, any part of the Prospectus not specifically mentioned in this report. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the directors of Evolve for the conclusions that we have formed.

Yours faithfully

A handwritten signature in cursive script that reads 'PricewaterhouseCoopers'.

Chartered Accountants

Auckland

7.8 Statutory Audit Report



The Directors
Evolve Education Group Limited
Level 2, 54 Fort Street
Auckland 1010
New Zealand

14 November 2014

Report of the Independent Auditor for inclusion in the Prospectus

Dear Directors

As auditor of Evolve Education Group Limited (“Evolve”) we have prepared this report pursuant to clause 28 of Schedule 1 of the Securities Regulations 2009 (the “Regulations”) for inclusion in the Prospectus to be dated 14 November 2014 (the “Prospectus”).

The Prospectus includes:

- a) the financial statements of Evolve and its subsidiaries (together the “Evolve Group”) which comprise the statement of financial position as at 31 August 2014, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the period then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both Evolve and the Evolve Group, as required by clause 23(3) of Schedule 1 of the Securities Regulations 2009;
- b) summary financial statements of the Evolve Group which comprise the summary statement of financial position as at 31 August 2014, the summary statement of comprehensive income, the summary statement of changes in equity and the summary statement of cash flows for the period then ended, as required by clause 9(1) of Schedule 1 of the Securities Regulations 2009;
- c) summary financial statements of Lollipops Educare Holdings Limited, PORSE In-Home Childcare (NZ) Limited, PORSE Franchising (NZ) Limited, PORSE Education & Training (NZ) Limited and FOR Life Education & Training (NZ) Limited (businesses to be acquired by Evolve) (the “Material Acquisitions”) as required by clause 12(3)(d) of Schedule 1 of the Securities Regulations 2009, as amended by the Securities Act (Evolve Education Group Limited) Exemption Notice 2014 (the “Exemption Notice”). These summary financial statements comprise summary statements of financial position, summary statements of comprehensive income, summary statements of changes in equity and summary statements of the cash flows as at and for the periods required by clause 12(3)(d) of Schedule 1 of the Securities Regulations 2009, as amended by the Exemption Notice; and
- d) the prospective financial statements of the Evolve Group, which comprise the statement of financial position as at 31 March 2015 and 31 March 2016, the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the periods then ending, including the assumptions on which they are based, as required by clause 11 of Schedule 1 of the Securities Regulations 2009.

The summary financial statements do not contain all the disclosures required for full financial statements under generally accepted accounting practice in New Zealand. Reading the summary financial statements therefore is not a substitute for reading the full financial statements of Evolve Group or the Material Acquisitions.



This report is made solely to the Directors, for the purpose of clause 28 of Schedule 1 of the Securities Regulations 2009. Our work has been undertaken so that we might state those matters we are required to state to the Directors in a report from the auditor and for no other purpose. To the fullest extent permitted by law and subject to the Securities Act 1978 and Securities Regulations 2009, we do not accept or assume responsibility to anyone other than the Directors for this report. In addition, we take no responsibility for, nor do we report on, any part of the prospectus not specifically mentioned in this report.

Directors' Responsibilities

Evolve's Directors are responsible for the preparation and presentation of:

- a) the financial statements of the Evolve Group as required under clause 23(3) of Schedule 1 of the Securities Regulations 2009, that comply with the Financial Reporting Act 1993, and which comply with generally accepted accounting practice in New Zealand and which give a true and fair view of the matters to which they relate 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;
- b) the summary financial statements of the Evolve Group for the period ended 31 August 2014 as required under clause 9(1) of Schedule 1 of the Securities Regulations 2009;
- c) the summary financial statements of the Material Acquisitions as required by clause 12(3)(d) of Schedule 1 of the Securities Regulations 2009, as amended by the Exemption; and
- d) the prospective financial statements of the Evolve Group, for the period ending 31 March 2015 and the year ending 31 March 2016 including the assumptions on which they are based, as required by clause 11 of Schedule 1 of the Securities Regulations 2009.

Auditor's Responsibilities

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

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

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

We are also responsible for reporting, in accordance with clause 28 of Schedule 1 of the Securities Regulations 2009, on:

- a) the amounts included in the summary financial statements of the Evolve Group for the period ended 31 August 2014;
- b) the amounts included in the summary financial statements of the Material Acquisitions; and



- c) the prospective financial statements of the Evolve Group, for the period ending 31 March 2015 and the year ending 31 March 2016.

In respect of the summary financial statements of the Evolve Group and the Material Acquisitions we have undertaken reasonable procedures pursuant to clause 28(1)(h) of Schedule 1 of the Securities Regulations 2009. Our engagement was conducted to obtain reasonable assurance that, in all material respects, the amounts set out in the summary financial statements and presented in accordance with clause 9(1) and 12(3) of Schedule 1 of the Securities Regulations 2009, as amended by the Exemption Notice, included in the Prospectus have been correctly taken from the audited and unaudited financial statements of the Evolve Group and the Material Acquisitions.

In respect of the prospective financial statements for the period ending 31 March 2015 and the year ending 31 March 2016 we have undertaken procedures pursuant to clause 28(2) of Schedule 1 of the Securities Regulations 2009. Our engagement was conducted in accordance with International Standard on Assurance Engagements (New Zealand) 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information issued in New Zealand. The standard requires that we comply with ethical requirements, including independence requirements, and plan and perform our procedures to obtain reasonable assurance that, in all material respects, so far as the accounting policies and calculations are concerned, the prospective financial statements and pro forma prospective financial information have been properly compiled on the footing of the assumptions made or adopted by the Directors and are presented on a basis consistent with the accounting policies which are intended to be adopted by the Evolve Group.

The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the prospective financial information for the Evolve Group, whether due to fraud or error.

In making those risks assessments, we have considered internal controls relevant to the preparation and presentation of the prospective financial information in order to design assurance procedures that are appropriate in the circumstances, but not for the purposes of expressing a conclusion as to the effectiveness of the company's internal control over the preparation and presentation of the prospective financial information.

Other than in our capacity as auditor, we have provided other assurance services, taxation advice and advisory services. Appropriate safeguards were applied to reduce the threats from the provision of these other services to an acceptable level. The provision of these other services has not impaired our independence as auditor of Evolve and the Evolve Group.

Opinion on the Evolve Group's Financial Statements

In our opinion, the Evolve Education Group Limited full financial statements for the period ended 31 August 2014 in Appendix 1 of the Prospectus:

- (i) comply with generally accepted accounting practice in New Zealand;
- (ii) comply with International Financial Reporting Standards; and
- (iii) give a true and fair view of the financial position of Evolve and the Evolve Group as at 31 August 2014, and their financial performance and cash flows for the period then ended.

We also report in accordance with clauses 28(1)(d) and (e) of Schedule 1 of the Securities Regulations. In relation to our audit of the financial statements for the period ended 31 August 2014:

- (i) we have obtained all the information and explanations that we have required; and
- (ii) in our opinion, proper accounting records have been kept by Evolve as far as appears from an examination of those records.



Opinion on the Evolve Group's Summary Financial Statements

In our opinion, and pursuant to clause 28(1)(h) of Schedule 1 of the Securities Regulations 2009, the summary financial statements and applicable disclosures on pages 145 to 147 of the Prospectus and taken from the audited financial statements of the Evolve Group for the period ended 31 August 2014:

- (i) are consistent, in all material respects, with those audited financial statements; and
- (ii) have been correctly taken from the audited financial statements of the Evolve Group for that period from which they were extracted.

Opinion on Material Acquisitions Summary Financial Statements

In our opinion, and pursuant to clause 28(1)(h) of Schedule 1 of the Securities Regulations 2009, the summary financial statements and applicable disclosures on pages 145 and 148 to 164 of the Prospectus and taken from the audited and unaudited financial statements of the Material Acquisitions for the relevant periods:

- (i) are consistent, in all material respects, with those audited and unaudited financial statements; and
- (ii) have been correctly taken from the audited and unaudited financial statements of the Material Acquisitions for those periods from which they were extracted.

Opinion on the Evolve Group's Prospective Financial Statements

In our opinion, the prospective financial statements for the period ending 31 March 2015 and the year ending 31 March 2016 on pages 69 to 74 of the Prospectus, so far as the accounting policies and calculations are concerned, have been properly compiled on the footing of the assumptions made or adopted by the Directors of Evolve as set out in Section 7.2 of the Prospectus and are presented on a basis consistent with the accounting policies which are intended to be adopted by the Evolve Group as set out in Section 7.6 of the Prospectus.

Actual results are likely to be different from the prospective financial statements since anticipated events frequently do not occur as expected and the variation could be material. Accordingly, we express no opinion as to whether the results reported in the prospective financial statements will be achieved.

Other Matters

Where the financial statements of the Material Acquisitions included within the Prospectus have been audited this has been done by another auditor, who expressed unmodified opinions on those financial statements.

Restriction on Use of our Report

This report has been prepared for inclusion in the Prospectus for the purpose of clause 28 of Schedule 1 to the Securities Regulations 2009. We disclaim any responsibility for reliance on this report or the amounts included in the financial statements, the summary financial statements and the prospective financial statements for any purpose other than that for which they were prepared. In addition, we take no responsibility for, nor do we report on, any part of the Prospectus not specifically mentioned in this report.

Yours faithfully

A handwritten signature in blue ink, appearing to read 'PricewaterhouseCoopers', written in a cursive style.

Chartered Accountants

Auckland

7.9 Description of the Evolve Education Group's Financing Arrangements

Evolve Education Group has negotiated New Financing Arrangements and entered into a committed terms sheet with ASB on 13 November 2014. It is intended that Evolve Education will sign the finalised New Financing Arrangements documents sign during the offer period. The New Financing Arrangements will be available as soon as practicable on completion of the Offer, after all of the conditions precedent are satisfied.

Financing Structure

It is intended that Evolve Education will borrow funds ASB under the New Financing Arrangements and lend those funds to its subsidiaries as required. The New Financing Arrangements will be guaranteed by Evolve Education Group and the parties within that group will grant security in favour of ASB in relation to that guarantee.

Facilities

The New Financing Arrangements will comprise the following facilities:

Facility	Amount	Purpose	Expiry Date
Senior revolving facility provided by ASB	\$30 million	For general corporate and working capital purposes. It is intended this will be used to fund part of the consideration for the Initial Portfolio	30 April 2018 (but able to be extended by 12 months on each anniversary of the New Financing Arrangements with ASB's consent)
Acquisition facility provided by ASB	\$60 million	To provide funding for future acquisitions	30 April 2018 (but able to be extended by 12 months on each anniversary of the New Financing Arrangements with ASB's consent)
Lease guarantee facility provided by ASB	\$3 million	For bonds required for certain leasehold properties	Various

ASB will require that Evolve Education Group satisfy certain customary conditions before it can draw down funds under the New Financing Arrangements. If the conditions are not met, the New Financing Arrangements will not be available and the Offer will not proceed.

On listing, the intention of Evolve Education is to draw approximately \$20 million under the revolving facility provided under the New Financing Arrangements and retain sufficient cash at bank to meet working capital requirements over the following financial quarter.

Security

It is intended that ASB will take security from Evolve Education Group in relation to the New Financing Arrangements by way of a general security agreement over all present and future shares and assets and undertakings of Evolve Education Group, together with an all obligations cross guarantee and indemnity.

ASB's intended security will mean that if Evolve Education Group does not pay principal and interest when due or does not comply with their other obligations under the New Financing Arrangements once entered into, then ASB will be able to enforce that security, for example, by appointing a receiver, or selling assets to repay the debt.

This security is intended to be “first ranking” meaning that, after the parties the law requires to be paid first, ASB will be the first party to be repaid in the event of an insolvency. In an insolvency, ASB would need to be fully repaid before Shareholders receive anything.

Undertakings and Financial Covenants

The New Financing Arrangements will contain a number of legally binding undertakings given by Evolve Education Group, which will be usual for facilities of this nature and include a negative pledge, restrictions as to disposals of assets and restrictions on the provision of financial accommodation (in each case, subject to exceptions usual for credits and facilities of this nature). Important among these will be the financial undertakings, and the New Financing Arrangements will contain the following financial covenant ratios:

- **Gearing Ratio:** the ratio of net debt to EBITDA is to be less than 3.50:1.00⁶⁰. However, if the ratio of net debt to EBITDA exceeds 3:00:1, the Borrower will use its best endeavours to raise additional equity capital and apply the proceeds in repayment of drawings sufficient to ensure that the ratio does not exceed 1.50:1.00.
- **Fixed Charges Cover Ratio:** the ratio of EBIT plus lease expenses to net interest expense plus lease expenses is to be greater than 1.25:1.00 for the first calculation period from 1 April 2015 to 30 June 2015, and is to be greater than 1.50:1.00 for each quarterly calculation dates on or after 30 September 2015.
- **Total Assets Ratio:** the Total Assets of the subsidiaries of Evolve Education which have given guarantees in favour of ASB is not to be less than 95% of the Total Assets / EBITDA of Evolve Education Group.
- **EBITDA Ratio:** the EBITDA of the subsidiaries of Evolve Education which have given guarantees in favour of ASB is not less than 95% of the EBITDA of Evolve Education Group.

Failure to meet any covenant will be an event of default.

The financial covenants under the New Financing Arrangements have been set at levels which reflect Evolve Education Group’s capital structure and the fact that Evolve Education will be a listed company. Based on the assumptions in the Prospective Financial Information, the new financial covenants are expected to be fully complied with during the period to which the Prospective Financial Information relates. The first covenant test date will be 30 June 2015.

Events of Default

The events of default under the New Financing Arrangements will include any non-payment, breach of any representation, undertaking or financial covenant, non-notification of event of default, potential event of default or event of review, cross-default, material adverse change, insolvency related events, cessation of business, enforcement of security, and breach or invalidity of certain important documents relating to the New Financing Arrangements. If an event of default occurs ASB will be able (among other things) to require that Evolve Education Group pays back all of the money it has borrowed from ASB and enforce its guarantees and security, including by appointing a receiver.

Events of Review

Under the New Financing Arrangements an event of review will be triggered if a change of control of Evolve Education Group occurs. If an event of review occurs and a satisfactory solution has not been reached, then ASB will be able to, after discussing the issue with Evolve Education Group for an

⁶⁰ For the purposes of the New Financing Arrangements, net debt means the gross amount of all financing liabilities (calculated in accordance with NZ GAAP) less any cash or cash equivalents which are freely available to meet the obligations.

agreed period, accelerate the facilities on an agreed period of notice. Any failure to pay could result in ASB enforcing its security.

Finance Cost

Evolve Education Group will pay interest on, and fees in relation to, the facilities under the New Financing Arrangements. Interest will be calculated as a floating base rate plus a margin. Interest rate risk will be managed in accordance with parameters to be set out in a formal Treasury Policy to be developed and approved by the Board.

Restrictions on making distributions and borrowing

Evolve Education will not be able to make distributions to Shareholders other than from profits after tax plus retained earnings and where no event of default, potential event of default, or event of review has occurred or would result from making the distribution. On or before 30 September 2015, Evolve Education must also comply with a fixed charges cover ratio (outlined above) of 1.50:1 before a distribution may be made.

8. Details of the Offer

8.1 The Offer

The Offer is an offer of 132.3 million ordinary shares to be issued by Evolve Education (**Offer Shares**). The Offer Shares will be offered to Institutional Investors and to retail investors through the Broker Firm Offer, at the Offer Price of \$1.00 per Offer Share. On allotment, all Offer Shares will be fully-paid ordinary shares which rank equally with each other and all existing Shares.

The Offer is made on the terms, and is subject to the conditions, set out in this Offer Document and the Investment Statement.

The Offer is conditional on the Lollipops Educare Acquisition and PORSE Acquisition becoming unconditional

You will not be allotted Shares unless, prior to allotment, the conditions to completion of each of the Lollipops Educare Acquisition and PORSE Acquisition (other than the finance conditions, discussed below) have been satisfied or waived and the documents necessary to complete the Lollipops Educare Acquisition and PORSE Acquisition are being held in escrow, such that the Lollipops Educare Acquisition and PORSE Acquisition will each automatically be completed upon payment of the relevant purchase price by Evolve Education. One of the conditions of the Underwriting Agreement between Evolve Education and the Joint Lead Managers is that settlement of the Lollipops Educare Acquisition and PORSE Acquisition occur immediately after the allotment of Shares under the Offer.

The principal conditions of the Lollipops Educare Acquisition that have not been satisfied or waived as of the date of this Offer Document are:

- Finance: The Lollipops Educare Acquisition is conditional on Evolve Education arranging sufficient debt and/or equity finance on terms and conditions satisfactory to Evolve Education to enable Evolve Education to complete the transaction. The Offer, if successful, will allow Evolve Education to satisfy this condition.
- Lease change of control consents: The Lollipops Educare Acquisition constitutes a “change of control” event under most of Lollipops Educare’s leases, requiring landlord consent. Landlord consents are being progressively obtained. Evolve Education does not regard the need for landlord consent to be a material issue, based on the terms of the relevant leases.
- Material adverse change: The Lollipops Educare Acquisition is conditional on no material adverse change (as defined in the sale and purchase agreement) occurring prior to completion.

Evolve Education expects that the Lollipops Educare Acquisition will complete immediately prior to listing.

The principal condition of the PORSE Acquisition that has not been satisfied or waived as of the date of this Offer Document is:

- Finance: The PORSE Acquisition is conditional on Evolve Education arranging sufficient debt and/or equity finance on terms and conditions satisfactory to Evolve Education to enable Evolve Education to complete the transaction. The Offer, if successful, will allow Evolve Education to satisfy this condition.

Evolve Education expects that the PORSE Acquisition will complete immediately prior to listing.

If the Lollipops Educare Acquisition or PORSE Acquisition has not become unconditional (but for the finance condition) by 4 December 2014 or such later date as is agreed by the parties and the Underwriter, the Offer will be cancelled. This could occur, for example, because a condition to completion was not satisfied or waived by that date. In that circumstance Application monies will be refunded to Applicants within five Business Days, without interest.

As at the date of this Offer Document the Evolve Education Group has entered into contracts to acquire all of the Additional Owned ECE Centres, which comprise 55 ECE Centres.

The principal conditions of the Acquisition Agreements for the Additional Owned ECE Centres that have not been satisfied or waived as of the date of this Offer Document are:

- **Finance:** The Acquisition Agreements are conditional on Evolve Education arranging sufficient debt and/or equity finance on terms and conditions satisfactory to Evolve Education to enable Evolve Education to complete the transaction. The Offer, if successful, will allow Evolve Education to satisfy this condition.
- **Transfer of ECE Centre Licence:** The Acquisition Agreements are conditional on Evolve Education obtaining a transfer of the ECE Centre licence (to take effect on the completion date) from the vendor to Evolve Education or Evolve Education obtaining a new ECE Centre licence on terms acceptable to Evolve Education. Evolve Education is currently working with the Ministry of Education to arrange for the transfer of these licences and expects that arrangements will be in place at completion to allow these transfers to occur either on completion of the acquisition or shortly thereafter; and
- **Landlord consent or entry into a new lease:** The Acquisition Agreements are, to the extent required, conditional on either: (i) Evolve Education obtaining the written consent of the landlord to the transfer of the lease from the vendor to Evolve Education and to the charging, mortgaging or granting of a security interest over Evolve Education's interest in the lease, on terms acceptable to Evolve Education. Evolve Education does not regard the need for landlord consent to be a material issue, based on the terms of the relevant leases; or (ii) where the freehold owner of the land is the vendor or a related party of the vendor, the vendor providing to Evolve Education a new deed of lease in respect of the premises in favour of Evolve Education (as tenant) executed by the freehold owner of the premises on terms acceptable to Evolve Education.

The Acquisition Agreements in relation to 13 of the Additional Owned ECE Centres are also still conditional upon Evolve Education being satisfied with the results of its due diligence investigations regarding the assets, business and all other relevant matters relating to the ECE Centre. Based on its preliminary assessment of these ECE Centres, Evolve Education expects that the due diligence condition will be satisfied for all the centres.

Evolve Education expects that completion under most of Acquisition Agreements will occur during December 2014 and January 2015 with the acquisitions that are still subject to due diligence (as noted above) and certain others that have elected to have completion in 2015, completing prior to 31 March 2015.

There is a risk that some of the Additional Acquisition Agreements may not settle or that settlement may be delayed, due to circumstances beyond Evolve Education's control. If Evolve Education becomes aware of this prior to allotment then Evolve Education expects that it would still allot the Shares under the Offer and, to the extent Acquisition Agreements did not settle, Evolve Education would look to acquire additional ECE Centres to replace those that did not settle. To the extent settlement is delayed or Evolve Education is unable to acquire additional ECE Centres in a timely manner to replace those that did not settle then this could reduce the profitability of Evolve Education in the Prospective Period.

Capital structure

The ownership structure of Evolve Education as at the date of this Offer Document, and the indicative ownership structure upon completion of the Offer (following allotment of the Offer Shares and completion of the Lollipops Educare Acquisition) is illustrated in the table below. No Current Shareholder is selling any Shares under the Offer.

Shareholder	Ownership of Evolve Education as at the date of this Offer Document		Indicative Ownership of Evolve Education following completion of the Offer and completion of the Lollipops Educare Acquisition	
	Ordinary Shares	%	Ordinary Shares	%
Current Shareholders				
Kern Group NZ Limited	2,285,369	28.19%	2,285,369	1.29%
Wraith Capital Group NZ Limited	2,285,369	28.19%	2,285,369	1.29%
Stuart and Gillian James as trustees of the S.B. James Superannuation Fund	2,285,369	28.19%	2,285,369	1.29%
Alan Wham	550,000	6.79%	550,000	0.31%
Vivek Singh	300,000	3.70%	300,000	0.17%
Norah Barlow	80,000	0.99%	80,000	0.05%
Alistair Ryan	80,000	0.99%	80,000	0.05%
David Smith	80,000	0.99%	80,000	0.05%
Beverley Gordon	80,000	0.99%	80,000	0.05%
Paula Hawkings	80,000	0.99%	80,000	0.05%
Other Shares issued				
Vendors under the Lollipops Educare Acquisition	-	-	36,209,901	20.45%
Hayes Knight Business Services (QLD) Pty Ltd (or nominees)	-	-	449,438	0.25%
New Shareholders pursuant to the Offer	-	-	132,317,278	74.72%
Total	8,106,107	100%	177,082,724	100%

No Current Shareholder of Evolve Education guarantees or undertakes any liability in respect of the Offer Shares.

Sources and uses of funds

The Offer will raise \$132.3 million (before costs) and will be applied to partially fund the acquisition of the Initial Portfolio. The remainder of the acquisition price of the Initial Portfolio will be funded by Evolve Education drawing down approximately \$20 million under the New Financing Arrangements. All costs associated with the Offer and the acquisition of the Initial Portfolio will be borne by Evolve Education. All acquisitions that form part of the Initial Portfolio are subject to working capital and/or other adjustments. A table setting out the sources and uses of funds is set out in Section 1.1 *What is this Offer?*

Key cash payments to be made by Evolve Education from the Offer proceeds following completion of the Offer include (subject to working capital and/or other adjustments and excluding any earnout payments):

- \$30,500,000 as part of the consideration for the Lollipops Educare Acquisition;
- \$10,000,000 as part of the consideration for the PORSE Acquisition;

- \$88,376,943 as consideration for the acquisition of the remainder of the Initial Portfolio;
- \$12,356,531 in respect of issue expenses relating to the Offer (including brokerage and commission fees, joint lead management fees, underwriting fees, share registry expenses, legal fees, accounting fees, fees payable to Kern Group (Paddington) Pty Limited, advertising costs, listing and administrative fees, printing costs and postage and courier costs); and
- \$7,129,662 in respect of expenses incurred by Evolve Education relating to the acquisition of the Initial Portfolio including the fees payable to Wraith Capital Group NZ Limited.

Structure of the Offer

The Offer is an offer of \$132.3 million of Shares (being 132.3 million Shares based on the Offer Price of \$1.00) which are to be issued by Evolve Education on the Allotment Date.

The Offer includes:

- the Broker Firm Offer, which is available to New Zealand resident clients of selected NZX Firms that have received a firm allocation from that NZX Firm and to Australian resident investors who have received a firm allocation from a Broker that has received an allocation; and
- the Institutional Offer, which consists of an invitation to bid for Shares made to selected Institutional Investors in New Zealand, Australia and certain other jurisdictions.

There is no general public offer. Members of the public wishing to subscribe for Shares must be allocated Shares by an NZX Firm or Broker; there is no public pool under which you may subscribe for Shares. You should contact an NZX Firm or Broker to determine whether you may be offered Shares under the Broker Firm Offer.

The allocation of Offer Shares between the Broker Firm Offer and the Institutional Offer has been determined by Evolve Education in agreement with Goldman Sachs New Zealand Limited (**Goldman Sachs**) as sole bookrunner and underwriter having regard to the allocation policies outlined under the headings "Allocation" below.

Pricing of the Offer

You will pay the Offer Price in full, being \$1.00 per Offer Share. All Offer Shares allotted under the Offer will be allotted at the Offer Price.

The Application Form requires that you apply for a specified number of Offer Shares at the Offer Price.

Institutional Offer

The Institutional Offer consisted of an invitation prior to the date of this Offer Document to selected Institutional Investors in New Zealand, Australia and certain other jurisdictions to apply for Offer Shares. Goldman Sachs as sole bookrunner has separately advised Institutional Investors of the additional terms and conditions, and the Application procedures for the Institutional Offer.

Allocation

Evolve Education, in agreement with Goldman Sachs as the sole bookrunner and underwriter, has determined the allocation of Offer Shares among Institutional Investors and NZX Firms and Brokers that bid for Offer Shares in the Bookbuild. The number of Offer Shares offered under the Institutional Offer, and the allocation of Offer Shares among participants in the Institutional Offer, has been determined by Evolve Education in agreement with Goldman Sachs. The allocation policy was influenced by a number of factors which may include:

- the number and price of Offer Shares bid for by particular bidders;
- the timeliness of the bid received by particular bidders;
- Evolve Education's desire for an informed and active trading market for the Shares on the NZX Main Board and ASX;

- Evolve Education's desire to have a wide spread of institutional Shareholders on its share register;
- the overall level of demand for Offer Shares in the Institutional Offer and the Broker Firm Offer;
- the size and type of funds under management of particular bidders;
- an assessment of whether particular bidders will be long term Shareholders; and
- any other factors that Evolve Education and Goldman Sachs deem relevant.

Broker Firm Offer

The Broker Firm Offer is available to New Zealand resident clients of selected NZX Firms who have received a firm allocation from that NZX Firm and to Australian resident investors that have received a firm allocation from a Broker that has received an allocation. Applications under the Broker Firm Offer must be for a minimum amount of 2,000 Offer Shares, which equates to a minimum aggregate subscription amount of \$2,000.

You can contact an NZX Firm or Broker to determine whether you may be offered Shares by them under the Broker Firm Offer.

The Broker Firm Offer will close at 12:00pm on 3 December 2014 (being the Closing Date). Applicants should remember that the Closing Date may be changed at the sole discretion of Evolve Education. Changes will be advised by NZX announcement. Evolve Education reserves the right to refuse to accept Applications received by the Share Registrar after the Closing Date. Applications must be received with payment, by the NZX Firm or Broker who granted the Applicant a firm allocation, with sufficient time as to enable the NZX Firm or Broker to forward the Application and payment to the Share Registrar by 12:00pm on the Closing Date.

Detailed instructions on how to apply are contained in the Application Form.

Investors applying for Shares under the Broker Firm Offer are encouraged to submit their Application Form and Application Monies as early as possible in advance of the Closing Date and to allow a sufficient period for mail processing time.

If you wish to apply under the Broker Firm Offer you should contact your NZX Firm if you require further instructions.

Allocation

Allocations by NZX Firms and Brokers under the Broker Firm Offer to their Applicant clients will be determined by those NZX Firms and Brokers. It will be a matter for the NZX Firms and Brokers to ensure that Applicant clients who have received an allocation from them receive the relevant Shares. Applicants should contact their NZX Firm or Broker from whom they received their allocation to find out if their Application was successful.

Refunds and Scaling

The Offer may be withdrawn by Evolve Education at any time before the allotment of Shares, at Evolve Education's sole discretion. If the Offer or any part of it is withdrawn, then the relevant Application amounts will be refunded without interest no later than five Business Days after the decision to withdraw the Offer is announced.

If you apply for a total Application amount that is not a multiple of the Offer Price, your Application will be rounded down to the nearest multiple of the Offer Price and any difference will be retained by Evolve Education. Refunds will be paid in the manner you elect any future dividend payments to be paid.

Applications

An Application is an offer by you to subscribe for Offer Shares having the value specified in the Application Form, at the Offer Price, on the terms and conditions set out in this Offer Document (including any replacement of it), the Investment Statement and the Application Form. By submitting

an Application Form, you irrevocably agree to purchase the Offer Shares on the terms set out in this Offer Document, the Investment Statement and the Application Form, notwithstanding any variations or extensions to the Closing Date or other dates which Evolve Education and the Joint Lead Managers are entitled to so vary or extend.

Evolve Education and the Joint Lead Managers may, at their sole discretion, treat any Application Form as valid, notwithstanding that it does not comply with the requirements above or is irregular. Evolve Education and the Joint Lead Managers may also, at their sole discretion, rectify any errors in, or omissions from, any Application Form to enable that form to constitute a valid acceptance of the Offer and to facilitate registration of the Applicant as a Shareholder, including inserting or correcting details and filling in any blanks. An Application Form may be treated by Evolve Education and the Joint Lead Managers as a valid Application whether or not it is received before the applicable Closing Date, and may be accepted in respect of the full dollar amount specified in the Application Form or a lesser amount, without further notice to the Applicant. If the amount of your cheque(s) for Application Monies is less than the amount specified on your Application Form, you may be taken to have applied for such lower dollar amount for Shares as for which your clear Application Monies will pay, or your Application Form may be rejected at the discretion of Evolve Education in consultation with the Joint Lead Managers. Acceptance of your Application will give rise to a binding contract.

Evolve Education and the Joint Lead Managers reserve the right to refuse all or any part of any Application without giving a reason.

Money received in respect of Applications which are declined in whole or in part will be refunded in whole or in part (as the case may be). Refunds will be posted to unsuccessful Applicants within five Business Days after allocation of Offer Shares or after an Application has been declined (as applicable). Interest will not be paid on any Application Monies refunded to Applicants.

Until the allotment of Offer Shares, Application Monies received will be held in a separate account for the benefit of the Applicants according to their respective entitlements and for Evolve Education. Any interest on Application Monies will be paid to Evolve Education to offset against their issue costs. If you apply for Offer Shares, you should ensure that sufficient funds are held in your account(s) to cover the amount of your Application.

The banking of Application Monies does not constitute confirmation of allotment of any Offer Shares or the acceptance of an Application. If your cheque does not clear, your Application may be rejected.

Allotment

The allotment of Offer Shares to successful Applicants is scheduled to take place on 4 December 2014. You should ascertain your allocation (if any) before trading in the Offer Shares. You can do this by phoning the NZX Firm or Broker from whom you received an allocation of Offer Shares.

If you wish to sell your Shares on the NZX Main Board after confirming your allocation you must have a Common Shareholder Number (**CSN**) and an Authorisation Code (**FIN**). New Zealand residents with a CSN will have their Offer Shares allotted under their CSN, if the CSN was provided on the Application Form. If a CSN is not provided on the Application Form, or the Application details do not match the CSN details, a new CSN and FIN will be allocated to the Applicant. Allotment statements with your allotment details and CSN will be despatched within five Business Days after Allotment. Where an email address is provided on the Application Form, the Allotment statement will be despatched electronically to you. The associated FIN will be sent by the Share Registrar as a separate communication by mail.

If you have a CSN and FIN, you may access your holding information on the Share Registrar's website: www.linkmarketservices.co.nz.

If you sell Offer Shares prior to receiving your Security Transaction Statement you will do so at your own risk. None of Evolve Education, the Promoters, the Joint Lead Managers, the Share Registrar, nor any of their respective officers, employees or advisers accepts any liability or responsibility should you or any person attempt to sell or otherwise deal with Offer Shares before you receive a statement showing the number of Offer Shares allocated to you (if any).

Evolve Education expects that trading of the Shares on the NZX Main Board and ASX will commence on 5 December 2014. If admission to list on the NZX Main Board is denied, or the Offer does not

proceed for any other reason, all Application Monies will be refunded in full without interest no later than five Business Days after announcement of the decision not to proceed. Failure to achieve admission to list on ASX will not, of itself, prevent the Offer from proceeding.

Escrow Arrangements

Each of the Current Shareholders has entered into an escrow arrangement with Evolve Education under which the Current Shareholders have agreed not to sell, transfer or otherwise dispose of their Shares until at least the day that is two years after the date of commencement of quotation and trading of Shares on the NZX Main Board.

The vendors under the Lollipops Educare Acquisition will enter into an escrow arrangement with Evolve Education on completion of the Lollipops Educare Acquisition, and Hayes Knight Business Services (QLD) Pty Ltd (or its nominees) will enter into an escrow arrangement with Evolve Education prior to being issued Shares on completion of the Offer. Under these escrow arrangements the vendors under the Lollipops Acquisition have agreed and Hayes Knight Business Services (QLD) Pty Ltd (or its nominees) will agree not to sell, transfer or otherwise dispose of their Shares until at least the day that is two years after the date of commencement of quotation and trading of Shares on the NZX Main Board.

The total percentage of Shares to be subject to the escrow arrangements post listing is 25.28% of the total number of Shares in Evolve Education.

These restrictions do not apply (and therefore Shares can be sold) if a partial or full takeover offer is made under the Takeovers Code for Shares or if an amalgamation or scheme of arrangement with respect to the Shares is proposed. Each of the Current Shareholders is also permitted to create a security interest over their shareholding in favour of a recognised bank or other similar recognised lending institution, or to transfer all of their shareholding to an 'associated person' with the prior written approval of the non-interested Directors (provided that the lender/associated person (as applicable) enters into an escrow arrangement with Evolve Education). Further information about the Escrow Deeds that are material contracts is set out in Section 10 *Statutory Information* under the heading "Material Contracts".

None of the Current Shareholders guarantees or undertakes any liability in respect of the Offer Shares.

8.2 Listing on NZX Main Board

Application has been made to NZX for permission to list Evolve Education, and to quote the Shares on the NZX Main Board. All of NZX's requirements relating to that application that can be complied with on or before the date of this Offer Document have been duly complied with. However, NZX accepts no responsibility for any statement in this Offer Document.

NZX has authorised NZX Firms to act on the Offer. The NZX Main Board is a registered market operated by NZX, which is a registered exchange regulated under the Securities Markets Act 1988. Initial quotation of the Shares on the NZX Main Board is expected to occur on 5 December 2014 under the stock code "EVO".

8.3 Listing on the ASX

Application will be made to ASX after this Offer Document and the Investment Statement (accompanied by the Additional Australian Information) are lodged with the Australian Securities and Investments Commission for Evolve Education to be admitted to the official list of ASX and for the Shares to be granted official quotation on the financial market operated by ASX. The ASX is not a registered market under the Securities Markets Act 1988.

ASX takes no responsibility for the contents of this Offer Document and the Additional Australian Information or for the merits of the investment to which this Offer Document and the Additional Australian Information relate. Admission to the official list of ASX and quotation of the Shares on the ASX are not to be taken as an indication of the merits, or as an endorsement by ASX, of Evolve Education or the Shares.

Subject to certain conditions (including any waivers obtained by Evolve Education from time to time), Evolve Education will be required to comply with the ASX Listing Rules.

Initial quotation of the Shares on ASX is expected to occur on or about 5 December 2014 under the stock code "EVO".

8.4 Selling restrictions

Overseas Investors

The Offer is being made to members of the public in New Zealand and Australia, and Institutional Investors in New Zealand, Australia and certain other jurisdictions only (excluding the United States). This Offer Document is intended for use only in connection with the Offer and does not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation. No action has been, or will be, taken to register this Offer Document in any jurisdictions other than New Zealand and Australia or otherwise permit a public offering of the Shares outside of New Zealand and Australia.

No person may offer, sell (including resell), distribute or deliver any Shares or distribute any documents (including this Offer Document) to any person outside New Zealand or Australia except in accordance with all of the legal requirements of the relevant jurisdiction.

In particular, this Offer Document (including an electronic copy) may not be distributed to, or relied upon by, persons in the United States. In particular, Evolve Education's securities have not been, and will not be, registered under the United States Securities Act of 1933, as amended (**US Securities Act**) or the securities laws of any state of the United States and may not be offered or sold in the United States or to, or for the account or benefit of, any person in the United States unless such securities are registered under the US Securities Act, or an exemption from the registration requirements of the US Securities Act and applicable US state securities laws is available.

Unless otherwise agreed with Evolve Education, any person or entity subscribing for Offer Shares under the Offer shall, by virtue of such subscription, be deemed to represent that he, she or it is not in a jurisdiction which does not permit the making to him, her or it of an offer or invitation of the kind described in this Offer Document, and is not acting for the account or benefit of a person within such a jurisdiction.

None of Evolve Education, the Promoters, the Joint Lead Managers nor any of their respective directors, officers, employees, consultants, agents, partners or advisers accepts any liability or responsibility to determine whether a person is able to participate in the Offer.

Overseas selling restrictions

This Offer Document does not constitute an offer of Shares of the Company in any jurisdiction in which it would be unlawful. In particular, this document may not be distributed to any person, and the Offer Shares may not be offered or sold, in any country outside Australia and New Zealand except to the extent permitted below.

European Economic Area -Austria, Germany and Netherlands

The information in this Offer Document has been prepared on the basis that all offers of Offer Shares will be made pursuant to an exemption under the Directive 2003/71/EC ("Prospectus Directive"), as amended and implemented in Member States of the European Economic Area (each, a "Relevant Member State"), from the requirement to produce a prospectus for offers of securities.

An offer to the public of Offer Shares has not been made, and may not be made, in a Relevant Member State except pursuant to one of the following exemptions under the Prospectus Directive as implemented in that Relevant Member State:

- to any legal entity that is authorized or regulated to operate in the financial markets or whose main business is to invest in financial instruments;

- to any legal entity that satisfies two of the following three criteria: (i) balance sheet total of at least €20,000,000; (ii) annual net turnover of at least €40,000,000 and (iii) own funds of at least €2,000,000 (as shown on its last annual unconsolidated or consolidated financial statements);
- to any person or entity who has requested to be treated as a professional client in accordance with the EU Markets in Financial Instruments Directive (Directive 2004/39/EC, "MiFID"); or
- to any person or entity who is recognised as an eligible counterparty in accordance with Article 24 of the MiFID.

France

This Offer Document is not being distributed in the context of a public offering of financial securities (offre au public de titres financiers) in France within the meaning of Article L.411-1 of the French Monetary and Financial Code (Code monétaire et financier) and Articles 211-1 et seq. of the General Regulation of the French Autorité des marchés financiers ("AMF"). The Offer Shares have not been offered or sold and will not be offered or sold, directly or indirectly, to the public in France.

This Offer Document and any other offering material relating to the Offer Shares have not been, and will not be, submitted to the AMF for approval in France and, accordingly, may not be distributed (directly or indirectly) to the public in France. Such offers, sales and distributions have been and shall only be made in France to qualified investors (investisseurs qualifiés) acting for their own account, as defined in and in accordance with Articles L.411-2-II-2, D.411-1, L.533-16, L.533-20, D.533-11, D.533-13, D.744-1, D.754-1 and D.764-1 of the French Monetary and Financial Code and any implementing regulation.

Pursuant to Article 211-3 of the General Regulation of the AMF, investors in France are informed that the Offer Shares cannot be distributed (directly or indirectly) to the public by the investors otherwise than in accordance with Articles L.411-1, L.411-2, L.412-1 and L.621-8 to L.621-8-3 of the French Monetary and Financial Code.

Hong Kong

WARNING: This Offer Document has not been, and will not be, registered as a prospectus under the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong, nor has it been authorised by the Securities and Futures Commission in Hong Kong pursuant to the Securities and Futures Ordinance (Cap. 571) of the Laws of Hong Kong (the "SFO"). No action has been taken in Hong Kong to authorise or register this Offer Document or to permit the distribution of this Offer Document or any documents issued in connection with it. Accordingly, the Offer Shares have not been and will not be offered or sold in Hong Kong other than to "professional investors" (as defined in the SFO).

No advertisement, invitation or Offer Document relating to the Offer Shares has been or will be issued, or has been or will be in the possession of any person for the purpose of issue, in Hong Kong or elsewhere that is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Offer Shares that are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors (as defined in the SFO and any rules made under that ordinance). No person allotted Offer Shares may sell, or offer to sell, such securities in circumstances that amount to an offer to the public in Hong Kong within six months following the date of issue of such securities.

The contents of this Offer Document have not been reviewed by any Hong Kong regulatory authority. You are advised to exercise caution in relation to the offer. If you are in doubt about any contents of this Offer Document, you should obtain independent professional advice.

Japan

The Offer Shares have not been and will not be registered under Article 4, paragraph 1 of the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948), as amended (the "FIEL") pursuant to an exemption from the registration requirements applicable to a private placement of securities to Qualified Institutional Investors (as defined in and in accordance with Article 2, paragraph

3 of the FIEL and the regulations promulgated thereunder). Accordingly, the Offer Shares may not be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan other than Qualified Institutional Investors. Any Qualified Institutional Investor who acquires Offer Shares may not resell them to any person in Japan that is not a Qualified Institutional Investor, and acquisition by any such person of Offer Shares is conditional upon the execution of an agreement to that effect.

Norway

This Offer Document has not been approved by, or registered with, any Norwegian securities regulator under the Norwegian Securities Trading Act of 29 June 2007. Accordingly, this Offer Document shall not be deemed to constitute an offer to the public in Norway within the meaning of the Norwegian Securities Trading Act of 2007.

The Offer Shares may not be offered or sold, directly or indirectly, in Norway except to "professional clients" (as defined in Norwegian Securities Regulation of 29 June 2007 no. 876 and including non-professional clients having met the criteria for being deemed to be professional and for which an investment firm has waived the protection as non-professional in accordance with the procedures in this regulation).

Singapore

This Offer Document and any other materials relating to the Offer Shares have not been, and will not be, lodged or registered as a prospectus in Singapore with the Monetary Authority of Singapore. Accordingly, this Offer Document and any other document or materials in connection with the offer or sale, or invitation for subscription or purchase, of Offer Shares, may not be issued, circulated or distributed, nor may the Offer Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore except pursuant to and in accordance with exemptions in Subdivision (4) Division 1, Part XIII of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), or as otherwise pursuant to, and in accordance with the conditions of any other applicable provisions of the SFA.

This Offer Document has been given to you on the basis that you are (i) an existing holder of the Company's shares, (ii) an "institutional investor" (as defined in the SFA) or (iii) a "relevant person" (as defined in section 275(2) of the SFA). In the event that you are not an investor falling within any of the categories set out above, please return this Offer Document immediately. You may not forward or circulate this Offer Document to any other person in Singapore.

Any offer is not made to you with a view to the Offer Shares being subsequently offered for sale to any other party. There are on-sale restrictions in Singapore that may be applicable to investors who acquire Offer Shares. As such, investors are advised to acquaint themselves with the SFA provisions relating to resale restrictions in Singapore and comply accordingly.

Switzerland

The Offer Shares may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange ("SIX") or on any other stock exchange or regulated trading facility in Switzerland. This Offer Document has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under art. 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this Offer Document nor any other offering or marketing material relating to the Offer Shares may be publicly distributed or otherwise made publicly available in Switzerland. The Offer Shares will only be offered to regulated financial intermediaries such as banks, securities dealers, insurance institutions and fund management companies as well as institutional investors with professional treasury operations.

Neither this Offer Document nor any other offering or marketing material relating to the Offer Shares have been or will be filed with or approved by any Swiss regulatory authority. In particular, this Offer Document will not be filed with, and the offer of Offer Shares will not be supervised by, the Swiss Financial Market Supervisory Authority (FINMA).

This Offer Document is personal to the recipient only and not for general circulation in Switzerland.

United Arab Emirates

Neither this Offer Document nor the Offer Shares have been approved, disapproved or passed on in any way by the Central Bank of the United Arab Emirates, the Emirates Securities and Commodities Authority or any other governmental authority in the United Arab Emirates, nor has the Company received authorization or licensing from the Central Bank of the United Arab Emirates, the Emirates Securities and Commodities Authority or any other governmental authority in the United Arab Emirates to market or sell the Offer Shares within the United Arab Emirates. No marketing of any financial products or services may be made from within the United Arab Emirates and no subscription to any financial products or services may be consummated within the United Arab Emirates. This Offer Document does not constitute and may not be used for the purpose of an offer or invitation. No services relating to the Offer Shares, including the receipt of applications and/or the allotment or redemption of Offer Shares, may be rendered within the United Arab Emirates by the Company.

No offer or invitation to subscribe for Offer Shares is valid in, or permitted from any person in, the Dubai International Financial Centre.

United Kingdom

Neither the information in this Offer Document nor any other document relating to the offer has been delivered for approval to the Financial Conduct Authority in the United Kingdom and no prospectus (within the meaning of section 85 of the Financial Services and Markets Act 2000, as amended ("FSMA")) has been published or is intended to be published in respect of the Offer Shares. This Offer Document is issued on a confidential basis to "qualified investors" (within the meaning of section 86(7) of FSMA) in the United Kingdom, and the Offer Shares may not be offered or sold in the United Kingdom by means of this Offer Document, any accompanying letter or any other document, except in circumstances which do not require the publication of a prospectus pursuant to section 86(1) FSMA. This Offer Document should not be distributed, published or reproduced, in whole or in part, nor may its contents be disclosed by recipients to any other person in the United Kingdom.

Any invitation or inducement to engage in investment activity (within the meaning of section 21 of FSMA) received in connection with the issue or sale of the Offer Shares has only been communicated or caused to be communicated and will only be communicated or caused to be communicated in the United Kingdom in circumstances in which section 21(1) of FSMA does not apply to the Company.

In the United Kingdom, this Offer Document is being distributed only to, and is directed at, persons (i) who have professional experience in matters relating to investments falling within Article 19(5) (investment professionals) of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005 ("FPO"), (ii) who fall within the categories of persons referred to in Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc.) of the FPO or (iii) to whom it may otherwise be lawfully communicated (together "relevant persons"). The investments to which this Offer Document relates are available only to, and any invitation, offer or agreement to purchase will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this Offer Document or any of its contents.

Overseas Investment Act

Any person who is an "overseas person" for the purposes of the Overseas Investment Act 2005 and who intends to acquire 25% or more of the Offer Shares (or make any other acquisition regulated by that Act) will be required to obtain any necessary consent under the Overseas Investment Act 2005.

Takeovers Code

Once the Shares are quoted on the NZX Main Board (expected to occur on 5 December 2014), Evolve Education will be a "Code Company" under the Takeovers Code. The Takeovers Code prohibits, amongst other things, any person (together with their associates (as defined in the Takeovers Code)) from becoming the holder or controller of 20% or more of the voting rights in Evolve Education other than in compliance with the requirements of the Takeovers Code. You should seek legal advice in relation to any act, omission or circumstance which may result in you breaching any provision of the Takeovers Code.

9. Taxation Summary

New Zealand taxes may affect the returns to investors. The following taxation summary addresses the general tax implications for investors and is based on New Zealand tax laws and their interpretation as at the date of this Offer Document. Tax legislation, its interpretation and the rates and basis of taxation, are subject to change.

This summary is not intended to be an authoritative or complete statement of applicable law and does not constitute tax advice on which you can rely. It does not necessarily deal with your specific circumstances. Prospective investors are advised to obtain independent professional advice relevant to their own particular circumstances before investing.

Tax Residence

The tax rules that apply to your investment in Shares will differ depending on whether you are a New Zealand tax resident or a non-tax resident. If you are a natural person you will be tax resident in New Zealand if you:

- have a permanent place of abode in New Zealand; and/or
- have been personally present in New Zealand for more than 183 days in a 12 month period, and have not subsequently been absent from New Zealand for more than 325 days in a 12 month period.

A company will be a New Zealand tax resident if it: is incorporated in New Zealand, has its head office in New Zealand, has its centre of administrative management in New Zealand or its directors exercise control of the company from New Zealand.

In some cases a person may be a tax resident in New Zealand and another country simultaneously. If you are in this position, you should obtain tax advice to confirm how this affects the New Zealand tax treatment of your investment in Shares.

Taxation implications for New Zealand tax resident investors

If you are a New Zealand tax resident the tax implications of investing in Shares should be as follows:

Acquisition and transfers of Shares: No stamp duty or other form of transfer or transaction tax, including New Zealand GST, will apply in relation to the initial issue of shares to you under this Offer Document or to any subsequent Share transfers you make. No notice of Share transfers is required to be given by a Shareholder to the New Zealand Inland Revenue.

Disposal of Shares: New Zealand does not have a comprehensive capital gains tax regime. Consequently, where the disposal of Shares does not form part of your business, amounts derived from the disposal of Shares will generally not be subject to New Zealand income tax. However, there are exceptions to this where the Shares were purchased for the dominant purpose of sale, or if the Shares were acquired as part of a profit-making undertaking or scheme, or if you are in the business of dealing in shares. Where one of these exceptions applies, or the Shares are otherwise acquired as part of your business, the taxable gain (or deductible loss) for you will be the difference between the cost of acquiring the Shares and the consideration you receive for their disposal.

Dividends: Distributions you receive from Evolve Education in respect of Shares, including any cash dividend payment, will be taxable dividends. Shareholders will be liable to pay tax on such dividends at their personal tax rates as prescribed by current enactments at the time the dividend is paid but will be able to use any imputation credits attached to the dividend (representing income tax paid by Evolve Education) and any RWT deducted by Evolve Education (discussed below) to offset that tax in whole or in part. Some distributions you receive from Evolve Education will not be taxable dividends (including any non-taxable bonus issues of Shares or a return of capital in certain circumstances).

Resident withholding tax: Evolve Education will be required to deduct RWT from any dividends Evolve Education pays you at a 33% withholding rate, to the extent applicable. This will be the case even where the dividends have the maximum allowable imputation credits attached, as a fully-imputed dividend does not entirely eliminate the requirement to deduct RWT. However, Evolve Education will

not withhold RWT from dividends you receive if you hold, at the time of the applicable dividend, a current RWT exemption certificate that you have provided to Evolve Education before a dividend is paid to you.

Income tax returns: If you are not currently required to file an income tax return, the receipt of dividends from Evolve Education should not affect that. However, if your personal tax rate is less than 33% you may be able to reduce your tax liabilities, or seek a refund of RWT on dividends, by filing an income tax return.

Taxation implications for non-tax resident investors

If you are a non-resident for New Zealand tax purposes the tax implications of investing in Shares should be as follows:

Acquisition and transfers of Shares: No stamp duty or other form of transfer or transaction tax, including New Zealand GST, will apply in relation to the initial issue of shares to you under this Offer Document or to any subsequent Share transfers you make. No notice of Share transfers is required to be given by a Shareholder to the New Zealand Inland Revenue.

Dividends: Evolve Education will withhold NRWT from dividends paid to you. The standard NRWT deduction rate is 30%. However, a deduction rate of 15% will apply where you are paid a dividend that is fully imputed (being a dividend with imputation credits attached to it at the maximum rate allowable by law) or are entitled to a 15% rate under a DTA New Zealand has concluded with your country of residence. Some distributions you receive from Evolve Education will not be taxable dividends (including any non-taxable bonus issues of Shares or a return of capital in certain circumstances). If a non-resident Shareholder with a 10% or greater shareholding receives a fully imputed dividend from Evolve Education the NRWT deduction rate in respect of that dividend will be 0%.

Supplementary dividend: If a non-resident Shareholder has a less than 10% shareholding and the DTA between New Zealand and their country of residence applies a 15% or greater tax rate to the payment of dividends, Evolve Education may pay those Shareholders a supplementary dividend under the foreign investor tax credit regime (where imputation credits are available). The supplementary dividend (if paid) is designed to offset the economic burden associated with the NRWT that is payable on the non-resident Shareholder's dividend payments. Evolve Education should get a tax credit for any supplementary dividends it makes, so there will be no disadvantage to Shareholders generally.

Tax credit: Your country of residence may allow you to claim a tax credit for any NRWT deducted from dividend payments you receive from us. However, this will depend on the tax laws that apply in your country of residence.

Disposal of Shares: If you are a resident of a country with which New Zealand has concluded a DTA, New Zealand will generally not have the right to impose New Zealand tax on any income you derive from disposing of Shares unless you hold your Shares through a New Zealand "permanent establishment". If a DTA does not give you relief from New Zealand taxation, your New Zealand tax position will be determined using the same rules that apply to disposals of shares by New Zealand residents. Consequently, where the disposal of Shares does not form part of your business, amounts derived from the disposal of Shares will generally not be subject to New Zealand income tax. However, there are exceptions to this where the Shares were purchased for the dominant purpose of sale, or if the Shares were acquired as part of a profit making undertaking or scheme, or if you are in the business of dealing in shares. Where one of these exceptions applies, or the Shares are otherwise acquired as part of your business, the taxable gain (or deductible loss) for you will be the difference between the cost of acquiring the Shares and the consideration that you receive for their disposal.

10. Statutory Information

This section contains the information required by Schedule 1 to the Securities Regulations.

1. Main terms of the offer

The issuer of the Offer Shares is Evolve Education Group Limited. Evolve Education's registered office is set out in the *Directory*.

The securities being offered under this Offer are fully paid ordinary shares in Evolve Education. A description of the securities is set out in Section 8 *Details of the Offer*.

The maximum number of Offer Shares being offered under the Offer is 132,317,278.

The consideration to be paid for each Offer Share is the Offer Price of \$1.00.

2. Name and address of offeror

The issuer is the sole offeror of Offer Shares under the Offer.

3. Details of incorporation of issuer

Evolve Education (Company Number 5236543) was incorporated in New Zealand under the Companies Act on 20 May 2014. You can inspect the public file relating to Evolve Education maintained by the Companies Office of the Ministry of Business, Innovation and Employment on its website at www.business.govt.nz/companies.

4. Principal subsidiaries of issuer

As at the date of this Offer Document, the subsidiaries of Evolve Education are Evolve Group 1 Limited, Evolve Group 2 Limited, Evolve Group 3 Limited, Evolve Group 4 Limited, Evolve Group 5 Limited, Evolve Management Group Limited and Evolve Home Day Care Limited.

Each of Evolve Group 1 Limited, Evolve Group 2 Limited, Evolve Group 3 Limited, Evolve Group 4 Limited, Evolve Group 5 Limited, Evolve Management Group Limited and Evolve Home Day Care Limited are 100% owned by Evolve Education.

None of these subsidiaries has acquired any assets as at the date of this Offer Document.

5. Names, addresses and other information

Directors

The names of the Directors and the city, town or district in which their principal residence is based as at the date of this Offer Document are: Norah Barlow (Wellington, New Zealand), Mark Finlay (Auckland, New Zealand), Greg Kern (Brisbane, Australia), Alistair Ryan (Auckland, New Zealand), Alan Wham (Auckland, New Zealand).

You can contact the Directors at Evolve Education's registered office as set out in the *Directory*.

Alan Wham is the Chief Executive Officer of Evolve Education.

Promoters

Kern Group NZ Limited and Wraith Capital Group NZ Limited are promoters of the Offer. The registered office of Kern Group NZ Limited is Level 18, PricewaterhouseCoopers Tower, 188 Quay Street, Auckland Central, Auckland, 1010, New Zealand. The registered office of Wraith Capital Group NZ Limited is Level 18, PricewaterhouseCoopers Tower, 188 Quay Street, Auckland Central, Auckland, 1010, New Zealand.

Samuel (Chris) Giufre (Queensland, Australia) being a director of Wraith Capital Group NZ Limited who is not also a director of Evolve Education, is deemed to be a promoter of the Offer.

Auditor

Evolve Education's auditor is PricewaterhouseCoopers.

Share Registrar

Evolve Education's share registrar is Link Market Services Limited.

Advisers

The names of Evolve Education's financial advisers, and the solicitors and the professional advisers who have been involved in preparing this Offer Document are set out in the *Directory*.

Experts

PricewaterhouseCoopers, Chartered Accountants, of 188 Quay Street, Auckland 1010, has given and not withdrawn its consent before delivery of this Offer Document for registration under section 41 of the Securities Act to the distribution of this Offer Document with the inclusion of the Investigating Accountant's Report in this Offer Document in the form and context in which it is included. The address of PricewaterhouseCoopers is set out in the *Directory*.

PricewaterhouseCoopers is also Evolve Education's auditor, and has provided the audit report in relation to Evolve Education that is set out in this Offer Document.

Neither PricewaterhouseCoopers, nor any director, officer or employee of it, is or is intended to be, a director, officer or employee of Evolve Education. However, PricewaterhouseCoopers has provided, and may in the future provide, professional advisory services to the Evolve Education Group.

Underwriter

Evolve Education's underwriter is Goldman Sachs New Zealand Limited. The Offer of the Offer Shares is underwritten by the Underwriter in accordance with the terms of the Underwriting Agreement. The address of Goldman Sachs New Zealand Limited is set out in the *Directory*.

6. Restrictions on directors' powers

Constitution

The Constitution incorporates by reference the requirements of the NZX Listing Rules and the ASX Listing Rules, and requires Evolve Education to comply with the NZX Listing Rules and the ASX Listing Rules for so long as it is listed. The principal restrictions on the powers of the Board which will be imposed by the Constitution (either expressly or by importing certain of the NZX Listing Rules and the ASX Listing Rules), the NZX Listing Rules and the ASX Listing Rules (both of which will apply once Evolve Education is listed) are as follows:

- the Directors may not allow Evolve Education to issue or acquire any of its equity securities except in accordance with the provisions of the Constitution, the Companies Act, the NZX Listing Rules and the ASX Listing Rules;
- the Directors may not allow Evolve Education to give financial assistance for the purpose of, or in connection with, the acquisition of equity securities issued or to be issued by it, except in limited

circumstances and in accordance with the provisions of the Constitution, the Companies Act, the NZX Listing Rules and the ASX Listing Rules;

- a Director may not vote at a meeting of the Board of Evolve Education on a matter in which he or she is interested unless required by the Companies Act to sign a certificate in respect of the matter, or unless the matter relates to the grant of an indemnity under section 162 of the Companies Act;
- the Directors may not allow Evolve Education to enter into any transaction or series of linked or related transactions to acquire, sell, lease, exchange or otherwise dispose of (otherwise than by way of charge) assets of Evolve Education, which would change the essential nature of the business of Evolve Education, or in respect of which the gross value is in excess of 50% of the average market capitalisation of Evolve Education, without the prior approval of an ordinary resolution of Shareholders;
- the Directors may not enter into certain material transactions with related parties if that related party is, or is likely to become, a direct or indirect party to the material transaction or at least one of a related series of transactions of which the material transaction forms part or, in the case of a guarantee or similar material transaction, a direct or indirect beneficiary of such guarantee or other transaction, without the prior approval of an ordinary resolution of Shareholders;
- the Directors may not allow Evolve Education to pay remuneration to a Director in his or her capacity as a Director except in accordance with the provisions of the Constitution, the NZX Listing Rules and the ASX Listing Rules; and
- the Directors may not allow Evolve Education to cancel, reduce or defer an obligation to pay any amount which is unpaid on any equity security without the prior approval of an ordinary resolution of Shareholders.

In addition, the existing Constitution of Evolve Education as at the date of registration of this Offer Document contains certain restrictions on the powers of Directors, including that the Board may not issue shares or register the transfer of shares otherwise than in accordance with the provisions of the Constitution. This Constitution will cease to apply when the new Constitution comes into effect immediately prior to listing.

Companies Act

The Companies Act contains a number of other provisions that could have the effect, in certain circumstances, of imposing restrictions on the powers of the Directors. For example, the Directors may not allow Evolve Education to enter into any major transaction (as that term is defined in the Companies Act) without the prior approval of a special resolution of Shareholders, and the Directors may not allow Evolve Education to take any action which affects the rights or privileges attached to Shares, without the sanction of a special resolution of any interest group (being a group of Shareholders with similar or identical rights).

These provisions apply to any company registered under the Companies Act.

7. Substantial equity security holders of issuer

The table below sets out the 10 largest registered holdings of equity securities of Evolve Education as at the date of this Offer Document.

Shareholder	Number of equity securities	%
Kern Group NZ Limited	2,285,369	28.19%
Wraith Capital Group NZ Limited	2,285,369	28.19%
Stuart and Gillian James as trustees of the S.B. James Superannuation Fund	2,285,369	28.19%
Alan Wham	550,000	6.79%
Vivek Singh	300,000	3.70%
Norah Barlow	80,000	0.99%
Alistair Ryan	80,000	0.99%
David Smith	80,000	0.99%
Beverley Gordon	80,000	0.99%
Paula Hawkings	80,000	0.99%

The persons named in the table above do not guarantee or undertake any liability in respect of the Offer Shares.

8. Description of activities of issuing group

Evolve Education was incorporated on 20 May 2014 to be a leading provider in the New Zealand market of high quality education and care to children.

The principal activities of the Evolve Education Group since Evolve Education was incorporated have been to negotiate and enter into contracts for the acquisition of the Initial Portfolio and to prepare for the Offer. You can read a full description of the business of the Evolve Education Group in Section 4.2 *Business Description*.

After listing, the Evolve Education Group's principal assets are expected to be all the shares in Lollipops Educare (which owns and operates the Lollipops Educare Owned ECE Centres), the 55 Additional Owned ECE Centres and all the shares in the PORSE Group. All Owned ECE Centres will be owned by members of the Evolve Education Group.

At the date of this Offer Document the Evolve Education Group does not own or lease any principal assets.

The principal assets of the Evolve Education Group will not be subject to obligations in favour of another person that modify or restrict Evolve Education's ability to deal with the assets, except for restrictions provided for in Evolve Education's Financing Arrangements (described in more detail in Section 7.9 *Description of the Evolve Education Group's Financing Arrangements*).

9. Summary financial statements

Summary financial statements for the Evolve Education Group for the accounting period ended 31 August 2014 are set out in Appendix 1 – *Historical Financial Information*.

10. Prospects and forecasts

Information as to the trading prospects of the Evolve Education Group, together with any material information that may be relevant to those prospects, is described generally in Section 4 *About Evolve Education* and Section 7.2 *Prospective Financial Information*.

Any special trade factors and risks which could materially affect the prospects of the Evolve Education Group and which are not likely to be known or anticipated by the general public are set out in Section 5 *Risks*.

11. Provisions relating to initial flotations and minimum subscription

Plans of Directors

The Directors' plans in respect of the Evolve Education Group for the year commencing on the date of this Offer Document are to undertake the Offer, acquire the Initial Portfolio (as described further in Section 8 *Details of the Offer*), and to undertake the business and trading activities of the Evolve Education Group as described in Section 4.2 *Business Description*.

The source of finance required for these plans will be the capital raised by Evolve Education pursuant to the Offer, operating cash flows and other financial accommodation considered appropriate by Evolve Education, including the New Financing Arrangements.

Notwithstanding the plans of the Directors, the proceeds of the Offer may be applied towards any other purpose or undertaking in which Evolve Education may lawfully engage.

Prospective financial statements

A prospective statement of financial position, a prospective statement of financial performance, and a prospective statement of cashflows for the Evolve Education Group in relation to the accounting periods ending 31 March 2015 and 31 March 2016 are set out in Section 7.2 *Prospective Financial Information*.

Minimum amount

For the purposes of section 37(2) of the Securities Act, the minimum amount that, in the opinion of the Directors of Evolve Education must be raised by the issue of the Offer Shares in order to provide the sums required to be provided in respect of:

- the purchase price of any property purchased or to be purchased that is to be met in whole or in part out of the proceeds of the Offer;
- any preliminary expenses or commission payable by Evolve Education;
- working capital; and
- the repayment of any money borrowed by Evolve Education in respect of any of the above,

is \$132,317,278.

12. Acquisition of business or subsidiary

Lollipops Educare Acquisition

Evolve Education has entered into a conditional sale and purchase agreement (**Lollipops Educare Acquisition Agreement**) to acquire 100% of the shares in Lollipops Educare Holdings Limited.

The consideration payable by Evolve Education for the shares will be satisfied by cash payments totalling \$30,500,000, subject to working capital and other adjustments, and the issue of 36,209,901 fully paid Shares.

The business carried on by Lollipops Educare Holdings Limited in the five year period prior to the date of this Offer Document was owning (whether wholly or as part of a joint venture), operating and franchising ECE Centres (both itself and through its subsidiaries).

Summary financial statements in tabular form based on special purpose audited financial statements for Lollipops Educare Holdings Limited in respect of the financial years ended 31 March 2014 and 31 March 2013 are set out in Appendix 1 – *Historical Financial Information*.

Special purpose audited financial statements for Lollipops Educare Holdings Limited for the financial year ended 31 March 2014, with 31 March 2013 comparatives are set out in Appendix 1 – *Historical Financial Information*.

PORSE Acquisition

Evolve Home Day Care Limited (being a member of the 'issuing group' for the purposes of the Securities Regulations), has entered into a conditional sale and purchase agreement (**PORSE Acquisition Agreement**) to acquire 100% of the shares in PORSE In-Home Childcare (NZ) Limited, PORSE Franchising (NZ) Limited, PORSE Education & Training (NZ) Limited, and FOR Life Education & Training (NZ) Limited.

The amount of consideration payable by Evolve Home Day Care Limited for the shares is \$10,000,000, subject to working capital and other adjustments, plus an earn out of an amount equal to 4.75 multiplied by an amount equal to the consolidated earnings before interest and tax of PORSE In-Home Childcare (NZ) Limited, PORSE Franchising (NZ) Limited, PORSE Education & Training (NZ) Limited, and FOR Life Education & Training (NZ) Limited for the period from 1 January 2015 to 31 December 2015 less \$1,850,000, subject to any adjustments in accordance with the PORSE Acquisition Agreement.

The business carried on by PORSE In-Home Childcare (NZ) Limited in the five year period prior to the date of this Offer Document was the provision of Home-based ECE and training.

The business carried on by PORSE Franchising (NZ) Limited, in the five year period prior to the date of this Offer Document was as a franchisor of the PORSE ECE network.

The business carried on by PORSE Education & Training (NZ) Limited in the five year period prior to the date of this Offer Document was a registered private training establishment accredited to offer training with a focus on early childhood education and care.

The business carried on by FOR Life Education & Training (NZ) Limited in the period from 21 July 2011 (being its date of incorporation) until the date of this Offer Document was as a provider of education and training focussed on parenting, self growth and personal effectiveness skills.

Summary financial statements in tabular form for PORSE In-Home Childcare (NZ) Limited, PORSE Franchising (NZ) Limited and PORSE Education & Training (NZ) Limited in respect of the financial years ended 31 December 2013, 2012, 2011, 2010 and 2009 are set out in Appendix 1 – *Historical Financial Information*. Summary financial statements in tabular form for FOR Life Education & Training (NZ) Limited in respect of the financial years ended 31 December 2013, 2012 and 2011 are set out in Appendix 1 – *Historical Financial Information*.

Audited financial statements for PORSE In-Home Childcare (NZ) Limited, PORSE Franchising (NZ) Limited, PORSE Education & Training (NZ) Limited, and FOR Life Education & Training (NZ) Limited for the financial year ended 31 December 2013 are set out in Appendix 1 – *Historical Financial Information*.

Other Acquisitions

Evolve Education Group has entered into Additional Acquisition Agreements to acquire the Additional Owned ECE Centres and other related businesses for a total purchase price of approximately \$88,376,943, subject to earnout, working capital and other adjustments.

The Additional Acquisition Agreements are on substantially the same terms for all Additional Owned ECE Centres and they provide for:

- one of the wholly owned subsidiaries of Evolve Education (or its nominee) to acquire the business and assets and assume certain liabilities of the vendor of the Additional Owned ECE Centre. For the purposes of this summary, we refer to the purchasing subsidiary as Evolve Education.
- certain condition precedents that must be satisfied, including:
 - Due Diligence (Evolve Education being satisfied with the results of its due diligence investigations regarding the assets, business and all other relevant matters);
 - Finance (Evolve Education arranging for the provision to it of sufficient debt and/or equity finance on terms and conditions satisfactory to Evolve Education and satisfying

all conditions precedent to drawdown or use the debt and/or equity funds arranged in relation to the acquisition of the business and assets);

- Transfer of ECE Centre licence (Evolve Education obtaining a transfer of the ECE Centre licence (to take effect on the completion date) from the vendor to Evolve Education or Evolve Education obtaining a new ECE Centre licence on terms acceptable to Evolve Education); and
- Landlord consent (Evolve Education obtaining the written consent of the landlord to the transfer of the lease from the vendor to Evolve Education and to the charging, mortgaging or granting of a security interest over Evolve Education's interest in the lease, on terms acceptable to Evolve Education);
- Evolve Education to have certain access and information rights from signing until completion in order to undertake due diligence and prepare for transition to Evolve Education's working procedures;
- payment of the purchase price at completion, by Evolve Education being the agreed purchase price for the Additional Owned ECE Centre less (in most cases) a retention amount (generally \$15,000) and transferring employees' annual leave entitlements and adjusted for advance payments, arrears payments, outgoings, and liabilities. Evolve Education may deduct from the retention amount any amounts owed by the vendor to Evolve Education in respect of outgoings and incomings of the business that were not correctly apportioned at completion, where Evolve Education assumes responsibility for satisfying payables and where there is a breach of the Additional Acquisition Agreement by the vendor. The remaining part of the retention amount must be released by Evolve Education after the end of the retention period (being several months after completion);
- the vendor to give a reasonably comprehensive set of warranties in respect of the business and assets being acquired, including that the assets are unencumbered. There is an exclusion for warranty claims where the relevant matters were fully and fairly disclosed in the due diligence materials provided to Evolve Education. In most cases, there is the ability for Evolve Education to terminate for breach of warranty prior to completion;
- in some cases, other limitations on the vendor's liability under warranty claims, so that no claim can be made beyond a particular time period for claims (varying between 12 and 24 months) and a capped liability amount, generally being the purchase price);
- other provisions regarding limitations on conduct during the period between signing and completion, and mechanical provisions around completion and the transfer of employees;
- a restraint of trade, whereby the vendor and its directors agree that they and other certain restricted persons will not undertake any restricted business or participate in any other activities relating to any restricted business for a period of three years after the completion date within a five kilometre radius of the relevant ECE Centre. Some specific carve outs have been agreed for certain Additional Owned ECE Centres; and
- a guarantee of the vendor's obligations by the directors and/or shareholders of the vendor.

13. Securities paid up otherwise than in cash

Other than as set out below, no securities have been allotted by a member of the Evolve Education Group to a person who is not a member of the Evolve Education Group, and no securities have been subscribed for and are to be allotted, as fully or partly paid up otherwise than in cash:

- Evolve Education has agreed to issue 449,438 fully paid ordinary Shares to Hayes Knight Business Services (QLD) Pty Ltd (or its nominees) on completion of the Offer in consideration for the provision by Hayes Knight Business Services (QLD) Pty Ltd of management assistance in connection with the acquisition of the Additional Owned ECE Centres. The fixed fee agreed by Hayes Knight Business Services (QLD) Pty Ltd for this management assistance was AUD\$200,000 (exclusive of GST). The Shares will be issued fully paid up otherwise than in cash. All Shares issued to Hayes Knight Business Services (QLD) Pty Ltd (or its nominees) will be

subject to escrow arrangements as further described under the heading “Escrow Arrangements” in Section 8 *Details of the Offer*.

14. Options to subscribe for securities of the Evolve Education Group

As at the date of this Offer Document, there are no options to subscribe for securities in any member of the Evolve Education Group.

15. Appointment and removal of directors

Evolve Education has signed a listing agreement with NZX (a registered exchange) and expects to be party to a listing agreement with ASX, and the method by which Directors of Evolve Education may be appointed to or removed from, or otherwise vacate, office is the same as that contained in the NZX Listing Rules and the ASX Listing Rules. No person (other than the Shareholders of Evolve Education in a general meeting, or the Directors acting as a Board to fill a casual vacancy), has the right to appoint any Director.

Each Director has the power to appoint any person as an alternate director, who may be any person not disqualified by the Companies Act from holding the position of a director of a company and who is approved by a majority of the other Directors.

16. Interested persons

In relation to the information set out in this section, ‘specified person’ means:

- a Director or proposed Director of Evolve Education or an associated person of any of them; and
- Kern Group NZ Limited, Wraith Capital Group NZ Limited and Samuel (Chris) Giufre, or an associated person of any of them.

Remuneration for services or recovery of expenses

Other than as set out below, no specified person is entitled to remuneration for services (other than Directors’ fees), or to recover expenses, in respect of the Evolve Education Group:

- Directors of Evolve Education are entitled to be reimbursed by Evolve Education for reasonable travelling, accommodation and other expenses incurred in the course of performing duties or exercising powers as directors. There is no prescribed limit on the expenses that can be reimbursed to Directors.
- Kern Group (Paddington) Pty Ltd (a company of which Greg Kern is a director and shareholder) has entered into an agreement with Evolve Education under which Kern Group (Paddington) Pty Ltd agreed to act as financial advisers to Evolve Education in relation to the Offer. On completion of the Offer, Kern Group (Paddington) Pty Ltd will be paid a fee of AUD\$1,000,000 (plus GST) for those services. Evolve Education has also agreed to reimburse Kern Group (Paddington) Pty Ltd for out-of-pocket expenses reasonably incurred or paid in connection with the services. There is no prescribed limit on the expenses that can be reimbursed to Kern Group (Paddington) Pty Ltd.
- Wraith Capital Group NZ Limited (a company of which Samuel (Chris) Giufre is a director and shareholder) has entered into a consultancy agreement with Evolve Education under which Wraith Capital Group NZ Limited agreed to provide consultancy services to Evolve Education in connection with the acquisition of the Initial Portfolio. On completion of the Offer, Wraith Capital Group NZ Limited will be paid a fee of AUD\$300,000 (plus GST) for those services. Evolve Education has also agreed to reimburse Wraith Capital Group NZ Limited for reasonable expenses incurred in carrying out the services. There is no prescribed limit on the expenses that can be reimbursed to Wraith Capital Group NZ Limited.
- Evolve Education has entered into an employment agreement with Alan Wham in relation to his employment with Evolve Education as Chief Executive Officer. The Chief Executive Officer will receive \$450,000 per annum (gross) and is entitled to the use of a mobile telephone, laptop and car park. Evolve Education will also reimburse the Chief Executive Officer 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 Chief Executive Officer, but all expenses must be incurred in accordance with expense policies authorised by the Board. Alan Wham has also been issued 550,000 Shares in Evolve Education.

- Under the Lollipops Educare Acquisition agreement, Evolve Education has agreed that it will reimburse the shareholders of Lollipops Educare Holdings Limited (as vendors) for costs incurred by them in seeking any exemption required under the Takeovers Code to allow them to acquire 20% or more of the voting rights in Evolve Education. Evolve Education's obligation to reimburse the shareholders is limited to \$10,000 (plus GST).
- Evolve Education has granted indemnities, to the fullest extent permitted by the Companies Act and the Securities Act, in favour of past, present and future Directors (and those of related companies of Evolve Education) and certain employees (and those of related companies of Evolve Education). Evolve Education also maintains insurance for its Directors and officers to support such indemnities to the extent permitted by the Companies Act and the Securities Act.

Material interests

Other than the contracts described above or as set out below, no specified person has, or has had at any time during the five years preceding the date of this Offer Document, any direct or indirect material interest in the Evolve Education Group, or in any contract or arrangement entered into on behalf of or in respect of the Evolve Education Group, that is material to either or both of the person who has the interest and the Evolve Education Group:

- Mark Finlay and other associated persons of him are parties to the Lollipops Educare Acquisition Agreement as vendors. Following completion of the Lollipops Educare Acquisition, LEP Limited, a company of which Mark Finlay is a director and indirect shareholder (along with the other vendors of Lollipops Educare) and certain of its related companies, will be party to a licence agreement under which Lollipops Educare licenses to LEP Limited and certain of its related companies the right to use the Lollipops Educare brand and other intellectual property rights in relation to any ECE Centres that are developed by LEP Limited or any of its related companies. Under that licence agreement LEP Limited and certain of its related companies also grant to Evolve Education a right of first refusal to acquire (on certain agreed dates) any ECE Centres that are developed by LEP Limited or any of its related companies. A copy of the licence agreement is attached to the Lollipops Educare Acquisition Agreement referred to below under the heading "Material Contracts".
- Following completion of the Lollipops Educare Acquisition, Evolve Education will be a party to a centre management agreement whereby Evolve Education will initially manage five ECE Centres for LEP Limited and its related companies. A copy of the centre management agreement is attached to the Lollipops Educare Acquisition Agreement referred to below under the heading "Material Contracts".
- LEP Limited is also the landlord (and owner of the freehold title) of Evolve Education's head office at Level 2, 54 Fort Street, Auckland and is or will be the landlord of four of the Lollipops Educare Owned ECE Centres.
- LEP Limited has also entered into agreements to acquire the freehold property of three of the Additional Owned ECE Centres from the owners of the freehold property.
- Greg Kern and Samuel (Chris) Giufre have entered into a deed of covenant with Evolve Education where they undertake that they will not until 31 December 2016 engage in any business that involves the acquisition of any existing ECE Centres or Home-based ECE services in New Zealand. The deed of covenant does not prevent them from establishing or developing any new ECE Centres or Home-based ECE services.
- Kern Group NZ Limited and Wraith Capital Group NZ Limited are party to certain of the Loan Agreements referred to in paragraph 17 below.
- The table below sets out details of any security holdings in Evolve Education that specified persons have, or have had, at any time during the five years preceding the date of this Offer Document. Evolve Education has granted to each of Norah Barlow, Alistair Ryan and Alan Wham the number of shares specified in the table below, and to members of management the number of shares detailed in the table in Section 8 *Details of the Offer* under the heading "Capital

structure”, for nominal consideration in recognition of their considerable efforts in the period leading up to the Offer.

Specified person	Number of securities held
Kern Group NZ Limited ⁶¹	2,285,369
Wraith Capital Group NZ Limited ⁶²	2,285,369
Alan Wham	550,000
Norah Barlow	80,000
Alistair Ryan	80,000

17. Material Contracts

The Evolve Education Group has entered into the following material contracts during the two year period preceding the date of registration of this Offer Document (not being contracts entered into in the ordinary course of business):

Lollipops Educare Acquisition Agreement

On 14 November 2014, Evolve Education entered into an “Amended and restated agreement for the sale and purchase of shares in Lollipops Educare Holdings Limited” with the shareholders of Lollipops Educare Holdings Limited (as vendors), being Mark Finlay and Geoffrey Hosking as trustees of the Mark Finlay Investment No.2 Trust, Russell Thompson and Geoffrey Hosking as trustees of the 111 Investment Trust, ScottFin ECE Limited, and Mark Finlay and Mark Dobson Trustee Company Limited as trustees of the HR Finlay Family Trust.

Pursuant to this agreement, Evolve Education has agreed to purchase all of the shares in Lollipops Educare Holdings Limited, subject to the satisfaction of certain conditions precedent.

PORSE Acquisition Agreement

On 22 September 2014, Evolve Home Day Care Limited entered into a “Share sale agreement relating to shares in PORSE In-Home Childcare (NZ) Limited; PORSE Franchising (NZ) Limited; PORSE Education & Training (NZ) Limited; and FOR Life Education & Training (NZ) Limited” with the shareholders of PORSE In-Home Childcare (NZ) Limited, PORSE Franchising (NZ) Limited, PORSE Education & Training (NZ) Limited, and FOR Life Education & Training (NZ) Limited (being, in each case, Jenny Yule, David Yule and Andrew Wares) (as vendors).

Pursuant to this agreement, Evolve Education agreed to purchase all of the shares in PORSE In-Home Childcare (NZ) Limited, PORSE Franchising (NZ) Limited, PORSE Education & Training (NZ) Limited, and FOR Life Education & Training (NZ) Limited, subject to the satisfaction of certain conditions precedent.

Loan Agreements

Evolve Education has entered into three Loan Agreements with Stuart Bruce James and Gillian Doreen James as trustees of the S.B. James Superannuation Fund dated 24 June 2014, 27 October 2014 and 10 November 2014 respectively. Evolve Education has entered into two Loan Agreements with Kern Group NZ Limited dated 23 October 2014 and 7 November 2014 respectively. Evolve Education has entered into two Loan Agreements with Wraith Capital Group NZ Limited dated 28 October 2014 and 11 November 2014 respectively. Under these agreements the lenders agreed to

⁶¹ 400 Shares in Evolve Education were initially issued to Kern Group (Licensing) Pty Ltd. These shares were transferred on 17 June 2014 to Kern Group NZ Limited, and were split into 1,666,800 Shares on 31 October 2014. 618,569 further Shares were issued by Evolve Education on 14 November 2014.

⁶² 320 Shares in Evolve Education were initially issued to Era Education Group Pty Limited and 80 Shares in Evolve Education were initially issued to GG Super Investments Pty Ltd. These 400 Shares were transferred on 15 July 2014 to Wraith Capital Group NZ Limited, and were split into 1,666,800 Shares on 31 October 2014. 618,569 further Shares were issued by Evolve Education on 14 November 2014.

provide unsecured loans to Evolve Education of AUD\$1,600,000 in aggregate (being AUD\$1,200,000 from Stuart Bruce James and Gillian Doreen James as trustees of the S.B. James Superannuation Fund, AUD\$200,000 from Kern Group NZ Limited and AUD\$200,000 from Wraith Capital Group NZ Limited). The loans are repayable on the date that is two business days following the listing of Evolve Education on the NZX Main Board, NZAX or ASX.

In addition to the obligation to repay the loans, Evolve Education must pay an additional AUD\$1,600,000 in aggregate (Return Amount) pro rata to the amount lent if Evolve Education undertakes a listing prior to 31 March 2015. If the loan is repayable due to a listing then Evolve Education, at its option, must pay the Return Amount by either issuing to the lenders shares at the price shares are valued at under the IPO that are equivalent to the loan amount, or paying the Return Amount in cash. In the event that Evolve Education does not undertake a listing before 31 March 2015, then the lenders waive repayment of the loans, the loans vest absolutely in Evolve Education, and Evolve Education is released and discharged from all obligations and liability in connection with the repayment of the loans. It is Evolve Education's intention to repay the Return Amount in cash.

Escrow Deed – Kern Group NZ Limited, Wraith Capital Group NZ Limited, Stuart and Gillian James as trustees of the S.B. James Superannuation Fund

Kern Group NZ Limited, Wraith Capital Group NZ Limited, and Stuart James and Gillian James as trustees of the S.B. James Superannuation Fund have entered into an Escrow Deed dated 14 November 2014 that provides that, for the period from the date of the Escrow Deed to 8am on the date that is two years after the date of commencement of quotation and trading of the Offer Shares on the NZX Main Board, Kern Group NZ Limited, Wraith Capital Group NZ Limited and Stuart and Gillian James will not agree to sell, transfer or otherwise dispose of any of their Shares, other than:

- in connection with a partial or full takeover offer under the Takeovers Code or if an amalgamation or scheme of arrangement with respect to the Shares is proposed; or
- where they hold shares in their capacity as a trustee of a trust, to a new or replacement trustee of that trust (provided that the trustee enters into an escrow deed with Evolve Education); or
- to an 'associated person' with the prior written approval of the non-interested Directors (provided that the associated person enters into an escrow deed with Evolve Education).

Kern Group NZ Limited, Wraith Capital Group NZ Limited and Stuart and Gillian James are also each permitted to create a security interest over their shareholding in favour of a recognised bank or other similar recognised lending institution (provided that the lender enters into an escrow deed with Evolve Education).

Escrow Deed – Norah Barlow, Alistair Ryan, Alan Wham, Vivek Singh, David Smith, Beverley Gordon and Paula Hawkings

Norah Barlow, Alistair Ryan, Alan Wham, Vivek Singh, David Smith, Beverley Gordon and Paula Hawkings have entered into an Escrow Deed dated 14 November 2014 that provides that, for the period from the date of the Escrow Deed to 8am on the date that is two years after the date of commencement of quotation and trading of the Shares on the NZX Main Board, none of them will agree to sell, transfer or otherwise dispose of any of their Shares, other than:

- in connection with a partial or full takeover offer under the Takeovers Code or if an amalgamation or scheme of arrangement with respect to the Shares is proposed; or
- where they hold shares in their capacity as a trustee of a trust, to a new or replacement trustee of that trust (provided that the trustee enters into an escrow deed with Evolve Education); or
- to an 'associated person' with the prior written approval of the non-interested Directors (provided that the associated person enters into an escrow deed with Evolve Education).

Norah Barlow, Alistair Ryan, Alan Wham, Vivek Singh, David Smith, Beverley Gordon and Paula Hawkings are also each permitted to create a security interest over their shareholding in favour of a recognised bank or other similar recognised lending institution (provided that the lender enters into an escrow deed with Evolve Education).

Deed of indemnity

Evolve Education has entered into a deed of indemnity and access by deed poll (**Indemnity**) dated 14 November 2014. Under the Indemnity, Evolve Education must indemnify its present and future directors (and those of related companies of Evolve Education) and certain employees (and those of related companies of Evolve Education) (each an **Indemnified Person**), against:

- the Indemnified Person's reasonable costs incurred in any proceeding that relates to liability as a director or employee of Evolve Education (or a related company of Evolve Education), but only if judgment is given in the Indemnified Person's favour, or in which the Indemnified Person is acquitted, or if the proceeding is discontinued; and
- liability (other than criminal liability or liability in respect of a breach, in the case of a director, of the duty specified in section 131 of the Companies Act or, in the case of an employee, of any fiduciary duty owed to Evolve Education (or a related company of Evolve Education) under section 131 of the Companies Act) to any third party for acts or omissions as a Director or employee of Evolve Education (or a related company of Evolve Education), and against the Indemnified Person's reasonable costs in defending or settling any related claim.

Evolve Education must also effect directors and officers liability insurance of specified minimum amounts for usual perils related to the activities of the Indemnified Persons in relation to Evolve Education. The insurance must provide a "run-off cover" such that the Indemnified Person, after he or she ceases to be a Director or employee of Evolve Education (or a related company of Evolve Education), remains insured for events that occurred during the time that the Indemnified Person held office for at least seven years after he or she ceased to be a director or employee of Evolve Education (or a related company of Evolve Education). If the Indemnified Person has an insurance policy that expressly covers his or her liability as a director or employee of Evolve Education (or a related company of Evolve Education), the Indemnified Person must make a claim under that policy for any liability that the Indemnified Person may be able to claim under the Indemnity. The Indemnified Person must reimburse Evolve Education using any relevant proceeds the Indemnified Person receives under that policy.

The Indemnity excludes certain claims, such as claims resulting from liability for which an indemnity is prohibited by law. Evolve Education must also not effect insurance for liability and costs not permitted by the Companies Act and Securities Act.

Underwriting Agreement

Evolve Education and the Joint Lead Managers have entered into the Underwriting Agreement dated 14 November 2014 in connection with the Offer. Pursuant to the terms of the Underwriting Agreement:

- Evolve Education has agreed, subject to certain conditions, to allot and issue of the Offer Shares;
- the Underwriter has agreed, subject to certain conditions (including that share transfers in respect of the Lollipops Acquisition and the PORSE Acquisition are held in escrow and the Company (or its nominee) has the right to be registered in the share registers of the relevant entities being acquired, receipt of various regulatory rulings/approvals, registration of this Offer Document and the receipt by the Underwriter of various due diligence reports, opinions and sign-offs), to underwrite the Offer;
- Evolve Education has given certain customary contractual protections to the Underwriter and Joint Lead Managers in connection with the Underwriting Agreement, including warranties and indemnities. Each Joint Lead Manager has also provided a limited number of representations and warranties to Evolve Education.

- Evolve Education undertakes not to make any allotments of Shares or other equity securities for a period of 180 days following completion of the Offer, other than pursuant to the Offer, certain limited exceptions or with the Underwriter's consent;
- the Underwriter may terminate the Underwriting Agreement and its underwriting obligations in certain circumstances, including where on or before allotment of the Offer Shares:
 - the Offer is withdrawn by Evolve Education;
 - any information or statement in this Offer Document or the Investment Statement is or becomes untrue, inaccurate, misleading or deceptive or likely to mislead or deceive in any material respect or a material matter is omitted;
 - NZX or ASX listing approval is withdrawn;
 - the NZX 50 index or S&P/ASX 200 index declines below relevant specified levels;
 - a material adverse change in Evolve Education, any member of the Lollipops Educare Group or PORSE or the Evolve Education Group (including the Initial Portfolio) occurs;
 - particular disruptions occur in certain major financial markets*;
 - a representation or warranty provided by Evolve Education contained in the Underwriting Agreement is not true or correct*;
 - any breach of any obligations occurs under the Underwriting Agreement by Evolve Education*.

Where certain termination circumstances, including those above marked with an asterisk, occur the Underwriter cannot terminate the Underwriting Agreement unless, in the reasonable opinion of the Underwriter:

- that event has, or could reasonably be expected to have, a material adverse effect on:
 - the likely price that the Offer Shares will trade once quoted on the NZX Main Board;
 - the willingness or ability of Institutional Investors to comply with their settlement obligations;
 - the outcome or settlement of the Offer;
 - the ability of the Joint Lead Managers to market or settle the Offer; or
 - the ability of the Underwriter to perform its settlement and underwriting obligations in respect of the Offer or to enforce contracts to purchase the Offer Shares; or
- the event has, or is likely to give rise to, a contravention by a Joint Lead Manager or any of its affiliates, or a Joint Lead Manager or any of its affiliates being involved in a contravention of, any applicable law.

The Underwriter will be paid the fees and expenses detailed under the heading "Preliminary and issue expenses" in this Section 10 *Statutory Information*.

Committed Terms Sheet in relation to the New Financing Arrangements

On 13 November 2014 Evolve Education entered into a committed terms sheet with ASB Bank Limited in relation to the provision of the New Financing Arrangements, further details of which are set out in Section 7.9 *Description of the Evolve Education Group's Financing Arrangements*.

18. Pending proceedings

There are no legal proceedings or arbitrations pending at the date of registration of this Offer Document that may have a material adverse effect on the Evolve Education Group.

19. Preliminary and issue expenses

Preliminary and issue expenses (including regulatory fees, brokerage, commissions, management fees, share registry expenses, legal fees, investment advisory fees, accounting fees, advertising costs, printing costs and postage and courier costs relating to this Offer) are estimated to amount to an aggregate of \$19,486,193. Of these expenses \$12,356,531 relates to the Offer and \$7,129,662

relates to preliminary expenses incurred by Evolve Education, including costs and expenses relating primarily to the acquisition and integration of the Initial Portfolio.

Brokerage

NZX Firms and Brokers will be paid a brokerage fee of up to 1.75% of the gross proceeds in respect of Offer Shares allotted pursuant to valid Applications for a firm allocation in the Broker Firm Offer. This brokerage fee will be payable by the Joint Lead Managers out of proceeds of the fees detailed below. No brokerage will be payable on Applications received under the Broker Firm Offer that do not bear an NZX Firm or Broker stamp.

Underwriter and Joint Lead Managers

Evolve Education has agreed to pay the Underwriter and Joint Lead Managers in aggregate the following commissions:

- arranger, lead manager, underwriter and brokerage fees totalling 4.15% of the gross proceeds of all Offer Shares issued under the Offer;
- an incentive fee of 0.94% of the gross proceeds of all Offer Shares issued under the Offer.

20. Restrictions on issuing group

The only restrictions on the ability of the Evolve Education Group to make a distribution or to borrow are those resulting from its financing arrangements, details of which are set out in Section 7.9 *Description of the Evolve Education Group's Financing Arrangements*.

21. Other terms of Offer and securities

All terms of the Offer, and all terms of the Offer Shares, are set out in this Offer Document, other than any terms implied by law or which are set out in a document that has been registered with a public official, is available for public inspection and is referred to in this Offer Document.

22-23. Financial statements

Audited financial statements for the Evolve Education Group for the period commencing on 20 May 2014 (being the date of incorporation of Evolve Education) and ending 31 August 2014 are set out in Appendix 1 – *Historical Financial Information*. These were prepared and audited as if they were to be registered under the Financial Reporting Act 1993.

24. Additional interim financial statements

Not applicable.

25. Places of inspection of documents

The constitution of Evolve Education, copies of the material contracts referred to above under the heading “Material Contracts” and copies of the financial statements referred to above under the headings “Financial statements”, may be inspected free of charge during normal business hours at Evolve Education’s registered office at Level 2, 54 Fort Street, Auckland. Copies of those documents (except the financial statements referred to under the headings “Financial statements” are also available for public inspection on the Companies Office website at www.business.govt.nz/companies.

Copies of the financial statements referred to under the headings “Financial statements” above can also be obtained free of charge at www.evolveeducation.co.nz.

You can also obtain a copy of Evolve Education’s new Constitution (that will be adopted on listing) free of charge during normal business hours at Evolve Education’s registered office at Level 2, 54 Fort Street, Auckland or at www.evolveeducation.co.nz.

26. Other material matters

ASX Listing Rule waivers and confirmations

Evolve Education will apply for waivers and confirmations from ASX which are standard for a New Zealand company listed on both the NZX Main Board and ASX (including confirmation that Evolve Education may prepare and publish its financial information in accordance with New Zealand accounting standards).

Australian Securities and Investments Commission Relief

ASIC has granted a declaration that the Offer is a recognised offer within the meaning of subsection 1200B(1) of the Corporations Act 2001 (Cth), notwithstanding that Evolve Education may not give the notice and lodge the documents referred to in section 1200C(5) of the Corporations Act 2001 (Cth) 14 days before the Offer is made in Australia, and to allow Evolve Education to satisfy the requirements of section 1200C(5) of the Corporations Act 2001 (Cth) seven days before the Offer is first made in Australia to align with the requirements in New Zealand.

There are no other material matters relating to the Offer, other than those set out in this Offer Document, the financial statements or in contracts entered into in the ordinary course of business of the Evolve Education Group.

27. Directors' statement

The Directors of Evolve Education, after due enquiry by them, are of the opinion that there has been no material and adverse change during the period between 31 August 2014 and the date of this Offer Document in respect of any of the following:

- (a) the trading or profitability of the Evolve Education Group;
- (b) the value of the assets of the Evolve Education Group; or
- (c) the ability of the Evolve Education Group to pay its liabilities due within the next 12 months.

28. Auditor's report

The current appointed auditor of Evolve Education is PricewaterhouseCoopers. As at the date of this Offer Document PricewaterhouseCoopers has current registration and all its audit partners have obtained full licences under the Auditor Regulation Act 2011. There are no restrictions or limitations on PricewaterhouseCoopers' registration.

A copy of the auditor's report required by clause 28 of Schedule 1 of the Securities Regulations is set out in Section 7.8 *Statutory Audit Report*. PricewaterhouseCoopers has given and has not withdrawn its consent to be named in this Offer Document as auditor of Evolve Education and to the issue of the Offer Document with its audit report included in the form and context in which it appears. Other than in its capacities as auditor of Evolve Education, investigating accountants and providers of tax, advisory and other assurance services, PricewaterhouseCoopers has no relationship with, or interest in, the Evolve Education Group and neither PricewaterhouseCoopers nor any officer or employee of PricewaterhouseCoopers is intended to be a director, officer, or employee of Evolve Education or any of its subsidiaries.

PricewaterhouseCoopers are the Investigating Accountants in relation to the Prospective Financial Information set out in this Offer Document (and have provided the Investigating Accountant's Report in Section 7.7 *Investigating Accountant's Report*).

PricewaterhouseCoopers takes no responsibility for, nor has it authorised the issue of, any part of this Offer Document, except for the Investigating Accountant's Report and independent auditor's report.

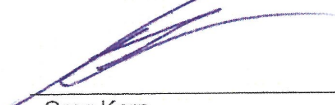
29. Signatures required by the Securities Act 1978

A copy of this Offer Document has been signed by each Director of Evolve Education Group Limited (or his or her agent in writing) as issuer, and by Kern Group NZ Limited, Wraith Capital Group NZ Limited and Samuel (Chris) Giufre as promoters.

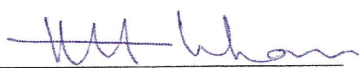
Directors of Evolve Education Group Limited:



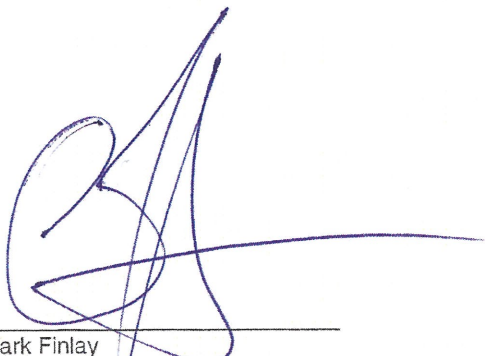
Norah Barlow



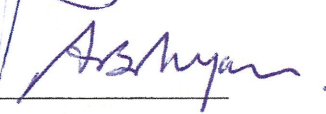
Greg Kern



Alan Wham

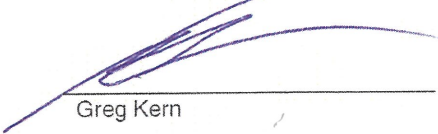


Mark Finlay



Alistair Ryan

Signed on behalf of Kern Group NZ Limited by:



Greg Kern

Signed on behalf of Wraith Capital Group NZ Limited by:



Samuel Giufre

Director of Wraith Capital Group NZ Limited (who is not also a director of Evolve Education Group Limited):



Samuel Giufre

11. Glossary

20 Hours ECE	A programme fully funded by the Government that enables children to attend ECE services for up to six hours per day and up to 20 hours per week free of charge. All children three years and above are entitled to receive this funding until they attend school
Acquisition Agreements	The Lollipops Educare Acquisition Agreement, the PORSE Acquisition Agreement and the Additional Acquisition Agreements
Additional Acquisition Agreements	The various agreements between Evolve Education and vendors of the Additional Owned ECE Centres and the other related businesses to be acquired by Evolve Education
Additional Australian Information	Additional information containing disclosure relevant to Australian investors in the Institutional Offer and to comply with requirements for a recognised offer under Chapter 8 of the Australian Corporations Act 2001 (Cth) and the Australian Corporations Regulations 2001 (Cth), which accompanies or is attached to this Offer Document for the purposes of the Institutional Offer made in Australia
Additional Owned ECE Centres	The 55 ECE Centres owned and operated by third parties that Evolve Education has contracted to acquire (other than the Lollipops Educare Owned ECE Centres)
Allotment Date	4 December 2014, unless brought forward or extended by Evolve Education
Applicant	An investor whose Application Form has been received by the Share Registrar prior to the Closing Date
Application	An application to subscribe for Offer Shares
Application Form	The Application Form attached to or circulated with the Investment Statement to subscribe for Offer Shares under the Broker Firm Offer
Application Monies	The monies payable on Application
ASX	ASX Limited (ABN 98 008 624 691), or the financial market operated by ASX Limited, as the context requires
ASX Listing Rules	The listing rules of ASX and ASX Listing Rule means a rule contained in the ASX Listing Rules
Board or Board of Directors	The board of directors of Evolve Education
Bookbuild	The process by which the Offer Price was set, as described in Section 8 <i>Details of the Offer</i>
Broker	Any company, firm, organisation or corporation designated as a market participant by ASX
Broker Firm Offer	The offer available to New Zealand resident clients of selected NZX Firms who have received an allocation from that NZX Firm and to Australian resident investors to apply for an allocation of Offer Shares from a Broker that has received an allocation
Business Day	A day on which the NZX Main Board is open for trading
CAGR	Compound annual growth rate
Closing Date	12:00pm, 3 December 2014, or such later date as set by Evolve Education
Companies Act	Companies Act 1993

Constitution	The new constitution of Evolve Education which will be adopted on listing
CSN	Common Shareholder Number
Current Shareholders	Kern Group NZ Limited, Wraith Capital Group NZ Limited, Stuart and Gillian James, Norah Barlow, Alistair Ryan, Alan Wham, Vivek Singh, David Smith, Beverley Gordon and Paula Hawkings
Director	A director of Evolve Education
Directory	The directory set out in this Offer Document
DPS	Dividend per Share
DTA	Double tax agreement
EBIT	Earnings before interest and income tax
EBITDA	Earnings before interest, income tax, depreciation and amortisation
ECE	Early childhood education
ECE Centre	Early childhood education centre
Educator	A person over 17 years of age who holds a first aid qualification and has the designated role of providing Home-based ECE directly to children in his or her care, and attends to the health and safety of those children
EV	Enterprise value
Evolve Education	As the context requires, either Evolve Education Group Limited or the “Evolve Education” business carried on by the Evolve Education Group
Evolve Education Group	As the context requires, either Evolve Education, its subsidiaries, or Evolve Education and its subsidiaries
F	The inclusion of F after a reference to a financial period is an indication that it is a forecast period. For example, “FY16F” means the year ending on 31 March 2016, which is a forecast period
FY	A financial year
GAAP	Generally Accepted Accounting Practice
GDP	Gross Domestic Product
Glossary	This glossary of key terms
GST	Goods and services tax chargeable under the Goods and Services Tax Act 1985 (NZ) or a New Tax System (Goods and Services Tax) Act 1999 (Cth)
Home-based ECE	Early childhood education services provided to a small group of children in a home setting
Home-based Licence	The licence required by a Home-based ECE service provider to provide ECE services to a specified number of children. Typically, one Home-based Licence would be for 80 licensed places
IFRS	International Financial Reporting Standards
Initial Portfolio	All the shares in Lollipops Educare (which owns and operates the Lollipops Educare Owned ECE Centres), the 55 Additional Owned ECE Centres, all the shares in the PORSE group, and the other related businesses to be acquired by Evolve Education (being a company that operates a Home-based ECE business and a company that manages 20 ECE Centres for third parties)

Institutional Investors	Investors who the Joint Lead Managers determine are persons to whom an offer or invitation in respect of Shares may be made without the need for a registered prospectus under the Securities Act
Institutional Offer	The offer available to selected Institutional Investors in New Zealand, Australia and certain other jurisdictions
Investment Statement	The Investment Statement for the Offer dated 14 November 2014
Joint Lead Managers	Goldman Sachs New Zealand Limited and Forsyth Barr Limited
Licensed Child Places	The maximum number of child places specified in a Home-based Licence or in the Ministry of Education licence for an ECE Centre
Loan Agreements	The loan agreements referred to in subsection 17 “Material Contracts” of Section 10 <i>Statutory Information</i> , under which those parties provided advances to Evolve Education to fund Evolve Education’s pre-Offer costs
Lollipops Educare	Lollipops Educare Holdings Limited
Lollipops Educare Acquisition	The acquisition by Evolve Education of all the shares in Lollipops Educare
Lollipops Educare Acquisition Agreement	The amended and restated agreement for sale and purchase of shares in Lollipops Educare Holdings Limited between Evolve Education (or nominee) (as purchaser) and the shareholders of Lollipops Educare (as vendors) dated 14 November 2014
Lollipops Educare Group	Lollipops Educare Holdings Limited and its wholly owned subsidiaries as at completion of the Lollipops Educare Acquisition
Lollipops Educare Owned ECE Centres	30 ECE Centres owned and operated by the Lollipops Educare Group, which includes three ECE Centres that are currently operated by Lollipops Educare as joint ventures with third parties. Lollipops Educare has contracted to acquire the third parties’ interests in two of the joint ventures following completion of the Lollipops Educare Acquisition Agreement
MOE Occupancy Percentage	The total Ministry of Education funded child hours attended, as a percentage of the maximum funded hours available (licensed capacity x 30 hours/week)
Net Debt	The value of borrowings, finance leases, and the balance sheet liability for Ministry of Education funding received in advance, less cash and cash equivalents
New Financing Arrangements	The new financing arrangements to be entered into by Evolve Education and each member of the Evolve Education Group, as described in Section 7.9 <i>Description of the Evolve Education Group’s Financing Arrangements</i>
NPAT	Net Profit After Tax
NRWT	Non-resident withholding tax
NZD or NZ\$ or \$	New Zealand Dollar
NZ GAAP	Generally Accepted Accounting Practice in New Zealand
NZ IFRS	New Zealand equivalents to International Financial Reporting Standards
NZX	NZX Limited
NZX Firm	A shareholding firm authorised to trade shares on the NZX Main Board
NZX Listing Rules	The Listing Rules of the NZX Main Board in force from time to time
NZX Main Board	The main board equity securities market operated by NZX

Offer	The offer of Shares under this Offer Document
Offer Document	This prospectus dated 14 November 2014
Offer Price	\$1.00 per Offer Share
Offer Shares	Shares offered for subscription by Evolve Education under the Offer
Opening Date	24 November 2014
Owned ECE Centres	The Lollipops Educare Owned ECE Centres and the Additional Owned ECE Centres
PORSE	PORSE In-Home Childcare (NZ) Limited, PORSE Franchising (NZ) Limited, PORSE Education & Training (NZ) Limited, and FOR Life Education & Training (NZ) Limited
PORSE Acquisition	The acquisition by Evolve Education of all the shares in each entity that constitutes PORSE
PORSE Acquisition Agreement	The share sale agreement relating to shares in PORSE In-Home Childcare (NZ) Limited, PORSE Franchising (NZ) Limited, PORSE Education & Training (NZ) Limited, and FOR Life Education & Training (NZ) Limited between Evolve Home Day Care Limited (as purchaser) and the shareholders of the PORSE companies (as vendors) dated 22 September 2014
Promoters	Kern Group NZ Limited, Wraith Capital Group NZ Limited and Samuel (Chris) Giufre
Prospective Financial Information or PFI	Financial information for Evolve Education for the period commencing on incorporation of Evolve Education and ending 31 March 2016
Prospective Period	The period commencing on incorporation of Evolve Education and ending 31 March 2016
Qualified teacher ratio	Number of qualified teachers as a percentage of total teachers and educators
RWT	Resident withholding tax
Securities Act	Securities Act 1978
Securities Regulations	Securities Regulations 2009
Shareholder	A shareholder of Evolve Education
Share Registrar	Link Market Services Limited
Shares	Ordinary shares in Evolve Education
Takeovers Code	Takeovers Code Approval Order 2000
Underwriter	Goldman Sachs New Zealand Limited
Underwriting Agreement	The underwriting agreement between Evolve Education and the Joint Lead Managers dated 14 November 2014, as more fully described in subsection 17 “Material Contracts” of Section 10 <i>Statutory Information</i>

Additional definitions for the key offer statistics and investment metrics

Gross yield	Total cash dividend forecast to be payable in respect of the prospective financial year ending 31 March 2016 plus imputation credits assumed to be attached to the dividend, divided by the Indicative Market Capitalisation. The Directors have assumed that the dividend in respect of the prospective financial year ending 31 March 2016 will be fully imputed

Indicative EV / EBIT multiple	EV divided by EBIT for the respective forecast financial year. This is a valuation metric that enables comparison with stock market peers
Indicative EV / EBITDA multiple	EV divided by EBITDA for the respective forecast financial year. This is a valuation metric that enables comparison with stock market peers
Indicative market capitalisation	The number of Shares on issue following the Offer multiplied by the Offer Price
Offer Price / Earnings ratio	Indicative market capitalisation divided by NPAT for the respective forecast financial year. This is a valuation metric that enables comparison with industry competitors and stock market peers
Prospective Net Debt	Net Debt is defined as the value of borrowings, finance leases, and the balance sheet liability for Ministry of Education funding received in advance, less cash and cash equivalents. Prospective Net Debt is calculated as Net Debt as at 31 March 2015, reflecting (i) Evolve Education's capital structure as a result of the Offer; and (ii) the unearned income liability on the balance sheet at that point in time
Net yield	Cash dividend forecast to be payable in respect of the prospective financial year ending 31 March 2016 divided by the Indicative Market Capitalisation

12. Directory

EVOLVE EDUCATION GROUP LIMITED	PROMOTERS
Level 2 54 Fort Street Auckland 1010	Kern Group NZ Limited Wraith Capital Group NZ Limited Samuel (Chris) Giufre
DIRECTORS OF EVOLVE EDUCATION	SOLICITORS
Norah Barlow (Chairperson) Mark Finlay Greg Kern Alistair Ryan Alan Wham	Minter Ellison Rudd Watts Level 20, Lumley Centre 88 Shortland Street Auckland 1010 Phone: +64 (9) 353 9700
AUDITOR AND INVESTIGATING ACCOUNTANT	SOLE BOOKRUNNER AND ARRANGER, JOINT LEAD MANAGER AND UNDERWRITER
PricewaterhouseCoopers 188 Quay Street Auckland 1142 Phone: +64 (9) 355 8000	Goldman Sachs New Zealand Limited Level 39, Vero Centre 48 Shortland Street, Auckland 1010 Phone: +64 (9) 362 7300
ACCOUNTING ADVISER	JOINT LEAD MANAGER
KPMG 18 Viaduct Harbour Avenue Auckland 1140 Phone +64 (9) 367 5800	Forsyth Barr Limited Level 13, Forsyth Barr Tower 55 Shortland Street Auckland 1010 Phone: +64 800 367 227
FINANCIAL ADVISER	SHARE REGISTRAR
Kern Group (Paddington) Pty Ltd Level 2/67 St Pauls Terrace Spring Hill Queensland Australia 4004	Link Market Services Limited Level 7, Zurich House 21 Queen Street Auckland 1010 Phone: +64 (9) 375 5998
BANKER AND LENDER	
ASB Bank Limited 12 Jellicoe Street, Auckland 1140 Phone: +64 (9) 337 4819	

Appendix 1 – Historical Financial Information

Summary Historical Financial Statements

The following summary historical financial statements are presented in accordance with clause 9 of Schedule 1 of the Securities Regulations for Evolve Education and clause 12(3) of Schedule 1 of the Securities Regulations for the acquisitions of Lollipops Educare and the PORSE Group, subject to the terms of the Securities Act (Evolve Education Group Limited) Exemption Notice 2014.

All financial statements are presented in New Zealand dollars (NZ\$). The amounts within the financial statements have been rounded to the nearest thousand.

The summary financial statements have been prepared in accordance with New Zealand Financial Reporting Standard No. 43, subject to the requirement of clause 9(4) of Schedule 1 of the Securities Regulations. The summary financial statements have been extracted from the relevant full financial statements.

The summary financial statements cannot be expected to provide as complete an understanding as provided by the full financial statements. Copies of the full financial statements can be requested from Evolve Education.

Evolve Education Group Limited

Statement of Comprehensive Income

\$000s	
For the period ended 31 August	2014
Revenue	-
Expenditure	2,238
Depreciation and amortisation	-
Non-operating costs	-
Net finance cost	595
Profit/(loss) before income tax	(2,833)
Income tax (expense)/benefit	-
Profit/(loss) attributable to the shareholders of the company	(2,833)
Other comprehensive income	-
Total comprehensive income/(loss) for the period	(2,833)

Statement of Financial Position

\$000s	
As at 31 August	2014
Current assets	2,800
Non-current assets	13
Total Assets	2,813
Current liabilities	5,646
Non-current liabilities	-
Total Liabilities	5,646
NET ASSETS	(2,833)
Share capital	-
Accumulated losses	(2,833)
Total equity	(2,833)

Statement of Changes in Equity

\$000s	Share Capital	Accumulated losses	Total Equity
For the period ended 31 August			
Balance as at 20 May 2014	-	-	-
Loss for the period	-	(2,833)	(2,833)
Other comprehensive income	-	-	-
Balance as at 31 Aug 2014	-	(2,833)	(2,833)

Statement of Cash Flows

\$000s	
For the period ended 31 August	2014
Net cash flows used in operating activities	(15)
Net cash flows from investing activities	-
Net cash flows from financing activities	50
Net increase in cash held	35

The summary financial statements are those of Evolve Education Group Limited and its subsidiaries. There are no consolidated historical financial statements for Evolve Education Group Limited (except those prepared for the period ended 31 August 2014) as it was incorporated on 20 May 2014.

The financial statements of Evolve Education Group Limited for the period to 31 August 2014 have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand. They comply with New Zealand equivalents to International Financial Reporting Standards and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The consolidated financial statements also comply with International Financial Reporting Standards and International Financial Reporting Interpretations Committee interpretations.

The Evolve Education Group has recognised a net loss after tax of \$2,833,000 for the period ended 31 August 2014 and, as at that date, the Evolve Education Group has negative equity with current liabilities exceeding current assets by \$2,846,000. These financial statements have been prepared on a going concern basis.

A key consideration in adopting the going concern principles as a basis for the preparation of these financial statements is the expectation that the Evolve Education will list on the NZX and ASX in December 2014. The Directors expect an Underwriting Agreement to be signed on 14 November 2014 between Goldman Sachs New Zealand Limited, Forsyth Barr Limited and Evolve Education Group Limited (**Underwriting Agreement**) in respect of the intended listing. The Directors consider that the execution of this Underwriting Agreement supports the intention to list the company in December 2014. Assuming a successful IPO, and based on current and forecast transactions, sufficient profits and cash flows are expected to enable the Evolve Education Group to continue operations for the foreseeable future. Whilst the Directors believe the intention is to list and the expected signing of the Underwriting Agreement provides a basis to prepare the financial statements on going concern basis it is important to note that there a number of conditions within the Underwriting Agreement that at the date of signing these financial statements are not yet satisfied. The Directors acknowledge that there remains a material uncertainty surrounding Evolve Education Group's ability to raise additional capital should the IPO not proceed. As such, whilst this uncertainty exists, alternative options are being considered including other private equity capital raising options.

The full financial statements to 31 August 2014 are attached to this Offer Document.

The table below summarises the following for the historical financial statements:

- Auditor name
- Nature of Auditor's opinion
- Date authorised for issue

Period	Auditor name	Nature of Auditor's opinion	Authorised for issue by Directors
31 August 2014	PricewaterhouseCoopers	Unmodified with an emphasis of matter in respect of material uncertainty around going concern	12/11/14

Lollipops Educare Holdings Limited

Statement of Comprehensive Income

\$000s		
For the period ended 31 March	2013	2014
Revenue	25,413	32,865
Share of profit of associates using equity method	71	-
Share of profit of joint arrangements using equity method	303	285
Expenditure	22,715	26,691
Depreciation and amortisation	856	835
Non-operating costs	-	-
Net finance cost	1,045	1,119
Profit before income tax	1,171	4,505
Income tax expense	(76)	(328)
Profit attributable to the shareholders of the company	1,095	4,177
Other comprehensive income	-	-
Total comprehensive income for the period	1,095	4,177
Comprehensive income for the year is attributable to:		
Equity holders of the parent	1,039	4,117
Non-controlling interest	56	59
Total	1,095	4,177

Statement of Financial Position

\$000s		
As at 31 March	2013	2014
Current assets	10,478	16,065
Non-current assets	12,088	14,902
Total Assets	22,566	30,967
Current liabilities	14,354	17,016
Non-current liabilities	3,859	5,114
Total Liabilities	18,213	22,130
NET ASSETS	4,353	8,837
Share capital	5,261	5,109
(Accumulated losses)/retained earnings	(995)	2,814
Reserves	15	879
Non-controlling interest	72	35
Total shareholders' equity	4,353	8,837
Equity attributable to owner of the parent	4,281	8,802
Non-controlling interest	72	35
Total equity	4,353	8,837

Statement of Changes in Equity

\$000s	Share Capital	Retained Earnings	Translation Reserve	Non-controlling interest	Total Equity
For the period ended 31 March					
Balance as at 01 Apr 2013	5,261	(995)	15	72	4,353
Total comprehensive income/(loss) for the Parent for the period, net of tax	-	4,117	-	-	4,117
Total comprehensive income/(loss) for the Non-controlling interest for the period, net of tax	-	-	-	59	59
Transactions with owners:					
Movement in treasury shares held	(75)	-	-	-	(75)
Share buyback	(78)	-	-	-	(78)
Dividends	-	(309)	-	(96)	(405)
Movement in special purpose reserve	-	-	864	-	864
Balance as at 31 Mar 2014	5,109	2,814	879	35	8,837

Statement of Changes in Equity

\$000s	Share Capital	Retained Earnings	Translation Reserve	Non-controlling interest	Total Equity
For the period ended 31 March					
Balance as at 01 Apr 2012	5,464	(2,034)	(293)	16	3,153
Total comprehensive income/(loss) for the Parent for the period, net of tax	-	1,039	-	-	1,039
Total comprehensive income/(loss) for the Non-controlling interest for the period, net of tax	-	-	-	56	56
Transactions with owners:					
Movement in treasury shares held	(203)	-	-	-	(203)
Movement in special purpose reserve	-	-	308	-	308
Balance as at 31 Mar 2013	5,261	(995)	15	72	4,353

Statement of Cash Flows

\$000s		
For the period ended 31 March		
	FY 2013	FY 2014
Net cash flows from operating activities	1,494	5,487
Net cash flows used in investing activities	(953)	(2,554)
Net cash flows from/(used in) financing activities	639	(3,184)
Net increase/(decrease) in cash held	1,180	(251)

Evolve Education is exempted from the requirement to include summary financial statements for Lollipops Educare Holdings Limited for the accounting periods ended 31 March 2010, 31 March 2011, 31 March 2012, 31 March 2013 and 31 March 2014, as required under the Securities Regulations, by virtue of the Securities Act (Evolve Education Group Limited) Exemption Notice 2014 (**Exemption Notice**).

This exemption is subject to the condition that summary financial statements in tabular form based on special purpose audited financial statements for Lollipops Educare Holdings Limited in respect of the financial year ended 31 March 2014 (which include 31 March 2013 comparatives) are included.

The special purpose audited financial statements of Lollipops Educare Holdings Limited for the year ended 31 March 2014 (which include 31 March 2013 comparatives) have been prepared in accordance with the Statement of Compliance as detailed below and Lollipops Educare Holdings Limited's accounting policies, and reflect the fact that LEP Limited and other subsidiaries of Lollipops

Educare Holdings Limited will be excluded from Lollipop Educare Holdings Limited prior to it being acquired by Evolve Education. The special purpose audited financial statements have therefore been prepared to better illustrate Lollipops Educare Holdings Limited as it will be acquired by Evolve Education.

Statement of Compliance

Lollipops Educare Holdings Limited is a profit-oriented entity incorporated and domiciled in New Zealand. Its principal activities are running quality early childhood care and education services for children and infants.

The special purpose financial statements of Lollipops Educare Holdings Limited include the following subsidiaries, joint ventures and centres:

Subsidiaries	
Lollipops Educare Limited	Lollipops Educare Centres Limited (LECL) *
Lollipops Educare (Hastings) Limited	Lollipops Educare (Wellington) Limited
Lollipops Educare (Napier Port) Limited ***	Bambino Investments Limited ***
Lollipops Educare (Blighs Road) Limited ***	Lollipops Educare (Ellerslie) Ltd ***
Lollipops Educare (Te Rapa) Limited ***	Lollipops Educare Investors Limited ("LEIL")
Lollipops Educare (Patten Street) Limited ***	Lollipops Educare (Waikato Hospital) Limited ***

Joint Ventures
Lollipops Educare (Ellerslie) Limited ****
Lollipops Educare (Half Moon Bay) Limited
Lollipops Educare (Birkenhead) Limited

Centres
Remuera**
Wonderwise**

* One of the centres, Mairangi Bay Centre, has been excluded from the special purpose financial statements because the Centre was sold in April 2013 and is not included in the sale and purchase agreement.

** The Remuera and Wonderwise centres were owned by LEDC Limited during the 2013 and 2014 financial years. Subsequent to 31 March 2014 these two centres were transferred into Lollipops Educare Centre Limited. Therefore, the special purpose financial statements include the Remuera and Wonderwise centres. LEDC Limited and its remaining centres are excluded from the special purpose financial statements.

*** On 31/03/2014 these companies were amalgamated into Lollipops Educare Centres Limited.

**** Lollipops Educare (Ellerslie) Ltd is shown as a joint venture in 2013 and a subsidiary in 2014 as the remaining 50% ownership was acquired during the period. It trades as Lollipops Educare Millennium.

The special purpose carve out financial statements of Lollipops Educare Holdings Limited (referred herein as special purpose) are consolidated financial statements including the above subsidiaries, joint ventures and centres. The financial statements do not comply with New Zealand generally accepted accounting practice (NZ GAAP) or New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) using the differential reporting framework because certain subsidiaries (and portions of one of its subsidiaries) and a joint venture of Lollipops Educare Holdings Limited have been excluded. NZ IFRS 10 Consolidated Financial Statements requires a parent entity to present consolidated financial statements in which it consolidates its investments in subsidiaries in accordance with the standard. These financial statements do not comply with NZ IFRS 10 because they exclude some subsidiaries and portions of one of the subsidiaries as listed below. NZ IFRS 11 Joint Arrangements and NZ IAS 28 Investments in Associates and Joint Ventures require joint ventures to be accounted for using the equity method in the consolidated financial statements of the investor. These financial statements do not comply with NZ IFRS 11 and NZ IAS 28 because they exclude one of the joint ventures as listed below.

The special purpose financial statements include only Lollipops Educare Holdings Limited and those subsidiaries, joint ventures and centres of Lollipops that will be part of the Lollipops Group at completion of the purchase of Lollipops Educare Holdings Limited by Evolve Education. Therefore the following subsidiaries and joint ventures have been excluded:

Subsidiaries
Lollipops Educare Properties Limited
LEDC Limited *
Lollipops Educare (Mt Maunganui) Limited
Lollipops Educare (Addington) Limited

Joint Venture
Lollipops Birkenhead Properties Limited

* This company has been excluded from the Special Purpose Financial Statements except that two of its centres, Remuera and Wonderwise, have been included because those two centres are included in the sale and purchase agreement.

Special Purpose reserve

The special purpose reserve arises as a consequence of the basis of preparation whereby the special purpose financial statements exclude the accounting impact of the disposal of Mairangi Bay and Waiuku Centres.

Other than as described above, and as further detailed within the audited special purpose financial statements themselves, the special purpose financial statements have been prepared in accordance with the recognition, measurement, and disclosure requirements of New Zealand Equivalents to International Financial Reporting Standards applying the framework for differential reporting. All disclosure exemptions under the framework for differential reporting have been applied except for:

- The exemption under NZ IAS 18 Revenue allowing the recording of revenue and expense inclusive of GST; and
- The exemption under NZ IAS 7 Statement of Cash Flows allowing the reporting entity not to prepare a Statement of Cash Flows.

The table below summarises the following for the special purpose financial statements:

- Auditor name
- Nature of Auditor's opinion
- Date authorised for issue

Period	Auditor name	Nature of Auditor's opinion	Authorised for issue by Directors
31 March 2014	Deloitte	Unmodified and refers to the basis of which these special purpose financial statements have been prepared.	12/11/14

PORSE In-Home Childcare (NZ) Limited

Statement of Comprehensive Income

\$000s					
For the period ended 31 December	2009	2010	2011	2012	2013
Revenue	16,405	19,717	23,009	23,910	23,320
Expenditure	14,736	17,825	20,841	22,802	22,933
Depreciation and amortisation	552	532	638	610	648
Non-operating costs	-	-	-	-	-
Net finance income	221	274	373	319	175
Profit/(loss) before income tax	1,338	1,634	1,903	817	(86)
Income tax expense	(402)	(554)	(543)	(238)	(38)
Profit/(loss) attributable to the shareholders of the company	936	1,080	1,360	579	(124)
Other comprehensive income	-	-	-	-	-
Total comprehensive income/(loss) for the period	936	1,080	1,360	579	(124)

Statement of Financial Position

\$000s					
As at 31 December	2009	2010	2011	2012	2013
Current assets	7,299	8,622	9,010	7,210	4,703
Non-current assets	1,219	1,586	1,888	1,957	1,728
Total Assets	8,518	10,208	10,898	9,167	6,431
Current liabilities	7,100	8,385	7,933	7,537	5,225
Non-current liabilities	100	100	82	82	82
Total Liabilities	7,200	8,485	8,015	7,619	5,307
NET ASSETS	1,318	1,723	2,883	1,548	1,124
Share capital	500	500	500	500	500
Retained earnings	818	1,223	2,383	1,048	624
Total shareholders' equity	1,318	1,723	2,883	1,548	1,124

Statement of Changes in Equity

\$000s	Share Capital	Retained Earnings	Total Equity
Balance as at 31 Dec 2008	500	108	608
Total comprehensive income/ (loss) for the period, net of tax	-	936	936
Transactions with owners:			
Issue of capital	-	499	499
Dividend	-	(725)	(725)
Balance as at 31 Dec 2009	500	818	1,318
Total comprehensive income/ (loss) for the period, net of tax	-	1,080	1,080
Transactions with owners:			
Issue of capital	-	-	-
Dividend	-	(675)	(675)
Balance as at 31 Dec 2010	500	1,223	1,723
Total comprehensive income/ (loss) for the period, net of tax	-	1,360	1,360
Transactions with owners:			
Issue of capital	-	-	-
Dividend	-	(200)	(200)
Balance as at 21 July 2011	500	2,383	2,883
Total comprehensive income/ (loss) for the period, net of tax	-	579	579
Transactions with owners:			
Issue of capital	-	-	-
Dividend	-	(1,914)	(1,914)
Balance as at 31 Dec 2012	500	1,048	1,548
Total comprehensive income/ (loss) for the period, net of tax	-	(124)	(124)
Transactions with owners:			
Issue of capital	-	-	-
Dividend	-	(300)	(300)
Balance as at 31 Dec 2013	500	624	1,124

Statement of Cash Flows

\$000s					
For the period ended 31 December	2009	2010	2011	2012	2013
Net cash flows from/(used in) operating activities	2,219	3,124	2,013	152	(1,707)
Net cash flows (used in)/from investing activities	(2,735)	(2,727)	4,773	(3,662)	5,080
Net cash flows from/(used in) financing activities	1,333	(359)	(484)	(2,012)	(4,393)
Net increase/(decrease) in cash held	817	38	6,302	(5,522)	(1,020)

The financial statements of PORSE In-Home Childcare Limited for the years ended 31 December 2009, 31 December 2010, 31 December 2011, 31 December 2012 and 31 December 2013 have been prepared in accordance with NZ GAAP. They comply with approved Financial Reporting Standards (FRSs) and Statements of Standard Accounting Practices (SSAPs) as appropriate for entities that qualify for and apply differential reporting concessions.

PORSE In-Home Childcare Limited qualifies for differential reporting exemptions as it has no public accountability and is not large in terms of the criteria set out in the Differential Reporting Framework. All available exemptions allowed under the Framework for Differential Reporting have been adopted except for NZ IAS7 Statement of Cash Flows for the years ended 31 December 2009, 31 December 2010, 31 December 2011, 31 December 2012 and 31 December 2013.

The table below summarises the following for the historical financial statements:

- Auditor name
- Nature of Auditor's opinion
- Date authorised for issue

Period	Auditor name	Nature of Auditor's opinion	Authorised for issue by Directors
31 December 2009	Gardiner Knobloch, Napier	Unqualified	23/3/10
31 December 2010	Gardiner Knobloch, Napier	Unqualified	21/3/11
31 December 2011	Gardiner Knobloch, Napier	Unqualified	18/4/12
31 December 2012	Gardiner Knobloch, Napier	Unqualified	28/3/13
31 December 2013	Gardiner Knobloch, Napier	Unqualified	30/4/14

PORSE Franchising (NZ) Limited

Statement of Comprehensive Income

\$000s					
For the period ended 31 December	2009	2010	2011	2012	2013
Revenue	1,509	1,911	1,444	1,340	1,184
Expenditure	701	883	1,074	471	165
Depreciation and amortisation	8	2	2	-	-
Non-operating costs	-	-	-	-	-
Net finance income (cost)	5	(1)	6	12	43
Profit/(loss) before income tax	805	1,025	374	881	1,062
Income tax expense	(240)	(309)	(105)	(247)	(304)
Profit/(loss) attributable to the shareholders of the company	565	716	269	634	758
Other comprehensive income	-	-	-	-	-
Total comprehensive income/(loss) for the period	565	716	269	634	758

Statement of Financial Position

\$000s					
As at 31 December	2009	2010	2011	2012	2013
Current assets	1,793	1,877	1,997	2,328	2,950
Non-current assets	10	8	6	1	1
Total Assets	1,803	1,885	2,003	2,329	2,951
Current liabilities	964	680	602	779	1,093
Non-current liabilities	100	100	82	82	82
Total Liabilities	1,064	780	684	861	1,175
NET ASSETS	739	1,105	1,319	1,468	1,776
Share capital	-	-	-	500	500
Retained earnings	677	1,043	1,257	906	1,214
Reserves	62	62	62	62	62
Total shareholders' equity	739	1,105	1,319	1,468	1,776

Statement of Changes in Equity

\$000s	Share Capital	Retained Earnings	Translation Reserve	Total Equity
Balance as at 31 Dec 2008		641	62	703
Total comprehensive income/ (loss) for the period, net of tax	-	565	-	565
Transactions with owners:				
Issue of capital	-	-	-	-
Dividend	-	(529)	-	(529)
Balance as at 31 Dec 2009	-	677	62	739
Total comprehensive income/ (loss) for the period, net of tax	-	716	-	716
Transactions with owners:				
Issue of capital	-	-	-	-
Dividend	-	(350)	-	(350)
Balance as at 31 Dec 2010	-	1,043	62	1,105
Total comprehensive income/ (loss) for the period, net of tax	-	269	-	269
Transactions with owners:				
Issue of capital	-	-	-	-
Dividend	-	(55)	-	(55)
Balance as at 21 July 2011	-	1,257	62	1,319
Total comprehensive income/ (loss) for the period, net of tax	500	634	-	1,134
Transactions with owners:				
Issue of capital	-	-	-	-
Dividend	-	(985)	-	(985)
Balance as at 31 Dec 2012	500	906	62	1,468
Total comprehensive income/ (loss) for the period, net of tax	-	758	-	758
Transactions with owners:				
Issue of capital	-	-	-	-
Dividend	-	(450)	-	(450)
Balance as at 31 Dec 2013	500	1,214	62	1,776

Statement of Cash Flows

\$000s	2009	2010	2011	2012	2013
For the period ended 31 December					
Net cash flows from/(used in) operating activities	532	832	218	663	847
Net cash flows from investing activities	-	-	-	8	-
Net cash flows used in financing activities	(681)	(290)	(569)	(887)	(504)
Net increase/(decrease) in cash held	(149)	542	(351)	(216)	343

PORSE Franchising (NZ) Limited is an exempt company as defined by the Financial Reporting Act 1993. The Financial Statements of the company have been prepared in accordance with section 12 of the Financial Reporting Act and Financial Reporting Order 1994.

PORSE Franchising (NZ) Limited qualifies for differential reporting exemptions as it has no public accountability and is not large in terms of the criteria set out in the Differential Reporting Framework. All available exemptions allowed under the Framework for Differential Reporting have been adopted except for NZ IAS7 Statement of Cash Flows for the years ended 31 December 2009, 31 December 2010, 31 December 2011, 31 December 2012 and 31 December 2013.

The table below summarises the following for the historical financial statements:

- Auditor name
- Nature of Auditor's opinion
- Date authorised for issue

Period	Auditor name	Nature of Auditor's opinion	Authorised for issue by Directors
31 December 2009	Unaudited		29/4/10
31 December 2010	Unaudited		27/7/11
31 December 2011	Unaudited		2/5/12
31 December 2012	Gardiner Knobloch, Napier	Unqualified	28/3/13
31 December 2013	Gardiner Knobloch, Napier	Unqualified	30/4/14

PORSE Education & Training (NZ) Limited

Statement of Comprehensive Income

\$000s					
For the period ended 31 December	2009	2010	2011	2012	2013
Revenue	1,252	1,201	1,471	1,385	1,431
Expenditure	621	710	867	988	1,104
Depreciation and amortisation	1	3	9	15	18
Non-operating costs	-	-	-	-	-
Net finance income	4	1	4	15	24
Profit/(loss) before income tax	634	489	599	397	333
Income tax expense	(187)	(148)	(168)	(118)	(88)
Profit/(loss) attributable to the shareholders of the company	447	341	431	279	245
Other comprehensive income	-	-	-	-	-
Total comprehensive income/(loss) for the period	447	341	431	279	245

Statement of Financial Position

\$000s					
As at 31 December	2009	2010	2011	2012	2013
Current assets	1,292	1,617	1,725	2,115	2,274
Non-current assets	8	23	32	35	36
Total Assets	1,300	1,640	1,757	2,150	2,310
Current liabilities	562	936	775	756	921
Non-current liabilities	100	100	82	82	82
Total Liabilities	662	1,036	857	838	1,003
NET ASSETS	638	604	900	1,312	1,307
Share capital	2	2	2	500	500
Retained earnings	525	491	787	701	696
Reserves	111	111	111	111	111
Total shareholders' equity	638	604	900	1,312	1,307

Statement of Changes in Equity

\$000s	Share Capital	Retained Earnings	Translation Reserve	Total Equity
Balance as at 31 Dec 2008	2	527	111	640
Total comprehensive income/ (loss) for the period, net of tax	-	447	-	447
Transactions with owners:				
Issue of capital	-	-	-	-
Dividend	-	(449)	-	(449)
Balance as at 31 Dec 2009	2	525	111	638
Total comprehensive income/ (loss) for the period, net of tax	-	341	-	341
Transactions with owners:				
Issue of capital	-	-	-	-
Dividend	-	(375)	-	(375)
Balance as at 31 Dec 2010	2	491	111	604
Total comprehensive income/ (loss) for the period, net of tax	-	431	-	431
Transactions with owners:				
Issue of capital	-	-	-	-
Dividend	-	(135)	-	(135)
Balance as at 21 July 2011	2	787	111	900
Total comprehensive income/ (loss) for the period, net of tax	498	279	-	777
Transactions with owners:				
Issue of capital	-	-	-	-
Dividend	-	(365)	-	(365)
Balance as at 31 Dec 2012	500	701	111	1,312
Total comprehensive income/ (loss) for the period, net of tax	-	245	-	245
Transactions with owners:				
Issue of capital	-	-	-	-
Dividend	-	(250)	-	(250)
Balance as at 31 Dec 2013	500	696	111	1,307

Statement of Cash Flows

\$000s					
For the period ended 31 December	2009	2010	2011	2012	2013
Net cash flows from/(used in) operating activities	600	377	375	405	187
Net cash flows used in investing activities	(4)	(17)	(57)	(18)	(1,019)
Net cash flows from/(used in) financing activities	(499)	(10)	(680)	179	552
Net increase/(decrease) in cash held	97	350	(362)	566	(280)

The financial statements of PORSE Education & Training (NZ) Limited for the years ended 31 December 2009, 31 December 2010, 31 December 2011, 31 December 2012 and 31 December 2013 have been prepared in accordance with NZ GAAP. They comply with approved Financial Reporting Standards (FRSS) and Statements of Standard Accounting Practices (SSAPs) as appropriate for entities that qualify for and apply differential reporting concessions.

PORSE Education & Training (NZ) Limited qualifies for differential reporting exemptions as it has no public accountability and is not large in terms of the criteria set out in the Differential Reporting Framework. All available exemptions allowed under the Framework for Differential Reporting have been adopted except for NZ IAS7 Statement of Cash Flows for the years 31 December 2009, 31 December 2010, 31 December 2011, 31 December 2012 and 31 December 2013.

The table below summarises the following for the historical financial statements:

- Auditor name
- Nature of Auditor's opinion
- Date authorised for issue

Period	Auditor name	Nature of Auditor's opinion	Authorised for issue by Directors
31 December 2009	Gardiner Knobloch, Napier	Unqualified	16/3/10
31 December 2010	Gardiner Knobloch, Napier	Unqualified	11/3/11
31 December 2011	Gardiner Knobloch, Napier	Unqualified	20/3/12
31 December 2012	Gardiner Knobloch, Napier	Unqualified	28/3/13
31 December 2013	Gardiner Knobloch, Napier	Unqualified	26/3/14

FOR Life Education & Training (NZ) Limited

Statement of Comprehensive Income

\$000s		
For the period ended 31 December	2012	2013
Revenue	258	155
Expenditure	191	159
Depreciation and amortisation	2	2
Non-operating costs	-	-
Net finance income (cost)	-	-
Profit/(loss) before income tax	65	(6)
Income tax expense	(18)	-
Profit/(loss) attributable to the shareholders of the company	47	(6)
Other comprehensive income	-	-
Total comprehensive income/(loss) for the period	47	(6)

Statement of Financial Position

\$000s		
As at 31 December	2012	2013
Current assets	139	135
Non-current assets	4	2
Total Assets	143	137
Current liabilities	96	96
Non-current liabilities	-	-
Total Liabilities	96	96
NET ASSETS	47	41
Share capital	-	-
Retained earnings	47	41
Total shareholders' equity	47	41

Statement of Changes in Equity

\$000s	Share Capital	Retained Earnings	Translation Reserve	Total Equity
Balance as at 21 July 2011	-	-	-	-
Total comprehensive income/ (loss) for the period, net of tax	-	47	-	47
Transactions with owners:				
Issue of capital	-	-	-	-
Dividend	-	-	-	-
Balance as at 31 Dec 2012	-	47	-	47
Total comprehensive income/ (loss) for the period, net of tax	-	(6)	-	(6)
Transactions with owners:				
Issue of capital	-	-	-	-
Dividend	-	-	-	-
Balance as at 31 Dec 2013	-	41	-	41

Statement of Cash Flows

\$000s		
For the period ended 31 December	2012	2013
Net cash flows from/(used in) operating activities	110	(30)
Net cash flows used in investing activities	(6)	-
Net cash flows from financing activities	-	-
Net increase/(decrease) in cash held	104	(30)

FOR Life Education & Training (NZ) Limited is a company registered under the Companies Act 1993 and the company is an exempt company for the purposes of the Financial Reporting Act 1993. The Financial Statements of the company have been prepared in compliance with section 12 of the Financial Reporting Act and with the Financial Reporting Order 1994. The financial statements for the year ended 31 December 2012 were FOR Life Education & Training (NZ) Limited's first set of financial statements. FOR Life Education & Training (NZ) Limited has provided additional information in its full financial statements in accordance with the framework for Differential Reporting.

FOR Life Education & Training (NZ) Limited qualifies for differential reporting exemptions as it has no public accountability and is not large in terms of the criteria set out in the Differential Reporting Framework. All available exemptions allowed under the Framework for Differential Reporting have been adopted except for NZ IAS7 Statement of Cash Flows for the periods ended 31 December 2012 and 31 December 2013.

The table below summarises the following for the historical financial statements:

- Auditor name
- Nature of Auditor's opinion
- Date authorised for issue

Period	Auditor name	Nature of Auditor's opinion	Authorised for issue by Directors
31 December 2012	Gardiner Knobloch, Napier	Unqualified	28/3/13
31 December 2013	Gardiner Knobloch, Napier	Unqualified	26/3/14

Evolve Education Group Limited
Financial Statements
for the period ended 31 August 2014

Evolve Education Group Limited

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Evolve Education Group Limited

Business Profile as at 31 August 2014

Business Address	Suite 2702, Level 27, PwC Tower 188 Quay Street Auckland										
Postal Address	PO Box 106623 Auckland 1143										
Share Capital	1,200 Ordinary Shares										
Shareholders	<table><tr><td></td><td>Ordinary</td></tr><tr><td>Kern Group NZ Limited</td><td>400</td></tr><tr><td>Trustees of the S.B. James Superannuation Fund</td><td>400</td></tr><tr><td>Wraith Capital Group NZ Limited</td><td>400</td></tr><tr><td>Total Shares</td><td><u>1200</u></td></tr></table>		Ordinary	Kern Group NZ Limited	400	Trustees of the S.B. James Superannuation Fund	400	Wraith Capital Group NZ Limited	400	Total Shares	<u>1200</u>
	Ordinary										
Kern Group NZ Limited	400										
Trustees of the S.B. James Superannuation Fund	400										
Wraith Capital Group NZ Limited	400										
Total Shares	<u>1200</u>										
Directors	Russell Daly Gregory Kern										
Registered Office	c/- Minter Ellison Rudd Watts Level 20, Lumley Centre 88 Shortland Street Auckland 1010										
Date of Incorporation	20 May 2014										
Auditors	PricewaterhouseCoopers Chartered Accountants Level 22, PwC Tower 188 Quay Street Auckland 1142										
Bankers	National Australia Bank Limited ASB Bank Limited										
Solicitors	Minter Ellison Rudd Watts Level 20, Lumley Centre 88 Shortland Street Auckland 1010										
Accountants	Hayes Knight North Limited 5 William Laurie Place, Albany Auckland										



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

Report on the Financial Statements

We have audited the financial statements of Evolve Education Group Limited ("the Company") on pages 5 to 26, which comprise the statements of financial position as at 31 August 2014, the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the period then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both the Company and the Group. The Group comprises the Company and the entities it controlled at 31 August 2014 or from time to time during the financial year.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate 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.

Auditor's Responsibility

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

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

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

Other than in our capacity as auditor, we have provided other assurance services, taxation advice and advisory services. Appropriate safeguards were applied to reduce the threats from the provision of these other services to an acceptable level. The provision of these other services has not impaired our independence as auditor of the Company and the Group.



Independent Auditor's Report

Evolve Education Group Limited

Opinion

In our opinion, the financial statements on pages 5 to 26:

- (i) comply with generally accepted accounting practice in New Zealand;
- (ii) comply with International Financial Reporting Standards; and
- (iii) give a true and fair view of the financial position of the Company and the Group as at 31 August 2014, and their financial performance and cash flows for the period then ended.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 2(b) to the financial statements, which indicates that a key consideration in respect of the application of the going concern basis for the Company and Group is the expectation that the Company will successfully complete an Initial Public Offering of shares and list on the New Zealand Stock Exchange and Australian Stock Exchange in December 2014. This condition, along with other matters as set forth in Note 2(b), indicate the existence of a material uncertainty that may cast significant doubt about the Company and the Group's ability to continue as a going concern.

Report on Other Legal and Regulatory Requirements

In relation to our audit of the financial statements for the period ended 31 August 2014:

- (i) we have obtained all the information and explanations that we have required; and
- (ii) in our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records.

Restriction on Use of our Report

This report is made solely to the Company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit 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 an auditors' 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.

A handwritten signature in cursive script, likely belonging to a Chartered Accountant.

Chartered Accountants
12 November 2014

Auckland

Evolve Education Group Limited

Statements of Comprehensive Income for the period ended 31 August 2014

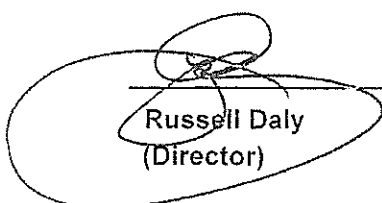
	Note	Group Aug 14 \$'000	Parent Aug 14 \$'000
Revenue		-	-
Administration expenses	7	(2,238)	(2,238)
Other operating costs		-	-
Operating Loss		<u>(2,238)</u>	<u>(2,238)</u>
Finance costs	6	<u>(595)</u>	<u>(595)</u>
Loss before Income Tax		<u>(2,833)</u>	<u>(2,833)</u>
Income tax benefit	9	-	-
Loss for the Period		<u><u>(2,833)</u></u>	<u><u>(2,833)</u></u>
Other Comprehensive Income		-	-
Total Comprehensive Loss for the Period		<u><u>(2,833)</u></u>	<u><u>(2,833)</u></u>
Earnings per share		Cents	
Basic and diluted earnings per share	19	(56.65)	

Evolve Education Group Limited

Statements of Financial Position as at 31 August 2014

	Note	Group Aug 14 \$'000	Parent Aug 14 \$'000
Current Assets			
Cash and cash equivalents		35	35
Trade and other receivables	14	673	673
Other current assets	13	2,092	2,092
Total Current Assets		2,800	2,800
Non-Current Assets			
Investments in subsidiaries	8	-	-
Intangible assets	11	13	13
Total Non-Current Assets		13	13
Total Assets		2,813	2,813
Equity and Liabilities			
Liabilities			
Current Liabilities			
Trade and other payables	15	3,969	3,969
Borrowings	16	1,677	1,677
Total Current Liabilities		5,646	5,646
Total Liabilities		5,646	5,646
Equity attributable to owners of the parent			
Share capital	10	-	-
Accumulated losses		(2,833)	(2,833)
Total Equity		(2,833)	(2,833)
Total Equity and Liabilities		2,813	2,813

These financial statements have been authorised for issue by the Directors on 12 November 2014




Russell Daly
(Director)

Gregory Kern
(Director)

Evolve Education Group Limited

Statements of Changes in Equity for the period ended 31 August 2014

Group	Share Capital	Accumulated Losses	Total
	\$'000	\$'000	\$'000
Balance at 20 May 2014	-	-	-
Loss for the period	-	(2,833)	(2,833)
Other comprehensive income	-	-	-
Total Comprehensive Loss for the Period	-	(2,833)	(2,833)
Balance at 31 August 2014	-	(2,833)	(2,833)

Parent	Share Capital	Accumulated Losses	Total
	\$'000	\$'000	\$'000
Balance at 20 May 2014	-	-	-
Loss for the period	-	(2,833)	(2,833)
Other comprehensive income	-	-	-
Total Comprehensive Loss for the Period	-	(2,833)	(2,833)
Balance at 31 August 2014	-	(2,833)	(2,833)

Evolve Education Group Limited

Statements of Cash Flows for the period ended 31 August 2014

	Note	Group Aug 14 \$'000	Parent Aug 14 \$'000
Cash Flows from Operating Activities			
Payments to suppliers and employees		(15)	(15)
Net Cash Flows used in Operating Activities	18	(15)	(15)
Cash Flows from Financing Activities			
Advances received from related parties		50	50
Net Cash Flows from Financing Activities		50	50
Net increase in cash and cash equivalents		35	35
Cash and cash equivalents at beginning of period		-	-
Cash and Cash Equivalents at End of Period		<u>35</u>	<u>35</u>

Evolve Education Group Limited

Notes to and forming part of the Financial Statements for the period ended 31 August 2014

1. General Information

These financial statements are for Evolve Education Group Limited ("the Company") and its subsidiaries. Evolve Education Group Limited is the holding company, all of the Company's subsidiaries are currently dormant and have been incorporated to become providers of Early Childhood Education through a network of education centres ("the Group").

Evolve Education Group Limited is a limited liability company incorporated and domiciled in New Zealand. The address of the Company and Group's registered office is c/- Minter Ellison Rudd Watts Level 20, Lumley Centre 88 Shortland Street Auckland 1010. Its principal place of business is Suite 2702, Level 27, PwC Tower 188 Quay Street Auckland.

The Company was incorporated on 20 May 2014 and therefore these financial statements of the Company and Group are for the period ended 31 August 2014.

2. Summary of Significant Accounting Policies

(a) Basis of Preparation - Statement of Compliance

The financial statements of Evolve Education Group Limited have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ("NZ GAAP"). They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The consolidated financial statements also comply with International Financial Reporting Standards ("IFRS") and IFRIC interpretations.

XRB A1 Accounting Standards Framework (For-profit Entities Update). XRB A1 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.

(b) Going Concern

The Group has recognised a net loss after tax of \$2,833,000 for the period ended 31 August 2014 and, as at that date, the Company has negative equity with current liabilities exceeding current assets by \$2,846,000. These financial statements have been prepared on a going concern basis.

A key consideration in adopting the going concern principles as a basis for the preparation of these financial statements is the expectation that the Company will list on the NZX and ASX in December 2014. The Directors expect an Underwriting Agreement to be signed on 14 November 2014 between Goldman Sachs New Zealand Limited, Forsyth Barr Limited and Evolve Education Group Limited ("the Underwriting Agreement") in respect of the intended listing. The Directors consider that the execution of this Underwriting Agreement supports the intention to list the Company in December 2014. Assuming a successful IPO, and based on current and forecast transactions, sufficient profits and cash flows are expected to enable the Company to continue operations for the foreseeable future. Whilst the Directors believe the intention to list and the expected signing of the Underwriting Agreement provides a basis to prepare the financial statements on a going concern basis it is important to note that there are a number of conditions within the Underwriting Agreement that at the date of signing these

Evolve Education Group Limited

Notes to and forming part of the Financial Statements for the period ended 31 August 2014

financial statements are not yet satisfied. The Directors acknowledge that there remains a material uncertainty surrounding the Company's ability to raise additional capital should the IPO not proceed. As such, whilst this uncertainty exists, alternative options are being considered including other private equity capital raising options.

(c) Statutory base

Evolve Education Group Limited is a company registered under the New Zealand Companies Act 1993. The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 2013 and the Companies Act 1993.

The financial statements for the period ended 31 August 2014 were approved and authorised for issue by the Board of Directors on 12 November 2014.

The Directors do not have the power to amend these financial statements once issued.

(d) Historical cost convention

These financial statements have been prepared under the historical cost convention.

(e) New accounting standards and interpretations

New or revised standards and interpretations that have been approved but are not yet effective have not been adopted by the Group for the period ended 31 August 2014. The adoption of these standards and interpretations is not expected to have a material recognition or measurement impact on the Group's financial statements unless otherwise stated below. These will be applied when they become mandatory. The significant items 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. This standard is effective for reporting periods beginning on or after 1 January 2018. The Group is yet to assess NZ IFRS 9's full impact.

Evolve Education Group Limited

Notes to and forming part of the Financial Statements for the period ended 31 August 2014

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 2017. The Group is yet to assess NZ IFRS 15's full impact.

3. Significant Accounting Policies

The significant accounting policies that have been used in the preparation of these financial statements are summarised below.

(a) Basis of Consolidation

The consolidated financial statements include the holding company Evolve Education Group Limited and its subsidiaries.

Subsidiaries

Subsidiaries are all entities over which the Group has control. 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. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(b) Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors.

Given the current business structure there is only one segment thus no segment reporting has been prepared.

(c) Foreign Currency Translation

Functional and Presentation Currency

The financial statements are presented in New Zealand dollars (NZD), which is the Company's functional currency.

Evolve Education Group Limited

Notes to and forming part of the Financial Statements for the period ended 31 August 2014

Foreign Currency Transactions and Balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of comprehensive income within "finance costs". All other foreign exchange gains and losses are presented in the statement of comprehensive income.

(d) Intangible Assets

Trademark

Separately acquired trademarks are shown at historical cost. Trademarks have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks over their estimated useful lives of 15 years.

(e) Financial Assets

Recognition and Measurement

Financial assets are recognised when the Group becomes party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

All financial assets are classified as loans and receivables.

All financial assets are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognised at fair value subsequently carried at amortised cost using the effective interest method less any impairment. 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. The Group's loans and receivables comprise "trade and other receivables" and "cash and cash equivalents" in the statement of financial position (note 12).

Evolve Education Group Limited

Notes to and forming part of the Financial Statements for the period ended 31 August 2014

(f) Impairment

Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units).

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. For trade and other receivables category, the amount of any impairment loss would be measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of comprehensive income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in the statement of comprehensive income.

(g) Cash and Cash Equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. In the consolidated statement of financial position, bank overdrafts are shown within borrowings in current liabilities.

(h) Share Capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new share capital are shown in equity as a deduction, net of tax, from the proceeds.

(i) 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.

Evolve Education Group Limited

Notes to and forming part of the Financial Statements for the period ended 31 August 2014

(j) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

(k) Offer Costs

Certain costs have been incurred in relation to the proposed listing of the Group. These costs are directly attributable to the cost of the Group issuing equity instruments and include amounts paid to legal, accounting and other professional advisers. Upon successful listing of the Group these costs will be accounted for as a deduction from equity at this time. Should a listing not proceed these costs will be recognised as an expense in the statement of comprehensive income. Items identified as offer costs are currently recognised as other receivables within the statement of financial position (note 13).

Incremental costs not directly attributable to the proposed listing of the Group are recognised immediately in the statement of comprehensive income.

(l) Current and Deferred Income Tax

Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Company and its subsidiaries operate and generate taxable income.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(m) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

Evolve Education Group Limited

Notes to and forming part of the Financial Statements for the period ended 31 August 2014

(n) Finance Costs

Finance costs are recognised in the statement of comprehensive income using the effective interest method on the return amount due to S.B. James Superannuation Fund. Accrued finance costs are currently recognised within borrowings in the statement of financial position (note 16).

(o) Goods and Services Tax (GST)

Expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the IRD. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis except for the GST components of investing and financing activities which are disclosed as operating cash flows.

(p) Rounding of Amounts

Amounts in the financial statements have been rounded off to the nearest \$1,000, or in certain cases, the nearest dollar.

4. Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk), credit risk and liquidity risk. The Group's overall risk management programme seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market Risk

Foreign Exchange Risk

Foreign exchange risks arise from the AUD denominated loan from S.B. James Superannuation Fund, funds held in Australian dollars and creditors denominated in foreign currency.

The Group closely monitors AUD foreign currency exchange rates and funds are transferred to NZD currency accounts to pay NZD creditors when rates are favourable.

The Group holds cash funds in AUD currency, via cash held by a related party ERA Education Management Pty Limited, acting as a natural hedge against AUD denominated financial liabilities including the S.B. James Superannuation Fund loan. Over time the effectiveness of the natural hedge will be reduced as the AUD cash reserves are depleted.

The proposed ASX listing will reduce foreign exchange risk for the Group for AUD denominated financial liabilities including the S.B. James Superannuation Fund loan and success fees payable in AUD currency to related parties and professional service providers. If the proposed listing does not take place the foreign exchange risk on the loan is eliminated as repayment will be waived (note 16(a)).

Evolve Education Group Limited

Notes to and forming part of the Financial Statements for the period ended 31 August 2014

The following sensitivity is based on the foreign currency risk exposures in existence at the reporting date. Had the New Zealand dollar moved against the Australian dollar, as illustrated in the table below, with all other variables held constant, post tax profit and other comprehensive income would have been affected as follows:

	Group Aug 14 \$'000	Parent Aug 14 \$'000
Increase in value of NZ dollar of 5%		
Impact on loss before taxation	(56)	(56)
Impact on equity before taxation	(56)	(56)
Decrease in value of NZ dollar of 5%		
Impact on loss before taxation	62	62
Impact on equity before taxation	62	62

The sensitivity was calculated by taking the AUD spot rate as at balance date of 0.895712 and moving this spot rate by the reasonably possible movements of plus and minus 5 percent and then re-converting the foreign currency into NZD with the 'new spot-rate'. This methodology reflects the translation methodology undertaken by the Group.

Interest Rate Risk

The Group has exposure to interest rate risk to the extent there is cash held with trading banks. The interest earned is as determined by the banker. As at 31 August 2014 no cash is held in interest earning accounts and the Group is not exposed to interest rate risk.

(b) Credit Risk

Credit risk arises from the financial assets of the Group, which comprises cash and cash equivalents and other receivables.

For security deposits held the Group's exposure is limited to only funds held in solicitors trust accounts and security deposits paid on operating leases. Management does not expect any losses from non performance of counterparties.

With respect to credit risk arising from the other financial assets of the Company, which comprises cash and cash equivalents, the Company's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount shown on the balance sheet. Cash and cash equivalents are held in deposit accounts with reputable trading banks.

Evolve Education Group Limited

Notes to and forming part of the Financial Statements for the period ended 31 August 2014

(c) Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as and when they become due and payable. The Group's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they become due and payable, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Groups' reputation.

All of the Group's liabilities are payable within 12 months except for the loan to S.B. James Superannuation Fund, the repayment terms of which are disclosed in note 16(a).

5. Critical Accounting Estimates and Judgements in Applying Accounting Policies

When preparing the financial statements, management undertakes a number of judgements, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses.

Significant Management Judgement

The following are significant management judgements in applying the accounting policies of the Group that have the most significant effect on the financial statements.

Recognition of deferred tax assets

No deferred tax asset has been recognised as currently it is not probable that future taxable profit will be available to utilise the deferred tax asset at 31 August 2014. Refer note 9.

Recognition and measurement of offer costs, accrued success fees and borrowings

The Group has recognised and measured offer costs (disclosed in note 13), accrued success fees (disclosed in note 15) and the funds advanced for working capital from the S.B. James Superannuation Fund and the related Return Amount (disclosed in note 16(a)) on the basis that the intended listing of Evolve Education Group Limited on the NZX and ASX in December 2014 will be successful.

Going concern

Refer to note 2(b) for the directors judgment and uncertainty in respect of going concern.

Evolve Education Group Limited

Notes to and forming part of the Financial Statements for the period ended 31 August 2014

6. Finance Costs

	Note	Group Aug 14 \$'000	Parent Aug 14 \$'000
Finance costs	16	545	545
Net foreign exchange losses on financing activities		50	50
Total Finance Costs		595	595

7. Expenses by Nature

	Group Aug 14 \$'000	Parent Aug 14 \$'000
Depreciation, amortisation and impairment charges	-	-
Operating lease expenses	7	7
Fees paid to Pricewaterhouse Coopers New Zealand:		
Audit of financial statements	16	16
Other assurance related services	-	-
Tax compliance services	14	14
Advisory services	63	63
Legal fees	706	706
Acquisition costs	1,087	1,087
Other expenses	345	345
Total Administrative Expenses	2,238	2,238

Fees paid to Pricewaterhouse Coopers New Zealand by the Group for advisory services comprise of advisory services performed in respect of due diligence, business integration and other services relating to the pending IPO. Due diligence services relating to the IPO totalling \$18,000 have been included within offer costs recognised within other current assets (note 13).

8. Investments in Subsidiaries

Name	Nature of business	Proportion of ordinary shares directly held by parent (%)
Evolve Group 1 Limited	Dormant	100
Evolve Group 2 Limited	Dormant	100
Evolve Group 3 Limited	Dormant	100
Evolve Group 4 Limited	Dormant	100
Evolve Management Group Limited	Dormant	100
Evolve Home Day Care Limited	Dormant	100

All the above companies are incorporated in New Zealand and have a balance date of 31 March.

Evolve Education Group Limited

Notes to and forming part of the Financial Statements for the period ended 31 August 2014

9. Income Tax

	Group Aug 14 \$'000	Parent Aug 14 \$'000
Profit Reconciliation		
Operating loss before income tax	(2,833)	(2,833)
Prima facie taxation at 28%	(793)	(793)
<i>Adjust for tax effect of:</i>		
Expenses not deductible for tax purposes	491	491
Tax losses not recognised	301	301
Temporary differences not recognised	1	1
Taxation Charge	<u>-</u>	<u>-</u>
	Group Aug 14 \$'000	Parent Aug 14 \$'000
Unrecognised Deferred Tax Asset		
Temporary differences arising from normal operations	2	2
Unused tax losses	1,077	1,077
Unrecognised deferred tax balances	<u>1,079</u>	<u>1,079</u>
Unrecognised deferred tax balances @ 28%	<u>302</u>	<u>302</u>

No income tax was paid or payable during the period ended 31 August 2014.

Critical accounting judgements in respect of deferred tax are set out in note 5.

Imputation Credits

As at balance date imputation credits totalled: Group \$0, Parent \$0.

10. Share Capital

	Group Aug 14 \$'000	Parent Aug 14 \$'000
1,200 ordinary shares	-	-
	<u>-</u>	<u>-</u>

At 31 August 2014, share capital comprised 1,200 Ordinary Shares.<

The holders of ordinary shares are entitled to receive dividends as declared from time to time, are entitled to one vote per share at shareholders' meetings of the Company, and rank equally with regard to the Company's residual assets.

Evolve Education Group Limited

Notes to and forming part of the Financial Statements for the period ended 31 August 2014

11. Intangible Assets

	Group Aug 14 \$'000	Parent Aug 14 \$'000
	Trademarks	Trademarks
Cost		
Opening balance	-	-
Additions	13	13
As at 31 August 2014	13	13
Accumulated Amortisation and Impairment		
Opening balance	-	-
Amortisation charge	-	-
As at 31 August 2014	-	-
Net Book Value		
Cost	13	13
Accumulated amortisation and impairment	-	-
As at 31 August 2014	13	13

12. Financial Instruments

(a) Financial Instruments by Category

	Group Aug 14 \$'000	Parent Aug 14 \$'000
	Loans and receivables	Loans and receivables
<i>Assets as per statement of financial position</i>		
Trade and other receivables excluding GST	567	567
Cash and cash equivalents	35	35
Total	602	602
	Held at amortised cost	Held at amortised cost
<i>Liabilities as per statement of financial position</i>		
Borrowings	1,677	1,677
Trade and other payables	3,969	3,969
Total	5,646	5,646

(b) Fair Value

The fair values of the financial instruments are considered to be materially the same as the carrying values.

Evolve Education Group Limited

Notes to and forming part of the Financial Statements for the period ended 31 August 2014

13. Other Current Assets

	Group Aug 14 \$'000	Parent Aug 14 \$'000
Offer costs	2,092	2,092
Total Other Current Assets	2,092	2,092

14. Trade and Other Receivables

	Group Aug 14 \$'000	Parent Aug 14 \$'000
Other receivables - Goods & Services Tax	106	106
Deposits held	21	21
Receivables from related parties (note 17)	546	546
Total Trade and Other Receivables	673	673

15. Trade and Other Payables

	Group Aug 14 \$'000	Parent Aug 14 \$'000
Trade payables	470	470
Accrued success fees	3,200	3,200
Other payables	299	299
Total Trade and Other Payables	3,969	3,969

As at 31 August 2014, \$3,200,000 of the total success fees (including professional services, offer costs and acquisition costs) have been accrued in relation to work performed by those parties up to 31 August 2014.

The success fees ultimately payable to related parties which have been included above are disclosed separately in note 17.

16. Borrowings

	Group Aug 14 \$'000	Parent Aug 14 \$'000
Current		
Loan from related party	1,116	1,116
Accrued finance costs	561	561
	1,677	1,677
Total Borrowings	1,677	1,677

Evolve Education Group Limited

Notes to and forming part of the Financial Statements for the period ended 31 August 2014

(a) Loan from Related Party

The Trustees of the S.B. James Superannuation Fund ("the Fund") are shareholders in Evolve Education Group Limited. The Fund has advanced AUD\$1,000,000 of working capital towards costs associated with the potential listing of the Group on the NZX and ASX. The loan is unsecured.

Repayment of the loan is required in full upon the occurrence of either a successful listing of the Group on the NZX or a sale to a third party ("a successful event") by 31 March 2015. The loan principal is repayable within 2 days of listing plus a Return Amount. The Return Amount of an additional AUD\$1,000,000 is payable either in cash or through the issue and allotment of an equivalent amount of Evolve Education Group Limited shares at the IPO price. Evolve Education Group Limited has sole discretion to nominate the method of payment.

The Fund will waive repayment of the loan if no listing and/or no third party sale occurs before 31 March 2015.

As at 31 August 2014 AUD\$503,000 (NZ\$561,000) of the return amount was recognised as accrued finance costs within borrowings in the statement of financial position. For the period ended 31 August 2014 AUD\$503,000 (NZ\$545,000) was recognised as finance costs in the statement of comprehensive income.

17. Related Parties

The following transactions were carried out with related parties:

ERA Education Management Pty Limited

ERA Education Management Pty Limited ("ERA") is related to the Group due to common directorship and shareholding. During the period ERA received AUD\$1,000,000, representing the working capital advance in notes 14 and 16, from S.B James Superannuation Fund. The funds are held on behalf of the Group in an AUD bank account by ERA, and are being used for the payment of the Group's creditors.

During the period, AUD\$463,000 were paid to creditors by ERA on the Group's behalf, for expenses recognised in the statement of comprehensive income. In addition, AUD\$48,000 was transferred by ERA into the Group's NZD bank account.

As at 31 August 2014 AUD\$489,000 remained in the Australian bank account of ERA and has been included in trade and other receivables in the statement of financial position (refer note 14).

Evolve Education Group Limited

Notes to and forming part of the Financial Statements for the period ended 31 August 2014

The Kern Group (Paddington) Pty Limited

The Kern Group (Paddington) Pty Limited is related to Evolve Education Group Limited as Gregory Kern is a Director of both companies. The Kern Group (Paddington) Pty Limited invoices the Company for reimbursements in relation to travel and communication costs incurred. The amounts invoiced during the period were \$40,000. As at 31 August 2014 \$13,000 was outstanding and has been included in trade and other payables on the statement of financial position.

On the occurrence of a successful event, The Kern Group (Paddington) Pty Limited will be due a success fee in relation to services provided for project managing the listing of Evolve Education Group Limited on the NZX and ASX. The fee of AUD\$1,000,000 is payable in Australian dollars on or before the day of listing. \$614,000 has been recognised as an expense and other payable in the financial statements as at and for the period ended 31 August 2014.

Wraith Capital Group NZ Limited

Wraith Capital Group NZ Limited is a shareholder of Evolve Education Group Limited. Wraith Capital Group NZ Limited invoices the Company for reimbursements in relation to travel and communication costs incurred. The amounts invoiced during the period were \$89,000. As at 31 August 2014 \$34,000 has been accrued for costs incurred prior to balance date and has been included in trade and other payables in the statement of financial position.

On the occurrence of a successful event, Wraith Capital Group NZ Limited will be due a success fee for providing consultancy services in relation to the listing of Evolve Education Group Limited on the NZX and ASX. The fee of AUD\$300,000 is payable in Australian dollars within five days of achievement of a successful event. \$234,000 has been recognised as an expense and other payable in the financial statements as at and for the period ended 31 August 2014.

S.B. James Superannuation Fund

S.B. James Superannuation Fund, a shareholder in Evolve Education Group Limited advanced funds to the Group as disclosed in note 16(a).

The funds were advanced to an AUD bank account in the name of ERA Education Management Pty Limited ("ERA"). ERA is related to the Group due to common directorship and shareholding. The funds are being used for the payment of the Group's creditors, the balance of the advance is held in the AUD bank account by ERA.

There are no other known material related party transactions as at 31 August 2014.

Evolve Education Group Limited

Notes to and forming part of the Financial Statements for the period ended 31 August 2014

18. Reconciliation of Cash Flows from Operating Activities

	Group Aug 14 \$'000	Parent Aug 14 \$'000
Cash Flows from Operating Activities		
Loss before income tax	(2,833)	(2,833)
<i>Adjustments for:</i>		
Non cash items		
Supplier payments paid for by related party	473	473
Foreign exchange differences	34	34
Net changes in working capital:		
Change in trade and other receivables	(127)	(127)
Change in other current assets	(2,092)	(2,092)
Change in trade and other payables	3,969	3,969
Change in accrued finance costs	561	561
Net Cash from Operating Activities	(15)	(15)

19. Earnings per Share

The loss for the period used in calculating basic and diluted earnings per share is \$2,833,000.

The weighted average number of shares used to calculate basic and diluted earnings per share is as follows:

	Group Shares
Weighted average number of shares in issue during the period (note 10)	1,200
Adjustment for:	
Share split subsequent to the balance date (note 21)	4,999,200
Weighted average number of shares used to calculate basic and diluted earnings per share	5,000,400

20. Contingencies and Commitments

As at 31 August 2014 Evolve Education Group Limited had entered into conditional contracts to acquire multiple early learning establishments from multiple sellers. The contracts are conditional on a number of factors including, but not limited to, due diligence and successful raising of new capital and listing of the Company on the NZX and ASX

No assets or liabilities in relation to these contracts have been recognised in these financial statements. As at 31 August 2014, the Group had entered into conditional sale and purchase agreements to acquire 23 early child care centres of various sizes. In addition to this the Group has entered into contracts to acquire shares in three child care related companies. Total consideration for these contracts is \$51,918,000.

Evolve Education Group Limited

Notes to and forming part of the Financial Statements for the period ended 31 August 2014

Operating Lease Commitments

The Group leases office space under a non-cancellable operating lease agreement. The lease term is for 6 months.

	Group Aug 14 \$'000	Parent Aug 14 \$'000
No later than one year	16	16
Later than one year and no later than five years	-	-
later than 5 years	-	-
Total Operating Lease Commitments	16	16

21. Subsequent Events

Appointment of Senior Management Team

Evolve Education Group Limited's senior management team will comprise a Chief Executive Officer, a Chief Financial Officer, and a Chief Operating Officer. The following executives have been appointed subsequent to 31 August 2014:

Alan Wham	Chief Executive Officer	1 September 2014
Vivek Singh	Chief Financial Officer and Company Secretary	1 September 2014
David Smith	Chief Operating Officer	15 September 2014

Acquisition of Additional Early Child Care Centres

Subsequent to 31 August 2014 the Group has entered into conditional sale and purchase agreements with an additional 32 early child care centres for \$53,556,000. In addition the Group has entered into conditional sale and purchase agreements to acquire shares in two childcare related companies for \$78,164,000. Since 31 August 2014, four centres and one company failed their due diligence reducing the total purchase price by \$21,195,000. An additional four centres are currently under negotiation for a further \$4,800,000.

In total the Group is expecting to acquire 55 early child care centres and shares in four childcare related companies for total consideration of \$167,243,000.

Key Contracts Signed

Lollipops Acquisition Agreement

On 8 September 2014, Evolve Education Group Limited entered into an "Agreement for the sale and purchase of shares in Lollipops Educare Holdings Limited" with the shareholders of Lollipops Educare Holdings Limited (as vendors).

Pursuant to this agreement, Evolve Education Group Limited has agreed to purchase all of the shares in Lollipops Educare Holdings Limited, subject to the satisfaction of certain conditions precedent.

Evolve Education Group Limited

Notes to and forming part of the Financial Statements for the period ended 31 August 2014

PORSE Acquisition Agreement

On 22 September 2014, Evolve Home Day Care Limited, a subsidiary of Evolve Education Group Limited entered into a "Share sale agreement relating to shares in PORSE In-Home Childcare (NZ) Limited; PORSE Franchising (NZ) Limited; PORSE Education & Training (NZ) Limited; and FOR Life Education & Training (NZ) Limited" with the shareholders of PORSE In-Home Childcare (NZ) Limited, PORSE Franchising (NZ) Limited, PORSE Education & Training (NZ) Limited, and FOR Life Education & Training (NZ) Limited (as vendors).

Pursuant to this agreement, Evolve Education Group Limited agreed to purchase all of the shares in PORSE In-Home Childcare (NZ) Limited, PORSE Franchising (NZ) Limited, PORSE Education & Training (NZ) Limited, and FOR Life Education & Training (NZ) Limited, subject to the satisfaction of certain conditions precedent.

Further Working Capital Advances

During October and November 2014 all shareholders proportionately agreed to inject an additional AUD\$600,000 of seed capital into the Company under the same terms as the original amount received from the S.B. James Superannuation Fund as disclosed in note 16(a).

Settlement of Employment Dispute

Evolve Education Group Limited received a claim against the Company in relation to an employment dispute which arose during the period and remained unresolved at 31 August 2014. The settlement of the claim has been subsequently agreed in principle by all parties and the expected final settlement amount has been recognised within trade and other payables in the statement of financial position and included within other expenses in the statement of comprehensive income.

Share Split and Issue of Additional Shares

On 31 October 2014 the 1,200 shares on issue were split and for every one existing share the shareholders received 4,167 new shares. Immediately following the share split an additional 1,250,000 new ordinary shares were issued for nominal consideration. Following the share split and the issue of the additional shares the total number of shares on issue for the Company was 6,250,400.

Lollipops Educare Holdings Limited

Special purpose carve out financial statements for the year ended 31 March 2014

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Company Directory

The Directors are pleased to present the special purpose carve out financial statements of Lollipops Educare Holdings Limited for the year ended 31 March 2014

Principal Activities	Early childhood care	
Registered Office	22 A Kalmia Street, Ellerslie Auckland, 1051	
Directors	M Finlay R Thompson C Tapper A Scott	
Auditor	Deloitte Auckland	
Bankers	ANZ Bank Limited Auckland	
Solicitors	Hesketh Henry Auckland	
Shareholders	Mark Finlay Investment No. 2 Trust	6,908,804
	111 Investment Trust	4,310,198
	H Finlay Trust	534,363
	Scottfin ECE Limited	2,918,293
		14,671,658

Directors' declaration

In the opinion of the directors the special purpose carve out financial statements comply with the statement of compliance and the accounting policies described in the special purpose carve out financial statements which are considered appropriate for the purpose of showing the results and financial position of the Lollipops group as defined in the draft sale and purchase agreement for the sale of the child care centres dated 8th September 2014.

The directors present the special purpose carve out financial statements prepared in accordance with the statement of compliance and the accounting policies on pages 9 to 30. They have been prepared using appropriate accounting policies, as set out in the statement of compliance, which have been consistently applied and are supported by reasonable judgements and estimates.


M Finlay
Director
Date: 12/11/2014
R Thompson
Director
Date: 12/11/2014

INDEPENDENT AUDITOR'S REPORT TO THE DIRECTORS OF LOLLIPOPS EDUCARE HOLDINGS LIMITED

Report on the Special Purpose Carve Out Financial Statements

We have audited the special purpose carve out financial statements of Lollipops Educare Holdings Limited and group on pages 5 to 30 which comprise the consolidated and separate statements of financial position as at 31 March 2014, and the consolidated and separate statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. The carve out special purpose financial statements have been prepared in accordance with the Statement of Compliance on page 9 of the special purpose carve out financial statements.

Board of Directors' Responsibility for the Special Purpose Carve Out Financial Statements

The Board of Directors is responsible for determining the basis of preparation and the accounting policies used in the preparation of these special purpose carve out financial statements to provide information for the purposes of the draft Sale and Purchase Agreement for the sale of the childcare business dated 8 September 2014. The Statement of Compliance and the accounting policies are outlined in Note 1 on pages 9 to 16.

The Board of Directors is also responsible for the preparation of these special purpose carve out financial statements in accordance with the basis of preparation and accounting policies and for such internal control as the Board of Directors determine is necessary to enable the preparation of special purpose carve out financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities

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

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

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

Other than in our capacity as auditor, we have no relationship with or interests in Lollipops Educare Holdings Limited.

Opinion

In our opinion, the special purpose carve out financial statements for the year ended 31 March 2014 are prepared, in all material respects, in accordance with the Statement of Compliance and accounting policies set out on pages 5 to 16 of the special purpose carve out financial statements.

Basis of Accounting and Restriction on Use

Without modifying our opinion we draw your attention to Note 1 of the special purpose carve out financial statements which describes the basis of accounting. These special purpose carve out financial statements do not comply with New Zealand generally accepted accounting practice (NZ GAAP) or New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) using the differential reporting framework.

NZ IFRS 10 Consolidated Financial Statements requires a parent entity to present consolidated financial statements in which it consolidates its investments in subsidiaries in accordance with the standard. These financial statements do not comply with NZ IFRS 10 because they exclude some of the Company's subsidiaries and portions of one of its subsidiaries as outlined in Note 1. NZ IFRS 11 Joint Arrangements and NZ IAS 28 Investments in Associates and Joint Ventures require joint ventures to be accounted for using the equity method in the consolidated financial statements of the investor. These financial statements do not comply with NZ IFRS 11 and NZ IAS 28 because they exclude one of the Company's joint ventures as outlined in Note 1.

The special purpose carve out financial statements are prepared to assist the directors of Lollipops Educare Limited to provide information for the purposes of the draft Sale and Purchase Agreement for the sale of the childcare business dated 8 September 2014. As a result the special purpose carve out financial statements may not be suitable for another purpose. This report is made solely to the directors of the Company (the "directors"). Our work has been undertaken so that we might state to the directors those matters we are required to state to them in a report from the auditor and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the directors for this report, or for the opinions we have formed.



Chartered Accountants
12 November 2014
Auckland, New Zealand

Statement of financial position

as at 31 March 2014
in New Zealand dollars

	Note	Group 2014	Group 2013	Company 2014	Company 2013
Assets					
Cash and cash equivalents	9	614,477	840,756	-	389,087
Trade debtors and other receivables	10	130,346	139,944	2,950	-
Current tax asset		-	27,684	56,161	25,488
Other financial assets	11	15,028,640	9,152,017	17,404,147	14,863,659
Other current assets	12	291,041	317,129	125,000	72,566
Total current assets		16,064,504	10,477,530	17,588,258	15,350,780
Property, plant and equipment	14	5,907,905	5,813,039	-	-
Goodwill	15	8,437,052	5,523,590	-	-
Other intangible assets	16	75,365	91,970	-	-
Investment in subsidiaries	21	-	-	6,107,053	4,600,516
Investment in associates (cost)	22	-	-	-	842,993
Investment in joint ventures (cost)	23	-	-	204,100	204,100
Investment in associates	22	-	258,309	-	-
Investment in joint ventures	23	481,794	401,080	-	-
Total non-current assets		14,902,116	12,087,988	6,311,153	5,447,609
Total assets		30,966,620	22,565,518	23,899,411	20,798,389
Liabilities					
Bank overdraft	9	103,370	78,388	17,529	-
Trade and other payables	17	2,206,986	1,872,256	2,284,702	1,385,844
Current tax liability		183,439	-	-	-
Derivatives	13	-	24,296	-	11,469
Employee entitlements	18	1,231,492	915,451	-	-
Government grants received in advance		4,055,896	3,318,253	-	-
Finance lease liability	20	23,400	26,518	-	-
Interest-bearing loans	19	9,211,265	8,119,051	9,211,265	8,119,051
Total current liabilities		17,015,848	14,354,213	11,513,496	9,516,364
Finance lease liability	20	19,162	43,520	-	-
Interest-bearing loans	19	5,095,000	3,815,001	5,095,000	3,815,001
Total non-current liabilities		5,114,162	3,858,521	5,095,000	3,815,001
Total liabilities		22,130,010	18,212,734	16,608,496	13,331,365
Net assets		8,836,610	4,352,784	7,290,915	7,467,024
Equity					
Share capital	25	5,108,985	5,261,063	5,108,985	5,633,956
Retained earnings		2,813,292	(995,620)	1,979,930	1,631,088
Special purpose reserve		879,162	14,861	202,000	202,000
Non-controlling interest	26	35,170	72,480	-	-
Total equity		8,836,610	4,352,784	7,290,915	7,467,024

This statement is to be read in conjunction with the notes to the financial statements.

Statement of comprehensive income

For the year ended 31 March 2014

in New Zealand dollars

	Note	Group 2014	Group 2013	Company 2014	Company 2013
Revenue		32,838,232	25,340,755	1,507,953	1,374,205
Other income	3	24,296	69,769	11,469	77,595
Share of profit of associates using equity method	22	-	70,615	-	-
Share of profit of joint arrangements using equity method	23	284,606	303,446	-	-
Dividend income	2	2,434	1,681	808,714	367,046
		33,149,568	25,786,266	2,328,136	1,818,846
Expenses					
Accounting and legal consulting fees		247,253	289,501	67,753	119,827
Cost of services	4	16,551,538	13,548,947	-	-
Staff costs		1,386,791	1,130,656	-	-
Marketing costs		133,941	189,617	-	-
Net finance cost	6	1,118,245	1,043,520	1,112,385	1,026,495
Licensing fees		55,325	39,223	-	-
Utilities/rent/rates		5,553,521	4,723,814	-	-
Travel and entertainment		102,422	110,690	-	-
Indirect salaries and wages for centre management		2,352,897	1,875,848	-	-
Centre administration running costs		278,438	242,537	-	-
Insurance		153,665	129,315	-	-
Loss/(gain) on sale of fixed assets		52,148	1,166	-	-
Management fees		-	-	561,978	454,047
Depreciation and amortisation expense	5	835,273	856,196	-	-
Director fees		20,000	25,000	20,000	25,000
Operating lease/hire for equipment		92,088	69,495	-	-
Other expenses		377,222	339,911	14,057	732
(Gain) on disposal of previously held interests	21	(665,694)	-	-	-
		28,645,073	24,615,436	1,776,173	1,626,101
Profit before income tax from continuing operations		4,504,495	1,170,830	551,963	192,745
Income tax expense	8	327,891	75,717	(105,472)	(53,597)
Net profit after tax for the year from continuing operations		4,176,604	1,095,113	657,435	246,342
Net profit for the year		4,176,604	1,095,113	657,435	246,342
Net profit for the year is attributable to:					
Equity holders of the parent		4,117,485	1,038,664	657,435	246,342
Non-controlling interest	26	59,119	56,449	-	-
Total		4,176,604	1,095,113	657,435	246,342
Other comprehensive income		-	-	-	-
Total comprehensive income		4,176,604	1,095,113	657,435	246,342
Comprehensive income for the year is attributable to:					
Equity holders of the parent		4,117,485	1,038,664	657,435	246,342
Non-controlling interest		59,119	56,449	-	-
Total		4,176,604	1,095,113	657,435	246,342

This statement is to be read in conjunction with the notes to the financial statements.

Statement of changes in equity

for the year ended 31 March 2014

in New Zealand Dollars

Group	Note	Share capital	Retained earnings	Special purpose reserve	Non-controlling interest	Total equity
Balance as at 1 April 2012		5,463,956	(2,034,284)	(292,961)	16,031	3,152,742
Profit for the period		-	1,038,664	-	56,449	1,095,113
Movement in special purpose reserve		-	-	307,822	-	307,822
Movement in treasury shares held	25	(202,893)	-	-	-	(202,893)
Balance as at 31 March 2013	25	5,261,063	(995,620)	14,861	72,480	4,352,784

Group		Share capital	Retained earnings	Special purpose reserve	Non-controlling interest	Total equity
Balance as at 1 April 2013		5,261,063	(995,620)	14,861	72,480	4,352,784
Profit for the period		-	4,117,485	-	59,119	4,176,604
Share buyback	25	(77,500)	-	-	-	(77,500)
Movement in special purpose reserve		-	-	864,303	-	864,303
Movement in treasury shares held	25	(74,578)	-	-	-	(74,578)
Dividends paid	27	-	(308,573)	-	(96,429)	(405,002)
Balance as at 31 March 2014	25	5,108,985	2,813,292	879,163	35,170	8,836,611

Parent		Share capital	Retained earnings	Special purpose reserve	Total equity
Balance as at 1 April 2012		5,633,956	1,384,726	-	7,018,682
Profit for the period		-	246,342	-	246,342
Movement in special purpose reserve		-	-	202,000	202,000
Balance as at 31 March 2013		5,633,956	1,631,068	202,000	7,467,024

Parent		Share capital	Retained earnings	Special purpose reserve	Total equity
Balance as at 1 April 2013		5,633,956	1,631,068	202,000	7,467,024
Profit for the period		-	657,435	-	657,435
Share buyback	25	(77,500)	-	-	(77,500)
Re-purchase of shares from LEIL	25	(447,471)	-	-	(447,471)
Movement in special purpose reserve		-	-	-	-
Dividends paid	27	-	(308,573)	-	(308,573)
Balance as at 31 March 2014	25	5,108,985	1,979,930	202,000	7,290,915

This statement is to be read in conjunction with the notes to the financial statements.

Statement of cash flows

for the year ended 31 March 2014

in New Zealand Dollars

	Group 2014	Group 2013	Company 2014	Company 2013
Cash flows from operating activities				
Cash was provided from:				
Receipts from customers	33,396,823	24,939,333	1,452,569	1,330,054
Taxes received (net of taxes paid)	-	-	74,799	53,868
Interest received	45,806	1,946	41,121	1,088
	<u>33,442,629</u>	<u>24,941,279</u>	<u>1,568,489</u>	<u>1,385,010</u>
Cash was applied to:				
Payments to suppliers and employees	(26,674,762)	(22,256,182)	(657,991)	(595,339)
Taxes paid (net of refunds received)	(116,768)	(145,308)	-	-
Interest paid	(1,164,051)	(1,045,466)	(1,153,506)	(1,027,583)
	<u>(27,955,581)</u>	<u>(23,446,956)</u>	<u>(1,811,497)</u>	<u>(1,622,922)</u>
Net cash flow from operating activities	<u>5,487,048</u>	<u>1,494,323</u>	<u>(243,008)</u>	<u>(237,912)</u>
Cash flows from investing activities				
Cash was provided from:				
Disposal of property, plant and equipment	6,937	13,314	-	-
Disposal of centres	-	50,046	-	50,046
Dividends received	192,718	273,583	808,714	367,046
	<u>199,655</u>	<u>336,943</u>	<u>808,714</u>	<u>417,092</u>
Cash was applied to:				
Acquisition of property, plant and equipment	(617,418)	(493,163)	-	-
Acquisition of centres	(900,000)	-	-	-
Investment in subsidiaries	(1,236,576)	(796,493)	(1,236,576)	(796,493)
	<u>(2,753,994)</u>	<u>(1,289,656)</u>	<u>(1,236,576)</u>	<u>(796,493)</u>
Net cash flow from investing activities	<u>(2,554,339)</u>	<u>(952,713)</u>	<u>(427,862)</u>	<u>(379,401)</u>
Cash flow from financing activities				
Cash was provided from:				
Bank loan advances	2,372,213	5,912,375	2,372,213	5,912,375
Related party loans	20,417	19,300	893,061	1,255,339
	<u>2,392,630</u>	<u>5,931,675</u>	<u>3,265,274</u>	<u>7,167,714</u>
Cash was applied to:				
Share buyback	(152,063)	(202,893)	(524,971)	-
Dividends paid	(405,001)	-	(308,573)	-
Related party loan payments	(4,992,060)	(5,057,819)	(2,167,456)	(5,704,937)
Payment of finance leases	(27,476)	(32,107)	-	-
	<u>(5,576,600)</u>	<u>(5,292,819)</u>	<u>(3,001,000)</u>	<u>(5,704,937)</u>
Net cash flow from financing activities	<u>(3,183,970)</u>	<u>638,856</u>	<u>264,274</u>	<u>1,462,777</u>
Net increase/(decrease) in cash held	<u>(251,261)</u>	<u>1,180,466</u>	<u>(406,596)</u>	<u>845,464</u>
Add opening cash and cash equivalents	<u>762,368</u>	<u>(418,098)</u>	<u>389,067</u>	<u>(456,397)</u>
Closing cash and cash equivalents	<u>511,107</u>	<u>762,368</u>	<u>(17,529)</u>	<u>389,067</u>
Cash and cash equivalents comprise:				
Cash and cash equivalents	614,477	840,756	-	389,067
Bank overdraft	(103,370)	(78,388)	(17,529)	-
	<u>511,107</u>	<u>762,368</u>	<u>(17,529)</u>	<u>389,067</u>

This statement is to be read in conjunction with the notes to the financial statements.

Notes to the financial statements for the year ended 31 March 2014

1 Statement of Compliance

Lollipops Educare Holdings Limited ("LEHL" or "the Company") is a profit-oriented entity incorporated and domiciled in New Zealand. Its principal activities are running quality early childhood care and education services for children and infants. The financial statements are for the reporting entity referred to as Lollipops Group as defined in the draft Sale and Purchase Agreement for the sale of the child care business dated 8th September 2014.

The financial statements include the following subsidiaries, joint ventures and centres of LEHL:

Subsidiaries

Lollipops Educare Limited	Lollipops Educare Centres Limited (LECL) *
Lollipops Educare (Hastings) Limited	Lollipops Educare (Wellington) Limited
Lollipops Educare (Napier Port) Limited ***	Bambino Investments Limited ***
Lollipops Educare (Blighs Road) Limited ***	Lollipops Educare (Ellerslie) Ltd ***
Lollipops Educare (Te Rapa) Limited ***	
Lollipops Educare (Patten Street) Limited ***	
Lollipops Educare (Waikato Hospital) Limited ***	
Lollipops Educare Investors Limited ("LEIL")	

Joint Ventures

Lollipops Educare (Ellerslie) Limited ****
Lollipops Educare (Half Moon Bay) Limited
Lollipops Educare (Birkenhead) Limited

Centres

Remuera**
Wonderwise**

* One of this company's centres, Mairangi Bay Centre, has been excluded from these Special Purpose Financial Statements because the Centre was sold in April 2013 and is not included in the sale and purchase agreement.

** The Remuera and Wonderwise centres were owned by LEDC Limited during the 2013 and 2014 financial years. Subsequent to 31 March 2014 these two centres were transferred into Lollipops Educare Centre Limited and are included in the draft sale and purchase agreement. Therefore, the special purpose financial statements include the Remuera and Wonderwise centres. LEDC Limited and its remaining centres are not included in the sale and purchase agreement and are excluded from the special purpose financial statements.

*** On 31/03/2014 these companies were amalgamated into Lollipops Educare Centres Limited.

**** Lollipops Educare (Ellerslie) Ltd is shown as a Joint Venture in 2013 and a Subsidiary in 2014 as the remaining 50% ownership was acquired during the period. It trades as Lollipops Educare Millennium.

The special purpose carve out financial statements of Lollipops Educare Holdings Limited (referred here after as special purpose) are consolidated financial statements including the above subsidiaries, joint ventures and centres. The financial statements do not comply with New Zealand generally accepted accounting practice (NZ GAAP) or New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) using the differential reporting framework because certain subsidiaries (and portions of one of its subsidiaries) and a joint venture of the Company have been excluded. NZ IFRS 10 *Consolidated Financial Statements* requires a parent entity to present consolidated financial statements in which it consolidates its investments in subsidiaries in accordance with the standard. These financial statements do not comply with NZ IFRS 10 because they exclude some of the Company's subsidiaries and portions of one of its subsidiaries as listed below. NZ IFRS 11 *Joint Arrangements* and NZ IAS 28 *Investments in Associates and Joint Ventures* require joint ventures to be accounted for using the equity method in the consolidated financial statements of the investor. These financial statements do not comply with NZ IFRS 11 and NZ IAS 28 because they exclude one of the Company's joint ventures as listed below.

The special purpose financial statements include only Lollipops Educare Holdings Limited and those subsidiaries, joint ventures and centres of Lollipops that will be part of the Lollipops Group at completion of the purchase of Lollipops by Evolve Education. Therefore the following subsidiaries and joint ventures have been excluded:

Notes to the financial statements

for the year ended 31 March 2014

Subsidiaries

Lollipops Educare Properties Limited
LEDC Limited *
Lollipops Educare (Mt Maunganui) Limited
Lollipops Educare (Addington) Limited

Joint Venture

Lollipops Birkenhead Properties Limited

* This company has been excluded from the Special Purpose Financial Statements except that two of its centres, Remuera and Wonderwise, have been included because those two centres are included in the sale and purchase agreement.

Special Purpose reserve

The special purpose reserve arises as a consequence of the basis of preparation whereby these special purpose financial statements exclude the accounting impact of the disposal of Mairangi Bay and Waiuku Centres.

Other than as described above, these special purpose financial statements have been prepared in accordance with the recognition, measurement, and disclosure requirements of New Zealand Equivalents to International Financial Reporting Standards applying the framework for differential reporting. All disclosure exemptions under the framework for differential reporting have been applied except for:

- The exemption under NZ IAS 18 Revenue allowing the recording of revenue and expense inclusive of GST; and
- The exemption under NZ IAS 7 Statement of Cash Flows allowing the reporting entity not to prepare a Statement of Cash Flows.

The principal accounting policies adopted in the preparation of the financial report are set out below for the year ended 31 March 2014 and the comparative information presented in these financial statements for the year ended 31 March 2013. These policies have been consistently applied to all the years presented, unless otherwise stated. The special purpose financial statements have been prepared on the basis of historical cost except for certain financial instruments which are carried at fair value.

The special purpose financial statements were authorised for issue by directors on 12 November 2014.

Significant accounting policies

The following significant accounting policies have been adopted in the preparation and presentation of the financial statements:

The functional currency of Lollipops Educare Holdings Limited is New Zealand Dollars (NZD) which is the presentation currency of the company and group.

(a) Cash & Cash Equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand, and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Bank overdrafts are classified as current liabilities and not offset against cash balances.

(b) Trade and Other Payables

Trade and other payables are carried at amortised cost and due to their short-term nature they are not discounted. They represent liabilities for goods and services provided to the group prior to the end of the financial year that are unpaid and arise when the group becomes obliged to make future payments in respect of the purchases of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

Notes to the financial statements

for the year ended 31 March 2014

(c) Revenue Recognition

Revenues are recognized when the amount of revenue can be reliably measured, it is probable that the future economic benefits will flow to the entity, and specific criteria have been met for each of the group's activities as described below:

(i) *Government Grants*

Revenue from grants received in advance are held on the statement of financial position as deferred income until the conditions relating to that grant have been met.

(ii) *Child Care Fees*

Fees paid by government (child care benefit) or parents are recognized as and when a child attends a child care facility.

(iii) *Management Fee*

Management fees represent administrative fees paid by subsidiaries, associates and joint ventures to LEHL. Management income is recognised on an accrual basis when the service has been provided.

(iv) *Interest income*

Interest income is recognized in the statement of comprehensive income using the effective interest method.

(v) *Dividend income*

Dividend revenue for investments is recognized when the shareholders' right to receive payment has been established.

(d) Trade and Receivables

Trade and other receivables are measured at amortised cost using the effective interest method less any impairment.

(e) Interest expense and borrowing costs

Interest expense and borrowing costs are recognised as an expense using the effective interest method.

(f) Employee benefits

Provision is made for benefits accruing to employees for wages, salaries, and annual leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the group in respect of services provided by employees up to reporting date.

Significant accounting policies

for the year ended 31 March 2014

(g) Property, Plant & Equipment

All property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses.

Assets held under finance leases are depreciated over their expected useful lives or, where shorter, the term of the relevant lease. Owned assets are depreciated using the diminishing value method.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Depreciation is charged so as to write off the cost or valuation of assets, other than freehold land and properties under construction, using the diminishing value method. Depreciation is charged at the same rate as is allowed by the Income Tax Act 2007. Depreciation is charged to the statement of comprehensive income. The following rates have been used:

Leasehold and buildings improvements 0% - 40% diminishing value

Office furniture and fittings 10% - 67% diminishing-value

Plant and equipment 20% - 30% diminishing-value

Motor vehicles 30% - diminishing-value

Equipment under finance lease 40% - diminishing-value

(h) Leased Assets

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Group as lessee

Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, determined at the inception of the lease.

The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Finance leased assets are depreciated on a straight-line basis over the estimated useful life of the assets or the lease term, whichever is shorter.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern over which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are initially recorded as a liability and are recognised as a reduction of rental expense on a straight-line basis over the lease term.

(i) Goods and Services Tax

All amounts in these financial statements are shown exclusive of GST, except for receivables and payables that are stated inclusive of GST.

The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the statement of financial position.

(j) Goodwill

Goodwill, representing the excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired, is recognised as an asset and not amortised, but tested for impairment whenever there is an indication that the goodwill maybe impaired. Any impairment is recognized immediately in profit or loss and is not subsequently reversed.

Notes to the financial statements

for the year ended 31 March 2014

(k) Intangible assets

Computer software

Computer software has a finite life and is recorded at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a diminishing value basis at rates between 48 – 60% over its estimated useful life which is the same rate as is allowed by the Income Tax Act 2007 (refer note 14).

Costs associated with subsequent maintenance or licensing of software are recognized as an expense on the statement of comprehensive income when incurred.

(l) Impairments

The group conducts an annual review of asset values, which is used as a source of information to assess for any indicators of impairment. An asset is impaired if something has happened to reduce its value, for example signs of physical damage, or change in technology that makes an asset obsolete. If indications of impairment exist the asset's recoverable amount must be determined and compared with its carrying amount to assess the amount of impairment. Where the asset does not generate cash flows that are independent from other assets, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognized in profit or loss immediately unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase. An impairment of goodwill is not subsequently reversed.

(m) Provisions

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, the future sacrifice of economic benefits is probable and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Notes to the financial statements

for the year ended 31 March 2014

(n) Income Tax

Income tax for the period is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

(o) Financial instruments

Financial instruments (financial assets and liabilities) are recognized and derecognized on trade date where the purchase or sale of a financial instrument is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned. Financial instruments are initially measured at fair value plus transaction costs except for those financial instruments classified as fair value through profit or loss which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', 'held-to-maturity' investments, 'available-for-sale' financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Loans and receivables – includes trade debtors and other receivables, cash and cash equivalents, and other financial assets that have fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortised cost using the effective interest method less any impairment.

Loans and receivables are assessed for indicators of impairment at each reporting date. Loans and receivables are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition the estimated future cash flows of the asset have been impacted.

Financial liabilities are classified as financial liabilities 'at fair value through profit or loss' and financial liabilities at amortised cost. The classification depends on the nature and purpose of the financial liabilities and is determined at the time of initial recognition.

Financial liabilities at amortised cost - includes- trade creditors and other payables, and borrowings. Financial liabilities at amortised cost are measured at amortised cost using the effective interest method.

Derivative financial instruments - the group enters into interest rate swap contracts to manage exposure to interest rate risk on it's borrowings. Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The resulting gain or loss is recognized in profit or loss immediately. The group has not adopted hedge accounting.

(p) Basis of Consolidation

The Statement of Compliance sets out the basis of consolidation for these special purpose financial statements.

Control is achieved where the company has:

- Power over the investee;
- Exposure, or rights, to variable returns from the entity's involvement with the investee; and
- The ability to use its power over the investee to affect the amount of the investor returns.

Notes to the financial statements

for the year ended 31 March 2014

(i) Subsidiaries and businesses:

On acquisition, the assets, liabilities and contingent liabilities of a business or subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill. If, after reassessment, the fair value of the identifiable net assets acquired exceeds the cost of acquisition, the deficiency is credited to profit or loss in the period of acquisition.

These special purpose financial statements include the information and results of each subsidiary consolidated per the Statement of Compliance from the date on which LEHL obtains control and until such time as LEHL ceases to control such entity.

The financial information of the subsidiaries consolidated in these special purpose financial statements is prepared for the same reporting period as the Parent company ("LEHL"), using consistent accounting policies. In preparing the group financial statements, all intra-group balances and transactions, and unrealized profits arising from the entities consolidated as per Statement of Compliance are eliminated in full.

Investments in subsidiaries and businesses included within these special purpose financial statements as set out in the Statement of Compliance are measured at cost less impairment in LEHL (parent's) financial statements.

(ii) Associates:

Associates are all entities over which the group has significant influence but not control, generally a shareholding of between 20% to 50% of voting rights. Investments in Associates are accounted for using the equity method of accounting and initially recognized at cost. The group's share of its associates' post-acquisition profits and losses is recognized in the profit or loss of the group, and its share of movements in other comprehensive income of the associates is recognised in other comprehensive income. The cumulative movements are adjusted against the carrying amount of the investment.

Investments in associates are measured at cost less impairment in LEHL (parent's) financial statements.

(iii) Joint Ventures:

The Statement of Compliance sets out the joint ventures included within these special purpose financial statements.

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 special purpose financial statements include the group's share of the profit or loss and other comprehensive income of equity accounted investees from the date that joint control commences until the date that joint control ceases.

When the group's share of losses exceeds its interest, 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.

(q) Share capital

Ordinary shares are classified as equity. Costs directly attributable to the issue of new shares or options are shown in equity as a reduction from the proceeds.

Dividends are recognized as a liability in the period in which they are declared.

Where a member of the group purchases the company's share capital the consideration paid is deducted from equity under the treasury stock method as if the shares are cancelled, until they are reissued or otherwise disposed of.

Notes to the financial statements

for the year ended 31 March 2014

(r) Held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable, the asset (or disposal group) is available for immediate sale in its present condition, and the sale of the asset (or disposal group) is expected to be completed within one year from the date of classification.

(s) Standards and interpretations effective in the current period

These special purpose financial statements reflect the application of all mandatory new and amended standards and interpretations that are applicable to entities applying the Framework for Differential Reporting except as outlined in the Statement of Compliance.

The group have applied NZ IFRS 10 Consolidated Financial Statements, *NZ IFRS 11 Joint Arrangements*, *NZ IFRS 12 Disclosure of Interests in Other Entities*, *NZ IAS 27 Separate Financial Statements (Revised 2011)* and *NZ IAS 28 Investments in Associates and Joint Ventures (Revised 2011)* except that certain subsidiaries, businesses and a joint venture have been excluded from these special purpose financial statements as described in the Statement of Compliance.

(t) Changes in accounting policies

There have been no changes in accounting policies during the year.

Notes to the financial statements

for the year ended 31 March 2014

2	Dividends received	Group 2014	Group 2013	Company 2014	Company 2013
	Dividends received from subsidiaries and joint ventures	-	-	808,714	367,046
	Other dividends received	2,434	1,681	-	-
		<u>2,434</u>	<u>1,681</u>	<u>808,714</u>	<u>367,046</u>
3	Other income	Group 2014	Group 2013	Company 2014	Company 2013
	Other income	-	50,046	-	50,046
	Gain on fair value of derivative instruments	24,296	19,723	11,469	27,549
		<u>24,296</u>	<u>69,769</u>	<u>11,469</u>	<u>77,595</u>
4	Cost of services	Group 2014	Group 2013	Company 2014	Company 2013
	Salary and wage expense	14,481,783	11,831,931	-	-
	Classroom supplies	479,056	382,935	-	-
	Cleaning & rubbish disposal	690,810	572,829	-	-
	Extra activities & services	199,494	185,952	-	-
	Food supplies	700,395	575,300	-	-
		<u>16,551,538</u>	<u>13,548,947</u>	<u>-</u>	<u>-</u>
5	Depreciation and amortisation	Group 2014	Group 2013	Company 2014	Company 2013
	Depreciation expense				
	Leasehold and buildings improvements	484,877	528,247	-	-
	Office furniture and fittings	242,745	124,240	-	-
	Plant and equipment	46,431	120,958	-	-
	Motor vehicles	8,444	2,260	-	-
	Equipment under finance lease	17,281	16,250	-	-
		<u>799,778</u>	<u>791,955</u>	<u>-</u>	<u>-</u>
	Amortisation expense				
	Computer software	35,495	64,241	-	-
	Total depreciation and amortisation expense	<u>835,273</u>	<u>856,196</u>	<u>-</u>	<u>-</u>
6	Finance costs	Group 2014	Group 2013	Company 2014	Company 2013
	Interest expense	1,158,154	1,035,929	1,153,506	1,027,583
	Interest received	(45,806)	(1,946)	(41,121)	(1,088)
	Finance charge	5,897	9,537	-	-
		<u>1,118,245</u>	<u>1,043,520</u>	<u>1,112,385</u>	<u>1,026,495</u>
7	Profit for the year	Group 2014	Group 2013	Company 2014	Company 2013
	Profit before income tax has been arrived at after charging the following expenses and losses from operations:				
	Defined contribution plan (kiwisaver)	345,181	184,168	-	-
	Operating lease rental expenses	4,473,084	3,888,999	-	-
	Remuneration of auditors of financial statements	45,000	32,004	-	-

The fees for the audit of the special purpose financial statements have been settled by the purchaser and are not included in the note above.

Notes to the financial statements

for the year ended 31 March 2014

8	Income taxes	Group 2014	Group 2013	Company 2014	Company 2013
	(a) Income tax recognised in profit or loss				
	Tax expense comprises:				
	Current tax expense	327,131	74,902	(105,472)	(53,597)
	Under/(over) provision in previous years	760	815	-	-
	Total tax expense	327,891	75,717	(105,472)	(53,597)

Income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:

Profit from operations	4,504,495	1,170,830	551,963	192,745
Income tax expense calculated at 28%	1,261,258	327,832	154,550	53,969
Revenue exempt from tax	(189,573)	(23,442)	(3,211)	(21,727)
Non-deductible expenses	271,288	129,898	9,464	2,257
Under (over) provision in previous years	761	815	-	-
Subvention payments	104	-	(105,472)	(53,597)
Losses utilised and not previously recognised	(1,015,947)	(359,386)	(160,803)	(34,499)
	327,891	75,717	(105,472)	(53,597)

(b) Imputation credit account balances

	Group 2014	Group 2013	Company 2014	Company 2013
Balance at end of the year	918,650	768,636	835,287	610,117

The group has accumulated income tax losses of \$800,000 (2013: \$4,375,777) which are not recognised in these special purpose financial statements.

9	Cash and cash equivalents	Group 2014	Group 2013	Company 2014	Company 2013
	Cash at bank and on hand	614,477	840,756	-	389,067
	Bank overdraft	103,370	78,388	17,529	-

The overdraft facility has an interest rate of 11.90% (2013: 11.90%).

10	Trade receivables	Group 2014	Group 2013	Company 2014	Company 2013
	Trade receivables	130,346	139,944	2,950	-
	Allowance for doubtful debts	-	-	-	-
		130,346	139,944	2,950	-

The payment terms for Work and Income New Zealand receivables are 14 days. The other receivables are due on normal business terms of trade.

The allowance for doubtful debts in relation to trade receivables is provided for based on estimated irrecoverable amounts determined by reference to current customer circumstances and past default experience. In determining the recoverability of a trade receivable the group considers any change in the credit quality of the trade receivable from the date the credit was initially granted up to the reporting date. Trade debtors are owing from WINZ, past historical experience is such that there has been no default experienced therefore no provision has been made. In the current year, the group has not recognised any loss in respect of bad and doubtful debts (2013: \$nil).

Notes to the financial statements

for the year ended 31 March 2014

11	Other financial assets	Group 2014	Group 2013	Company 2014	Company 2013
	Ministry of Education - income receivable	922,302	707,566	-	-
	Related party current accounts (refer note 24)	14,106,338	8,444,451	17,404,147	14,863,659
		<u>15,028,640</u>	<u>9,152,017</u>	<u>17,404,147</u>	<u>14,863,659</u>
12	Other current assets	Group 2014	Group 2013	Company 2014	Company 2013
	Prepayments	279,823	302,275	125,000	72,566
	Inventory	11,218	14,854	-	-
		<u>291,041</u>	<u>317,129</u>	<u>125,000</u>	<u>72,566</u>
13	Derivative financial instruments	Group 2014	Group 2013	Company 2014	Company 2013
	<u>Current liabilities</u>				
	Interest rate swaps	-	24,296	-	11,469
		<u>-</u>	<u>24,296</u>	<u>-</u>	<u>11,469</u>
14	Property, plant and equipment	Group 2014	Group 2013	Company 2014	Company 2013
	Leasehold and buildings improvements at cost	7,304,679	6,438,212	-	-
	Accumulated depreciation	(2,827,600)	(2,122,631)	-	-
		<u>4,477,079</u>	<u>4,315,581</u>	<u>-</u>	<u>-</u>
	Office furniture and fittings at cost	660,011	651,266	-	-
	Accumulated depreciation	(480,041)	(446,935)	-	-
		<u>179,970</u>	<u>204,331</u>	<u>-</u>	<u>-</u>
	Plant and equipment at cost	2,359,728	2,081,124	-	-
	Accumulated depreciation	(1,156,732)	(818,894)	-	-
		<u>1,202,996</u>	<u>1,262,230</u>	<u>-</u>	<u>-</u>
	Motor vehicles at cost	47,839	15,329	-	-
	Accumulated depreciation	(8,619)	(9,221)	-	-
		<u>39,220</u>	<u>6,108</u>	<u>-</u>	<u>-</u>
	Equipment under finance lease at cost	101,652	139,194	-	-
	Accumulated depreciation	(93,012)	(114,405)	-	-
		<u>8,640</u>	<u>24,789</u>	<u>-</u>	<u>-</u>
	Net book value of property, plant and equipment	<u>5,907,905</u>	<u>5,813,039</u>	<u>-</u>	<u>-</u>
15	Goodwill	Group 2014	Group 2013	Company 2014	Company 2013
	Gross carrying amount	8,437,052	5,523,590	-	-
	Accumulated impairment losses	-	-	-	-
	Net carrying amount	<u>8,437,052</u>	<u>5,523,590</u>	<u>-</u>	<u>-</u>

Allocation of goodwill to cash-generating units

Goodwill has been allocated for impairment testing purposes to twelve individual cash-generating units as follows:

Notes to the financial statements

for the year ended 31 March 2014

15 Goodwill (continued)

	Group 2014	Group 2013	Company 2014	Company 2013
Lollipops Educare Limited	2,708,720	2,708,720	-	-
Lollipops Educare (Te Rapa) Limited	532,736	532,736	-	-
Lollipops Educare (Waikato Hospital) Limited	508,550	508,550	-	-
Lollipops Educare (Albany)	742,753	742,753	-	-
Lollipops Educare (Henderson)	330,833	330,833	-	-
Lollipops Educare (Wellington) Limited	475,000	475,000	-	-
Lollipops Educare (Napier Port) Limited	224,998	224,998	-	-
Lollipops Educare (Greys PN)	84,222	-	-	-
Lollipops Educare Masterton	46,882	-	-	-
Lollipops Educare Wonderwise	668,489	-	-	-
Lollipops Educare (Ellerslie) Limited	1,293,224	-	-	-
Bambino Investments Limited	820,645	-	-	-
	<u>8,437,052</u>	<u>5,523,590</u>	<u>-</u>	<u>-</u>

16 Other intangible assets

	Group 2014	Group 2013	Company 2014	Company 2013
<u>Computer software</u>				
Gross carrying amount	257,437	241,693	-	-
Accumulated amortisation and impairment	(182,072)	(149,723)	-	-
Net carrying amount	<u>75,365</u>	<u>91,970</u>	<u>-</u>	<u>-</u>

17 Trade and other payables

	Group 2014	Group 2013	Company 2014	Company 2013
Trade payables	436,158	318,262	10,731	13,017
Accrued expenses	715,246	676,148	56,060	56,938
Related party current accounts (note 24)	39,732	19,300	2,181,141	1,288,080
Goods and services tax (GST) payable	1,015,850	858,546	36,770	27,809
	<u>2,206,986</u>	<u>1,872,256</u>	<u>2,284,702</u>	<u>1,385,844</u>

The group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

18 Employee entitlements

	Group 2014	Group 2013	Company 2014	Company 2013
Employee benefits	1,231,492	915,451	-	-
	<u>1,231,492</u>	<u>915,451</u>	<u>-</u>	<u>-</u>

19 Interest-bearing loans

	Group 2014	Group 2013	Company 2014	Company 2013
<u>Current</u>				
Bank loans	8,111,265	5,911,264	8,111,265	5,911,265
Shareholder loans (note 24)	1,100,000	2,207,787	1,100,000	2,207,786
	<u>9,211,265</u>	<u>8,119,051</u>	<u>9,211,265</u>	<u>8,119,051</u>
<u>Non-current</u>				
Bank loans	5,095,000	3,815,001	5,095,000	3,815,001

The company has a bank loan of \$13,206,265 (2013: \$9,726,265) of which \$5,695,000 (2013: \$4,415,000) is an amortising loan which matures in September 2015. The company pays interest monthly at a floating rate and pays \$50,000 per month to reduce the principal. The company's bank loan is secured over all of the company and its subsidiaries' assets (including companies in the special purpose financial statements and those excluded per the Statement of Compliance) and by personal guarantees by Mark Finlay and Russell Thompson.

Shareholder loan of \$1,100,000 (2013: \$1,500,000) is repayable on demand and is a non-amortising interest only loan. The company pays interest every 4 months at 12% p.a. The shareholders have confirmed their intention that the loans owing to them will not be demanded to be repaid for at least 12 months, or until the group has sufficient funds or alternative funding.

In 2014 there were no further shareholder loans. A shareholder loan of USD \$600,000 was repaid on 2 July 2013

There is a guarantee of \$20,220 for Goodman Nom NZ Ltd for Lollipops Educare (Ellerslie) Limited's rent which ends on 1 June 2016.

Notes to the financial statements

for the year ended 31 March 2014

20	Leases	Group			
		Minimum future lease payments		Present value of minimum future lease payments	
	Finance leases	2014	2013	2014	2013
	<u>Finance lease liabilities</u>				
	Not later than one year	26,573	32,464	23,400	26,518
	Later than one year and not later than five years	19,929	47,486	19,162	43,520
	Later than five years	-	-	-	-
	Minimum future lease payments	46,502	79,950	42,562	70,038
	Less future finance charges	(3,940)	(9,912)	-	-
	Present value of minimum lease payments	42,562	70,038	42,562	70,038
	Included in the financial statements as:				
	Current finance lease liability			23,400	26,518
	Non-current finance lease liability			19,162	43,520
				42,562	70,038
	<u>Operating leases</u>				
		Group 2014	Group 2013	Company 2014	Company 2013
	<u>Non-cancellable operating lease payments</u>				
	Not later than one year	5,267,816	4,523,086	-	-
	Later than one year and not later than five years	18,162,207	17,478,966	-	-
	Later than five years	11,965,542	14,002,175	-	-
		35,395,565	36,004,227	-	-

21	Subsidiaries			
		Country of incorporation	2014 %	2013 %
	<u>Parent entity</u>			
	Lollipops Educare Holdings Limited	New Zealand		
	<u>Subsidiary</u>			
	Lollipops Educare Limited	New Zealand	100%	100%
	Lollipops Educare (Hastings) Limited	New Zealand	75%	75%
	Lollipops Educare (Napier Port) Limited***	New Zealand	100%	100%
	Lollipops Educare (Blighs Road) Limited***	New Zealand	100%	100%
	Lollipops Educare (Patten Street) Limited***	New Zealand	100%	100%
	Lollipops Educare (Te Rapa) Limited***	New Zealand	100%	100%
	Lollipops Educare (Waikato Hospital) Limited***	New Zealand	100%	100%
	Lollipops Educare Centres Limited	New Zealand	100%	100%
	Lollipops Educare (Wellington) Limited***	New Zealand	100%	100%
	Bambino Investments Limited***	New Zealand	100%	33%
	Lollipops Educare (Ellerslie) Limited***	New Zealand	100%	50%
	Lollipops Educare Investors Limited	New Zealand	100%	72%

*** On 31/03/2014 these companies were amalgamated into Lollipops Educare Centres Limited

Subsidiaries Acquired	Proportion of shares acquired	Cost of acquisition
2014 – Acquisition of remaining interest in Joint Venture and Associate		
Bambino Investments Limited***	67%	589,136
Lollipops Educare (Ellerslie) Limited	50%	647,440
		1,236,576

Notes to the financial statements

for the year ended 31 March 2014

21 Subsidiaries (continued)

Analysis of assets and liabilities acquired

	Lollipops Educare (Ellerslie) Limited	Bambino Investments Limited	Total
	Book value and fair value on acquisition \$	Book value and fair value on acquisition \$	Book value and fair value on acquisition \$
Current assets			
Cash and cash equivalents	136,719	129,881	266,600
Trade debtors & other receivables	1,899	1,960	3,859
Other current assets	52,628	93,057	145,685
Non-current assets			
Property, plant and equipment	198,055	55,910	253,965
Current liabilities			
Trade and other payables	42,536	41,671	84,207
Employee entitlements	65,338	45,184	110,522
Government grants received in advance	100,650	81,005	181,655
Current tax payables	24,101	54,286	78,387
Non-current liabilities			
Other non-current liabilities	155,020		155,020
	<u>1,656</u>	<u>58,662</u>	<u>60,318</u>
Consideration	647,440	589,136	1,236,576
Fair value of previously held interests	647,440	290,171	937,611
	<u>1,294,880</u>	<u>879,307</u>	<u>2,174,187</u>
Fair value of net assets acquired	(1,656)	(58,662)	(60,318)
Goodwill	<u>1,293,224</u>	<u>820,845</u>	<u>2,113,869</u>
Gain on disposal of previously held interests			
Fair value of previously held interests	647,440	290,171	937,611
Carrying value	<u>(13,608)</u>	<u>(258,309)</u>	<u>(271,917)</u>
	<u>633,832</u>	<u>31,862</u>	<u>665,694</u>

The acquisition of the 50% and 67% interests mean the holdings have increased to 100%.

	Company & Group 2014
Net cash outflow on acquisition	
Consideration paid in cash	1,236,576
Less: additional share of cash and bank balances acquired	<u>(266,600)</u>
	<u>969,976</u>

2014 – Acquisition of centres

	Proportion of shares acquired	Cost of acquisition
Wonderwise	100%	750,000
Masterton	100%	100,000
Greys	100%	<u>50,000</u>
		<u>900,000</u>

Analysis of assets and liabilities acquired

	Masterton	Wonderwise	Greys	Total
	Book value and fair value on acquisition	Book value and fair value on acquisition	Book value and fair value on acquisition	Book value and fair value on acquisition
Non-current assets				
Property, plant and equipment	3,118	81,511	15,778	100,407
Goodwill on acquisition	46,882	668,489	84,222	799,593
	<u>50,000</u>	<u>750,000</u>	<u>100,000</u>	<u>900,000</u>

Notes to the financial statements

for the year ended 31 March 2014

21 Subsidiaries (continued)

2013 – Acquisition of Subsidiaries

Lollipops Educare (Wellington) Limited	100%	571,493
		<u>571,493</u>

Analysis of assets and liabilities acquired

	Lollipops Educare (Wellington) Ltd	Total
	Book value and fair value on acquisition	Book value and fair value on acquisition
Non-current assets		
Property, plant and equipment	100,000	100,000
Goodwill on acquisition	471,493	471,493
	<u>571,493</u>	<u>571,493</u>
Net cash outflow on acquisition	2014	2013
Consideration paid in cash	900,000	571,493
	<u>900,000</u>	<u>571,493</u>

Goodwill arising on acquisition

Goodwill arose in the above acquisitions due to the benefits of including the centres in the Lollipops group.

22 Associates

	Country of incorporation	2014	2013
Name of entity			
Bambino Investments Limited	New Zealand	-	33%
		Group 2014	Group 2013
Total assets		-	238,501
Total liabilities		-	192,205
Net assets		-	46,296
Group's share of net assets of associates		-	15,278
Total revenue		-	1,073,442
Total profit for the period		-	213,986
Group's share of profits of associates		-	70,615
		Group 2014	Group 2013
Movement in the carrying amount of the group's investments in associates:			
Opening balance		258,309	253,882
Share of profits of associates		-	70,615
Disposal of associates		(258,309)	-
Share of dividends		-	(66,188)
Closing balance		<u>-</u>	<u>258,309</u>
Goodwill included in the carrying amount of the group's investments in associates – balance at opening and closing balances		<u>-</u>	<u>243,032</u>

The group's share of the contingent liabilities and assets of associates are disclosed in note 29.

The group's share of capital commitments of associates are disclosed in note 28.

Notes to the financial statements

for the year ended 31 March 2014

23	Joint Ventures	Country of incorporation	Ownership Interest	
			2014	2013
	Name of entity			
	Lollipops Educare (Ellerslie) Limited	New Zealand	-	50%
	Lollipops Educare (Birkenhead) Limited	New Zealand	50%	50%
	Lollipops Educare (Half Moon Bay) Limited	New Zealand	50%	50%
			Group	Group
			2014	2013
	Total assets		1,333,303	1,713,755
	Total liabilities		869,010	1,401,901
	Net assets / (liabilities)		464,293	311,854
	Group's share of net assets / (liabilities) of joint ventures		232,147	155,927
	Total revenue		3,210,459	4,322,718
	Total profit for the period		560,221	606,893
	Group's share of profits of joint ventures		284,606	303,446
	Movement in the carrying amount of the group's investments in joint ventures:			
	Opening balance		401,080	374,334
	Share of profits of joint ventures		284,606	303,446
	Share of profits of joint ventures – held for sale		-	-
	Share of revaluation reserve		-	-
	Share of dividends		(190,284)	(205,714)
	Current account offset – Half Moon Bay		-	(70,986)
	Carrying amount of 100% acquisitions		(13,608)	-
	Closing balance		481,794	401,080

24 Related party disclosures

(a) Parent entity

The immediate parent and ultimate controlling party of the group is Lollipops Educare Holdings Limited (incorporated in New Zealand).

(b) Equity interests in related parties

Details of interests in subsidiaries, associates, and joint ventures are disclosed in notes 21, 22 and 23 respectively.

(c) Transactions involving the parent entity

During the year, Lollipops Educare Holdings Limited (LEHL) received dividends of \$618,429 (2013: \$95,143) from its subsidiaries, \$nil (2013: \$66,189) from its associates, and \$190,284 (2013: \$205,714) from its joint ventures.

Management fees revenue of \$1,507,953 (2013: \$1,374,205) is charged by LEHL to group entities. Lollipops Educare Limited (LEL) charges LEHL a management expense of \$561,978 (2013: \$454,047).

Inter-company loans (detailed below) do not have any interest charged on them and they are repayable on demand.

Subvention payments disclosed in note 8 include payments made to entities that are no longer part of the group, therefore, not included within these special purpose financial statements.

Notes to the financial statements

for the year ended 31 March 2014

24 Related party disclosures (continued)

	Group 2014	Group 2013	Company 2014	Company 2013
(d) Loans to/(from) related parties				
<i>Loans to related parties – other financial assets</i>				
Other related parties *	12,940,222	7,952,093	11,910,692	7,900,153
Subsidiaries	-	-	4,327,339	6,471,149
Associates	-	-	-	-
Joint venture entity	87,812	300,251	87,812	300,250
Key management personnel	25,000	75,000	25,000	75,000
Mark Finlay	446,973	32,294	446,973	32,294
Russell Thompson	372,021	42,128	372,021	42,128
Andrew Scott	189,108	11,635	189,108	11,635
Heath Finlay	39,262	23,770	39,262	23,770
LE Investors	5,940	7,280	5,940	7,280
	<u>14,106,338</u>	<u>8,444,451</u>	<u>17,404,147</u>	<u>14,863,659</u>

Shareholders loans are non interest bearing to be repaid on demand.

* The loans to other related parties represent loans to, and related party transactions with, LEP Limited and other related parties which have been excluded from the special purpose financial statements.

Loans from related parties—in trade and other payables

Subsidiaries	-	-	2,181,141	1,268,780
Associates	39,732	19,300	-	19,300
Shareholders	-	-	-	-
	<u>39,732</u>	<u>19,300</u>	<u>2,181,141</u>	<u>1,288,080</u>

Interest-bearing loans – Scottfin ECE Limited (see note 19)

	1,100,000	2,207,787	1,100,000	2,207,786
	<u>1,100,000</u>	<u>2,207,787</u>	<u>1,100,000</u>	<u>2,207,786</u>

Trade with related parties

Wildfire Consulting Ltd	200,000	200,000	-	-
111 Consulting Ltd	150,000	150,000	-	-
Consulting Services provided by shareholders	<u>350,000</u>	<u>350,000</u>	<u>-</u>	<u>-</u>

25 Share capital

14,671,658 fully paid ordinary shares (including treasury shares) (2013: 14,786,508)

	Group 2014	Group 2013	Company 2014	Company 2013
	5,108,985	5,261,063	5,108,985	5,633,956

Fully paid ordinary shares carry one vote per share and carry the right to dividends and, upon winding up, a pro rata share of the company's assets.

	Group Number of shares	\$	Company Number of shares	\$
Balance of shares on issue at 1 April 2012	14,916,210	5,463,956	15,110,764	5,633,956
Movement in treasury shares held	(129,702)	(202,893)	-	-
Balance of shares on issue at 31 March 2013	<u>14,786,508</u>	<u>5,261,063</u>	<u>15,110,764</u>	<u>5,633,956</u>
Movement in treasury shares held	(64,850)	(74,578)	-	-
Share buyback	(50,000)	(77,500)	(50,000)	(77,500)
Re-purchase of shares from LEIL	-	-	(389,106)	(447,471)
Balance of shares on issue at 31 March 2014	<u>14,671,658</u>	<u>5,108,985</u>	<u>14,671,658</u>	<u>5,108,985</u>

After the Treasury Shares were purchased off LEIL they were subsequently cancelled on 22 July 2013.

Notes to the financial statements

for the year ended 31 March 2014

26	Non-controlling interest			2014	2013
	Balance at beginning of the year			72,480	16,031
	Share of profit for the year			59,119	56,449
	Dividends paid			(96,429)	-
	Balance at end of the year			35,170	72,480
27	Dividends	2014	2014	2013	2013
	Group & company	Cents per share	Total \$	Cents per share	Total \$
	Fully paid ordinary shares	2.1	308,573	-	-
28	Commitments for expenditure				
	(a) Capital expenditure commitments				
	Post year end transactions for acquisitions are disclosed in note 32. There are no other capital expenditure commitments as at the reporting date.				
	(b) Lease commitments				
	Finance lease liabilities and non-cancellable operating lease commitments are disclosed in note 20 to the special purpose financial statements.				
29	Contingent liabilities				
	There were no contingent liabilities noted as the reporting date (2013: nil)				
30	Financial instruments				
	Significant accounting policies				
	Details of the significant accounting policies and methods adopted, including the criteria for recognition and the basis of measurement applied in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.				

Capital risk management

The group manages its capital to ensure that the entities in the group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the group consists of debt, which includes the borrowings disclosed in note 19, cash and cash equivalents, and equity, comprising issued capital and retained earnings as disclosed in notes 25 and on the statement of changes in equity.

The directors review the capital structure on a semi-annual basis. As part of this review the directors consider the cost of capital and the risks associated with each class of capital. The directors will balance the overall capital structure through the payment of dividends, new share issues, and share buy-backs as well as the issue of new debt or the redemption of existing debt. During the years ended 31 March 2013 and 2014 Lollipops Educare Holdings Limited and all subsidiaries including those excluded from the special purpose financial statements have complied with bank covenant requirements including meeting ratios on EBITDA and occupancy.

Notes to the financial statements

for the year ended 31 March 2014

30 Financial instruments (continued)

Categories of financial assets and financial liabilities

Group

	Loans and Receivables	Derivatives classified as held for trading	Financial liabilities at amortised cost	Total
As at 31 March 2014				
Assets				
Cash and cash equivalents	614,477	-	-	614,477
Trade & other receivables	130,346	-	-	130,346
Other financial assets	15,028,640	-	-	15,028,640
Total financial assets	15,773,463	-	-	15,773,463
Non-financial assets				15,193,157
Total assets				30,966,620
Liabilities				
Bank overdraft		-	103,370	103,370
Trade and other payables	-	-	2,206,986	2,206,986
Interest-bearing loans	-	-	14,306,265	14,306,265
Finance lease liability	-	-	42,562	42,562
Total financial liabilities	-	-	16,659,183	16,659,183
Non-financial liabilities				5,470,827
Total liabilities				22,130,010
As at 31 March 2013				
Assets				
Cash and cash equivalents	840,756	-	-	840,756
Trade & other receivables	139,944	-	-	139,944
Other financial assets	9,152,017	-	-	9,152,017
Total financial assets	10,132,717	-	-	10,132,717
Non-financial assets				12,432,801
Total assets				22,565,518
Liabilities				
Bank overdraft	-	-	78,388	78,388
Trade and other payables	-	-	1,872,256	1,872,256
Interest-bearing loans	-	-	11,934,052	11,934,052
Finance lease liability	-	-	70,038	70,038
Derivative financial instruments	-	24,296	-	24,296
Total financial liabilities	-	24,296	13,954,734	13,979,030
Non-financial liabilities				4,233,703
Total liabilities				18,212,733

Notes to the financial statements

for the year ended 31 March 2014

Categories of financial assets and financial liabilities (continued)

Company

	Loans and Receivables	Derivatives classified as held for trading	Financial liabilities at amortised cost	Total
As at 31 March 2014				
Assets				
Trade & other receivables	2,950	-	-	2,950
Other financial assets	17,404,147	-	-	17,404,147
Total financial assets	17,407,097	-	-	17,407,097
Non-financial assets				6,492,314
Total assets				23,899,411
Liabilities				
Bank overdraft	-	-	17,529	17,529
Trade and other payables	-	-	2,284,702	2,284,702
Interest-bearing loans	-	-	14,306,265	14,306,265
Total financial liabilities	-	-	16,608,496	16,608,496
Total liabilities				16,608,496
As at 31 March 2013				
Assets				
Cash and cash equivalents	389,067	-	-	389,067
Other financial assets	14,863,659	-	-	14,863,659
Total financial assets	15,252,726	-	-	15,252,726
Non-financial assets				5,545,663
Total assets				20,798,389
Liabilities				
Trade and other payables	-	-	1,385,844	1,385,844
Interest-bearing loans	-	-	11,934,052	11,934,052
Derivative financial instruments	-	11,469	-	11,469
Total financial liabilities	-	11,469	13,319,896	13,331,365
Total liabilities				13,331,365

Notes to the financial statements

for the year ended 31 March 2014

31	Reconciliation of the profit for the year with the net cash from operating activities	Group 2014	Group 2013	Parent 2014	Parent 2013
	Profit for the year (after taxation)	4,176,604	1,095,113	657,435	246,342
	Adjustments for:				
	Depreciation and amortisation	835,273	856,196	-	-
	Other income	(24,296)	(69,769)	(11,469)	(77,595)
	Share of profit of associates using equity method	-	(70,615)	-	-
	Share of profit of joint arrangements using equity method	(284,606)	(303,446)	-	-
	Dividend income	(2,434)	(1,681)	(808,714)	(367,046)
	(Gain) on disposal of previously held interests	(665,694)	-	-	-
	Loss/(gain) on sale of fixed assets	52,148	1,166	-	-
		(89,609)	411,851	(820,183)	(444,641)
	Add/(Deduct) movements in working capital items				
	Decrease/(Increase) in trade debtors and other receivables	9,598	52,017	(2,950)	28,415
	Decrease/(Increase) in other financial assets (excluding related parties)	(214,736)	(707,586)	-	-
	Decrease/(Increase) in other current assets	26,088	(268,725)	(52,434)	(72,566)
	Decrease/(Increase) in current tax asset	211,123	(69,588)	(30,673)	271
	Increase/(Decrease) in trade and other payables (excluding related parties)	314,297	293,463	5,797	4,267
	Increase/(Decrease) in employee entitlements	316,041	157,969	-	-
	Increase/(Decrease) in government grants received in advance	737,643	529,789	-	-
		1,400,053	(12,641)	(80,260)	(39,613)
	Net cash flow from operating activities	5,487,048	1,494,323	(243,008)	(237,912)

32 Subsequent events

On 24 April 2014 LEHL paid a deposit on the Lollipops Educare Greenlane centre previously a franchisee, of \$75,000 and on the 29 May 2014 paid the balance making the total value of the centre purchase \$1,100,000.

On 19 May 2014 LEHL paid a deposit of \$50,000 on the Childhood Concepts Early Learning Centre (Lower Hutt) at 22 Pretoria Street Lower Hutt. Total value of the centre \$850,000. The outstanding balance of \$800,000 was due on settlement 30 June 2014 and has been paid.

The bank debt limit to facilitate the above purchases has been increased to \$9,800,000 on the operating centres.

Business combinations subsequent to year end

On 29 May 2014 LEHL purchased Lollipops Educare Greenlane centre for \$1,100,000 making it a 100% owned subsidiary.

On 30 May 2014 LEHL purchased Childhood Concepts Early Learning Centre (Lower Hutt) for \$850,000 making it a 100% owned subsidiary.

2014

	Proportion of shares acquired	Cost of acquisition
Lollipops Educare Greenlane centre	100%	1,100,000
Childhood Concepts Early Learning Centre (Lower Hutt)	100%	850,000
		<u>1,950,000</u>

Analysis of assets and liabilities acquired

	Greenlane Book value and fair value on acquisition \$	Lower Hutt Book value and fair value on acquisition \$	Total Total fair value on acquisition \$
Non-current assets			
Property, plant and equipment	200,000	150,000	350,000
Goodwill on acquisition	900,000	700,000	1,600,000
	<u>1,100,000</u>	<u>850,000</u>	<u>1,950,000</u>

Notes to the financial statements

for the year ended 31 March 2014

Net cash outflow on acquisition	\$
Consideration paid in cash	1,950,000
Less: additional share of cash and bank balances acquired	-
	<u>1,950,000</u>

Goodwill arising on acquisition

Goodwill arose in the above acquisition due to the benefits of including the centres in the Lollipops group.

Impact of acquisition on the results of the group

None of the group profit for the year is attributable to the additional business generated by Greenlane and Lower Hutt.

Related party loans of \$100,000 were repaid on 15 July 2014 and of \$1,000,000 were repaid on 21 July 2014, to clear loans from Scottfin ECE Limited.

As referred to in the Statement of Compliance in note 1, LEHL has entered into a Sale and Purchase Agreement for the sale of the childcare business.

PORSE IN-HOME CHILDCARE (NZ) LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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**Examined for Audit
Gardiner Knobloch**

PORSE IN-HOME CHILDCARE (NZ) LIMITED

COMPANY DIRECTORY AS AT 31 DECEMBER 2013

Nature of Business Providers of Early Childhood Services

Registered Office 31 Napier Road
HAVELOCK NORTH

Directors Jennifer L Yule
Dan Druzianic
Alwyn J Burr
Andrew IG Harwood
Amanda J Fleming

Auditors Gardiner Knobloch
NAPIER

Solicitors Sainsbury, Logan & Williams
NAPIER

Chen Palmer
WELLINGTON

Bankers ANZ Bank New Zealand Limited
Kiwi Bank Limited
NAPIER

Business Location 31 Napier Road
HAVELOCK NORTH

**Shareholders &
Shareholding**

Jennifer L Yule
David C Yule
Rugosa Trust

SHARES	
Voting	Non-Voting
100,000	-
-	142,500
-	257,500
<u>100,000</u>	<u>400,000</u>

**Examined for Audit
Gardiner Knobloch**

PORSE IN-HOME CHILDCARE (NZ) LIMITED

ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2013

The Board of Directors present their Annual Report, including Financial Statements for the Year ended 31 December 2013.

1 PRINCIPAL ACTIVITIES

The Principal Activity during the period was the provision of early childhood services.

2 REVIEW OF OPERATIONS

Set out hereunder is a summary of the Operating Results and Financial Position -

	<u>31/12/13</u>	<u>31/12/12</u>
Surplus before Depreciation and Taxation	561,915	1,428,289
Plus(Less) -		
Depreciation	<u>(647,975)</u>	<u>(610,610)</u>
Profit (Loss) before Taxation	(86,060)	817,679
Taxation	<u>(37,740)</u>	<u>(238,053)</u>
Profit (Loss) after Taxation	<u>\$ (123,799)</u>	<u>\$ 579,626</u>

Financial Position -

When Shareholder Loan Accounts are taken into consideration the overall financial position was:

Total Shareholders Equity	1,123,878	1,547,677
Shareholders Current Accounts	565,428	307,037
Shareholders Loan Accounts	<u>82,353</u>	<u>82,353</u>
	<u>\$ 1,771,658</u>	<u>\$ 1,937,067</u>

This overall position is considered to be satisfactory.

3 DIRECTORS HOLDING OFFICE DURING THE YEAR

The Directors holding office during the year were Jennifer L Yule, Dan Druzianic, Alwyn J Burr, Andrew Harwood and Amanda Fleming. Andrew Harwood and Amanda Fleming were appointed directors on 23 May 2013.

4 REMUNERATION OF DIRECTORS

The Remuneration of the Director/Shareholders was -

	<u>31/12/13</u>	<u>31/12/12</u>
Jennifer L Yule	291,644	267,903
Alwyn Burr	15,000	-
Dan Druzianic	15,000	-
Andrew Harwood	7,500	-
Amanda Fleming	<u>8,750</u>	<u>-</u>
	<u>\$ 337,894</u>	<u>\$ 267,903</u>

Payment for Services

Alwyn J Burr Chartered Accountant Ltd - Accounting Services provided	\$ 16,152	\$ 113,448
Presenter at Large Ltd - Amanda Fleming director. Consultancy services	\$ 45,936	\$ 86,600
Markhams HB Ltd - Dan Druzianic director. Consultancy services	\$ 12,000	7,000

5 REMUNERATION OF EMPLOYEES

The number of employees, who are not Directors, whose remuneration and benefits exceeded \$100,000 in the financial year were -

\$110,001 - \$120,000	1	-
\$140,001 - \$150,000	-	2
\$150,001 - \$160,000	1	-
\$160,001 - \$170,000	1	-
\$170,001 - \$180,000	-	1
\$180,001 - \$190,000	1	-

6 ENTRIES IN THE INTERESTS REGISTER

Directors have declared interests in the following transactions with other Companies in which Jennifer L Yule had an interest.

PORSE Franchising (NZ) Limited -

Management Fee Received	70,000	312,000
Royalties and Marketing Charges	<u>(602,926)</u>	<u>(640,643)</u>
Various Advances (Payable)/Receivable	<u>(772,863)</u>	<u>(622,987)</u>
	<u>\$ (1,305,789)</u>	<u>\$ (951,630)</u>

Balances at 31 December were -

Accounts Receivable	91,125	149,401
Accounts Payable	<u>(325,228)</u>	<u>(1,606,857)</u>
Net Amount Receivable/(Payable)	<u>\$ (234,103)</u>	<u>\$ (1,457,456)</u>

PORSE Education & Training (NZ) Limited -

Management Fee Received	160,000	150,000
Charges and Advances for various Expense Items paid on usual terms of trade.	<u>(769,758)</u>	<u>(760,024)</u>
ECE Level 3 Certificate and module Expenses and Nanny Intern Fees	<u>(219,336)</u>	<u>(176,237)</u>
	<u>\$ (829,094)</u>	<u>\$ (786,261)</u>

Balances at 31 December were -

Accounts Receivable	191,834	177,034
Accounts Payable	<u>(706,220)</u>	<u>(1,125,140)</u>
Net Amount Receivable/(Payable)	<u>\$ (514,386)</u>	<u>\$ (948,106)</u>

**Examined for Audit
Gardiner Knobloch**

For Life Education & Training (NZ) Limited -

Management Fee Received
Charges and Advances for various Expense Items paid on usual terms of trade.

<u>31/12/13</u>	<u>31/12/12</u>
70,000	-
(159,019)	(190,242)
<u>\$ (89,019)</u>	<u>\$ (190,242)</u>

Balances at 31 December were -

Accounts Receivable
Accounts Payable
Net Amount Receivable/(Payable)

66,617	44,569
(44,735)	(34,155)
<u>\$ 21,882</u>	<u>\$ 10,414</u>

PORSE Equine Education Limited

Charges and Advances for various Expense Items paid on usual terms of trade.

(26,950)	(16,344)
<u>\$ (26,950)</u>	<u>\$ (16,344)</u>

Balances at 31 December were -

Accounts Receivable
Net Amount Receivable/(Payable)

30,643	18,796
<u>\$ 30,643</u>	<u>\$ 18,796</u>

PALJYN Investments Limited -

Rental Paid

<u>\$ 322,920</u>	<u>\$ 322,920</u>

There were no amounts owing to or by PALJYN Investments Limited at balance date.

7 SHARE TRANSACTIONS

There were no share transactions during the year.

8 DONATIONS

Donations made during the year totalled

<u>31/12/13</u>	<u>31/12/12</u>
\$ 167	\$ 3,312

9 AUDITORS

Amount paid to the Auditors for auditing services
Amount paid to the Auditors for other services.

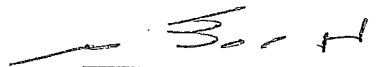
\$ 8,000	\$ 10,000
\$ -	\$ 2,600

For and on behalf of the Board



30 April 2014
Date

Director



30 April 2014
Date

Director

Date

**Examined for Audit
Gardiner Knobloch**

PORSE IN-HOME CHILDCARE (NZ) LIMITED

Statement of Comprehensive Income for the Year ended 31 December 2013

Continuing Operations	Notes	<u>31/12/13</u>	<u>31/12/12</u>
Revenue		\$	\$
Ministry of Education Funding		23,448,244	25,128,416
Franchise Payments		<u>(2,030,011)</u>	<u>(3,119,908)</u>
		21,418,233	22,008,508
Ministry of Education Funding - Special Programmes	16	108,000	105,000
Sundry Income		576,779	396,952
Depreciation Recovered on Asset Sales		1,759	11,228
Wage Administration Charges		914,895	926,656
Management Fees from Associated Companies		<u>300,000</u>	<u>462,000</u>
Total Revenue		<u>23,319,665</u>	<u>23,910,345</u>
Expenses			
Direct Operational Expenses			
Personnel Expenses - National Support Office		2,549,304	2,898,468
Personnel Expenses - Managed Areas		9,394,452	8,354,448
Porse Subsidies & Placement Fees		2,780,467	2,834,765
Royalties and Marketing Charges		562,436	480,717
Porse Programme Delivery Resources		891,463	898,781
Professional Development & Other Personnel Expenses		601,261	492,755
Conferences & Sundry Expenses		<u>42,952</u>	<u>252,227</u>
Total Direct Operational Expenses		<u>16,822,334</u>	<u>16,212,161</u>
Gross Margin		<u>6,497,331</u>	<u>7,698,184</u>
% to Total Revenue		27.86%	32.20%
Overhead Expenses			
AC Levies		93,041	118,499
Accountancy Fees		16,152	113,448
Audit Fees		8,000	12,600
Advertising and Promotion		1,138,344	1,163,487
Bank Charges		45,855	58,661
Computer Expenses		113,140	152,576
Database Maintenance		96,020	106,560
Directors Fees		46,250	-
Donations/Sponsorship		18,210	5,355
Entertainment		60,423	40,636
Fringe Benefit Tax		272,378	265,082
Insurances		90,626	81,498
Legal Fees		37,180	127,828
Motor Vehicle Expenses		1,100,308	1,055,578
Office Supplies, Printing, Stationery Photocopying and Courier		349,544	326,210
Relocation Expenses		4,473	24,775
Rental, Rates and Premises Expenses		1,659,936	1,748,157
Repairs & Maintenance		25,738	38,324
Subscriptions		4,625	7,108
Sundry Expenses		389,467	401,315
Telephone & IT Expenses		284,388	503,835
Travel & Accommodation		<u>256,692</u>	<u>237,883</u>
Total Overhead Expenses		<u>6,110,790</u>	<u>6,589,413</u>
Total Expenses		<u>22,933,124</u>	<u>22,801,573</u>
Surplus before Depreciation		<u>386,541</u>	<u>1,108,771</u>
Less Depreciation		647,975	610,610
		647,975	610,610
Results from Operating Activities		<u>(261,434)</u>	<u>498,161</u>
Finance Income	Interest	173,909	318,991
Dividends	Dividends	2,254	2,140
		<u>176,164</u>	<u>321,132</u>
Finance Costs	Interest paid	789	1,614
Net Finance Income		<u>175,374</u>	<u>319,518</u>
Profit (Loss) before Tax		<u>(86,060)</u>	<u>817,679</u>
Taxation		37,740	238,053
Total Comprehensive Income for the Year		<u>(123,799)</u>	<u>579,626</u>

Examined for Audit 3
Gardiner Knobloch

PORSE IN-HOME CHILDCARE (NZ) LIMITED

Statement of Comprehensive Income for the Year ended 31 December 2013

	<u>31/12/13</u>	<u>31/12/12</u>
Comprehensive Income attributable to -		
Company Shareholders	(123,799)	579,626
Non- controlling interests	-	-
Total Comprehensive Income for the Year	<u>\$ (123,799)</u>	<u>\$ 579,626</u>

Statement of Changes in Equity during the Year ended 31 December 2013

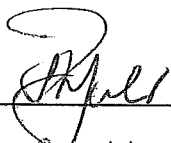
	Notes	<u>31/12/13</u>	<u>31/12/12</u>
		\$	\$
Equity at 1 January 2013		1,547,677	2,883,050
Total Comprehensive Income for the Year		(123,799)	579,626
Transactions with Owners of the Company -			
Dividends declared		(300,000)	(1,915,000)
Transactions with Owners of the Company		<u>(300,000)</u>	<u>(1,915,000)</u>
Equity at 31 December 2013		<u>1,123,878</u>	<u>1,547,677</u>

**Examined for Audit
Gardiner Knobloch**

PORSE IN-HOME CHILDCARE (NZ) LIMITED
Statement of Financial Position as at 31 December 2013

	Notes	31/12/13	31/12/12
		\$	\$
Assets			
Current Assets	4		
Bank Accounts -			
National Bank Operating Accounts		1,452,399	2,472,586
Term Deposit & Savings Accounts -			
Westpac Bank		-	6,000,000
Kiwi Bank		1,504,651	1,005,397
		<u>2,957,050</u>	<u>9,477,983</u>
MOE Funding in Advance	4.1	(99,458)	(4,451,519)
		<u>2,857,591</u>	<u>5,026,464</u>
Petty Cash and Rent Bonds		8,920	8,494
Accounts Receivable -			
MOE Funding due		530,461	682,655
Sundry		461,412	579,706
Intergroup Receivables	4.2	367,217	389,800
Inland Revenue Dept -			
Income Tax	3.1	210,815	237,070
Prepayments		131,432	82,636
Stock on Hand - Marketing Items		135,625	203,273
Total of Current Assets		<u>4,703,474</u>	<u>7,210,097</u>
Non - Current Assets	5		
Property, Plant & Equipment	5.1		
Leasehold Improvements		314,174	336,048
Office Plant Furniture & Equipment		1,026,878	1,140,900
Signage		222,546	237,462
Motor Vehicles		164,388	242,115
Total of Non - Current Assets		<u>1,727,986</u>	<u>1,956,525</u>
Total Assets		<u>6,431,460</u>	<u>9,166,622</u>
Liabilities			
Current Liabilities	6		
Accounts Payable -			
Sundry	6.1	2,971,354	2,948,613
Accident Compensation Contributions	6.2	13,134	189,246
Intergroup Payables	6.3	1,076,183	2,766,152
Inland Revenue Dept -			
GST		560,275	1,299,993
Deferred Tax on Timing Differences	3.1	38,856	25,551
Shareholder's Current Accounts		565,428	307,037
Total of Current Liabilities		<u>5,225,230</u>	<u>7,536,592</u>
Non - Current Liabilities	7		
Shareholders Loan Accounts	7.1	82,353	82,353
Total of Non - Current Liabilities		<u>82,353</u>	<u>82,353</u>
Total Liabilities		<u>5,307,582</u>	<u>7,618,944</u>
Net Assets		<u>1,123,878</u>	<u>1,547,677</u>
Shareholders Equity			
Capital			
500,000 shares paid to		500,000	500,000
Retained Earnings	8	623,878	1,047,677
Total Shareholders Equity		<u>1,123,878</u>	<u>1,547,677</u>

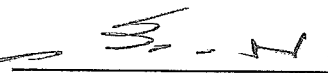
Director



Date

30 April 2014

Director



Date

30 April 2014

Examined for Audit
Gardiner Knobloch

PORSE IN-HOME CHILDCARE (NZ) LIMITED

Statement of Cash Flows for the year ended 31 December 2013

	<u>31/12/13</u>	<u>31/12/12</u>
	\$	\$
Cash Flows from Operating Activities		
Cash was provided from -		
Receipts from Ministry of Education & Sundry	21,268,445	26,191,499
Advanced receipts from Ministry of Education applied 2013	4,352,061	259,631
Finance Income	171,804	209,238
Net GST	(739,718)	(71,199)
	<u>25,052,593</u>	<u>26,589,169</u>
Cash was disbursed to -		
Personnel Expenses	(11,820,801)	(11,259,156)
Payments to Franchisees	(2,032,370)	(3,229,484)
Payments to Suppliers of Services	(12,760,988)	(11,609,910)
Interest Paid	(789)	(1,614)
Taxation (Paid) Refund	(145,044)	(336,839)
	<u>(26,759,993)</u>	<u>(26,437,003)</u>
Net Cash used in Operating Activities	<u>(1,707,400)</u>	<u>152,166</u>
Cash Flows from Investing Activities		
Cash was provided from -		
Petty Cash and Bond Deposits	-	680
Term Deposits and Savings Accounts	5,500,746	-
Sale proceeds from Property, Plant & Equipment	28,260	107,043
	<u>5,529,006</u>	<u>107,723</u>
Cash was disbursed to -		
Petty Cash and Bond Deposits	(426)	-
Term Deposits and Savings Accounts	-	(2,984,383)
Purchase of Property, Plant & Equipment	(447,696)	(785,528)
	<u>(448,122)</u>	<u>(3,769,911)</u>
Net Cash from (used in) Investing Activities	<u>5,080,884</u>	<u>(3,662,188)</u>
Cash Flows from Financing Activities		
Cash was disbursed to -		
MOE Funding paid in Advance	(4,352,061)	(259,631)
Payments to Shareholders	(41,609)	(1,752,384)
	<u>(4,393,670)</u>	<u>(2,012,015)</u>
Net Cash used in Financing Activities	<u>(4,393,670)</u>	<u>(2,012,015)</u>
Net Increase (Decrease) in Cash held	<u>(1,020,187)</u>	<u>(5,522,037)</u>
Cash at the beginning of the Year	2,472,586	7,994,622
Cash at end of Year	<u>1,452,399</u>	<u>2,472,586</u>
Bank Balances as per Statement of Financial Position		
Bank Accounts	1,452,399	2,472,586
Total Bank Balances	<u>1,452,399</u>	<u>2,472,586</u>

**Examined for Audit
Gardiner Knobloch**

PORSE IN-HOME CHILDCARE (NZ) LIMITED
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

GENERAL INFORMATION

These financial statements are for Porse In-Home Childcare (NZ) Limited ('the company').

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The Financial Statements have been prepared in accordance with New Zealand generally accepted accounting practice (NZ GAAP) as represented by the New Zealand equivalents to the International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities.

The company has adopted External Reporting Board Standard A1 '*Accounting Standards Framework (For-profit Entities Update)*' ('XRB A 1'). For the purposes of complying with NZ GAAP, the company is eligible to apply Tier 2 For-profit Accounting Standards (New Zealand equivalents to International Reporting Standards - Reduced Disclosure Regime ('NZ IFRS RDR')) on the basis that it does not have public accountability and is not a large for-profit public sector entity. The company has elected to report in accordance with NZ IFRS RDR and has applied disclosure concessions.

The Financial Statements were authorised for issue by the Board of Directors on 30 April 2014

(b) Statutory Base

The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993 and the Companies Act 1993.

(c) Measurement Base

The accounting principles recognised as appropriate for the measurement and reporting of financial performance and financial position on an historical cost basis are followed by the Company.

The information is presented in New Zealand dollars.

(d) Use of Estimates and Judgements

The preparation of Financial Statements in conformity with NZ IFRS RDR requires Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Where material, information on significant assumptions and estimates is provided in the relevant accounting policy or will be provided in the relevant note.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Subsequent actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on going basis. Revisions to accounting estimates are recognised in the year in which the estimates are revised and in any future period affected.

2 SPECIFIC ACCOUNTING POLICIES

The following specific accounting policies which materially affect the measurement of financial performance and the financial position of the Company have been applied consistently to all periods presented in these Financial Statements.

(a) Property, Plant and Equipment

PORSE In-Home Childcare (NZ) Ltd has four classes of Property, Plant & Equipment.

Leasehold Improvements

Office, Plant, Furniture and Equipment

Signage

Motor Vehicles

All Property, Plant and Equipment are initially recorded at cost.

When an item of Fixed Assets is disposed of, any gain or loss is recognised in profit or loss and is calculated as the difference between the sale price and the carrying value of the item.

Depreciation is provided for on a diminishing value basis on all tangible Property, Plant & Equipment at depreciation rates calculated to allocate the assets' cost or valuation, less estimated residual value, over the estimated useful life of the assets.

Leased assets are depreciated over the shorter of the unexpired period of the lease and the estimated useful life of the assets.

Major depreciation periods are -

Leasehold Improvements	5 to 15 years
Office Plant, Furniture and Equipment	5 to 15 years
Signage	5 to 15 years
Motor Vehicles	5 to 8 years

(b) **Impairment of Assets**

At each reporting date, the carrying value of the tangible and intangible assets are reviewed by the Directors to determine whether there is any indication of impairment.

If such impairment exists for an asset, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

A cash generating unit is defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash flows from other assets or groups of assets.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future pre-tax cash flows are discounted for 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 for which the estimates of future cash flows have been adjusted.

If a revalued asset is determined to be impaired, then the impairment is firstly applied against the related component of the revaluation reserve, with any remaining impairment loss expensed in profit or loss.

If the impairment loss is subsequently reversed, the reversal is firstly applied to profit or loss to the extent of previously expensed impairment losses relating to that asset, with any further increase taken to the revaluation reserve.

For assets which are not revalued, an impairment loss is expensed immediately in profit or loss. 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, if no impairment loss had been recognised.

(c) **Share Capital**

Ordinary shares and preference shares redeemable for ordinary shares are classified as equity. Direct costs of issuing shares are shown as a deduction from the proceeds of the issue.

(d) **Taxation**

(d)(i) **Income Tax**

The Income Tax expense charged in the Statement of Comprehensive Income includes both the current year provision and the Income Tax effect of -

Taxable temporary difference; and

Deductible temporary differences to the extent that it is probable they will be utilised.

Temporary differences arising from transactions affecting neither accounting profit nor taxable profit are ignored.

Tax effect accounting is applied on a comprehensive basis to all temporary differences using the liability method.

A deferred tax asset is only recognised to the extent that it is probable there will be a future taxable profit to utilise the temporary differences.

(d)(ii) **Goods & Services Tax**

The Financial Statements are prepared on a GST exclusive basis except where the expenditure incurring the GST charge is one in respect of which a claim for recovery of the GST is not allowed by the Inland Revenue Department. In these cases and in respect of Accounts Receivable and Accounts Payable, other than MOE Funding due, the amounts include GST.

(e) **Accounts Receivable**

Accounts Receivable are valued at expected realisable value after writing off any debts considered non-collectible.

(f) **Stock on Hand - Marketing Items**

Stock on hand is valued at the lower of cost on a first in first out basis, and net realisable value.

(g) **Leases**

The Company leases certain Plant & Equipment, Motor Vehicles and Land & Buildings.

Finance Leases

Finance Leases, which effectively transfer to the Company substantially all of the risks and benefits incidental to ownership of the leased item, are capitalised at the present value of the minimum lease payments. The leased assets and corresponding liabilities are recognised and the leased assets are depreciated over the period the Company is expected to benefit from their use.

Operating Leases

Operating lease payments, where the lessors effectively retain substantially all the risks and benefits of ownership of the lease items, are included in the determination of the net surplus in equal instalments over the period of the lease.

(h) **Financial Instruments**

Financial Instruments include cash and cash equivalents, trade debtors and other receivables, investments in and loans to others, trade creditors and other payables and borrowings. These financial instruments may include guarantees.

The Company does not have off balance sheet financial instruments.

Recognition and derecognition of financial assets and liabilities

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instruments.

Financial assets are derecognised when the contractual rights to cash flows from the financial assets expire, or when the financial asset and all subsequent risks and rewards are transferred.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Financial assets and liabilities are initially measured at fair value. The initial measurement of other financial instruments is also based on fair value, but adjusted in respect of any transaction costs that are directly attributable to the acquisition or issue of the instrument.

Subsequent measurement of financial assets.

The subsequent measurement of financial assets depends on their classification. Financial assets are classified as subsequently measured at either amortised cost or fair value on the basis of both the purpose and nature of the financial asset's contractual cash flows.

Management determines the classification of financial assets at initial recognition and re-evaluates this designation at each reporting date.

A gain or loss on a financial asset that is measured at amortised cost is recognised in profit or loss through the amortisation process, when the financial asset is decognised, impaired or reclassified.

A gain or loss on a financial asset that is measured at fair value is recognised in profit or loss unless the financial asset is an equity instrument where the Company has elected to recognise gain or losses through other comprehensive income.

Subsequent measurement of financial liabilities

At initial recognition, all financial liabilities are measured at amortised cost using the effective interest method, except for financial liabilities designated as being measured at fair value through profit or loss (i.e. derivatives)

All gains and losses recognised on financial liabilities whether measured at amortised cost or fair value are reported in the profit or loss for the period.

Reclassification of financial instruments.

If measurement of a financial asset or liability is reclassified from amortised to fair value, its fair value is determined at the reclassification date. Any gain or loss arising from a difference between the previous carrying amount and the fair value is recognised in the reported profit or loss.

If measurement of a financial asset or liability is reclassified from fair value to amortised cost, its fair value at the reclassification becomes the new carrying amount.

(h)(i) Receivables and Payables

Receivables and payables are initially recorded at fair value and subsequently carried at amortised cost using the effective interest method. Due allowance is made for impaired receivables (doubtful debts). Except for a few customers with extended credit terms the resulting carrying amount for receivables is not materially different from estimated realisable value.

(h)(ii) Borrowings

Borrowings are initially recorded at fair value net of transaction costs incurred, and subsequently at amortised cost using the effective interest method.

(h)(iii) Guarantees

Guarantees granted to parties outside the Company are initially measured at fair value. The income is recognised evenly over the term of the contract. Losses from financial guarantees are recognised by the Company when it assesses that it is more likely than not to become liable for the outstanding balances.

(i) Revenue

Revenue is recognised to the extent that it is probable that the economic benefit will flow to the Company so the revenue can be reliably measured. Revenue is measured at the fair value for consideration receivable.

The Company 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 revenue earned on the Company's own account is recognised as gross revenue in the Statement of Comprehensive Income.

(j) Employee Entitlements

Liabilities for annual leave, sick leave and long service leave are accrued and recognised in the statement of financial position.

Annual leave and sick leave are recorded at the undiscounted amount expected to be paid for the entitlement earned. For sick leave this is based on the unused entitlement accumulated at balance date and expected to be utilised in the future.

For long service leave the liability is equal to the present value of the estimated future cash outflows as a result of employee service provided at balance date.

(k) Provisions

The Company recognises a provision for future expenditure of uncertain amount or timing where there is a present obligation (either legal or constructive) as a result of a past event, it is probable that expenditure will be required to settle the obligation and a reliable estimate can be made of the obligation.

(i) **Statement of Cash Flows**

The Statement of Cash flows is prepared exclusive of GST, which is consistent with the method used in the Statement of Financial Performance.

Definitions of the terms used in the statement of cash flows are –

"Cash" includes coins and notes, demand deposits and other highly liquid investments readily convertible into cash and includes at call borrowings such as bank overdrafts, used by the company as part of its day-to-day cash management.

"Investing Activities" are those activities relating to the acquisition and disposal of current and non-current investments and any other non-current assets.

"Financing Activities" are those activities relating to changes in equity and debt capital structure of the company and those activities relating to the cost of servicing the company's equity capital.

"Operating Activities" include all transactions and other events that are not investing or financing activities.

2.1 Changes in Accounting Policies

The company has adopted XRB A1 that establishes a for-profit tier structure and outlines which suite of accounting standards entities in different tiers must follow. The company is eligible to and has elected to report in accordance with Tier 2 For-profit Accounting Standards (NZ IFRS RDR). In adopting NZ IFRS RDR, the company has taken advantage of a number of disclosure concessions. There were no other impacts on the current or prior year financial statements of transitioning to NZ IFRS RDR.

3 TAXATION

3.1 Income Tax

Profit (Loss) before Taxation

Permanent Taxation adjustments

Timing Difference Taxation adjustments

Income for Taxation purposes

Tax at 28c in \$

Imputation credits received

Taxation

Taxation for Year as above

RWT and Provisional Tax paid

Balance Owing (Refund) at Balance Date

Deferred Tax on Timing Differences

Total Taxation as per Statement of Comprehensive Income

3.2 Imputation Credit Account

Opening balance of available Imputation Credits

Plus Net Taxes paid during the year available for credits

RWT on Interest

IC attached to Dividends

Less Transfers, refunds and adjustments

Credits attributed to Dividends declared

Closing Balance (Debit)

4 CURRENT ASSETS

4.1 MOE Funding in Advance

This comprises -

(a) Ministry of Education ECE Funding Subsidy and 20 Hours ECE Advance Funding

These are prepayments made by the Ministry of Education for periods beyond 31 December and have been offset against funds held instead of treating as Current Liabilities.

(b) Equity Funding

Advance payments which have yet to be expended on the equity objectives approved by the Ministry of Education.

4.2 Intergroup Receivables

Advances to -

PORSE Education & Training (NZ) Ltd

For Life Education & Training (NZ) Limited

PORSE Equine Education Limited

PORSE Franchising (NZ) Ltd

	<u>31/12/13</u>	<u>31/12/12</u>
	\$ 37,740	\$ 238,053
	(86,060)	817,679
	37,642	29,163
	\$ (48,417)	\$ 846,842
	\$ 138,771	\$ 91,253
	\$ 90,354	\$ 938,095
	25,299	262,667
	(864)	(838)
	\$ 24,435	\$ 261,829
	\$ 24,435	\$ 261,829
	235,250	498,899
	\$ (210,815)	\$ (237,070)
	\$ 13,305	\$ (23,776)
	\$ 37,740	\$ 238,053
	847,563	1,331,685
	338,215	263,400
	35,250	72,354
	864	838
	(237,068)	
	(116,667)	(820,714)
	\$ 868,158	\$ 847,563
	\$ 99,458	\$ 4,451,519
	-	4,372,486
	99,458	79,033
	\$ 99,458	\$ 4,451,519
	\$ 367,217	\$ 389,800
	191,835	177,034
	66,617	44,569
	30,643	18,795
	78,122	149,401
	\$ 367,217	\$ 389,799

The Advances are repayable on demand and are not subject to Interest.

Examined for Audit
Gardiner Knobloch

5	NON - CURRENT ASSETS	\$ 1,727,986	\$ 1,956,525
5.1	See Property Plant & Equipment Schedule - Page 15.		
5.2	Impairment - Leasehold Improvements, Office Plant, Furniture and Equipment, Signage and Motor Vehicles have been tested for impairment during the year. As a result an Impairment Loss of Nil (2012 Nil) was recognised as an Expense in the Statement of Comprehensive Income.		
6	CURRENT LIABILITIES	<u>31/12/13</u>	<u>31/12/12</u>
6.1	Accounts Payable - Sundry	\$ 2,971,354	\$ 2,948,613
	Employee entitlements	1,829,046	1,492,713
	WINZ Subsidies held	312,002	295,077
	Income Tax Instalment due 28 January 2013	-	138,215
	Sundry Creditors for supplies and expenses	830,306	1,022,607
		<u>\$ 2,971,354</u>	<u>\$ 2,948,613</u>
6.2	Accident Compensation Contributions.	\$ 13,134	\$ 189,246
	Amounts due for accident compensation contributions received from Families.		
6.3	Intergroup Payables	\$ 1,076,183	\$ 2,766,152
	Owing to (by) PORSE Franchising (NZ) Limited	325,229	1,606,857
	Owing to (by) For Life Education & Training (NZ) Limited	44,735	34,155
	Owing to (by) PORSE Education & Training (NZ) Limited	706,220	1,125,140
		<u>\$ 1,076,183</u>	<u>\$ 2,766,152</u>
7	NON CURRENT LIABILITIES		
7.1	Shareholders Loan Accounts	\$ 82,353	\$ 82,353
	These are Loans from Shareholders and are not repayable within twelve months from 31 December 2013 unless utilised for an increase in Shareholders Capital. Interest is not payable on the Loans		
8	RETAINED EARNINGS	\$ 623,878	\$ 1,047,677
	Opening Balance	1,047,677	2,383,050
	Profit (Loss) after Taxation	(123,799)	579,626
	Plus (Less)		
	Dividends declared	(300,000)	(1,915,000)
	Closing Balance	<u>\$ 623,877</u>	<u>\$ 1,047,677</u>
9	FINANCIAL INSTRUMENTS		
9.1	Credit Risks		
	Financial Instruments which potentially subject the Company to credit risk, consist of Bank Balances and Accounts Receivable. The Company performs credit evaluations of all customers requiring credit and generally does not require collateral security. Maximum exposure to credit risk at balance date stated at fair value are -	<u>31/12/13</u>	<u>31/12/12</u>
	Bank Operating Accounts	\$ 1,452,399	\$ 2,472,586
	Term Deposits and Savings	\$ 1,504,651	\$ 1,005,397
	MOE Funding due	\$ 530,461	\$ 682,655
	Intergroup Receivables	\$ 367,217	\$ 389,800
	Accounts Receivable	\$ 461,412	\$ 579,706
	Income Tax Refund	\$ 210,815	\$ 237,070
	The above maximum exposures are net of any recognised provision for losses on these Financial Instruments and collateral is not held on any of the above amounts.		
9.2	Concentrations of Credit Risk		
	The Company is reliant on the Ministry of Education for the provision of funding to carry out the services it provides throughout New Zealand. The percentage of Total Revenue is 92%.		
9.3	Currency Risk		
	The Company does not have any exposure to currency risks.		
9.4	Interest Rate Risk		
	Assets - The Company has funds on deposit and is subject to variations in interest rates on those deposits.		
	Liabilities - Nil		
9.5	Credit Facilities		
	The Company uses credit facilities from time to time.		
9.6	Fair Values		
	Current Assets, Current Liabilities and Non-Current Liabilities.		
	The carrying value of the financial instruments in these categories is equivalent to their fair value.		

10 COMMITMENTS

Capital Commitments -

At balance date there were no capital commitments. (2012 Nil.)

Operating Lease Commitments -

Lease commitments under non-cancellable leases relate to Property, Motor Vehicles, Photocopiers and Just Water installations.

Commitments are payable as follows -

	31/12/13	31/12/12
Less than one year	2,009,865	1,890,813
Between 1 and 5 years	5,695,474	5,860,271
Greater than 5 years	3,982,740	3,648,679
Total Operating Lease commitments	\$ 11,688,079	\$ 11,399,763

All lease commitments relating to Property have rights of renewal and the usual provisions for rent reviews to market rates.

Some leases have clauses that do not permit the rent to be revised downwards. These are not considered material to the Company.

No operating leases impose any restrictions on the Company to raise debt or enter into further leases.

11 CONTINGENT LIABILITIES

At balance date there were two known Contingent Liabilities -

- Guarantee by the ANZ Bank to Botany Life Community Trust for Rental of \$26,364. The expiry date is 30 June 2014.
- The Company issued a guarantee to Kiwibank on 11 April 2008 for \$2 million for the advance made to PALJYN Investments Limited for the building at 31 Napier Road, Havelock North. The Directors do not expect any demand to be made by Kiwibank on the guarantee.

12 RECONCILIATION OF SURPLUS AFTER TAXATION WITH CASH FLOWS FROM OPERATING ACTIVITIES

	31/12/13	31/12/12
Surplus after Taxation	(123,799)	579,626
Movements in Working Capital-		
(Increase) Decrease in Accounts Receivable	293,071	(414,389)
(Increase) Decrease in Stocks on hand	67,648	27,407
(Increase) Decrease in Prepayments	(48,796)	6,644
Increase (Decrease) in Accounts Payable	(1,843,340)	(463,999)
Increase (Decrease) in Income Tax	(8,996)	(49,097)
Net GST	(739,718)	(71,199)
Non - Cash Items -		
Deferred Tax	13,305	-
Depreciation	647,975	610,610
RWT on Interest	35,250	(73,437)
Net Cash Flow from Operating Activities	\$ (1,707,400)	\$ 152,166

13 TRANSACTIONS WITH RELATED PARTIES

PORSE Franchising (NZ) Limited -

Transactions involve Management Fees received and Royalties, Marketing Charges paid.

Balances at 31 December were -

Accounts Receivable	78,122	149,401
Accounts Payable	(325,228)	(1,606,857)
Net Amount Payable	\$ (247,106)	\$ (1,457,456)

For Life Education & Training (NZ) Limited

Transactions involve Management Fees received and Invoices, Marketing Charges paid.

Balances at 31 December were -

Accounts Receivable	66,617	44,569
Accounts Payable	(44,735)	(34,155)
Net Amount Payable	\$ 21,882	\$ 10,414

PORSE Equine Education Limited

Transactions involve Management Fees received and Invoices, Marketing Charges paid.

Balances at 31 December were -

Accounts Receivable	30,643	18,795
Net Amount Payable	\$ 30,643	\$ 18,795

PORSE Education & Training NZ Limited -

Transactions involve Management Fees received and Charges and Advances for various Expense items paid on usual

Balances at 31 December were -

Accounts Receivable	191,834	177,034
Accounts Payable	(706,220)	(1,125,140)
Net Amount Payable	\$ (514,386)	\$ (948,106)

PALJYN Investments Ltd

Rental Paid

\$	322,920	\$	322,920

There were no amounts owing to or by PALJYN Investments Ltd at balance date.

The usual provisions for periodic rent reviews to market rates apply.

**Examined for Audit
Gardiner Knobloch**

14 SIGNIFICANT EVENTS AFTER BALANCE DATE

There have not been any significant events since balance date to affect the results shown in the Financial Statements.

15 SEGMENTAL INFORMATION

The Company operates throughout New Zealand in the provision of early childhood education and services.

16 MINISTRY OF EDUCATION FUNDING - SPECIAL PROGRAMMES

\$	108,000	\$	105,000

The 2013 income relates to funding received to increase ECE participation in Takanini.

Examined for Audit
Gardiner Knobloch

PORSE IN-HOME CHILDCARE (NZ) LIMITED

**Schedule of Property, Plant & Equipment
for the Year ended 31 December 2013**

Asset Type	Cost	Bk Value 31/12/12	Addns (Disposals)	Total	Depreciation Amount	Bk Value 31/12/13
	\$	\$	\$		\$	\$
Leasehold Improvements						
Property Renovation and Improvements	\$ 695,962	\$ 336,048	\$ 41,455	\$ 377,503	\$ 63,329	\$ 314,174
Office Plant, Furniture and Equipment						
Computers, Printers and Software	965,926	334,283	59,021	393,304	187,605	205,700
Data Base Development	916,771	256,525	182,501	439,025	161,248	277,776
Office Equipment & Furniture	1,283,215	540,566	126,886	667,452	131,607	535,845
Home Educator Equipment	21,469	9,430	572	10,001	3,145	6,856
Vehicle Cargo Barriers	3,720	1,095	-	1,095	394	701
	<u>\$ 3,191,101</u>	<u>\$ 1,069,675</u>	<u>\$ 368,979</u>	<u>\$ 1,510,877</u>	<u>\$ 483,999</u>	<u>\$ 1,026,878</u>
Signage	<u>\$ 288,806</u>	<u>\$ 237,462</u>	<u>\$ 11,382</u>	<u>\$ 248,844</u>	<u>\$ 26,298</u>	<u>\$ 222,546</u>
Motor Vehicles						
Motor Vehicles	320,132	187,301	(26,502)	160,799	54,917	105,884
Vehicle Signage	109,339	53,814	22,675	76,489	17,985	58,504
	<u>\$ 429,471</u>	<u>\$ 374,179</u>	<u>\$ (3,827)</u>	<u>\$ 237,288</u>	<u>\$ 72,902</u>	<u>\$ 164,388</u>
Total	<u><u>\$ 4,605,340</u></u>	<u><u>\$ 1,888,650</u></u>	<u><u>\$ 417,989</u></u>	<u><u>\$ 2,374,512</u></u>	<u><u>\$ 646,528</u></u>	<u><u>\$ 1,727,986</u></u>

**Schedule of Property, Plant & Equipment
for the Year ended 31 December 2012**

Asset Type	Cost	Bk Value 31/12/11	Addns (Disposals)	Total	Depreciation Amount	Bk Value 31/12/12
	\$	\$	\$		\$	\$
Leasehold Improvements						
Property Renovation and Improvements	\$ 803,313	\$ 307,818	\$ 98,843	\$ 406,661	\$ 70,613	\$ 336,048
Office Plant, Furniture and Equipment						
Computers, Printers and Software	1,133,658	239,086	226,753	465,839	131,556	334,283
Data Base Development	863,395	273,661	129,125	402,786	146,261	256,525
Office Equipment & Furniture	1,289,284	546,318	128,389	674,707	134,141	540,566
Home Educator Equipment	24,243	8,895	3,345	12,240	2,810	9,430
Vehicle Cargo Barriers	3,720	1,714	-	1,714	619	1,095
	<u>\$ 3,314,300</u>	<u>\$ 1,069,674</u>	<u>\$ 487,612</u>	<u>\$ 1,557,286</u>	<u>\$ 415,388</u>	<u>\$ 1,141,899</u>
Signage	<u>\$ 403,278</u>	<u>\$ 136,977</u>	<u>\$ 120,630</u>	<u>\$ 257,607</u>	<u>\$ 20,145</u>	<u>\$ 237,462</u>
Motor Vehicles						
Motor Vehicles	399,111	242,324	16,044	258,369	71,067	187,302
Vehicle Signage	128,828	54,543	21,543	76,086	22,271	53,815
	<u>\$ 527,939</u>	<u>\$ 374,179</u>	<u>\$ 37,587</u>	<u>\$ 334,455</u>	<u>\$ 93,338</u>	<u>\$ 241,117</u>
Total	<u><u>\$ 5,048,830</u></u>	<u><u>\$ 1,888,650</u></u>	<u><u>\$ 744,671</u></u>	<u><u>\$ 2,556,009</u></u>	<u><u>\$ 599,484</u></u>	<u><u>\$ 1,956,525</u></u>

**Examined for Audit
Gardiner Knobloch**

GARDINER KNOBLOCH

WILKET House (First Floor), Shakespeare Road, Napier, New Zealand

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CHARTERED
ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Porse In-Home Childcare (NZ) Limited.

Report on the Financial Statements

We have audited the financial statements of Porse In-Home Childcare (NZ) Limited on pages 1 to 15, which comprise the statement of financial position as at 31 December 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors Responsibility for the Financial Statements

The Directors are responsible for the preparation of these financial statements in accordance with New Zealand generally accepted accounting practice as represented by the New Zealand equivalents to the International Reporting Standards and that give a true and fair view of the matters to which they relate, and for such internal control 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.

Auditors Responsibilities

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

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

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

Other than in our capacity as auditor, we have no relationship with or interests in Porse In-Home Childcare (NZ) Limited.

Opinion

In our opinion, the financial statements on pages 1 to 15:

- Comply with New Zealand generally accepted accounting practice as represented by the New Zealand equivalents to the International Reporting standards.
- Give a true and fair view of the financial position of Porse In-Home Childcare (NZ) Limited as at 31 December 2013, and of its financial performance (a loss of \$86,060) and its cash flows for the year ended on that date.

Report on Other Legal and Regulatory Requirements

We have obtained all the information and explanations that we have required.

In our opinion proper accounting records have been kept by Porse In-Home Childcare (NZ) Limited as far as appears from examination of those records.

Other Matters

We did not attend the stock take held on 31 December 2013 and have relied on the stock count provided by the Directors.

Restriction on Distribution or use

This report is made solely to the shareholders of Porse In-Home Childcare (NZ) Limited. Our audit work has been undertaken so that we might state to the shareholders of Porse In-Home Childcare (NZ) Limited those matters which we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Porse In-Home Childcare (NZ) Limited and the shareholders of Porse In-Home Childcare (NZ) Limited, for our audit work, for this report, or for the opinions we have formed.

Gardiner Knobloch

GARDINER KNOBLOCH

DATE 30 APRIL 2014
ADDRESS BOX 145 NAPIER

Partners

Ewan Gardiner CA • Graeme Knobloch CA • Peter Gillies CA

PORSE FRANCHISING (NZ) LIMITED

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

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1	Company Directory
2-3	Directors Review
4	Statement of Financial Performance Statement of Movements in Equity
5	Statement of Financial Position
6	Statement of Cash Flows
7-10	Notes to Financial Statements
11	Fixed Asset Schedule

Nature of Business	Services to Franchisees of the PORSE early childcare network.

Directors	Jennifer L Yule Dan Druzianic Alwyn J Burr Amanda J Fleming Andrew IG Harwood

Bankers	ANZ Bank of NZ Limited NAPIER

Shareholders & Shareholding		SHARES	
		Voting	Non Voting
	Jennifer L Yule	100,000	
	Rugosa Trust		400,000
		<u>100,000</u>	<u>400,000</u>

PORSE FRANCHISING (NZ) LIMITED
DIRECTORS' REVIEW FOR THE YEAR ENDED 31 DECEMBER 2013

1 PRINCIPAL ACTIVITIES

The Principal Activity during the year was the management of the PORSE Early Childhood Education System.

2 REVIEW OF OPERATIONS

2.1 Financial Performance

The result for the Year was a Surplus After Tax of \$758,104 as compared with \$634,077 for the previous year. This higher surplus was due mainly to no Franchises being terminated in 2013 (2012 Termination fees of \$132,917) and a decrease in Management Fees of \$242,000 partially offset by an increase in Taxation of \$56,724.

2.2 Financial Position

	31/12/13	31/12/12
	\$	\$
Equity as per Financial Statements	1,775,928	1,467,824
Shareholders Current Accounts	757,606	338,856
Shareholders Loan Accounts	82,353	82,353
Total Shareholders Investment	<u>2,615,886</u>	<u>1,889,032</u>

This position is considered to be satisfactory.

3 DIRECTORS HOLDING OFFICE DURING THE YEAR

The Directors holding office during the year were Jennifer Yule, Alwyn Burr and Dan Druzianic. Andy Harwood and Amanda Fleming were appointed as directors during the year.

4 REMUNERATION OF DIRECTORS

The Directors did not receive any remuneration during the period but Alwyn Burr Chartered Accountant Limited received payments for accounting and advisory services totalling \$128. In the year ended 31 December 2012 the amount was \$1,349.

5 ENTRIES IN THE INTERESTS REGISTER

Directors have declared interests in the following transactions with other Companies in which Jennifer L Yule had an interest

	31/12/13	31/12/12
a PORSE In Home Childcare (NZ) Limited -		
Management fees	70,000	312,000
Charges for various expense items which are paid on usual terms of trade	772,863	622,987
Royalties	602,926	640,643
Net Transactions for Year	<u>1,445,789</u>	<u>1,575,630</u>
Balances at 31 December were -		
Accounts Receivable	242,252	466,857
Accounts Payable	65,119	149,401
Inter Company Advances	-	1,140,000
b PORSE Education & Training (NZ) Limited		
Inter Company Advances	-	(170,000)
Accounts Payable	69,109	
c PALJYN Investments Ltd		
Inter Company Advances	673,466	650,064
d For Life Education & Training (NZ) Limited		
Inter Company Advances - for operational expenses	30,000	30,000
e PORSE Equine Education Limited		
Subvention losses payment	69,109	-

6 SHARE TRANSACTIONS

There were no share transactions during the year.

7 AUDITORS

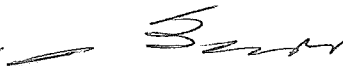
The shareholders of the Company have voted unanimously not to appoint Auditors.

For and on behalf of the Board

Jennifer L Yule



Alwyn J Burr



Date

30 April 2014

Date

30 April 2014.

PORSE FRANCHISING (NZ) LIMITED

Statement of Financial Performance for the Year ended 31 December 2013

	Notes	31/12/13 12 mths \$	31/12/12 12 mths \$
Gross Revenue	2		
Royalties Received		1,183,564	1,266,038
Sundry Income		-	75,247
Interest Received		45,057	12,556
Total Revenue		<u>1,228,621</u>	<u>1,353,841</u>
Management and Overhead Expenses	3		
Accountancy Fees		128	1,349
Bank Charges		30	27
Consultants		400	-
Electricity & Gas		9,094	6,587
Franchise Termination Fees		-	132,917
Interest		1,710	-
Legal Fees		120	1,770
Share Valuation		-	7,215
Stationery, Printing and Postage		9,586	8,196
Subscriptions		708	339
Subvention payment		69,109	-
Sundry Expenses		5,546	2,000
Total Management and Overhead Expenses		<u>96,430</u>	<u>160,401</u>
Surplus before Directors Remuneration & Depreciation		<u>1,132,191</u>	<u>1,193,440</u>
Management Fees to Group Companies		70,000	312,000
		<u>70,000</u>	<u>312,000</u>
Surplus before Taxation		<u>1,062,191</u>	<u>881,440</u>
Taxation	4.1	304,087	247,363
Surplus after Taxation		<u>758,104</u>	<u>634,077</u>

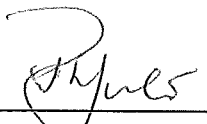
Statement of Movement in Equity during the Year ended 31 December 2013

Start Balance	1,467,823	1,318,947
Plus Increase in Share Capital		499,800
Total recognised Revenue & Expenses		
Surplus after Taxation	758,104	634,077
Less Dividends declared	(450,000)	(985,000)
Closing Balance	<u>1,775,928</u>	<u>1,467,823</u>

PORSE FRANCHISING (NZ) LIMITED
Statement of Financial Position as at 31 December 2013

	Notes	31/12/13	31/12/12
	5	\$	\$
Assets			
Current Assets			
ANZ Bank Accounts		345,945	5,031
ANZ Bank Trust Account		36,304	35,017
ANZ Bank Term Deposit		1,520,029	-
Accounts Receivable			
Sundry	5.1	85,848	-
Intergroup Receivables	5.2	242,252	467,965
Inter-company advances	5.2		
PALJYN Investments Ltd		673,466	650,064
PORSE In Home Childcare (NZ) Limited		-	1,140,000
For Life Education & Training (NZ) Limited		30,000	30,000
Inland Revenue Dept -			
Income Tax	4.2	16,157	-
Total of Current Assets		<u>2,950,002</u>	<u>2,328,077</u>
Non - Current Assets	6		
Fixed Assets	6.1		
Motor Vehicles		-	-
Trade Marks		1,285	1,285
Total of Non - Current Assets		<u>1,285</u>	<u>1,285</u>
Total Assets		<u>2,951,287</u>	<u>2,329,362</u>
Liabilities			
Current Liabilities	7		
Accounts Payable			
Sundry	7.1	84,811	74,549
Intergroup Payables	7.2	134,228	149,401
PORSE Education & Training (NZ) Limited	5.2	-	170,000
Inland Revenue Dept			
GST		33,474	19,803
Income Tax	4.2	-	20,193
Advertising & Scholarship Funds	7.3	62,859	6,384
Phil Sanders Sunshine Fund	7.4	20,029	-
Shareholders Current Accounts	7.5	757,606	338,856
Total of Current Liabilities		<u>1,093,007</u>	<u>779,186</u>
Non - Current Liabilities	9		
Shareholders Loan Accounts	9.1	82,353	82,353
Total of Non - Current Liabilities		<u>82,353</u>	<u>82,353</u>
Total Liabilities		<u>1,175,359</u>	<u>861,539</u>
Net Assets		<u>1,775,928</u>	<u>1,467,824</u>
Shareholders Equity	10		
Capital 500,000 shares fully paid		500,000	500,000
Capital Profits	10.1	61,463	61,463
Retained Earnings	10.2	1,214,464	906,360
Total Shareholders Equity		<u>1,775,928</u>	<u>1,467,824</u>

The foregoing Financial Statements have not been audited



Director



Director

30 April 2014 Date

30 April 2014 Date

PORSE FRANCHISING (NZ) LIMITED

**Statement of Cash Flows
for the Year ended 31 December 2013**

	31/12/13 12 mths \$	31/12/12 12 mths \$
Cash Flows from Operating Activities		
Cash was provided from -		
Receipts from Royalties and Sundry Income	1,324,841	1,108,066
Interest received	20,242	9,386
Net GST	13,671	12,197
	<u>1,358,755</u>	<u>1,129,649</u>
Cash was disbursed to -		
Personnel Expenses	-	-
Payments to Suppliers of Services	(178,115)	(447,937)
Interest Paid	(1,710)	-
Taxation paid	(331,953)	(18,644)
	<u>(511,778)</u>	<u>(466,581)</u>
Net Cash Flows (Out flow) from Operating Activities	846,977	663,068
Cash Flows from Investing Activities		
Cash was provided from -		
Sale of Motor Vehicle	-	8,261
	<u>-</u>	<u>8,261</u>
Net Cash Flow (Out Flow) from Investing Activities	-	8,261
Cash Flows from Financing Activities		
Cash was provided from -		
Increase in share capital	-	499,800
Intergroup Loans	970,000	-
Net Advertising and Scholarship Funds Receipts	76,504	-
	<u>1,046,504</u>	<u>499,800</u>
Cash was applied to -		
Intergroup Loans	-	(525,000)
Term Deposits	(1,520,029)	-
Advertising and Scholarship Funds Payments	-	(19,977)
Distributions to Shareholders	(31,250)	(842,014)
	<u>(1,551,279)</u>	<u>(1,386,991)</u>
Net Cash Flow (Out Flow) from Financing Activities	(504,776)	(887,191)
Net Increase (Decrease) in Cash held	342,201	(215,862)
Opening balance brought forward	40,048	255,910
Ending cash carried forward	382,249	40,048
Bank Balances as per Statement of Financial Position		
National Bank Account	382,249	40,048
Total Bank Balances	382,249	40,048
 Reconciliation of Operating Surplus with Cash Flows from Operating Activities		
Surplus after Taxation	758,104	634,077
Movements in Working Capital		
(Increase) Decrease in Accounts Receivable - Sundry	(85,848)	146,841
(Increase) Decrease in Accounts Receivable - Group Companies	225,713	(376,415)
Increase (Decrease) in Accounts Payable - Sundry	10,262	(32,659)
Increase (Decrease) in Accounts Payable - Intergroup	(15,173)	55,124
Increase (Decrease) in Income Tax	(327,193)	(18,644)
Net GST	13,671	12,197
Non - Cash Items -		
Increase in PALJYN advance due to interest charged	(23,402)	-
Write-off of Move It Advance	-	2,000
Gain on sale of Motor Vehicle	-	(3,645)
RWT on Interest	(13,244)	(3,170)
Taxation provided	304,087	247,363
Net Cash Flow from Operating Activities	846,977	663,068

PORSE FRANCHISING (NEW ZEALAND) LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

1 STATEMENT OF ACCOUNTING POLICIES

1.1 Reporting Entity

PORSE Franchising (New Zealand) Limited (the "Company") is a company registered under the Companies Act 1993. The financial statements have been prepared in accordance with the Financial Reporting Act 1993. The Company has elected to report in accordance with Tier 4 For-Profit Accounting Standards as the entity is not publicly accountable and is not large.

1.2 Measurement Base

The accounting principles recognised as appropriate for the measurement and reporting of financial performance and financial position on an historical cost basis are followed by the Company.

1.3 Specific Accounting Policies

The following specific accounting policies which materially affect the measurement of financial performance and the financial position of the Company have been applied -

(a) Non - Current Assets

Non - Current Assets are included at cost less aggregate depreciation provided at the maximum rates allowed by the Inland Revenue Department. The depreciation rates used are shown in the Depreciation Schedule. Fixed Assets leased under a specified lease for the purposes of the Income Tax legislation are capitalised and depreciated.

(b) Revenues

Revenues are recognised on an accruals basis.

(c) Accounts Receivable

Accounts Receivable are valued at expected realisable value after writing off any debts considered uncollectible.

(d) Employee Entitlements

A liability for annual leave and sick leave is accrued and recognised in the Statement of Financial Position. The liability is equal to the present value of the estimated future cash outflows as a result of employee services provided at balance date.

(e) Leases

Finance Leases

Finance Leases, which effectively transfer to the Company substantially all of the risks and benefits incidental to ownership of the leased item, are capitalised at the present value of the minimum lease payments. The leased assets and corresponding liabilities are recognised and the leased assets are depreciated over the period the Company is expected to benefit from their use.

Operating Leases

Operating lease payments, where the lessors effectively retain substantially all the risks and benefits of ownership of the lease items, are included in the determination of the net surplus in equal instalments over the period of the lease.

(f) Taxation

Income Tax is accounted for using the taxes payable method i.e. the Income Tax Expense charged to the Statement of Financial Performance is based on the Return to the Inland Revenue Department.

(g) Accounting for Goods & Services Tax

The Financial Statements are prepared on a GST exclusive basis except where the expenditure incurring the GST charge is one in respect of which a claim for recovery of the GST is not allowed by the Inland Revenue Department. In these cases and in respect of Accounts Receivable and Accounts Payable, the amounts include GST.

(h) Financial Instruments

The Company does not enter into any off balance sheet instruments. All financial instruments are recognised in the financial statements and are stated at transaction value.

(l) **Statement of Cash Flows**

The Statement of Cash Flows is prepared exclusive of GST, which is consistent with the method used in the Statement of Financial Performance.

Definitions of the terms used in the statement of cash flows are –

"Cash" includes coins and notes, demand deposits and other highly liquid investments readily convertible into cash and includes at call borrowings such as bank overdrafts, used by the company as part of its day-to-day cash management.

"Investing Activities" are those activities relating to the acquisition and disposal of current and non-current investments and any other non-current assets.

"Financing Activities" are those activities relating to changes in equity and debt capital structure of the company and those activities relating to the cost of servicing the company's equity capital.

"Operating Activities" include all transactions and other events that are not investing or financing activities.

(j) **Differential Reporting**

The Company qualifies for differential reporting as it is not large and is not publically accountable. The Company has taken advantage of all available differential reporting exemptions except in respect of Financial Instruments and Cash Flows.

Changes in Accounting Policies

There have not been any changes in accounting policies. All policies have been applied on bases consistent with those used in previous years.

	<u>31/12/2013</u>	<u>31/12/2012</u>
2 GROSS REVENUE	\$ 1,228,621	\$ 1,353,841
3 MANAGEMENT AND OVERHEAD EXPENSES	\$ 96,430	\$ 160,401
4 TAXATION		
4.1 Income Tax	\$ 304,087	\$ 247,363
The taxation position is set out below -		
Surplus before Taxation	1,062,191	881,440
Adjustments -	23,833	2,000
	<u>\$ 1,086,025</u>	<u>\$ 883,440</u>
Taxation Payable	\$ 304,087	\$ 247,363
A subvention payment of \$69,109 (2012: \$Nil) was paid to PORSE Equine Education Limited.		
4.2 Inland Revenue Dept - (Payable) Refund	\$ 16,157	\$ -
Provisional Tax paid	307,000	224,000
RWT on Interest	13,244	3,170
	<u>320,244</u>	<u>227,170</u>
Taxation due as in 4.1	<u>(304,087)</u>	<u>(247,363)</u>
Balance owing as per Statement of Financial Position	<u>\$ 16,157</u>	<u>\$ (20,193)</u>
4.3 Imputation Credit Account		
Opening Balance of available credits	257,444	644,754
Plus Taxes paid during the year available for Credits (less Refunds)	276,614	31,662
RWT on Interest	13,244	3,170
Less Credit attributed to Dividends declared	<u>(175,000)</u>	<u>(422,143)</u>
Closing Balance of available credits	<u>\$ 372,301</u>	<u>\$ 257,444</u>
5 CURRENT ASSETS		
5.1 Accounts Receivable - Sundry	\$ 85,848	\$ -
Amounts due in respect of Sundry Receivables & Advertising/Scholarship Funds		
5.2 Accounts Receivable - Intergroup	\$ 242,252	\$ 467,965
PORSE In-Home Childcare (NZ) Limited	<u>242,252</u>	<u>467,965</u>
	<u>\$ 242,252</u>	<u>\$ 467,965</u>
Inter-company Advances		
PALJYN Investments Limited	673,466	650,064
PORSE In Home Childcare (NZ) Limited	-	1,140,000
For Life Education & Training (NZ) Limited	30,000	30,000
PORSE Education & Training (NZ) Limited	-	(170,000)
Amounts due by Group Companies in respect of various operational charges and Advances		

6 NON - CURRENT ASSETS**31/12/2013 31/12/2012**

6.1 Fixed Assets	\$ 1,285	\$ 1,285
See Fixed Asset Schedule.		

7 CURRENT LIABILITIES

7.1 Accounts Payable - Sundry	\$ 84,811	\$ 74,549
Amounts payable to suppliers of various services.		

7.2 Accounts Payable - Intergroup Payables	\$ 134,228	\$ 149,401
PORSE In-Home Childcare (NZ) Ltd	65,119	149,401
PORSE Equine Education Limited	69,109	
	<u>\$ 134,228</u>	<u>\$ 149,401</u>

Amounts owing to Group Companies for various services and Advances.

7.3 Advertising and Scholarship Funds	\$ 62,859	\$ 6,384
Amounts held on behalf of Franchisees for advertising, marketing and scholarships.		

7.4 Phil Sanders Sunshine Fund	\$ 20,029	\$ -
The purpose of the Fund is to support PORSE staff members and their families who are suffering because of an illness, disability or accident which is preventing them working or has caused undue financial hardship.		

7.5 Shareholders Current Accounts	\$ 757,606	\$ 338,856

These amounts advanced by Shareholders are unsecured, do not carry interest and are repayable on demand.

Jennifer L Yule	160,387	76,637
Rugosa Trust	597,219	262,219
	<u>\$ 757,606</u>	<u>\$ 338,856</u>

8 FINANCIAL INSTRUMENTS**8.1 Credit Risks**

Financial Instruments which potentially subject the Company to credit risk, consist of Bank Balances and Accounts Receivable.

The Company performs credit evaluations of all customers requiring credit and generally does not require collateral security.

Maximum exposure to credit risk at balance date were -

ANZ Bank Accounts	\$ 382,249	\$ 40,048
Accounts Receivable - Sundry	\$ 85,848	\$ -
Accounts Receivable - Group Companies	\$ 242,252	\$ 467,965

The above maximum exposures are net of any recognised provision for losses on these Financial Instruments and collateral is not held on any of the above amounts.

8.2 Concentrations of Credit Risk

The company is dependent on Royalties from PORSE In Home Childcare (NZ) Limited and Franchised PORSE Offices and which are 96.8% (2012: 93.5%) of Total Income.

8.3 Currency Risk

The Company does not have any exposure to currency risk.

8.4 Interest Rate Risk

Assets - There will be an Interest rate risk in respect of monies on deposit.

Liabilities - Nil

8.5 Credit Facilities

The Company does not use credit facilities other than the advances from Shareholders, Directors or Associated Companies.

8.6 Fair Values

Current Assets, Current Liabilities and Non-Current Liabilities.

The carrying value of the financial instruments in these categories is equivalent to their fair value.

31/12/2013 31/12/2012**9 TERM LIABILITIES**

9.1 Shareholders Loan Accounts	\$ 82,353	\$ 82,353

These Loans are unsecured, do not carry interest and are only repayable within 12 months if the amount is required for an increase in Shareholders Capital.

Jennifer L Yule	16,471	16,471
Rugosa Trust	65,882	65,882
	<u>\$ 82,353</u>	<u>\$ 82,353</u>

	<u>31/12/2013</u>	<u>31/12/2012</u>
10 SHAREHOLDERS EQUITY		
10.1 Capital Profits	\$ 61,463	\$ 61,463
Capital Profit on sale of Property.		
10.2 Retained Earnings	\$ 1,214,464	\$ 906,360
Opening Balance	906,361	1,257,284
Surplus (Deficit) after Taxation	758,104	634,077
Dividends declared	(450,000)	(985,000)
Closing Balance	<u>\$ 1,214,465</u>	<u>\$ 906,361</u>
11 TRANSACTIONS WITH RELATED PARTIES		
PORSE In-Home Childcare (NZ) Limited		
Royalties	\$ 602,926	\$ 640,643
Charge for Management Services during the period.	\$ 70,000	\$ 312,000
PORSE Equine Education Limited		
Subvention payment	\$ 69,109	\$ -
12 CONTINGENT LIABILITIES		
The Company issued a guarantee to Kiwibank on 11 April 2008 for \$2 million for the advance made to PALJYN Investments Limited for the building at 31 Napier Road, Havelock North. The directors do not expect any demand to be made by Kiwibank on the guarantee.		
13 CAPITAL COMMITMENTS		
The Company had no material capital commitments at balance date.		

PORSE FRANCHISING (NZ) LIMITED

Fixed Asset Schedule for the year ended 31 December 2013

	Date	Cost \$	Bk Value 31/12/12 \$	Additions (Sales) \$	%	Mths	Deprec. Amount \$	Total \$	Bk Value 31/12/13 \$
Trade Marks									
United Kingdom		1,285	1,285				-	-	1,285
		<u>\$ 1,285</u>	<u>\$ 1,285</u>	<u>\$ -</u>			<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,285</u>
Less Sold		-	-						
Net Book Value		<u>\$ 1,285</u>	<u>\$ 1,285</u>						

Fixed Asset Schedule for the year ended 31 December 2012

	Date	Cost \$	Bk Value 31/12/11 \$	Additions (Sales) \$	%	Mths	Deprec. Amount \$	Total \$	Bk Value 31/12/12 \$
Motor Vehicles									
Mazda	05-Aug-05	31,520	4,615	(4,615)	26.00% DV	12		26,905	-
		<u>31,520</u>	<u>4,615</u>	<u>(4,615)</u>			<u>-</u>	<u>26,905</u>	<u>-</u>
Less Sold		<u>31,520</u>	<u>4,615</u>						
		<u>-</u>	<u>-</u>						
Trade Marks									-
United Kingdom		1,285	1,285						1,285
		<u>\$ 1,285</u>	<u>\$ 1,285</u>	<u>\$ -</u>			<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,285</u>

PORSE EDUCATION & TRAINING (NZ) LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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COMPANY DIRECTORY AS AT 31 DECEMBER 2013

Providers of Early Childhood Education and Training

31 Napier Road
Havelock North

Jennifer L Yule
Dan Druzianic
Alwyn J Burr
Andrew IG Harwood
Amanda J Fleming

Gardiner Knobloch
Napier

Sainsbury Logan & Williams
Napier

ANZ Bank of NZ Limited
Napier

31 Napier Road
Havelock North

<i>Shares</i>		
<i>A</i>	<i>B</i>	<i>Total</i>
100,000		100,000
	400,000	400,000
100,000	400,000	500,000

"A" Shares carry voting rights, "B" shares have no voting rights.

Examined for Audit
Gardiner Knobloch

PORSE EDUCATION & TRAINING (NZ) LIMITED
ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2013

The Board of Directors present their Annual Report, including Financial Statements, for the Year ended 31 December 2013.

1 PRINCIPAL ACTIVITIES

The principal activity during the year was the providing of a range of courses to the PORSE early childhood education students and this has not changed during the year under review.

2 REVIEW OF OPERATIONS

2.1 Financial Performance -

A summary of the result is set out below -

Surplus before Depreciation and Tax

Depreciation

Surplus before Taxation

Taxation

Surplus after Taxation

The overall result is considered to be satisfactory as the decreased Surplus after Taxation was mainly due to increased consultant costs for the development of new programmes.

<u>31/12/13</u>	<u>31/12/13</u>	<u>31/12/12</u>
<u>Forecast</u>	<u>Actual</u>	<u>Actual</u>
612,847	350,814	411,371
(8,792)	(17,513)	(15,246)
604,055	333,301	396,125
(169,415)	(88,499)	(117,549)
\$ 434,640	\$ 244,801	\$ 278,576

2.2 Financial Position -

The Financial position is summarised below -

Assets -

Current Assets

Non - Current Assets

Total Assets

Liabilities -

Current Liabilities

Non - Current Liabilities

2,266,422	2,273,664	2,114,724
36,508	35,786	35,299
\$ 2,302,930	\$ 2,309,450	\$ 2,150,023
624,569	920,927	756,302
82,353	82,353	82,353
\$ 706,922	\$ 1,003,280	\$ 838,655
\$ 1,596,008	\$ 1,306,170	\$ 1,311,368
69.30%	56.56%	60.99%
91.07%	88.34%	84.31%

Total Liabilities

Shareholders Equity

% to Total Assets

% Shareholders Equity, Current Accounts and Loans to Total Assets

The overall Financial Position is sound.

3 DIRECTORS HOLDING OFFICE DURING THE YEAR

The Directors holding office during the year were Jennifer Yule, Alwyn Burr and Dan Druzianic.

Andrew Harwood and Amanda Fleming were appointed as directors during the year.

4 REMUNERATION OF DIRECTORS

The Directors did not receive any remuneration during the year but Alwyn J Burr received payments for accounting services of \$214 as compared with \$4,484 the previous year.

5 REMUNERATION OF EMPLOYEES

There was one employee who was not a Director whose remuneration and benefits were between \$120,000 and \$130,000 (2012 \$140,000 and \$150,000).

6 ENTRIES IN THE INTERESTS REGISTER

Directors have declared interests in the following transactions with other Companies in which Jennifer L Yule had an interest

	<u>31/12/13</u>	<u>31/12/12</u>
a. PORSE In-Home Childcare (NZ) Ltd -		
Management Fees	160,000	150,000
Charges for various Expense Items which are paid on usual terms of trade.	769,758	907,263
ECE Level 3 Certificate & Module Income charged to PORSE In-Home Childcare (NZ) Ltd	(155,336)	(176,237)
Nanny Intern Success Fees	(64,000)	-
Net Transactions for Year	\$ 710,422	\$ 881,026
Balances at 31 December were -		
Accounts Receivable	706,220	1,125,140
Accounts Payable	188,906	177,034
	\$ 517,314	\$ 948,106
b. PORSE Franchising (NZ) Ltd -		
ECE Level 3 Certificate & Module Income charged to PORSE Franchising (NZ) Ltd and paid on usual terms of trade.	7,404	16,874
Various Cash Advances	-	-
Net Transactions for Year	\$ 7,404	\$ 16,874
Balances at 31 December were -		
Accounts Receivable	-	170,000
	\$ -	\$ 170,000

	31/12/13	31/12/12
c. PORSE Equine Education Limited Ltd -		
Various Cash Advances	20,000	25,000
Net Transactions for Year	\$ 20,000	\$ 25,000
Balances at 31 December were -		
Accounts Receivable	45,000	25,000
Accounts Payable	1,156	-
	\$ 43,844	\$ 25,000

\$500 for taxation services was paid during the year to Markhams Hawkes Bay of which Dan Druzianic is a director.

7 SHARE TRANSACTIONS

There were no share transactions during the year.

8 DONATIONS

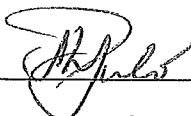
There were no donations during the year.

9 AUDITORS

The amount paid to the Auditors for audit services was \$6,750. (2012 \$7,250) . There were no other services provided.

For and on behalf of the Board

Director



Date

26 March 14

Director



Date

26 March 14

PORSE EDUCATION & TRAINING (NZ) LIMITED

Statement of Financial Performance for the Year ended 31 December 2013

	Notes	31/12/13 Forecast	31/12/13 Actual	31/12/12 Actual
		\$	\$	\$
Income				
Tertiary Education Commission Funding		668,365	668,365	636,810
Student Fees		246,438	200,819	238,815
Star Gateway Programme Revenue		503,563	403,575	489,575
Nanny Intern Programme		106,765	158,220	-
WINZ Programme		-	-	17,900
Interest received		16,000	23,802	15,568
Sundry Income		-	-	1,230
Total Income		\$ 1,541,131	\$ 1,454,781	\$ 1,399,898
Expenses				
Direct Operational Expenses				
Personnel Expenses		593,681	639,814	650,661
AC Levies		4,575	4,233	4,739
Programme Delivery Expenses		38,128	41,413	38,702
WINZ Programme		-	-	1,558
Professional Development		3,600	783	2,559
Total Direct Operational Expenses		\$ 639,984	\$ 686,243	\$ 698,218
Overhead Expenses				
Accountancy Fees		4,000	214	4,484
Advertising		2,400	8,409	209
Audit Fees		5,000	6,750	7,250
Bank Charges		400	368	273
Computer Expenses		3,600	-	-
Consultancy		-	114,768	9,385
Electricity & Gas		8,000	7,845	7,836
Entertainment		500	247	90
Legal Fees		2,500	842	2,578
Licence Fees		9,000	2,637	9,000
Management Fees (Intergroup)		150,000	160,000	150,000
MOE & NZQA Fees		24,000	40,472	24,267
Motor Vehicle Expenses		10,000	9,468	9,643
Office equipment under \$500		-	-	47
Postages & Courier		45,000	40,984	44,851
Repairs & Maintenance		400	-	-
Sponsorship		1,000	-	1,000
Stationery, Printing and Photocopying		9,500	8,737	9,467
Subscriptions		2,500	1,794	183
Sundry Expenses		3,000	5,898	2,857
Telephone, Tolls and Fax		3,500	2,176	3,420
Travel & Accommodation		4,000	6,116	3,468
Total Overhead Expenses		\$ 288,300	\$ 417,724	\$ 290,308
Total Expenses		\$ 928,284	\$ 1,103,967	\$ 988,527
Operating Surplus before Depreciation		\$ 612,847	\$ 350,814	\$ 411,372
Less				
Depreciation		(8,792)	(17,513)	(15,246)
Net Surplus before Taxation		(8,792)	(17,513)	(15,246)
Taxation	(3.1)	604,055	333,301	396,126
Net Surplus after Taxation		\$ 434,640	\$ 244,801	\$ 278,576

**Examined for Audi
Gardiner Knobloch**

PORSE EDUCATION & TRAINING (NZ) LIMITED

Statement of Movement in Equity during the Year ended 31 December 2013

Notes	31/12/13 Forecast \$	31/12/13 Actual \$	31/12/12 Actual \$
Net Surplus for Year	434,640	244,801	278,576
Increase in Capital	-		498,000
Total recognised Revenue & Expenses	<u>434,640</u>	<u>244,801</u>	<u>776,576</u>
Dividends declared	(150,000)	(250,000)	(365,000)
Movement in Equity for the Period	<u>284,640</u>	<u>(5,199)</u>	<u>411,576</u>
Equity at beginning of Year	1,311,368	1,311,368	899,792
Equity at end of Year	<u>\$ 1,596,008</u>	<u>\$ 1,306,169</u>	<u>\$ 1,311,368</u>

**Examined for Audit
Gardiner Knobloch**

PORSE EDUCATION & TRAINING (NZ) LIMITED
Statement of Financial Position as at 31 December 2013

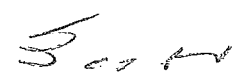
	Notes	31/12/13 Forecast \$	31/12/13 Actual \$	31/12/12 Actual \$
Assets	(4)			
Current Assets				
ANZ Operating Accounts		989,097	406,313	686,894
Accounts Receivable -				
Sundry	(4.1)	5,114	23,028	3,114
Group Companies	(4.2)	1,220,140	751,220	1,320,140
Prepayments		1,794	1,863	1,794
Student Fee Protection Trust	(4.3)	40,000	41,334	40,000
ANZ Term Deposits			1,000,000	-
Inland Revenue Dept -				
Income Tax	(3.2)	10,277	49,907	62,781
Total of Current Assets		\$ 2,266,422	\$ 2,273,664	\$ 2,114,724
Non - Current Assets	(5)			
Plant & Equipment		1,588	1,588	1,981
Furniture & Fittings		1,463	1,463	1,702
T2P Student Management System		24,477	23,755	22,636
Trademark Fees		8,980	8,980	8,980
Total of Non - Current Assets		\$ 36,508	\$ 35,786	\$ 35,299
Total Assets		\$ 2,302,930	\$ 2,309,450	\$ 2,150,023
Liabilities				
Current Liabilities	(6)			
Accounts Payable -				
Sundry	(6.1)	30,628	63,589	152,105
Group Companies	(6.2)	160,000	190,062	177,034
Inland Revenue Dept -				
GST		15,018	15,715	8,240
Shareholders Current Accounts	(7.1)	418,923	651,562	418,923
Total of Current Liabilities		\$ 624,569	\$ 920,927	\$ 756,302
Non - Current Liabilities	(7)			
Shareholders Loan Accounts	(7.1)	82,353	82,353	82,353
Total of Non - Current Liabilities		\$ 82,353	\$ 82,353	\$ 82,353
Total Liabilities		\$ 706,922	\$ 1,003,280	\$ 838,655
Net Assets		\$ 1,596,008	\$ 1,306,170	\$ 1,311,368
Shareholders Equity				
Capital -				
500,000 shares fully paid		500,000	500,000	500,000
Capital Profit on sale of Assets		110,545	110,545	110,545
Retained Earnings	(8)	985,463	695,624	700,823
Total Shareholders Equity		\$ 1,596,008	\$ 1,306,169	\$ 1,311,368

Examined for Audit
Gardiner Knobloch

Director



Director



Date

26 March 14

Date

26 March 14

PORSE EDUCATION & TRAINING (NZ) LIMITED
Statement of Cash Flows
for the Year ended 31 December 2013

	31/12/13 Forecast \$	31/12/13 Actual \$	31/12/12 Actual \$
Cash Flows from Operating Activities			
Cash was provided from -			
Receipts from Tertiary Education Commission & Sundry	1,523,132	1,412,320	1,402,429
Interest Received	11,520	22,547	9,745
	<u>1,534,652</u>	<u>1,434,868</u>	<u>1,412,174</u>
Cash was disbursed to -			
Personnel Expenses	(593,681)	(648,717)	(664,816)
Payments to Suppliers of Services	(473,115)	(475,432)	(204,572)
Taxation Paid	(112,431)	(131,000)	(137,064)
Net GST Paid/Credit	6,779	7,475	(560)
	<u>(1,172,449)</u>	<u>(1,247,674)</u>	<u>(1,007,012)</u>
Net Cash Inflow from Operating Activities	\$ 362,203	\$ 187,193	\$ 405,162
Cash Flows from Investing Activities			
Cash was applied to -			
Student Fee Protection Trust	-	(1,334)	-
ANZ Term Deposits	-	(1,000,000)	-
Purchase of Non - Current Assets	(10,000)	(18,000)	(18,300)
	<u>(10,000)</u>	<u>(1,019,334)</u>	<u>(18,300)</u>
Net Cash Inflow (Outflow) from Investing Activities	\$ (10,000)	\$ (1,019,334)	\$ (18,300)
Cash Flows from Financing Activities			
Cash was provided from -			
Increase in Capital	-	-	498,000
Repayment of Group Advances	100,000	568,920	195,000
	<u>100,000</u>	<u>568,920</u>	<u>693,000</u>
Cash was applied to -			
Shareholders Current Account Advances	-	232,639	(148,643)
Advances to Group Companies	-	-	-
Dividend distributed to Shareholders	(150,000)	(250,000)	(365,000)
	<u>(150,000)</u>	<u>(17,361)</u>	<u>(513,643)</u>
Net Cash Inflow (Outflow) from Financing Activities	\$ (50,000)	\$ 551,559	\$ 179,357
Net Increase (Decrease) in Cash held	\$ 302,203	\$ (280,581)	\$ 566,219
Cash at Start of Year	686,894	686,894	120,675
Balance at end of Year	\$ 989,097	\$ 406,313	\$ 686,894

Examined for Audit
Gardiner Knobloch

PORSE EDUCATION & TRAINING (NZ) LIMITED
Notes to and forming part of the Financial Statements
for the Year ended 31 December 2013

1 STATEMENT OF ACCOUNTING POLICIES

1.1 Reporting Entity

PORSE Education & Training (NZ) Limited is a company registered under the Companies Act 1993 and a reporting entity for the Financial Reporting Act 1993.

The Financial Statements of the Company have been prepared in accordance with the Financial Reporting Act 1993.

The Company has elected to report in accordance with Tier 4 For-Profit Accounting Standards as the entity is not publicly accountable and is not large.

1.2 Measurement Base

The accounting principles recognised as appropriate for the measurement and reporting of financial performance and financial position on an historical cost basis are followed by the Company.

1.3 Specific Accounting Policies

The following specific accounting policies which materially affect the measurement of financial performance and the financial position of the Company have been applied -

(a) Non - Current Assets

Non - Current Assets are included at cost less aggregate depreciation provided at the maximum rates allowed by the Inland Revenue Department. The depreciation rates used are shown in the Depreciation Schedule. Fixed Assets leased under a specified lease for the purposes of the Income Tax legislation are capitalised and depreciated.

(b) Revenues

Revenues are recognised on an accruals basis.

(c) Accounts Receivable

Accounts Receivable are valued at expected realisable value after writing off any debts considered uncollectible.

(d) Employee Entitlements

A liability for annual leave and sick leave is accrued and recognised in the Statement of Financial Position. The liability is equal to the present value of the estimated future cash outflows as a result of employee services provided at balance date.

(e) Leases

Finance Leases

Finance Leases, which effectively transfer to the Company substantially all of the risks and benefits incidental to ownership of the leased item, are capitalised at the present value of the minimum lease payments. The leased assets and corresponding liabilities are recognised and the leased assets are depreciated over the period the Company is expected to benefit from their use.

Operating Leases

Operating lease payments, where the lessors effectively retain substantially all the risks and benefits of ownership of the lease items, are included in the determination of the net surplus in equal instalments over the period of the lease.

(f) Taxation

Income Tax is accounted for using the taxes payable method i.e. the Income Tax Expense charged to the Statement of Financial Performance is based on the Return to the Inland Revenue Department.

(g) Accounting for Goods & Services Tax

The Financial Statements are prepared on a GST exclusive basis except where the expenditure incurring the GST charge is one in respect of which a claim for recovery of the GST is not allowed by the Inland Revenue Department. In these cases and in respect of Accounts Receivable and Accounts Payable, the amounts include GST.

(h) Financial Instruments

The Company does not enter into any off balance sheet instruments. All financial instruments are recognised in the financial statements and are stated at transaction value.

(i) Statement of Cash Flows

The Statement of Cash Flows is prepared exclusive of GST, which is consistent with the method used in the Statement of Financial Performance.

Definitions of the terms used in the statement of cash flows are -

"Cash" includes coins and notes, demand deposits and other highly liquid investments readily convertible into cash and includes at call borrowings such as bank overdrafts, used by the company as part of its day-to-day cash management.

"Investing Activities" are those activities relating to the acquisition and disposal of current and non-current investments and any other non-current assets.

"Financing Activities" are those activities relating to changes in equity and debt capital structure of the company and those activities relating to the cost of servicing the company's equity capital.

"Operating Activities" include all transactions and other events that are not investing or financing activities.

(j) Differential Reporting

The Company qualifies for differential reporting as it is not large and is not publically accountable. The Company has taken advantage of all available differential reporting exemptions except in respect of Financial Instruments and Cash Flows.

2.1 Changes in Accounting Policies

There have not been any changes in accounting policies. All policies have been applied on bases consistent with those used in previous years.

	31/12/13	31/12/12
3 TAXATION		
3.1 Income Tax		
The taxation position is set out below -		
Net Surplus before Taxation	333,301	396,125
Plus -		
Tax Adjustments	(17,232)	23,693
	<u>\$ 316,069</u>	<u>\$ 419,818</u>
Tax at 28c in \$	88,499	117,549
Total as per Statement of Financial Performance	\$ 88,499	\$ 117,549
3.2 Inland Revenue Dept.- Tax Refund (Tax Payable)	\$ 49,907	\$ 62,781
Total Tax payable as in (3.1)	88,499	117,549
RWT deducted at source	(7,406)	(4,991)
Provisional Tax paid	(131,000)	(175,340)
Balance Due (Refund)	\$ (49,907)	\$ (62,781)
3.3 Imputation Credit Account		
Opening Balance of available credits	291,353	305,729
Plus -		
Taxes paid during the year available for credits	189,447	137,062
RWT deducted at source	7,406	4,991
Less -		
Refunds	(62,782)	-
Credits attributed to Dividends declared	(97,222)	(156,429)
Closing Balance of available credits	\$ 328,202	\$ 291,353
CURRENT ASSETS		
4.1 Accounts Receivable -		
Sundry -	\$ 23,028	\$ 3,114
Amounts due by Students for course fees.		
4.2 Group Companies -	\$ 751,220	\$ 1,320,140
Owing by PORSE In-Home Childcare (NZ) Limited	706,220	1,125,140
Owing by PORSE Franchising (NZ) Limited	-	170,000
Owing by PORSE Equine Education Limited	45,000	25,000
	<u>\$ 751,220</u>	<u>\$ 1,320,140</u>
Various amounts owing for services and supplies.		
4.3 Student Fee Protection Trust	\$ 41,334	\$ 40,000
Deposit held on Trust with Hansen Bate Lawyers - solicitors to meet the requirements of the New Zealand Qualifications Authority student fee protection rules. The deposit was transferred from Sainsbury Logan and Williams during the year.		
5 NON - CURRENT ASSETS		
As per Schedule	\$ 35,786	\$ 35,299
6 CURRENT LIABILITIES		
6.1 Accounts Payable		
Sundry	\$ 63,589	\$ 152,105
Employee entitlements	44,352	53,288
Due to suppliers on usual terms of trade.	19,237	40,370
Income Tax Instalment	-	58,447
	<u>\$ 63,589</u>	<u>\$ 152,105</u>
6.2 Group Companies	\$ 190,062	\$ 177,034
PORSE In-Home Childcare (NZ) Ltd	188,906	177,034
PORSE Equine Education Ltd	1,156	-
	<u>\$ 190,062</u>	<u>\$ 177,034</u>
7 NON - CURRENT LIABILITIES		
7.1 Shareholders Current Accounts and Loan Accounts	\$ 733,914	\$ 501,276
Opening Balance	501,276	649,919
Dividends declared - net after resident withholding tax	232,639	349,357
Increase in Capital		(498,000)
Closing Balance	\$ 733,915	\$ 501,276
Comprises -		
Shareholders Current Accounts	\$ 651,562	\$ 418,923
Shareholders Loan Accounts	\$ 82,353	\$ 82,353
The Shareholders Loan Accounts are interest free and are not repayable within twelve months from 31 December 2013 unless utilised for an increase in Shareholders Capital.		
8 RETAINED EARNINGS		
Opening Balance	700,823	787,247
Net Surplus for Year	244,801	278,576
Dividend declared	(250,000)	(365,000)
Closing Balance	\$ 695,624	\$ 700,823

31/12/13

31/12/12

9 FINANCIAL INSTRUMENTS**9.1 Credit Risks**

Financial Instruments which potentially subject the Company to credit risk, consist of Bank Balances and Accounts Receivable.

The Company performs credit evaluations of all customers requiring credit and generally does not require collateral security.

Maximum exposure to credit risk at balance date were -

ANZ Operating Account	\$ 406,313	\$ 686,894
Accounts Receivable - Sundry	\$ 23,028	\$ 3,114
Student Fee Protection Trust	\$ 41,334	\$ 40,000
Accounts Receivable - Group Companies	\$ 751,220	\$ 1,320,140
Inland Revenue Dept.- Tax Refund	\$ 49,907	\$ 62,781
ANZ Term Deposit	\$ 1,000,000	\$ -

The above maximum exposures are net of any recognised provision for losses on these Financial Instruments and collateral is not held on any of the above amounts.

9.2 Concentrations of Credit Risk

The company is dependent on funding from the Tertiary Education Commission and revenue from the Star Gateway Programme which are 74% (2012: 81.0%) of Total Income.

9.3 Currency Risk

The Company does not have any exposure to currency risk.

9.4 Interest Rate Risk

Assets - There will be an Interest rate risk in respect of monies on deposit.

Liabilities - Nil

9.5 Credit Facilities

The Company does not use credit facilities other than the advances from Shareholders, Directors or Associated Companies.

9.6 Fair Values

Current Assets, Current Liabilities and Non-Current Liabilities.

The carrying value of the financial instruments in these categories is equivalent to their fair value.

10 CAPITAL COMMITMENTS

At balance date there were no capital commitments. (31/12/2012: Nil).

11 CONTINGENT LIABILITIES

The Company issued a guarantee to Kiwibank on 11 April 2008 for \$2 million for the advance made to PALJYN Investments Limited for the building at 31 Napier Road, Havelock North. The directors do not expect any demand to be made by Kiwibank on the guarantee.

12 RECONCILIATION OF SURPLUS AFTER TAXATION WITH CASH FLOWS FROM OPERATING ACTIVITIES

	<u>31/12/13</u> Forecast	<u>31/12/13</u> Actual	<u>31/12/12</u> Actual
Surplus after Taxation	434,640	244,801	278,576
Movements in Working Capital -			
(Increase) Reduction in Accounts Receivable - Sundry	(2,000)	(19,914)	17,266
(Increase) Reduction in Accounts Receivable - Group Companies	-	-	-
(Increase) Reduction in Prepayments	-	(69)	(1,794)
(Increase) Reduction in Accounts Receivable - Taxation	56,984	20,283	(29,036)
Increase (Reduction) in Accounts Payable - Sundry	(121,478)	(33,141)	46,254
Increase (Reduction) in Accounts Payable - Group Companies	(17,034)	13,028	84,201
Increase (Reduction) in Accounts Payable - Taxation	-	-	-
Net GST	6,779	7,475	(560)
Non-cash Expenses -			
Depreciation	8,792	17,513	15,246
RWT on Interest	(4,480)	(7,409)	(4,990)
Net Cash Flow from Operating Activities	\$ 362,203	\$ 242,568	\$ 405,162

13 TRANSACTIONS WITH RELATED PARTIES

13.1 PORSE In-Home Childcare (NZ) Ltd

Transactions involve Management Fees and various Expenses charged by PORSE In-Home Childcare (NZ) Ltd offset by ECE Level 3 Certificate Charges to that Company.

Balances at 31 December were -

Accounts Receivable

Accounts Payable

Net Amount Receivable

31/12/13	31/12/12
Actual	Actual
706,220	1,125,140
188,906	177,034
\$ 517,314	\$ 948,106

13.2 PORSE Franchising (NZ) Limited

Transactions involve ECE Level 3 Certificate Charges to PORSE Franchising (NZ) Ltd

Balance at 31 December was -

Accounts Receivable

Net Amount Receivable

-	170,000
\$ -	\$ 170,000

13.2 PORSE Equine Education Limited

Transactions involve advance for development of Equine Education programme

Balance at 31 December was -

Accounts Receivable

Account Payable

Net Amount Receivable

45,000	25,000
1,156	
\$ 43,844	\$ 25,000

14 SIGNIFICANT EVENTS AFTER BALANCE DATE

There have not been any significant events since balance date to affect the results shown in the Financial Statements.

15 SEGMENTAL INFORMATION

The Company will operate throughout New Zealand in the provision of tutoring services in early childhood education.

16 MAJOR VARIATIONS AGAINST FORECAST

The results differed from the Forecast for the following reasons -

16.1 Total Income

The Total Income was lower than Forecast due mainly to a reduction in Student Fees and Star Gateway Programme Revenue.

31/12/13	31/12/13
Forecast	Actual
\$ 1,541,131	\$ 1,454,781

16.2 Direct Operational Expenses

There was an overall increase in these Expenses due mainly to higher salary expenses.

\$ 639,984	\$ 686,243

16.3 Overhead Expenses & Depreciation

There was a variation in a range of Expenses with the main variations being increases in Consultancy Fees and Advertising.

\$ 297,092	\$ 435,237

16.4 Surplus before Taxation

Lower than Forecast because of the above variations.

\$ 604,055	\$ 333,301

16.5 Statement of Cash Flows

Increase in funds at Balance Date were below forecast because of the lower cash surplus and amount invested into term deposits at balance date.

\$ 989,097	\$ 406,313

PORSE EDUCATION & TRAINING (NZ) LIMITED

Depreciation Schedule for the year ended 31 December 2013

	Cost	Bk Value 31/12/12	Additions	Depreciation Amount	Total	Bk Value 31/12/13
	\$	\$	\$	\$	\$	\$
Plant & Equipment	5,728	1,980		393	4,141	1,586
Furniture & Fittings	11,065	1,703		239	9,603	1,463
T2P Student Management System	44,850	22,636	18,000	16,881	39,094	23,756
Trade Mark Fees	8,980	8,980	-	-	-	8,980
Total	\$ 70,623	\$ 35,300	\$ 18,000	\$ 17,513	\$ 52,838	\$ 35,786

Depreciation Schedule for the year ended 31 December 2012

	Cost	Bk Value 31/12/11	Additions	Depreciation Amount	Total	Bk Value 31/12/12
	\$	\$	\$	\$	\$	\$
Plant & Equipment	5,728	2,471		491	3,747	1,980
Furniture & Fittings	11,065	1,988		285	9,363	1,702
T2P Student Management System	26,550	18,806	18,300	14,470	22,214	22,636
Trade Mark Fees	8,980	8,980	-	-	-	8,980
Total	\$ 52,323	\$ 32,246	\$ 18,300	\$ 15,246	\$ 35,324	\$ 35,299

GARDINER KNOBLOCH

WILKET House (First Floor), Shakespeare Road, Napier, New Zealand

Telephone 06 8355 018 • Facsimile 06 8355 423 • PO Box 145, Napier 4140 • Email office@gkg.co.nz

CHARTERED
ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Porse Education & Training (NZ) Limited.

Report on the Financial Statements

We have audited the financial statements of Porse Education & Training (NZ) Limited on pages 1 to 12, which comprise the statement of financial position as at 31 December 2013, the statement of financial performance, statement of movement in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors Responsibility for the Financial Statements

The Directors are responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, and for such internal control 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.

Auditors Responsibilities

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

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

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

Other than in our capacity as auditor, we have no relationship with or interests in Porse Education & Training (NZ) Limited.

Opinion

In our opinion, the financial statements on pages 1 to 12:

- Comply with generally accepted accounting practice in New Zealand.
- Give a true and fair view of the financial position of Porse Education & Training (NZ) Limited as at 31 December 2013, and of its financial performance (a surplus of \$244,801 after taxation) and its cash flows for the year ended on that date.

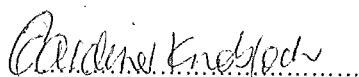
Report on Other Legal and Regulatory Requirements

We have obtained all the information and explanations that we have required.

In our opinion proper accounting records have been kept by Porse Education & Training (NZ) Limited as far as appears from examination of those records.

Restriction on Distribution or use

This report is made solely to the shareholders of Porse Education & Training (NZ) Limited. Our audit work has been undertaken so that we might state to the shareholders of Porse Education & Training (NZ) Limited those matters which we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Porse Education & Training (NZ) Limited and the shareholders of Porse Education & Training (NZ) Limited, for our audit work, for this report, or for the opinions we have formed.



GARDINER KNOBLOCH

DATE 31 MARCH 2014
ADDRESS BOX 145 NAPIER

Partners

Ewan Gardiner CA • Graeme Knobloch CA • Peter Gillies CA

FOR LIFE EDUCATION & TRAINING (NZ) LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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6	Statement of Financial Position
7	Statement of Cash Flows
8 - 11	Notes to Financial Statements
12	Depreciation Schedule

FOR LIFE EDUCATION & TRAINING (NZ) LIMITED

COMPANY DIRECTORY AS AT 31 DECEMBER 2013

Nature of Business Providers of education and training focused on parenting, self-growth and personal effectiveness skills.

Registered Office 31 Napier Road
Havelock North

Directors Jennifer L Yule
Dan Druzianic
Alwyn J Burr
Andrew IG Harwood
Amanda J Fleming

Solicitors Sainsbury Logan & Williams
Napier

Bankers ANZ Bank New Zealand Limited
Napier

Business Location 31 Napier Road
Havelock North

Shareholders & Shareholding	Shares		
	Voting	Non-voting	Total
Jennifer L Yule	20,000		20,000
Rugosa Trust		80,000	80,000
	<u>20,000</u>	<u>80,000</u>	<u>100,000</u>

FOR LIFE EDUCATION & TRAINING (NZ) LIMITED
ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2013

The Board of Directors present their Annual Report, including Financial Statements, for the Year ended 31 December 2013.

1 PRINCIPAL ACTIVITIES

The principal activity during the year was the providing of a range of courses to the PORSE In Home early childhood education staff and educators.

2 REVIEW OF OPERATIONS

2.1 Financial Performance -

A summary of the result is set out below -

Surplus (Deficit) before Depreciation and Tax

Depreciation

Surplus (Deficit) before Taxation

Taxation

Surplus (Deficit) after Taxation

The Deficit for the year was the result of lower number of courses run in 2013.

2.2 Financial Position -

The Financial position is summarised below -

Assets -

Current Assets

Non - Current Assets

Total Assets

Liabilities -

Current Liabilities

Non - Current Liabilities

Total Liabilities

Shareholders Equity

% to Total Assets

The overall Financial Position is sound.

	<u>31/12/13</u>	<u>31/12/12</u>
	<u>Actual</u>	<u>Actual</u>
Surplus (Deficit) before Depreciation and Tax	(3,751)	67,560
Depreciation	2,105	1,831
Surplus (Deficit) before Taxation	(5,856)	65,729
Taxation	-	(18,404)
Surplus (Deficit) after Taxation	\$ (5,856)	\$ 47,325
Current Assets	134,688	138,774
Non - Current Assets	2,105	4,209
Total Assets	\$ 136,793	\$ 142,983
Current Liabilities	95,324	95,658
Non - Current Liabilities	-	-
Total Liabilities	\$ 95,324	\$ 95,658
Shareholders Equity	\$ 41,469	\$ 47,325
% to Total Assets	30.32%	33.10%

3 DIRECTORS HOLDING OFFICE DURING THE YEAR

The Directors holding office during the year were Jennifer L Yule, Dan Druzianic, Alwyn J Burr, Amanda J Fleming and Andrew IG Harwood. Amanda Fleming and Andrew Harwood were appointed directors on 23 May 2013.

The Financial Statements were authorised for issue by the Board of Directors on 20 March 2014.

4 REMUNERATION OF DIRECTORS

The Directors did not receive any remuneration during the year.

5 REMUNERATION OF EMPLOYEES

There were no employees whose remuneration and benefits were between \$100,000 and \$110,000.

6 ENTRIES IN THE INTERESTS REGISTER

Directors have declared interests in the following transactions with other Companies in which Jennifer L Yule had an interest

	<u>31/12/13</u>	<u>31/12/12</u>
(a) PORSE In-Home Childcare (NZ) Ltd -		
Student Fees	155,000	257,800
Charges for various Expense Items which are paid on usual terms of trade.	159,019	190,242
Net Transactions for Year	\$ 314,019	\$ 448,042
Balances at 31 December were -		
Accounts Receivable	44,735	34,155
Accounts Payable	(32,762)	(17,431)
	\$ 11,973	\$ 16,724
(b) PORSE Franchising (NZ) Ltd -		
Advances of funds	31,000	31,000
Net Transactions for Year	\$ 31,000	\$ 31,000
Balances at 31 December were -		
Accounts Receivable	-	31,000
Accounts Payable	-	(31,000)

7 SHARE TRANSACTIONS

There were no share transactions during the year.

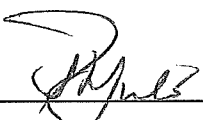
8 DONATIONS

There were no donations during the year.

9 AUDITORS

The shareholders of the Company have voted unanimously not to appoint Auditors.

For and on behalf of the Board

Director  _____
Date 26 March 14

Director  _____
Date 26 March 14

FOR LIFE EDUCATION & TRAINING (NZ) LIMITED
Statement of Financial Performance for the Year ended 31 December 2013

	Notes	31/12/13	31/12/12
		Actual	Actual
		\$	\$
Income			
Student Fees		155,000	257,800
Interest received		7	1
Sundry Income		261	-
Total Income		\$ 155,268	\$ 257,801
Expenses			
Direct Operational Expenses			
Personnel Expenses		63,251	92,400
Programme Delivery Expenses		4,806	59,317
Professional Development		6,200	302
Total Direct Operational Expenses		\$ 74,257	\$ 152,019
Overhead Expenses			
Accountancy Fees		-	-
Advertising		-	8,119
Audit Fees		-	-
Bank Charges		9	50
Computer Expenses		-	-
Consultancy		12,519	16,906
Electricity & Gas		-	-
Entertainment		479	-
Interest Paid		507	-
Legal Fees		-	-
Licence Fees		360	-
Management Fees (Intergroup)		70,000	-
Motor Vehicle Expenses		-	-
Office equipment under \$500		-	-
Postages & Courier		-	-
Repairs & Maintenance		-	-
Staff Recruitment		-	-
Stationery, Printing and Photocopying		-	100
Subscriptions		-	20
Sundry Expenses		871	4,987
Telephone, Tolls and Fax		-	-
Travel & Accommodation		17	8,040
Total Overhead Expenses		\$ 84,762	\$ 38,223
Total Expenses		\$ 159,019	\$ 190,242
Operating Surplus before Depreciation		\$ (3,751)	\$ 67,560
Less			
Depreciation		2,105	1,831
		2,105	1,831
Net Surplus before Taxation		\$ (5,856)	\$ 65,729
Taxation	(3.1)	-	18,404
Net Surplus after Taxation		\$ (5,856)	\$ 47,325

FOR LIFE EDUCATION & TRAINING (NZ) LIMITED

Statement of Movement in Equity during the Year ended 31 December 2013

	Notes	31/12/13 Actual \$	31/12/12 Actual \$
Net (Deficit) Surplus for Year		(5,856)	47,325
Total recognised Revenue & Expenses		(5,856)	47,325
Movement in Equity for the Period		(5,856)	47,325
Equity at beginning of Year		47,325	-
Equity at end of Year		<u>\$ 41,469</u>	<u>\$ 47,325</u>

FOR LIFE EDUCATION & TRAINING (NZ) LIMITED
Statement of Financial Position as at 31 December 2013

	Notes	31/12/13 Actual \$	31/12/12 Actual \$
Assets	(4)		
Current Assets			
National Bank Operating Accounts		74,953	104,619
Accounts Receivable -			
Sundry	(4.1)	-	-
Group Companies	(4.2)	44,735	34,155
Inland Revenue Dept -			
Income Tax	(3.2)	15,000	0
Total of Current Assets		\$ 134,688	\$ 138,774
Non - Current Assets	(5)		
Website		2,105	4,209
Total of Non - Current Assets		\$ 2,105	\$ 4,209
Total Assets		\$ 136,793	\$ 142,983
Liabilities			
Current Liabilities	(6)		
Accounts Payable -			
Sundry	(6.1)	-	-
Group Companies	(6.2)	32,762	13,569
Advance from			
PORSE In Home Childcare (NZ) Limited		31,000	31,000
PORSE Franchising (NZ) Limited		30,000	30,000
Inland Revenue Dept -			
GST		1,562	2,685
Income Tax	(3.2)	-	18,404
Shareholders Current Accounts	(7.1)	-	-
Total of Current Liabilities		\$ 95,324	\$ 95,658
Non - Current Liabilities	(7)		
Shareholders Loan Accounts	(7.1)	-	-
Total of Non - Current Liabilities		\$ -	\$ -
Total Liabilities		\$ 95,324	\$ 95,658
Net Assets		\$ 41,469	\$ 47,325
Shareholders Equity			
Capital -			
100,000 shares unpaid		-	-
Retained Earnings	(8)	41,469	47,325
Total Shareholders Equity		\$ 41,469	\$ 47,325

Director



Date 26 March 14

Director



Date 26 March 14

FOR LIFE EDUCATION & TRAINING (NZ) LIMITED
Statement of Cash Flows
for the Year ended 31 December 2013

	31/12/13 Actual \$	31/12/12 Actual \$
Cash Flows from Operating Activities		
Cash was provided from -		
Receipts from Student Fees	144,420	223,645
Interest Received	7	1
Sundry Income	261	-
	<u>144,688</u>	<u>223,646</u>
Cash was disbursed to -		
Personnel Expenses	(63,251)	(92,400)
Payments to Suppliers of Services	(76,575)	(23,273)
Taxation Paid	(33,404)	-
Net GST Paid/Credit	(1,123)	2,685
	<u>(174,354)</u>	<u>(112,988)</u>
Net Cash Inflow from Operating Activities	\$ (29,666)	\$ 110,659
Cash Flows from Investing Activities		
Cash was applied to -		
Purchase of Fixed Assets	-	(6,040)
	<u>-</u>	<u>(6,040)</u>
Net Cash Inflow (Outflow) from Investing Activities	\$ -	\$ (6,040)
Net Increase (Decrease) in Cash held	\$ (29,666)	\$ 104,619
Cash at Start of Year	104,619	-
Balance at end of Year	\$ 74,953	\$ 104,619

FOR LIFE EDUCATION & TRAINING (NZ) LIMITED

Notes to and forming part of the Financial Statements for the Year ended 31 December 2013

1 STATEMENT OF ACCOUNTING POLICIES

1.1 Reporting Entity

For Life Education & Training (NZ) Limited is a company registered under the Companies Act 1993 and a reporting entity for the Financial Reporting Act 1993.

The Financial Statements of the Company have been prepared in accordance with the Financial Reporting Act 1993.

The Company has elected to report in accordance with Tier 4 For-Profit Accounting Standards as the entity is not publicly accountable and is not large.

1.2 Measurement Base

The accounting principles recognised as appropriate for the measurement and reporting of financial performance and financial position on an historical cost basis are followed by the Company.

1.3 Specific Accounting Policies

The following specific accounting policies which materially affect the measurement of financial performance and the financial position of the Company have been applied -

(a) Non - Current Assets

Non - Current Assets are included at cost less aggregate depreciation provided at the maximum rates allowed by the Inland Revenue Department. The depreciation rates used are shown in the Depreciation Schedule. Fixed Assets leased under a specified lease for the purposes of the Income Tax legislation are capitalised and depreciated.

(b) Revenues

Revenues are recognised on an accruals basis.

(c) Accounts Receivable

Accounts Receivable are valued at expected realisable value after writing off any debts considered uncollectible.

(d) Employee Entitlements

A liability for annual leave and sick leave is accrued and recognised in the Statement of Financial Position. The liability is equal to the present value of the estimated future cash outflows as a result of employee services provided at balance date.

(e) Leases

Finance Leases

Finance Leases, which effectively transfer to the Company substantially all of the risks and benefits incidental to ownership of the leased item, are capitalised at the present value of the minimum lease payments. The leased assets and corresponding liabilities are recognised and the leased assets are depreciated over the period the Company is expected to benefit from their use.

Operating Leases

Operating lease payments, where the lessors effectively retain substantially all the risks and benefits of ownership of the lease items, are included in the determination of the net surplus in equal instalments over the period of the lease.

(f) Taxation

Income Tax is accounted for using the taxes payable method i.e. the Income Tax Expense charged to the Statement of Financial Performance is based on the Return to the Inland Revenue Department.

(g) Accounting for Goods & Services Tax

The Financial Statements are prepared on a GST exclusive basis except where the expenditure incurring the GST charge is one in respect of which a claim for recovery of the GST is not allowed by the Inland Revenue Department. In these cases and in respect of Accounts Receivable and Accounts Payable, the amounts include GST.

(h) Financial Instruments

The Company does not enter into any off balance sheet instruments. All financial instruments are recognised in the financial statements and are stated at transaction value.

(i) Statement of Cash Flows

The Statement of Cash Flows is prepared exclusive of GST, which is consistent with the method used in the Statement of Financial Performance.

Definitions of the terms used in the statement of cash flows are -

"Cash" includes coins and notes, demand deposits and other highly liquid investments readily convertible into cash and includes at call borrowings such as bank overdrafts, used by the company as part of its day-to-day cash management.

"Investing Activities" are those activities relating to the acquisition and disposal of current and non-current investments and any other non-current assets.

"Financing Activities" are those activities relating to changes in equity and debt capital structure of the company and those activities relating to the cost of servicing the company's equity capital.

"Operating Activities" include all transactions and other events that are not investing or financing activities.

(j) Differential Reporting

The Company qualifies for differential reporting as it is not large and is not publically accountable. The Company has taken advantage of all available differential reporting exemptions except in respect of Financial Instruments and Cash Flows.

2.1 Changes in Accounting Policies

There have not been any changes in accounting policies. All policies have been applied on bases consistent with those used in previous years.

		31/12/13	31/12/12
3 TAXATION			
3.1 Income Tax			
The taxation position is set out below -			
Net Surplus (Deficit) before Taxation		(5,856)	65,729
Plus -			
Tax Adjustments		240	-
		<u>\$ (5,616)</u>	<u>\$ 65,729</u>
Tax at 28c in \$		-	18,404
Total as per Statement of Financial Performance		<u>\$ -</u>	<u>\$ 18,404</u>
3.2 Inland Revenue Dept.- Tax Refund (Tax Payable)		<u>\$ 15,000</u>	<u>\$ (18,404)</u>
Total Tax payable as in (3.1)		-	18,404
RWT deducted at source		-	-
Provisional Tax paid		15,000	-
(Balance due) Refund		<u>\$ 15,000</u>	<u>\$ (18,404)</u>
The taxable loss of \$5,616 will be offset against future Taxable Income.			
3.3 Imputation Credit Account			
Opening Balance of available credits		-	-
Plus -			
Taxes paid during the year available for credits		33,404	-
Closing Balance of available credits		<u>\$ 33,404</u>	<u>\$ -</u>
4 CURRENT ASSETS			
4.1 Sundry -		-	-
4.2 Group Companies -		<u>\$ 44,735</u>	<u>\$ 34,155</u>
Owing by PORSE In-Home Childcare (NZ) Limited		44,735	34,155
		<u>\$ 44,735</u>	<u>\$ 34,155</u>
Amounts owing for Course fees			
5 NON - CURRENT ASSETS			
As per Schedule		<u>\$ 2,105</u>	<u>\$ 4,209</u>
6 CURRENT LIABILITIES			
6.1 Group Companies		<u>\$ 32,762</u>	<u>\$ 13,569</u>
PORSE In-Home Childcare (NZ) Ltd		\$ 32,762	\$ 13,569
6.2 Advances			
PORSE In-Home Childcare (NZ) Ltd		\$ 31,000	\$ 31,000
PORSE Franchising (NZ) Ltd		\$ 30,000	\$ 30,000
Advances of funds and various amounts owing for services and supplies.		<u>\$ 61,000</u>	<u>\$ 61,000</u>
7 NON - CURRENT LIABILITIES			
7.1 Shareholders Current Accounts and Loan Accounts		<u>\$ -</u>	<u>\$ -</u>
Closing Balance		\$ -	\$ -
8 RETAINED EARNINGS			
Opening Balance		47,325	-
Net Surplus (Deficit) for Year		(5,856)	47,325
Dividend declared		-	-
Closing Balance		<u>\$ 41,469</u>	<u>\$ 47,325</u>

9 FINANCIAL INSTRUMENTS**9.1 Credit Risks**

Financial Instruments which potentially subject the Company to credit risk, consist of Bank Balances and Accounts Receivable.

The Company performs credit evaluations of all customers requiring credit and generally does not require collateral security.

Maximum exposure to credit risk at balance date were -

ANZ Bank Operating Account	\$	74,953	\$	104,619
Accounts Receivable - Sundry	\$	-	\$	-
Accounts Receivable - Group Companies	\$	44,735	\$	34,155
Inland Revenue Dept.- Tax Refund	\$	15,000	\$	-

The above maximum exposures are net of any recognised provision for losses on these Financial Instruments and collateral is not held on any of the above amounts.

9.2 Concentrations of Credit Risk

The company is dependent on sales to PORSE In - Home Childcare (NZ) Limited 99.8% (2012: Nil) of Total Income.

9.3 Currency Risk

The Company does not have any exposure to currency risk.

9.4 Interest Rate Risk

Assets - There will be an Interest rate risk in respect of monies on deposit.

Liabilities - Nil

9.5 Credit Facilities

The Company does not use credit facilities other than the advances from Shareholders, Directors or Associated Companies.

9.6 Fair Values

Current Assets, Current Liabilities and Non-Current Liabilities.

The carrying value of the financial instruments in these categories is equivalent to their fair value.

10 CAPITAL COMMITMENTS

At balance date there were no capital commitments.

11 CONTINGENT LIABILITIES

There were no contingent liabilities at year end. (31/12/2012 - nil)

12 RECONCILIATION OF SURPLUS AFTER TAXATION WITH CASH FLOWS FROM OPERATING ACTIVITIES

	<u>31/12/13</u> <u>Actual</u>	<u>31/12/12</u> <u>Actual</u>
Surplus after Taxation	(5,856)	47,325
Movements in Working Capital -		
(Increase) Reduction in Accounts Receivable - Sundry	-	-
(Increase) Reduction in Accounts Receivable - Group Companies	(10,580)	(34,155)
(Increase) Reduction in Accounts Receivable - Taxation	(15,000)	-
Increase (Reduction) in Accounts Payable - Advances Group Companies	-	61,000
Increase (Reduction) in Accounts Payable - Group Companies	19,193	13,569
Increase (Reduction) in Accounts Payable - Taxation	(18,404)	18,404
Net GST	(1,123)	2,685
Non-cash Expenses -		
Depreciation	2,105	1,831
Net Cash Flow from Operating Activities	\$ (29,666)	\$ 110,659

13 TRANSACTIONS WITH RELATED PARTIES

13.1 PORSE In-Home Childcare (NZ) Ltd

Transactions involve Management Fees and various Expenses charged by PORSE In-Home Childcare (NZ) Limited to offset student course fee charges to that Company.

Balances at 31 December were -

Accounts Receivable	44,735	34,155
Accounts Payable	(32,762)	(13,569)
Advance	(30,000)	(30,000)
Net Amount Receivable	\$ (18,027)	\$ (9,414)

13.2 PORSE Franchising (NZ) Ltd

Transactions involve advances of funds from PORSE Franchising (NZ) Limited to meet operational costs.

Balances at 31 December were -

Advance	(31,000)	(31,000)
Net Amount Receivable	\$ (31,000)	\$ (31,000)

14 SIGNIFICANT EVENTS AFTER BALANCE DATE

There have not been any significant events since balance date to affect the results shown in the Financial Statements.

15 SEGMENTAL INFORMATION

The Company will operate throughout New Zealand in the provision of education focused on parenting, self-growth and personal effectiveness skills.

FOR LIFE EDUCATION & TRAINING (NZ) LIMITED

Depreciation Schedule for the year ended 31 December 2013

	Cost	Bk Value 31/12/12	Additions	Rate	Depreciation Amount	Total	Bk Value 31/12/13
	\$	\$	\$		\$	\$	\$
Website	6,040	4,209	-	50%	2,105	3,936	2,105
Total	\$ 6,040	\$ 4,209	\$ -		\$ 2,105	\$ 3,936	\$ 2,105

Depreciation Schedule for the year ended 31 December 2012

	Cost	Bk Value 31/12/11	Additions	Rate	Depreciation Amount	Total	Bk Value 31/12/12
	\$	\$	\$		\$	\$	\$
Website	-	-	6,040	50%	1,831	1,831	4,209
Total	\$ -	\$ -	\$ 6,040		\$ 1,831	\$ 1,831	\$ 4,209



The Directors
Evolve Education Group Limited
Level 2, 54 Fort Street
Auckland 1010
New Zealand

14 November 2014

Evolve Education Group Limited Prospectus dated 14 November 2014

Dear Directors

We hereby give consent to the inclusion in your Prospectus to be dated 14 November 2014 of:

- (a) our Auditors' Report dated 14 November 2014 in the form in which it appears, pursuant to Regulation 18(1)(c)(ii) of the Securities Regulations 2009;
- (b) our Investigating Accountant's Limited Assurance Report on Prospective Financial Information dated 14 November 2014 in the form in which it appears; and
- (c) our Auditor's Report in respect of the financial statements for the period ended 31 August 2014 in the form in which it appears (collectively the **Reports**).

We hereby consent to being named in your Prospectus and Investment Statement, as auditor and Investigating Accountant.

We have not made or purported to have made any statement in the Prospectus other than in our Reports and we expressly disclaim responsibility for any other statements in the Prospectus.

We have not been involved in the preparation of any part of the Prospectus other than our Reports and we have not authorised or caused the issue of the Prospectus.

We also confirm that we have not, before delivery of a copy of the Prospectus for registration, withdrawn our written consent as provided in this letter.

Yours faithfully

A handwritten signature in dark ink, appearing to read 'PricewaterhouseCoopers', written in a cursive style.

PricewaterhouseCoopers
Chartered Accountants



The Directors
Evolve Education Group Limited
Level 2, 54 Fort Street
Auckland 1010
New Zealand

14 November 2014

Report of the Independent Auditor for inclusion in the Prospectus

Dear Directors

As auditor of Evolve Education Group Limited (“Evolve”) we have prepared this report pursuant to clause 28 of Schedule 1 of the Securities Regulations 2009 (the “Regulations”) for inclusion in the Prospectus to be dated 14 November 2014 (the “Prospectus”).

The Prospectus includes:

- a) the financial statements of Evolve and its subsidiaries (together the “Evolve Group”) which comprise the statement of financial position as at 31 August 2014, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the period then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both Evolve and the Evolve Group, as required by clause 23(3) of Schedule 1 of the Securities Regulations 2009;
- b) summary financial statements of the Evolve Group which comprise the summary statement of financial position as at 31 August 2014, the summary statement of comprehensive income, the summary statement of changes in equity and the summary statement of cash flows for the period then ended, as required by clause 9(1) of Schedule 1 of the Securities Regulations 2009;
- c) summary financial statements of Lollipops Educare Holdings Limited, PORSE In-Home Childcare (NZ) Limited, PORSE Franchising (NZ) Limited, PORSE Education & Training (NZ) Limited and FOR Life Education & Training (NZ) Limited (businesses to be acquired by Evolve) (the “Material Acquisitions”) as required by clause 12(3)(d) of Schedule 1 of the Securities Regulations 2009, as amended by the Securities Act (Evolve Education Group Limited) Exemption Notice 2014 (the “Exemption Notice”). These summary financial statements comprise summary statements of financial position, summary statements of comprehensive income, summary statements of changes in equity and summary statements of the cash flows as at and for the periods required by clause 12(3)(d) of Schedule 1 of the Securities Regulations 2009, as amended by the Exemption Notice; and
- d) the prospective financial statements of the Evolve Group, which comprise the statement of financial position as at 31 March 2015 and 31 March 2016, the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the periods then ending, including the assumptions on which they are based, as required by clause 11 of Schedule 1 of the Securities Regulations 2009.

The summary financial statements do not contain all the disclosures required for full financial statements under generally accepted accounting practice in New Zealand. Reading the summary financial statements therefore is not a substitute for reading the full financial statements of Evolve Group or the Material Acquisitions.



This report is made solely to the Directors, for the purpose of clause 28 of Schedule 1 of the Securities Regulations 2009. Our work has been undertaken so that we might state those matters we are required to state to the Directors in a report from the auditor and for no other purpose. To the fullest extent permitted by law and subject to the Securities Act 1978 and Securities Regulations 2009, we do not accept or assume responsibility to anyone other than the Directors for this report. In addition, we take no responsibility for, nor do we report on, any part of the prospectus not specifically mentioned in this report.

Directors' Responsibilities

Evolve's Directors are responsible for the preparation and presentation of:

- a) the financial statements of the Evolve Group as required under clause 23(3) of Schedule 1 of the Securities Regulations 2009, that comply with the Financial Reporting Act 1993, and which comply with generally accepted accounting practice in New Zealand and which give a true and fair view of the matters to which they relate 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;
- b) the summary financial statements of the Evolve Group for the period ended 31 August 2014 as required under clause 9(1) of Schedule 1 of the Securities Regulations 2009;
- c) the summary financial statements of the Material Acquisitions as required by clause 12(3)(d) of Schedule 1 of the Securities Regulations 2009, as amended by the Exemption; and
- d) the prospective financial statements of the Evolve Group, for the period ending 31 March 2015 and the year ending 31 March 2016 including the assumptions on which they are based, as required by clause 11 of Schedule 1 of the Securities Regulations 2009.

Auditor's Responsibilities

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

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

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

We are also responsible for reporting, in accordance with clause 28 of Schedule 1 of the Securities Regulations 2009, on:

- a) the amounts included in the summary financial statements of the Evolve Group for the period ended 31 August 2014;
- b) the amounts included in the summary financial statements of the Material Acquisitions; and



- c) the prospective financial statements of the Evolve Group, for the period ending 31 March 2015 and the year ending 31 March 2016.

In respect of the summary financial statements of the Evolve Group and the Material Acquisitions we have undertaken reasonable procedures pursuant to clause 28(1)(h) of Schedule 1 of the Securities Regulations 2009. Our engagement was conducted to obtain reasonable assurance that, in all material respects, the amounts set out in the summary financial statements and presented in accordance with clause 9(1) and 12(3) of Schedule 1 of the Securities Regulations 2009, as amended by the Exemption Notice, included in the Prospectus have been correctly taken from the audited and unaudited financial statements of the Evolve Group and the Material Acquisitions.

In respect of the prospective financial statements for the period ending 31 March 2015 and the year ending 31 March 2016 we have undertaken procedures pursuant to clause 28(2) of Schedule 1 of the Securities Regulations 2009. Our engagement was conducted in accordance with International Standard on Assurance Engagements (New Zealand) 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information issued in New Zealand. The standard requires that we comply with ethical requirements, including independence requirements, and plan and perform our procedures to obtain reasonable assurance that, in all material respects, so far as the accounting policies and calculations are concerned, the prospective financial statements and pro forma prospective financial information have been properly compiled on the footing of the assumptions made or adopted by the Directors and are presented on a basis consistent with the accounting policies which are intended to be adopted by the Evolve Group.

The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the prospective financial information for the Evolve Group, whether due to fraud or error.

In making those risks assessments, we have considered internal controls relevant to the preparation and presentation of the prospective financial information in order to design assurance procedures that are appropriate in the circumstances, but not for the purposes of expressing a conclusion as to the effectiveness of the company's internal control over the preparation and presentation of the prospective financial information.

Other than in our capacity as auditor, we have provided other assurance services, taxation advice and advisory services. Appropriate safeguards were applied to reduce the threats from the provision of these other services to an acceptable level. The provision of these other services has not impaired our independence as auditor of Evolve and the Evolve Group.

Opinion on the Evolve Group's Financial Statements

In our opinion, the Evolve Education Group Limited full financial statements for the period ended 31 August 2014 in Appendix 1 of the Prospectus:

- (i) comply with generally accepted accounting practice in New Zealand;
- (ii) comply with International Financial Reporting Standards; and
- (iii) give a true and fair view of the financial position of Evolve and the Evolve Group as at 31 August 2014, and their financial performance and cash flows for the period then ended.

We also report in accordance with clauses 28(1)(d) and (e) of Schedule 1 of the Securities Regulations. In relation to our audit of the financial statements for the period ended 31 August 2014:

- (i) we have obtained all the information and explanations that we have required; and
- (ii) in our opinion, proper accounting records have been kept by Evolve as far as appears from an examination of those records.



Opinion on the Evolve Group's Summary Financial Statements

In our opinion, and pursuant to clause 28(1)(h) of Schedule 1 of the Securities Regulations 2009, the summary financial statements and applicable disclosures on pages 145 to 147 of the Prospectus and taken from the audited financial statements of the Evolve Group for the period ended 31 August 2014:

- (i) are consistent, in all material respects, with those audited financial statements; and
- (ii) have been correctly taken from the audited financial statements of the Evolve Group for that period from which they were extracted.

Opinion on Material Acquisitions Summary Financial Statements

In our opinion, and pursuant to clause 28(1)(h) of Schedule 1 of the Securities Regulations 2009, the summary financial statements and applicable disclosures on pages 145 and 148 to 164 of the Prospectus and taken from the audited and unaudited financial statements of the Material Acquisitions for the relevant periods:

- (i) are consistent, in all material respects, with those audited and unaudited financial statements; and
- (ii) have been correctly taken from the audited and unaudited financial statements of the Material Acquisitions for those periods from which they were extracted.

Opinion on the Evolve Group's Prospective Financial Statements

In our opinion, the prospective financial statements for the period ending 31 March 2015 and the year ending 31 March 2016 on pages 69 to 74 of the Prospectus, so far as the accounting policies and calculations are concerned, have been properly compiled on the footing of the assumptions made or adopted by the Directors of Evolve as set out in Section 7.2 of the Prospectus and are presented on a basis consistent with the accounting policies which are intended to be adopted by the Evolve Group as set out in Section 7.6 of the Prospectus.

Actual results are likely to be different from the prospective financial statements since anticipated events frequently do not occur as expected and the variation could be material. Accordingly, we express no opinion as to whether the results reported in the prospective financial statements will be achieved.

Other Matters

Where the financial statements of the Material Acquisitions included within the Prospectus have been audited this has been done by another auditor, who expressed unmodified opinions on those financial statements.

Restriction on Use of our Report

This report has been prepared for inclusion in the Prospectus for the purpose of clause 28 of Schedule 1 to the Securities Regulations 2009. We disclaim any responsibility for reliance on this report or the amounts included in the financial statements, the summary financial statements and the prospective financial statements for any purpose other than that for which they were prepared. In addition, we take no responsibility for, nor do we report on, any part of the Prospectus not specifically mentioned in this report.

Yours faithfully

A handwritten signature in blue ink, appearing to read 'PricewaterhouseCoopers', written over a faint, larger version of the same text.

Chartered Accountants

Auckland

Dated

14 November

2014

**AMENDED AND RESTATED
AGREEMENT FOR THE SALE AND
PURCHASE OF SHARES IN
LOLLIPOPS EDUCARE HOLDINGS
LIMITED**

between

**THE PARTIES SPECIFIED IN ITEMS 1 AND 2 OF
SCHEDULE 1 OF THIS AGREEMENT**

and

**EVOLVE EDUCATION GROUP LIMITED (OR
NOMINEE)**

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14 November 2014

AGREEMENT dated:

PARTIES

- (1) **EVOLVE EDUCATION GROUP LIMITED** (company number 5236543) (or Nominee) ("**Buyer**")
- (2) **THE PARTY SPECIFIED IN ITEM 1 OF SCHEDULE 1 OF THIS AGREEMENT** ("**Sellers**")
- (3) **THE PARTY SPECIFIED IN ITEM 2 OF SCHEDULE 1 OF THIS AGREEMENT** ("**Sellers' Directors**")

BACKGROUND

- A. On 8 September 2014 the parties entered into an agreement for the Sale and Purchase of Shares in LEHL ("**Original SPA**").
- B. LEHL is a limited liability company incorporated in New Zealand with 14,671,658 fully paid ordinary shares on issue, each ranking equally in all respects.
- C. The Sellers are the legal and beneficial owners of all the Shares.
- D. The Sellers wish to sell, and the Buyer wishes to buy, the Shares for the consideration and on the terms and conditions of this agreement ("**Transaction**").
- E. Since that date the parties have agreed that the means of acquiring interests in JV Birkenhead and JV Hastings not already held by the Group should be amended. This Agreement has been amended and restated to take account of these changes.
- F. Despite the parties' initial intentions to include the sale of the Company's right, title to and interest in all of the shares in LEDC Limited in the Transaction, under the definition of Group Company, the Company's shares in LEDC Limited were, and still are, excluded from the Transaction for the following reasons:
 - (a) the centres owned and operated by LEDC Limited do not reach an occupancy level of 80% of its target occupancy rate; and
 - (b) the financial status of the centres owned and operated by LEDC Limited do not reach the requisite financial thresholds to satisfy the Buyer,therefore, the Company's right, title to and interest in all of the shares in LEDC Limited shall be sold to LEDC1 pursuant to clause 7.8 of this agreement.
- A. The Warrantors agree to provide certain warranties in favour of the Buyer, as provided in this agreement.

SCHEDULE 1 – AGREEMENT PARTICULARS

ITEM	PARTICULARS
1. Sellers	Mark Finlay and Geoffrey Hosking as trustees of the Mark Finlay Investment No.2 Trust – 6,908,804 Shares Russell Thompson and Geoffrey Hosking as trustees of the 111 Investment Trust – 4,310,198 Shares ScottFin ECE Limited – 2,918,293 Shares Mark Finlay and Mark Dobson Trustee Company Limited as trustees of the H R Finlay Family Trust – 534,363 Shares
2. Sellers' Directors	Mark Finlay Russell Thompson
3. Sellers Address for Notices	Attention: Mark Finlay Address: Unit 9, 22a Kalmia Street, Ellerslie, Auckland Fax: 09 377 8712 Phone: 09 377 8700 Email: mark@ledu.co.nz CC: Sellers' Solicitor
4. Sellers' Solicitors	Anthony Harper Attention: Geoff Hosking Address: c/- Anthony Harper, Level 8, Chorus House, 66 Wyndham Street, PO Box 2646, Auckland 1140 Fax: 09 920 9599 Email: geoff.hosking@ah.co.nz
5. Business	The child care business conducted by the Group Companies from the Premises, trading as Lollipops Educare.
6. Buyer's Solicitors	Minter Ellison Rudd Watts Attention: Mark Stuart / Elizabeth Rowe Address: c/- Minter Ellison Rudd Watts, Level 20 Lumley Centre, 88 Shortland Street, Auckland Fax: 09 353 9701 Email contact: mark.stuart@minterellison.co.nz /

	elizabeth.rowe@minterellison.co.nz
7. Due Diligence Date	The date that is 10 Working Days after the date upon which the Buyer notifies the Sellers in writing that the Sellers' Directors have provided to the Buyer all the Due Diligence Materials requested by the Buyer.
8. Finance Date	31 December 2014
9. Completion Date	The date that the last of the Conditions is satisfied or waived, or such other date as is agreed between the parties in writing.
10. Last Balance Date	31 March 2014

EXECUTION

SIGNED for and on behalf of **EVOLVE**)
EDUCATION GROUP LIMITED)
by)



Director



Print Name

SIGNED by **MARK FINLAY** as trustee of)
the Mark Finlay Investment No.2 Trust)

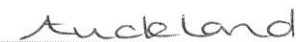
in the presence of)



Witness signature



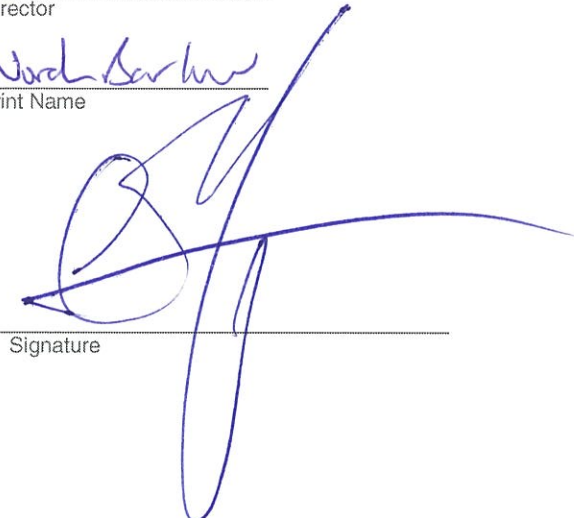
Full name



Address



Occupation



Signature

Note: The signature must be witnessed by an independent person

SIGNED by **GEOFFREY HOSKING** as)
trustee of the Mark Finlay Investment)
No.2 Trust)

in the presence of)

Signature

Witness signature

Full name

Address

Occupation

Note: The signature must be witnessed by an independent person

SC-284200-11-309-V1

EXECUTION

SIGNED for and on behalf of **EVOLVE**)
EDUCATION GROUP LIMITED)
by)

Director

Print Name

SIGNED by **MARK FINLAY** as trustee of)
the Mark Finlay Investment No.2 Trust)
in the presence of)

Signature

Witness signature

Full name

Address

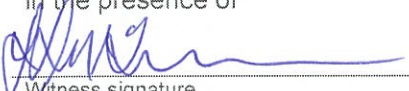
Occupation

Note: The signature must be witnessed by an independent person

SIGNED by **GEOFFREY HOSKING** as)
trustee of the Mark Finlay Investment)
No.2 Trust)

in the presence of)

Signature



Witness signature

Full name **Renée Sally McLennan**
Solicitor

Address **Auckland**

Occupation

Note: The signature must be witnessed by an independent person

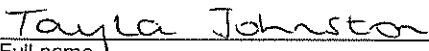
SIGNED by RUSSELL THOMPSON as)
trustee of the 111 Investment Trust)
by)
in the presence of)



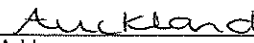
Signature



Witness signature



Full name



Address



Occupation

Note: The signature must be witnessed by an independent person

SIGNED by GEOFFREY HOSKING as)
trustee of the 111 Investment Trust)
by)
in the presence of)

Signature

Witness signature

Full name

Address

Occupation

Note: The signature must be witnessed by an independent person

SIGNED for and on behalf of SCOTTFIN)
ECE LIMITED)
by)

Director

Print Name

Note: The signature must be witnessed by an independent person

SIGNED by **RUSSELL THOMPSON** as)
trustee of the 111 Investment Trust)
by)
in the presence of)

Signature

Witness signature

Full name

Address

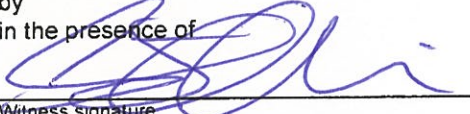
Occupation

Note: The signature must be witnessed by an independent person

SIGNED by **GEOFFREY HOSKING** as)
trustee of the 111 Investment Trust)
by)
in the presence of)



Signature



Witness signature

Full name

Sarah Chin

Solicitor

Address

Auckland

Occupation

Note: The signature must be witnessed by an independent person

SIGNED for and on behalf of **SCOTTFIN**)
ECE LIMITED)
by)



Director

ANDREW DAVID SCOTT

Print Name

Note: The signature must be witnessed by an independent person

SIGNED by RUSSELL THOMPSON as)
trustee of the 111 Investment Trust)
by)
in the presence of)

Signature

Witness signature

Full name

Address

Occupation

Note: The signature must be witnessed by an independent person

SIGNED by GEOFFREY HOSKING as)
trustee of the 111 Investment Trust)
by)
in the presence of)

Signature

Witness signature

Full name

Address

Occupation

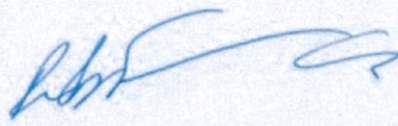
Note: The signature must be witnessed by an independent person

SIGNED for and on behalf of SCOTTFIN)
ECE LIMITED)
by)

Director

ANDREW DAVID SCOTT

Print Name


Rodney Brett Francis

Note: The signature must be witnessed by an independent person

SC-284200-11-234-V1

Page 5

SIGNED by MARK FINLAY as trustee of
the H R Finlay Family Trust)
by)
in the presence of)

[Signature]
Witness signature

Tayla Johnston
Full name

Auckland
Address

Solicitor
Occupation

Note: The signature must be witnessed by an independent person

SIGNED for and on behalf of MARK
DOBSON TRUSTEE COMPANY)
LIMITED as trustee of the H R Finlay)
Family Trust)
by)

[Signature]
Director

FENELLA C DEVLIN
SOLICITOR
PALMERSTON NORTH

[Signature]
DANIELLE HEIDI WILLIAMSON
BARRISTER AND SOLICITOR
PALMERSTON NORTH

Note: The signature must be witnessed by an independent person

SIGNED by MARK FINLAY)
in the presence of)

[Signature]
Witness signature

Tayla Johnston
Full name

Auckland
Address

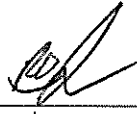
Solicitor
Occupation

[Signature]
Signature

Note: The signature must be witnessed by an independent person

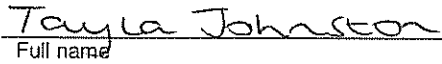
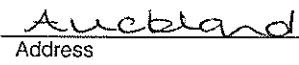
SIGNED by RUSSELL THOMPSON

)
)



Signature

in the presence of


Witness signature
Full name
Address
Occupation

Note: The signature must be witnessed by an independent person

SCHEDULE 2 - AGREED TERMS

1. DEFINITIONS

1.1 In this document these terms have the following meanings:

"Accounting Standards" means:

- (a) all applicable financial reporting standards (approved under the Financial Reporting Act 1993); and
- (b) in relation to matters for which no provision is made in applicable financial reporting standards and that are not subject to any applicable rule of law, accounting policies that are appropriate to the circumstances of the Company and have authoritative support within the accounting profession in New Zealand;

"Agreement Date" means the date specified on page 2 of this agreement or if no such date is specified the date on which this agreement is signed by the last party to the agreement to sign;

"Assets" means in respect of each Group Company the right, title and interest (if any) of that Group Company in the:

- (a) Business Records;
- (b) Business Intellectual Property;
- (c) Goodwill;
- (d) Equipment;
- (e) the right to be registered as the proprietor of the Telecommunications Accounts, the Business Names and the Domain Names;
- (f) the Leases;
- (g) Licences;
- (h) Stock;
- (i) Bank Accounts; and
- (j) all other tangible assets or intangible assets owned or used by that Group Company in the conduct and operation of the Business (including any third party warranty rights relating to the Assets in relation to the period on or after the Completion Date),

as at the Agreement Date and any of the above listed items that are acquired by a Group Company in the period between the Agreement Date and the Completion Date;

"Bank Accounts" means each bank account operated by a Group Company (or a Related Party of the Group Company) for the purposes of the Business;

"Business" means the business described in Item 5 of schedule 1;

"Business Intellectual Property" means all Intellectual Property Rights owned by a Group Company (or a Related Party of the Group Company) and/or used in the Business and includes the Business Names and the Domain Names;

"Business Names" means each of the business names owned by a Group Company (or a Related Party of the Group Company) and used in the Business;

"Business Records" means in respect of the Business, all books, records, reports, correspondence, files and other documents located at the Premises or elsewhere to the extent to which they are held by (or are under the control of) a Group Company that are used in connection with the Business, the Assets, the Premises or the Employees, whether in printed, electronic or any other form, including:

- (a) list of current clients of the Business, including parents and children's names, addresses and contact numbers;
- (b) copies of prescribed child care records system as required by the MoE or any law;
- (c) supplier lists;
- (d) computer programs, data bases and software;
- (e) title deeds and other documents of title;
- (f) sales literature, market research reports, brochures and other promotional material;
- (g) contracts;
- (h) all records of any Employees; and
- (i) originals or copies of ledgers, journals and books of account;

"Buyer's Solicitors" means the solicitors specified in Item 6 of schedule 1;

"Buyer Warranties" means the representations and warranties of the Buyer set out in schedule 4;

"Centre Licences" means all licences (or provisional or probationary licences) issued by the MoE under the Education (Early Childhood Centres) Regulations 1998 or Education (Early Childhood Services) Regulations 2008 (as relevant) in respect to the Premises and the Business which are required to manage and operate the Business;

"Centre Management Agreement" means the centre management agreement between the Buyer and LEDC Limited and LEP Limited in the form set out in Schedule 9.

"Claim" means any allegation, debt, cause of action, liability (whether actual, contingent or prospective), claim, demand, proceeding, suit, investigation or audit or any nature and whether present or future, fixed or unascertained, actual or contingent, arising at law, in equity, under statute or otherwise;

"Company" or **"LEHL"** means Lollipops Educare Holdings Limited (company number 1682573);

"Completion Working Capital Statement" means the consolidated statement of Working Capital of the Business as at the close of business on the Completion Date, to be prepared in accordance with clause 6;

"Completion" means completion of the sale and purchase of the Shares under clause 8;

"Completion Date" means the date listed in Item 9 of schedule 1;

"Condition Precedent" means a condition precedent set out in clause 2.1;

"Confidential Information" means:

- (a) all information relating to the Group Companies, the Assets, the Premises or the operations or affairs of the Business including all financial or accounting information, all client names and lists, terms and conditions of supply, sales records, marketing analysis and research and reports and other marketing information and all trade secrets, know how, operating procedures and technical information;
- (b) all other information relating to the Group Companies, the Assets, the Premises or the operations or affairs of the Business treated by the Group Companies as confidential or capable of being protected at law or equity as confidential information or the disclosure of which might cause loss or damage to or otherwise adversely affect the Business;
- (c) all information relating to the Buyer or its business which is disclosed to the Sellers or the Sellers' Representatives by the Buyer or the Buyer's Representatives; and
- (d) the negotiations of the parties in relation to this agreement or the subject matter or terms of this agreement,

in whatever form and including information that has been disclosed by the Sellers or their Representatives under the terms of a confidentiality agreement during the due diligence process;

"Consideration Shares" means the shares in the Buyer that are issued to the Sellers under clause 4.2(a);

"Determination Date" means the fifth (5) Working Day after the date on which the Completion Working Capital Statement and the Working Capital Amount become final and binding on the Sellers and the Buyer under this Agreement;

"Disclosure Letter" means any letter from the Sellers to the Buyer (and countersigned by the Buyer) in the form agreed between the Sellers and the Buyer pursuant to clause 2.1(e) of this agreement, to which the Warranties will be subject under clause 12.1;

"Domain Name(s)" means each of the domain names owned by a Group Company (or a Related Party of the Seller) and/or used in the Business or containing any of the Business Names;

"Due Diligence Date" means the date listed in Item 7 of schedule 1, or such other date as agreed between the parties in writing;

"Due Diligence Materials" means:

- (a) the written information and documents provided to the Buyer by the Sellers and their Representatives during the due diligence process; and
- (b) the written questions raised by the Buyer in the due diligence process and the written responses given to those questions by the Sellers and their Representatives;

"Employees" means those employees:

- (a) that are employees of a Group Company that are employed in relation to the Business on the Agreement Date; and
- (b) who become employees of a Group Company in the period between the Agreement Date and the Completion Date and are employed in relation to the Business,

in each case who remain employed by a Group Company immediately before Completion;

"Encumbrance" means a mortgage, charge, security interest (as that term is defined in the PPSA), pledge, lien, option, restriction, right of first refusal, right of pre-emption, third-party right or interest, other encumbrance or security interest of any kind, or another type of preferential arrangement (including a title transfer or retention arrangement) having similar effect;

"Equipment" means the equipment, furniture, fixtures, fittings, chattels and computer and communications equipment which is owned by a Group Company (or a Related Party of a Group Company) and used in the Business (including without limitation, education resources and toys, synthetic grass, external play equipment, water play parks and shade sails);

"Escrow Deed" means the escrow deed between the Buyer and the Seller relating to the restrictions on the sale of the Consideration Shares in the form set out in schedule 7;

"Excluded Companies" LEP Limited (company number 3689424), LEDC Limited (company number 3689480), Lollipops Educare (Birkenhead Properties) Limited (company number 3982098), Lollipops Educare (Addington) Limited (company number 1886633), Lollipops Educare (Mount Maunganui) Limited (company number 1936016), Lollipops Cafe Limited (company number 3791756) and the assets and liabilities of the business trading as Bambino Early Learning Centre or Central Park Ellerslie Early Learning Centre and **"Excluded Company"** means any one of them;

"Finance Date" means the date specified in Item 8 of schedule 1;

"GST Act" means the Goods and Services Tax Act 1985;

"Goodwill" means the goodwill of the Business;

"Government Authority" means any government, governmental, semi-governmental, administrative, fiscal, judicial or quasi-judicial body, department, commission, authority, tribunal or agency whether foreign, federal, state, territorial or municipal and any other entity having powers or jurisdiction under any law or regulation (and in relation to New Zealand includes the MoE, all regulatory and statutory bodies, all local government and territorial authorities, any government department to which the State Sector Act 1988 applies or any Crown entity to which the Crown Entities Act 2004 applies);

"Group" means the Company, LECL, LEL and the Joint Venture Companies;

"Group Company" means a company which is a member of the Group;

"Group Company Guarantees" means those guarantees given by a Group Company to a third party in respect of the obligations of an Excluded Company;

"Independent Accountant" means a chartered accountant or firm of chartered accountants appointed under clause 6.5(d);

"Insolvency Event" means, in respect of a Party:

- (a) an order being made, or a resolution being passed or any steps being taken to pass such a resolution, for the Party's liquidation or for the Party to be placed under official management or otherwise wound up or dissolved;
- (a) an application being made to a court for an order for the Party's liquidation or for the Party to be placed under official management or otherwise wound up or dissolved, or any steps being taken to seek such an order, unless the application is withdrawn or dismissed within 15 Working Days;
- (b) an administrator or statutory manager being appointed to the Party;
- (c) the Party resolving to appoint, or any steps being taken to appoint, a receiver or receiver and manager, official manager, administrator or similar official to the Party or any material part of the Party's assets;
- (d) an application being made to a court for an order to appoint a receiver or receiver and manager, official manager, administrator or similar official, provisional liquidator, trustee for creditors or analogous person to the Party or any material part of the Party's assets, unless the application is withdrawn or dismissed within 15 Working Days;
- (e) an appointment of the kind referred to in paragraph (e) above being made (whether or not following an application);
- (f) the holder of a security interest taking possession of any material part of the Party's assets;
- (g) the Party suspending payment of its debts (that are not the subject of a bona fide dispute), ceasing (or threatening to cease) to carry on the majority of its business or being or becoming unable to pay its debts when they are due or being or becoming otherwise insolvent; or
- (h) the Party taking any step to enable it to enter into a court-sanctioned compromise or arrangement with, or assignment for the benefit of, any of its creditors, unless such event takes place as part of a solvent reconstruction, amalgamation, merger or consolidation;

"Intellectual Property Rights" means all intellectual property rights including:

- (a) patents, designs, trade marks and service marks (whether registered or unregistered) and any applications for, or rights to apply for, registration of any patent, design, trade mark or service mark;

- (b) copyright (including copyright in software, websites, databases and advertising and other promotional materials);
- (c) all rights to have information (including trade secrets, know-how, operating procedures and technical information) kept confidential; and
- (d) all other rights or protections having similar effect anywhere in the world;

"IP Agreement" means the agreement relating to the licensing of intellectual property from the Company to LEP Limited, LEDC Limited, LEP1 Limited and LEDC1 Limited in the form set out in schedule 8;

"IPO" means an initial public offering of shares in the Buyer or a Related Company of the Buyer on the ASX and the NZX;

"IPO Registration Date" means the date on which the prospectus relating to an IPO is registered with the Registrar of Companies;

"IT System" means the hardware, software and information technology systems owned or licensed by a Group Company and used in the Business at Completion;

"Joint Venture Companies" means

- (a) Lollipops Educare (Birkenhead) Limited (company number 1704197) (**"JV Birkenhead"**);
- (b) Lollipops Educare (Half Moon Bay) Limited (company number 2156762) (**"JV Halfmoon Bay"**);
- (c) Lollipops Educare (Hastings) Limited (company number 1774363) (**"JV Hastings"**).

and **"Joint Venture Company"** means any one of them;

"Landlord" means the respective landlord of each of the Premises;

"Last Accounts" mean the financial statements of each Group Company for the financial year ended on the Last Balance Date comprising:

- (a) a balance sheet or statement of financial position; and
- (b) a profit and loss statement or comprehensive statement of income;

"Last Balance Date" means the date specified in Item 10 of schedule 1;

"Lease" means the lease in respect of each of the Premises;

"LEL" means Lollipops Educare Limited (company number 888293);

"LECL" means Lollipops Educare Centres Limited (company number 2163841);

"LEDC1 Limited" means LEDC1 Limited (Proposed company number 5497065) incorporated on or about the date of this agreement;

"LEP1 Limited" means LEP1 Limited (Proposed company number 5497164) incorporated on or about the date this agreement;

"Licences" mean any licence, consent, permit, approval, registration, accreditation, certification or other authorisation given or issued by any Government Authority to a Group Company in connection with the Business, including the Centre Licences;

"Loss" means all losses, costs, charges, damages, expenses and other liabilities arising out of or in connection with a fact, matter or circumstance, including all legal and other professional expenses incurred in connection with investigating, disputing, defending or settling any Claim relating to that fact, matter or circumstance;

"Material Adverse Change" means an event, occurrence, act, fact, omission, transaction or circumstance or any combination thereof ("**event**") or change in circumstances or series of related or unrelated events occurs that results or in the reasonable opinion of the Buyer may result in:

- (a) a 10% (or greater) reduction in maintainable earnings of the Group in any financial year;
- (b) material physical damage to or destruction of a single Premises;

but excludes any event, change, occurrence, state of affairs, development or effect:

- (c) that arises out of, or is attributable to:
 - (i) the acts or omissions of, or circumstances affecting, the Buyer and/or its related companies; or
 - (ii) the transactions contemplated by this agreement;
- (d) that generally affects the industry or markets in which the Business operates;
- (e) that arises out of, or relates to the passage or change of any law, policy or regulation, generally affecting the industry in which the Business operates; and
- (f) that is within the knowledge of the Buyer as at the date of this agreement;

"MoE" means the Ministry of Education (a department of the New Zealand Government);

"MoE Funding" means all funding received from the MoE for providing early childhood services and includes, the ECE Funding Subsidy, 20 Hours ECE, Plus 10 ECE, Equity Funding, Annual Top up for Isolated Services (ATIS) and Support Grant for Provisionally Registered Teachers;

"MoE Funding Handbook" means the MoE Early Childhood Funding Handbook published by the MoE on its website at <http://www.lead.ece.govt.nz>;

"Outstanding Shares" means the Company's right, title to and interest in the shares in JV Birkenhead and JV Hastings;

"Permitted Encumbrance" means:

- (a) a lien arising solely by operation of law; or
- (b) a security interest taken in collateral by a seller of goods to a Group Company to the extent that it secures the obligation to pay all or part of the purchase price of that collateral, where that collateral is purchased in the ordinary course of business of the buyer and the purchase price is paid within 60 days of supply; or

(c) any Encumbrance held by the owner of any asset that is leased to a Group Company;

"PPSA" means the Personal Property Securities Act 1999;

"Pre Completion Dividend" means any dividend or dividends agreed between the parties before the Satisfaction Date.

"Pre-completion Transactions" means the transactions that occur in accordance with clauses 7.7 and 7.8 of this agreement and a Pre-completion Transaction means any one of them;

"Premises" means the premises from which the Business is conducted and as specified in schedule 5;

"Pro Forma Accounts" means the pro forma working capital statement of the Company in the form agreed between the Sellers and the Buyer pursuant to clause 2.1(e) of this agreement.

"Purchase Price" means the amount list specified in clause 4.1;

"Rectification Period" means the period starting on the date of application for a Centre Licence and ending on the date that is three months after the Completion Date

"Related Party" means (and "Related Parties" has its corresponding meaning) in relation to a particular person, any of the following persons:

- (a) a Related Company of that person; or
- (b) where the first person is an individual:
 - (i) the husband/wife of that first person or any person with whom is living in a relationship in the nature of marriage;
 - (ii) any parent, child or grandchild or relative of that first person;
 - (iii) any trust established exclusively or principally for the benefit of that first person or for the benefit of one or more of the persons specified in paragraphs (b)(i) or (ii) of this definition; or
 - (iv) a company in which all of the shares are held by or on behalf of that first person or by or on behalf of any of the persons specified in paragraphs (b)(i), (ii) or (iii) of this definition;

"Related Company" has the meaning given in section 2(3) of the Act amended such that the term "company" where used in that section includes any corporate entity wherever incorporated and "Related Companies" means any number of such companies;

"Relief" includes:

- (a) any loss, allowance, deduction or set off or other relief taken into account in computing any Tax liability, or any grant conferred on any person; or
- (b) any rebate, credit or right to repayment of tax (whether or not including interest or penalties) available to that person,

whether in New Zealand or elsewhere;

"Representatives" mean in relation to a party, all directors, officers, partners, employees, professional advisers, agents and attorneys of the party or of its Related Companies;

"Requisitions" means:

- (a) any requests by the MoE that require correction to make a centre owned by the Business compliant with any law or require correction (including any requirement for capital expenditure) before the MoE will accept an application for a new Centre Licence or provide MoE Funding; and
- (b) any other unsatisfied lawful demands, requisitions, notices, orders or other communications from a Government Authority to which attaches any legal impediment;

"Restricted Business" means any business which is the same or substantially similar to, or competitive with or potentially competitive with, any material part of the Business as carried on at the Completion Date;

"Restricted Person" means the Sellers, each owner or director of the Sellers as at the Agreement Date and each entity that is controlled by the Sellers or any director of the Sellers as at the Agreement Date from time to time;

"Restructure Agreement" has the meaning given to that term in clause 7.8;

"RS7 form" means the main funding form required to be prepared and submitted to the MoE in order to receive funding;

"Satisfaction Date" means the date the condition in clause 2.1(g) is satisfied or waived.

"Seller Guarantees" means those guarantees given by an Excluded Company or a Director of a Group Company to a third party in respect of the obligations of any Group Company;

"Shareholding Percentage" means in respect of each Seller, the amount (expressed as a percentage) that equals number Shares held by that Seller at Completion divided by the total number of Shares immediately prior to Completion;

"Shares" means shares in LEHL;

"Stock" means all consumables used in conduct of the Business including kitchen supplies, and all cleaning agents, chemicals, nappies, hygiene supplies and the like;

"Takeovers Code" means the New Zealand Takeovers Code recorded in the Takeovers Code Approval Order 2000 (SR 2000/210);

"Target Working Capital" means the target working capital of the Group Companies at Completion, such amount to be agreed by the parties in writing prior to the Due Diligence Date pursuant to clause 2.1(e) of this agreement

"Taxation" or **"Tax"** means all forms of taxation and includes any present or future tax, levy, impost, duty, charge, fee, deduction or withholding of any nature (whether or not payable in money) whether

direct or indirect) and whatever called (including any interest, penalties, fines and charges in respect of any such Tax) imposed by any Government Authority, on whoever imposed, levied, collected, withheld or assessed;

"Tax Act" means the Income Tax Act 2007;

"Tax Authority" means a Governmental Agency, including any delegates, that collects, imposes or otherwise administers a Tax, including the Commissioner of Inland Revenue in New Zealand and the equivalent in other jurisdictions;

"Tax Claim" includes any notice, demand, assessment, deemed assessment, determination, letter or other document issued, or action taken, by or on behalf of any Tax Authority, whether in New Zealand or elsewhere, whereby a Group Company may be, or be sought to be, placed under any liability to, or any increased liability to, Tax or may be deprived or sought to be deprived, or any Relief;

"Tax Indemnity" means the indemnity for Tax under clause 14 of this agreement;

"Tax Law" means any treaty, act, statute, legislation, regulation, order, ruling, rule or determination, imposing or administering a Tax or released by a Tax Authority, and includes (but is not limited to) the Tax Act or any prior Income Tax Act and the GST Act;

"Tax Returns" means any returns to a Tax including any document which must be lodged with a Tax Authority or which a taxpayer must prepare and retain under a Tax Law, and includes any documents lodged with a Tax Authority amending any of the above;

"Tax Savings" means a Tax saving in respect of any loss, liability, cost or expense in any past, current or future income year and, without limiting the generality of the term includes:

- (a) where the amount of a loss, liability, cost or expense suffered or incurred is wholly or partly deductible for Tax purposes, the amount of the deduction to which the relevant person is entitled multiplied by the relevant Taxation rate (and that deduction is to be treated as arising in the same Tax year as the relevant loss, liability, cost or expense is suffered or incurred);
- (b) the amount of any GST input tax credit or other deduction from output Tax; and
- (c) any recovery, credit or benefit obtained by the Buyer in respect of any taxation liability subject to a Tax Claim;

"Tax Warranties" means the Warranties given by the Warrantors under clause 14 of Schedule 3;

"Telecommunications Accounts" mean any fixed line, fax or mobile telephone numbers owned by a Group Company and used in the Business;

"Trade Marks" mean any trade mark owned by a Group Company (or a Related Party of a Group Company) and used in the Business or containing any of the Business Names;

"Warranties" mean the representations and warranties set out in Schedule 3;

"Warrantors" means the Sellers severally according to their Shareholding Percentage;

"Warranty Claim" means any Claim by the Buyer against the Sellers or the Warrantors arising out of a breach of a Warranty, including a Claim under clause 12.7;

"Working Capital Amount" means the amount of working capital of the Company as at the close of business on the Completion Date (as set out in the Completion Working Capital Statement) as agreed by the parties or determined by the Independent Accountant, as the case may be; and

"Working Day" means a day that is not a Saturday, a Sunday or public holiday in Auckland, New Zealand.

2. CONDITIONS PRECEDENT

2.1 **Conditions Precedent:** Completion of the sale and purchase of the Shares is subject to, and conditional upon, the following conditions precedent either being satisfied or waived in accordance with clause 2.5:

- (a) **Due Diligence:** on or before the Due Diligence Date, the Buyer being entirely satisfied (in its absolute discretion) with the results of its due diligence investigations regarding the Group Companies, the Assets, the Business and all other relevant matters and giving written notice of satisfaction to the Sellers' Directors;
- (b) **Finance:** on or before the Finance Date, the Buyer:
 - (i) arranging for the provision to it of sufficient debt and/or equity finance on terms and conditions satisfactory to the Buyer (in its absolute discretion) to enable the Buyer to complete the acquisition of the Shares; and
 - (ii) satisfying all conditions precedent to drawdown or use of the debt and/or equity funds arranged in relation to the acquisition of the Shares, other than any conditions precedent which will be satisfied upon Completion;
- (c) **Landlord consent:** on or before the Finance Date, the Buyer obtaining the irrevocable written consent of all the Landlords:
 - (i) to the change of control of the relevant Group Company (if required);
 - (ii) to the charging, mortgaging or granting of a security interest over the relevant Group Company's interest in the Lease,each on terms acceptable to the Buyer including as to the lease term;
- (d) **Mortgagee consent:** on or before the Finance Date, the Sellers' Directors obtaining (if applicable) the irrevocable written consent of any mortgagee of the land on which the Premises is located to the change of control of the relevant Group Company under the Lease on terms acceptable to the Buyer;
- (e) **Disclosure Letter:** on or before the Due Diligence Date, the Warrantors and the Buyer agreeing the form of the Disclosure Letter;

- (f) **Material Business Agreement consent:** on or before the Finance Date, the Sellers' Directors providing to the Buyer, on terms acceptable to the Buyer (acting commercially reasonably), all necessary consents to change of control of the relevant Group Company in respect of each contract that the Buyer considers (acting commercially reasonably) is material to the operation of the Business;
 - (g) **Target Working Capital and Pre-Completion Dividend:** on or before the Due Diligence Date the Sellers' Directors and the Buyer agreeing in writing the target working capital of the Group Companies at Completion, the specific rules to be applied to calculate the Working Capital Amount as referenced in paragraph (a) of Schedule 11, the form of the Pro Forma Accounts, and the Pre-Completion Dividend; and
 - (h) **Material Adverse Change:** there being no Material Adverse Change between the Agreement Date and the Completion Date.
- 2.2 **Reasonable endeavours:** The Sellers' Directors, the Warrantors and the Buyer must act in good faith (where they are required to agree matters) and use all reasonable endeavours to satisfy and assist the other to satisfy, as applicable, each Condition Precedent on or before the due date for satisfaction under clause 2.1.
- 2.3 **No obligation to pay money:** The obligations under clause 2.2 do not require any party to pay any money, other than customary expenses, fees and charges, or to provide any other consideration or incur any liability, actual or contingent (except for usual guarantees or other commitments and undertakings required from the Buyer or its affiliates in connection with satisfaction of the conditions in clauses 2.1(b) and 2.1(c) in order to satisfy the conditions).
- 2.4 **Notice:** The Sellers' Directors and the Buyer must promptly:
- (a) notify the other when they learn that any Condition Precedent is satisfied or that it cannot or is unlikely to be able to be satisfied; and
 - (b) keep the other party reasonably informed of any developments relevant to the satisfaction, waiver or otherwise of any Condition Precedent.
- 2.5 **Waiver:**
- (a) The Conditions Precedent in clauses 2.1(a), , 2.1(b), 2.1(c), 2.1(d), 2.1(f) and 2.1(h) are for the sole benefit of the Buyer and may only be waived by the Buyer giving notice in writing to the Sellers.
 - (b) The Conditions Precedent in clauses 2.1(e) and 2.1(g) are for the joint benefit of the Buyer and the Seller's Directors and may only be waived by the written agreement of the Buyer and the Sellers' Directors.
 - (c) The Buyer may waive or agree to waive a Condition Precedent under clause 2.5(a) in its absolute discretion.

- (d) If the Buyer waives or agrees to waive a Condition Precedent, the Buyer is not prevented from bringing a Claim against any other party in respect of any breach of this agreement that caused that Condition Precedent not to be satisfied.

2.6 Failure of Conditions:

If a party has complied with its obligations under clause 2.2 it is entitled to terminate this agreement by notice to each other party at any time before Completion:

- (a) if any Condition Precedent has not been satisfied or waived in accordance with this clause 2 before the relevant due date for satisfaction of that Condition Precedent specified in clause 2.1 ("**Condition Date**"); or
- (b) if any Condition Precedent has become incapable of satisfaction and has not been waived in accordance with this clause 2.

2.7 Assistance with Finance

The Sellers' Directors acknowledge that the Buyer may seek to satisfy the condition in clause 2.1(b):

- (a) by way of an IPO and that the proceeds of such IPO may be used to fund all or part of the Purchase Price; and/or
 - (b) by way of equity or debt funding on such basis as the Buyer may determine;
- ((a) and (b) together being "**Finance**").

The parties agree:

- (c) that the Sellers' Directors will provide the Buyer with such information and non-financial assistance (other than providing any guarantee or other surety) as the Buyer may reasonably require in connection with obtaining Finance; and
- (d) without limiting the general obligation in clause 2.7(c) if the Buyer decides to undertake an IPO, that:
 - (i) the Sellers' Directors will participate in, and procure that senior management of the Group participates in, the due diligence process for the IPO to the extent reasonably required by the Buyer, including by participating in management interviews; and
 - (ii) senior management of the Group will, subject to the terms of any agreements between the Buyer and senior management, participate in marketing activities in relation to the IPO, including investor presentations and roadshows.

3. SALE AND PURCHASE OF SHARES

- 3.1 **Sale of Shares:** On Completion, the Sellers must sell and the Buyer must purchase the legal and beneficial title to the Shares for the consideration and free from all Encumbrances and otherwise on the terms and conditions set out in this agreement.

3.2 **Lowest price:** For purposes of the financial arrangements rules in the Tax Act, the Sellers and the Buyer agree that:

- (a) the Purchase Price is the lowest price (denominated in \$) they would have agreed for the Shares on the date this agreement was entered into, if payment would have been required in full at the time the first “right” (within the meaning provided to that term in the Tax) in the Shares was transferred from the Sellers to the Buyer;
- (b) the Purchase Price is the value of the Shares; and
- (c) they will compute their taxable income for the relevant period on the basis that the Purchase Price does not include any capitalised interest component and will file their Tax returns accordingly.

3.3 **Nomination:** The Buyer may nominate another person(s) to be purchaser of the Shares and undertake the IPO pursuant to this agreement, provided that such nomination shall not relieve the Buyer from its obligations under this agreement and the Buyer will procure that the nominee agrees with the Seller to be bound by this agreement as if the nominee were named as the Buyer in this agreement.

4. **CONSIDERATION AND PAYMENT**

4.1 **Purchase Price:** The purchase price for the Shares shall be the aggregate of:

- (a) NZ\$ 30,500,000 subject to any adjustment pursuant to this agreement, including pursuant to clause 5; and
- (b) 36,209,901 fully paid shares in the capital of the Buyer,
(the adjusted amount being the “**Purchase Price**”).

4.2 **Payment at Completion**

- (a) Subject to the Sellers complying with their obligations under clause 8.2, the Buyer must pay the Purchase Price to the Sellers at Completion in the following manner:
 - (i) to the Sellers' Solicitors on behalf of all the Sellers a cash amount of NZ\$30,500,000 (“**Cash Amount**”) with each Seller deemed to have received such proportion of the Cash Amount as is notified to the Buyer by the Sellers no later than 5 Working Days prior to Completion. If no such notice is received then the Sellers shall be deemed to have received such proportion of the Cash Amount as is equal to their Shareholding Percentage multiplied by NZ\$30,500,000;
 - (ii) by the Buyer issuing to each Seller the following number of fully paid shares in the capital of the Buyer:

20,138,542 Shares – Mark Finlay and Geoffrey Hosking as trustees of the Mark Finlay Investment No.2 Trust;

8,257,069 Shares – Russell Thompson and Geoffrey Hosking as trustees of the 111 Investment Trust;

6,605,450 Shares – ScottFin ECE Limited ; and

1,208,840 Shares – Mark Finlay and Mark Dobson Trustee Company Limited as trustees of the H R Finlay Family Trust.

(b) Any payment:

- (i) made by the Sellers to the Buyer after Completion in accordance with this agreement (including in relation to any Warranty Claim) will be deemed to reduce the aggregate consideration paid for the sale of the Shares; and
- (ii) made by the Buyer to the Sellers after Completion in accordance with this agreement (including in relation to any Warranty Claim) will be deemed to increase the aggregate consideration paid for the sale of the Shares.

4.3 **Takeovers Code:** The parties agree to use all reasonable endeavours after the Due Diligence Date to obtain any exemptions required under the Takeovers Code to allow the affected Sellers to acquire 20% or more of the voting rights in the Buyer. The Sellers' Solicitors shall seek these exemptions, the costs of which shall be payable by the Buyer in full up to a maximum amount of \$10,000 plus GST, without setoff, deduction or withholding, and shall include the Sellers' solicitor and client costs and any fee, levy and goods and services tax payable under the GST Act in respect of the exemptions.

5. PURCHASE PRICE ADJUSTMENT

5.1 The Purchase Price is subject to adjustment under clause 5.2.

5.2 On the Determination Date:

- (a) if the Working Capital Amount is less than the Target Working Capital, then the Sellers must pay an amount equal to the difference to the Buyer; and
- (b) if the Working Capital Amount is more than the Target Working Capital, then the Buyer must pay an amount equal to the excess to the Sellers.

6. COMPLETION ACCOUNTS

6.1 Completion Accounts

The Buyer must as soon as reasonably practicable, and in any event no later than 20 Working Days after the Completion Date, deliver the Completion Working Capital Statement to the Sellers, and confirm the Working Capital Amount to the Sellers.

6.2 Basis of preparation of Completion Accounts

The Completion Working Capital Statement must be prepared, and the Working Capital Amount must be calculated:

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- (a) in accordance with the Completion Working Capital Statement Principles set out in Schedule 11; and
- (b) in the same format (including the same line items) as the Pro Forma Accounts.

6.3 Access to information

The:

- (a) Sellers must ensure that all information and assistance reasonably requested by the Buyer is given to them to prepare the Completion Working Capital Statement and to determine the Working Capital Amount; and
- (b) Buyer must ensure that all information and assistance reasonably requested by the Sellers is given to them to review and audit the Completion Working Capital Statement and to confirm the Working Capital Amount.

6.4 Review of Completion Accounts

If the Sellers dispute any part of the Completion Accounts and/or the Working Capital Amount in a Dispute Notice given before 5:00pm on the date that falls 10 Working Days after the date on which the Buyer delivers the relevant document to the Sellers, the dispute will be determined in accordance with clause 6.5. Otherwise the Completion Working Capital Statement (which incorporates the Working Capital Amount) will be deemed final and agreed by the parties.

6.5 Dispute Resolution Procedure

- (a) If the Sellers wish to dispute the Completion Working Capital Statement and/or the Working Capital Amount, the Sellers must give the Buyer a notice (**Dispute Notice**) setting out:
 - (i) reasonable details of each matter in dispute; and
 - (ii) the reasons why each matter is disputed.
- (b) Within 10 Working Days of the Sellers giving the Buyer a Dispute Notice, the Buyer must give the Sellers a response in writing on the disputed matters (**Response**).
- (c) If the Buyer and the Sellers have not resolved the dispute within 10 Working Days of the Buyer giving the Response to the Sellers, either party may submit the dispute for determination by the Independent Accountant.
- (d) The Independent Accountant must be agreed by the Buyer and the Sellers. If the Buyer and the Sellers cannot agree within 10 Working Days of the Buyer giving the Response to the Sellers, the Independent Accountant must be nominated, at the request of either the Buyer or the Sellers, by the President of the New Zealand Institute of Chartered Accountants.
- (e) The disputed matters must be referred to the Independent Accountant by written submission which must include the Completion Accounts, the Dispute Notice, the Response and an extract of the relevant provisions of this agreement. The Independent Accountant must also be instructed to finish its determination no later than 20 Working Days after its appointment (or another period agreed by the parties).

- (f) The parties must promptly supply the Independent Accountant with any information, assistance and cooperation requested in writing by the Independent Accountant in connection with its determination. All correspondence between the Independent Accountant and a party must be copied to the other party.
- (g) The Independent Accountant must act as an expert and not as an arbitrator and its written determination on the issue in dispute will be final and binding on the parties in the absence of a mistake of law.

6.6 Costs

The costs of the Independent Accountant (if instructed) will be borne as to one half by the Buyer and as to one half by the Sellers.

7. PERIOD BEFORE COMPLETION

7.1 Due diligence and access:

- (a) The Sellers' Directors must ensure that from and including the Agreement Date until the Completion Date the Sellers and their Representatives:
 - (i) if the Buyer requests, provide to the Buyer child occupancy reports (from the Company's IT System) for the Business in such form and detail as reasonably required by the Buyer;
 - (ii) provide the Buyer and its Representatives with full access as reasonably necessary to the Business, the Assets, the Premises and all officers and senior employees of the Business (while maintaining the anonymity of the Buyer) and the Buyer agrees that it will maintain anonymity and that it will not engage with the Group Companies' employees concerning this agreement (including the transaction hereunder) until after the IPO Registration Date except with the express written consent of the Sellers' Directors;
 - (iii) respond promptly and fully to any written or oral enquiries of the Buyer or its employees, agents and Representatives in respect of the Group Companies, the Business and the Assets;
 - (iv) provide any necessary authorisation to third parties to divulge information concerning the Business, Assets and the Sellers to the Buyer and its Representatives providing that the information to be divulged is protected by confidentiality agreements executed by the relevant third parties, in favour of the Sellers and the Company;
 - (v) provide to the Buyer:
 - (1) true and complete written answers to any questions; and
 - (2) copies of any documentation requested,
 in any due diligence questionnaire or request for information supplied to the Sellers by the Buyer or its Representatives, for the purposes of the Buyer satisfying the Condition

Precedent in clause 2.1(a) (*Due Diligence*) and assisting the Buyer and its Representatives to understand the Group Companies, the Assets and the Business in order to prepare for the transition of both to the Buyer's normal working procedures.

- (b) The Buyer must ensure that any access under clause 7.1(a) is exercised and conducted in a manner to avoid unreasonable disruption to the conduct of the Business and the activities and operations of the Group Companies and their respective employees.
 - (c) Subject to clause 16.2, the Buyer must during its access under clause 7.1(a), keep confidential, and must procure that each of its Representatives keeps confidential, the existence of and the terms of this agreement (including the transaction contemplated hereunder), all negotiations between the parties in relation to the subject matter of this agreement and all other information given to it under this agreement.
 - (d) The Sellers acknowledge and agree with the Buyer that the Buyer can request information or documentation in respect of the Group Companies, the Business, the Assets or the premises up to and including the Completion Date and the Sellers must, in accordance with clause 7.1(a), comply with that request.
- 7.2 The Buyer will ensure the Due Diligence Questionnaire is sent to the Sellers within 5 Working Days of the date of this Agreement and the Sellers will use their best endeavours to provide a completed response to the Due Diligence Questionnaire within 15 Working Days of that date.
- 7.3 **Conduct of Business:** Until Completion the Sellers must procure that the Group Companies:
- (a) continue to carry on the Business in the ordinary and usual course and as a going concern and substantially the same manner as it has done to date and do not dispose of shares in any Group Company;
 - (b) use all reasonable endeavours to preserve intact the good name and reputation of the Business as well as its client, supplier and employee relationships (including carrying on all usual marketing and promotional activities (including contacting parents about future enrolments)) so that the child occupancy rates of the Business after Completion are consistent with the child occupancy rates of the Business in the twelve month period prior to Completion (as per the Business' RS7 forms);
 - (c) use all reasonable endeavours to preserve Employee levels and Employee qualification levels at the levels maintained during the twelve month period prior to the Agreement Date. Should the employment of any existing Employee terminate, the Sellers shall replace the Employee as required in the normal and ordinary course provided that the prior consent of the Buyer shall be obtained (such consent not to be unreasonably withheld);
 - (d) conduct the Business in compliance with all laws;
 - (e) file all Tax Returns and pay all Taxes as they fall due;
 - (f) procure that repairs and maintenance are carried out to the Equipment in accordance with good commercial practice; and

- (g) promptly notify the Buyer of any abnormal or unusual events with respect to the Business or the occurrence of any event outside the ordinary course of business (including all information involving or concerning child abuse (whether sexual or physical in nature) of a child attending a centre owned by the Business or involving or concerning a past or present employee or contractor of the Group Companies (whether having occurred or being alleged to have occurred)).

7.4 **Restricted Conduct:** Before Completion, except with the prior consent of the Buyer, the Sellers must procure that the Group Companies do not:

- (a) create any Encumbrance over, dispose of or declare itself the trustee of any Asset or any interest in any Asset or of any Share except for retention of title provisions on items acquired in the ordinary course of business of the Business;
- (b) do or omit to do anything which might result in the variation, termination, suspension, revocation or non-renewal of any Licence;
- (c) enter into or incur in the name or on behalf of the Business, any commitments or liabilities, other than in the ordinary course of business, or enter into any new contract which is material to the Business;
- (d) offer any rebates, discounts or allowances to customers (other than normal rebates, discounts or allowances offered in the ordinary and usual course);
- (e) except as required by law or other existing terms of employment:
 - (i) increase or make any representation about an increase in the annual remuneration of any Employee or create or increase any entitlement for any Employee to receive a bonus or other payment in addition to annual remuneration; or
 - (ii) otherwise vary the terms of employment or engagement of any Employee;
- (f) enter into any profit sharing or profit or equity participation arrangement in relation to the Business with any Employee, agent, representative or other person;
- (g) terminate or permit the termination or amendment of, or fail to renew on its expiry, any insurance policy in respect of Business or any of the Assets as at the Agreement Date;
- (h) maintain stock at such levels as are reasonable and sufficient for the normal conduct of the Business;
- (i) except as expressly contemplated by this agreement, not acquire, dispose of or enter into any transaction in connection with any capital assets which would commit the Group Company to expenditure of more than 1% of the Group Company's annual turnover as disclosed in the Due Diligence Materials without first obtaining the Buyer's written consent;
- (j) not enter into any new contracts or arrangements in respect of the Business having a value of more than \$20,000 (other than in the ordinary course of trading) without obtaining the Buyer's written consent;

- (k) pay all creditors in accordance with the Business's normal practice and not incur any financial obligation, whether direct, contingent, deferred or otherwise, except in the ordinary course of trading;
- (l) alter a Group Company's constitution (if any) or revoke or adopt a constitution for any Group Company without first obtaining the Buyer's written consent;
- (m) alter the Group Company's share capital from that disclosed in the Due Diligence Materials nor alter any rights or restrictions attaching to any of the shares in the Group Company, without the prior written consent of the Buyer;
- (n) authorise any dividends or make any distributions (whether of income or capital) or returns of capital to its shareholders before Completion other than the Pre-Completion Dividend, without first obtaining the Buyer's written consent
- (o) destroy or otherwise dispose of any Business Records;
- (p) terminate or permit the termination or amendment of, or fail to renew on its expiry, any Contract;
- (q) institute, settle or agree to settle any legal process relating to the Business; or
- (r) authorise, or agree conditionally or otherwise to do, any of the things referred to in this clause 7.4.

For the avoidance of doubt, nothing in this clause 7.4 shall apply to the business activities of any of the Excluded Companies.

7.5 Appointment of Director: Prior to the IPO Registration Date the Buyer agrees to appoint Mark Finlay as a director of the Buyer, and the Sellers agree to procure Mark Finlay's consent to be appointed as a director of the Buyer, on the same terms, including remuneration, as the non-executive directors (other than the chairperson) of the Buyer. Subject to compliance with the Companies Act 1993 and the NZX Listing Rules, the Buyer agrees to indemnify and effect directors and officers insurance for Mark Finlay and the other directors of the Buyer on usual and customary terms for a listed company that is conducting an IPO

7.6 Requisitions:

- (a) The Warrantors warrant to the Buyer that as at the Agreement Date and as at Completion that:
 - (i) there are no or there will be no Requisitions in respect of the Business or the Premises issued by the MoE or any other Government Authority ("Business Requisitions"); and
 - (ii) there are no circumstances relating to the actions of the Company or the Sellers' Directors in the period up to Completion, which are likely to give rise to the MoE or Government Authority issuing a Business Requisition during the Rectification Period.
- (b) If at any time the Warrantors are in breach of the warranty given in clause 7.6(a), then the Warrantors must as soon as possible, at their own cost in all respects and in a good and

workmanlike manner, do all things reasonably required to satisfy and comply with any Business Requisition.

- (c) Any equipment acquired by the Seller in satisfaction of a Business Requisition:
 - (i) will become an Asset of the Business; and
 - (ii) must be of good quality and also acquired in consultation with the Buyer.
- (d) If the Warrantors fail to comply with their obligations under clause 7.6(b), notwithstanding other remedies available to the Buyer, the Buyer at its discretion may:
 - (i) if Completion has not occurred, proceed with Completion; and/or
 - (ii) otherwise assume responsibility for satisfying the Business Requisition at the Warrantors' cost.

7.7 Joint Ventures

- (a) The parties agree that as soon as is reasonably practicable after the date of this agreement, the Sellers and the Buyer will jointly approach the other shareholders of JV Birkenhead and JV Hastings with a view to agreeing the terms upon which the Company will purchase the Outstanding Shares in JV Birkenhead and JV Hastings. The parties agree that the terms to be offered to the acquire the Outstanding Shares of JV Birkenhead and JV Hastings will not be materially inconsistent with the terms of this agreement and that the Buyer shall review and approve in writing the terms to be agreed and that completion of any such acquisition will occur following, and be subject to, Completion occurring under this agreement it being acknowledged that it will be the responsibility of the Buyer to fund the acquisition of the Outstanding Shares following Completion occurring under this Agreement.

7.8 Restructure

- (a) The parties agree that as soon as is reasonably practicable after the date of this agreement, the Sellers will procure that the Company will enter into a restructure agreement (in a form satisfactory to the Buyer acting reasonably) whereby the shares in the Excluded Companies that are owned by the Company will be transferred by the Company to another entity immediately prior to, and be subject to, Completion occurring under this agreement ("**Restructure Agreement**"). Any such transfer will occur on such basis as the Sellers determine provided that any such transfer does not give rise to, or otherwise impose, any warranties, indemnities or other obligations on the Company that survive Completion under this agreement, other than the Company's continuing obligation to co-operate with the Excluded Companies and Sellers' Directors in relation to the preparation and lodgement of any Tax Returns or assistance with any Tax Claim, and that the transfer provides that all agreements, arrangements and understandings between any Group Company on the one hand and any Excluded Company on the other hand, other than the IP Agreement and the Centre Management Agreement, are terminated on and with effect from Completion.

- (b) The Sellers indemnify and hold harmless the Buyer and each Group Company against any Loss suffered or incurred by the Buyer or any Group Company arising directly as a result of:
 - (i) any claim made by any third party against the Buyer or any Group Company that relates to the business of any of the Excluded Companies and which relates to any commitment or obligation given by any Group Company during, or arising in respect of, the period prior to Completion; and
 - (ii) any breach by the Sellers of their obligations under this clause 7.8.

8. COMPLETION

8.1 Time and place for Completion: Completion must take place at the office of the Buyer's Solicitors no later than 3pm on the Completion Date or on such other date and place as may be agreed by the Sellers and the Buyer.

8.2 Seller's Obligations: At Completion, the Sellers must deliver to the Buyer:

- (a) duly executed transfers of the Shares in registrable form to the Buyer and/or its nominee(s) in such numbers between them as the Buyer notifies in writing to the Sellers;
- (b) the share certificates for the Shares, or if the share certificates have not been issued a certificate from a director of the Company to that effect; or if the share certificates have been lost or destroyed an indemnity to the Buyer in a form approved by the Buyer;
- (c) a written waiver of the pre-emptive rights in respect of the Shares conferred on any person by the constitution of the relevant Group Company or otherwise, such waiver being in a form approved by the Buyer and signed by each person entitled to give it;
- (d) a copy of a signed valid resolution of the directors of the Company, LECL, LEL, and each Joint Venture Company certified by a director of the Company, LECL, LEL and each Joint Venture Company:
 - (i) in the case of the Company, approving the transfer of the Shares and directing that the name of the Buyer and/or its nominee(s) be entered in the Company's share register once the duly executed transfers have been delivered to the Company;
 - (ii) giving authorities to bankers for the operation of each Group Company's bank accounts in favour of those persons nominated by the Buyer, and cancelling existing authorities to the extent that they authorise persons other than those nominated by the Buyer, to operate the bank accounts;
 - (iii) (where directors have power to appoint), appointing those persons nominated by the Buyer as directors of the Group Company;
- (e) a copy of the share register of each Excluded Company showing that neither the Company nor any other Group Company is a shareholder of the Excluded Companies;
- (f) a resignation in writing from each director of each Group Company resigning in their capacity both as a director and, where applicable, as an employee, effective from the Completion Date

- and an acknowledgement in writing from each director of each Group Company, in a form satisfactory to the Buyer, to the effect that no Group Company owes and will not owe that person any obligation or money, whether by way of fees, salary, expenses, compensation for loss of office or otherwise, and that person has no claims of any nature against any Group Company, except for any amounts the Buyer and Sellers agree in writing may remain owing after the Completion Date;
- (g) copy of a signed valid shareholders resolution of each Group Company, certified by a director of that Group Company, appointing persons nominated by the Buyer as directors of that Group Company;
 - (h) a copy of the Escrow Deed duly executed by the Sellers;
 - (i) a copy of the IP Agreement duly executed by the Company, LEP Limited, LEDC Limited, LEP1 Limited and LEDC1 Limited;
 - (j) a copy of the Centre Management Agreement duly executed by LEP Limited and LEDC Limited;
 - (k) the common seal of each Group Company, if it has one;
 - (l) the constitution (if any) and certificate of incorporation of each Group Company (or certified copies of those documents), the minute books of meetings of the directors and meetings of the shareholders (in each case also containing any written resolutions made), and all registers including the share register, the register of directors, the register of charges, and the interests register (which registers and books shall be created for the purposes of delivery on the Completion Date, if not already in existence);
 - (m) all material documents of title, leases, licences and securities (whether negotiable or otherwise) or copies thereof where the Group Company does not hold an original, which are in the possession, or under the control, of each Group Company;
 - (n) all insurance policies, accounting records and other books, documents and records relating to the affairs of each Group Company (or copies thereof where the Group Company does not hold an original) which are in the possession, or under the control, of each Group Company;
 - (o) releases and discharges of any Encumbrances over or affecting any of the Shares and any of the shares in the other Group Companies (in a form suitable for registration, where applicable), or evidence satisfactory to the Buyer that the Shares and any of the shares in the other Group Companies will be released and discharged as at the Completion Date from any Encumbrances;
 - (p) releases and discharges of any Encumbrances (other than Permitted Encumbrances) over any of the Assets (in a form suitable for registration, where applicable) or evidence that such Assets will be released and discharged as at the Completion Date from any Encumbrances (other than Permitted Encumbrances);

- (q) evidence to the satisfaction of the Buyer that all indebtedness of each Group Company to the Sellers, any of the Seller's Related Companies, or the current directors has been repaid and all amounts owing to each Group Company by any such persons (whether or not they are due) have been paid, except for any amounts the Buyer and Seller agree in writing may remain owing after Completion; and
- (r) evidence to the satisfaction of the Buyer that each Seller and each of their Related Companies have changed their name to a name that does not include the words "Lollipops" or "Educare".
- (s) Evidence to the satisfaction of the Buyer that the ownership of the domain name www.lollipopseducare.co.nz has been transferred to a Group Company.
- (t) A copy of a deed of assignment of leases signed by LEDC and the landlord assigning the benefit of the lease from LEDC to LEHL in respect of Lollipops 53 Vickery Street Hamilton and 45A Ascot Avenue, Remuera.

8.3 Repayment of Financial Indebtedness

- (a) The Sellers will procure that:
 - (i) at Completion, each Group Company repays or otherwise is released from or discharges all of its Financial Indebtedness so that on the Sellers' satisfaction of their obligations under this sub-clause (i), no Group Company will have any outstanding Financial Indebtedness of any nature;
 - (ii) at Completion, each Excluded Company repays all of its Financial Indebtedness that is owed to any Group Company so that on Sellers' satisfaction of their obligations under this sub-clause (ii) no Excluded Company will have any outstanding Financial Indebtedness to any Group Company.
- (b) In this clause, "Financial Indebtedness" means any indebtedness or monetary liability (whether present or future, actual or contingent) relating to financing, financial accommodation or moneys borrowed (however structured, described or documented) excluding liabilities under or in respect of any finance leases and operating leases to which a Group Company is a party.

8.4 Deemed delivery: Where the Sellers and the Buyer agree that delivery to the Buyer of an item at Completion is impracticable or inconvenient, the requirement for delivery may be satisfied by the Seller placing that item under the control of the Buyer. For the purposes of this clause, the parties agree that the items in clauses 8.2(m) and 8.2(n) shall be delivered by making them available to the Buyer at the head office of the Company.

8.5 Buyer's Obligations: At Completion, the Buyer must:

- (a) pay the Purchase Price to the Sellers in the manner set out in, and adjusted, in accordance with clause 4.2;

- (b) deliver to the Sellers a copy of the Centre Management Agreement, Escrow Deed, and IP Agreement each duly executed by the Buyer.

8.6 Simultaneous actions at Completion: In respect of Completion:

- (a) the obligations of the parties under this agreement are interdependent;
- (b) all actions required to be performed are taken to have occurred simultaneously on the Completion Date and no delivery or payment will be deemed to be made until all have been made; and
- (c) completion of the sale and purchase of each Asset is dependent on the completion of the sale and purchase of each other Asset.

8.7 Notice to complete: If Completion does not occur in accordance with this clause 8 because of the failure of any party ("Defaulting Party") to satisfy any of its obligations under this clause 8 then:

- (a) the Buyer (where the Defaulting Party is the Sellers); or
- (b) the Seller (where the Defaulting Party is the Buyer),

(in either case the "**Non-Defaulting Party**") may give the Defaulting Party a notice requiring the Defaulting Party to satisfy those obligations within a period of five Working Days after the date of the notice and specifying that time is of the essence in relation to that notice.

8.8 Remedies for failure to comply with notice: If the Defaulting Party fails to comply with a notice given under clause 8.7, the Non-Defaulting Party may without limiting its other rights or remedies available under this agreement or at law:

- (a) immediately terminate this agreement, in which case the Non-Defaulting Party may seek damages for breach of this agreement; or
- (b) seek specific performance of this agreement, in which case:
 - (i) if specific performance is obtained the Non-Defaulting Party may also seek damages for breach of this agreement; and
 - (ii) if specific performance is not obtained the Non-Defaulting Party may then terminate this agreement and may seek damages for breach of this agreement.

8.9 Final Date for Completion: If Completion and payment of the Purchase Price does not occur on or before 31 March 2015, then the Sellers shall be entitled to terminate this agreement by notice to each other party, and this agreement being terminated no party shall have any rights against or obligations to the other parties other than as provided for in clause 16 and any prior agreement relating to confidentiality between any of the parties.

8.10 Completion Escrow: At any time after the date on which all the Conditions (other than Conditions set out in clauses 2.1(b), 2.1(c), 2.1(d) and 2.1(h)) have been satisfied, the Buyer may elect that the documents referred to in clauses 8.2(a) to (l) (inclusive) and clause 8.2(o) to (t) (inclusive) (**Escrow Completion Deliverables**) be delivered to the Buyer's Solicitor to be held on escrow, by giving written notice to that effect to the Sellers (**Escrow Notice**) and notifying the Sellers of the expected

Completion Date (which date must not be less than 10 Business Days after the date of the Escrow Notice). If the Buyer gives an Escrow Notice, the Sellers will, no less than 5 Business Days prior to the expected Completion Date deliver the Escrow Completion Deliverables to the Buyer's Solicitors. The Buyer will procure that the Buyer's Solicitor will hold the Escrow Completion Deliverables on escrow to the order of the Sellers.

9. GUARANTEES

9.1 Seller Guarantees: The Buyer:

- (a) must use all reasonable endeavours to procure the release of each of the Seller Guarantees with effect from Completion, including, without limitation, offering to provide replacement guarantees, in the form of bank guarantees (provided such guarantees are disclosed in due diligence and the amount is not more than provided in respect of the Seller Guarantee), for any Seller Guarantees relating to any Leases; and
- (b) indemnify the relevant persons providing the Seller Guarantees from and against any claim or liability arising out of the Seller Guarantees that may be suffered or incurred by that person which relates to events or circumstances occurring after Completion.

9.2 Group Company Guarantees: The Sellers:

- (a) must use all reasonable endeavours to procure the release of each of the Group Company Guarantees with effect from Completion; and
- (b) indemnify the relevant persons providing the Group Company Guarantees from and against any claim or liability arising out of the Group Company Guarantees.

10. TITLE AND RISK

10.1 Title: Title to the Shares passes to the Buyer on Completion.

10.2 Risk: Risk in the Shares and the Business passes to the Buyer on Completion.

10.3 Insurance: If on or before Completion any of the Assets is lost, destroyed or damaged and such loss, destruction or damage has not been made good by repair or replacement by Completion, then the following provisions shall apply:

- (a) if the loss, destruction or damage is at Completion sufficient to constitute a Material Adverse Change, the Buyer may:
 - (i) complete the purchase at the agreed Purchase Price, less a sum equal to the amount by which the insurance money (which the Buyer is satisfied (acting reasonably) has been received or will be receivable by or on behalf of the relevant Group Company in respect of such loss, destruction or damage) is insufficient to remedy the loss (including loss of profits) destruction or damage; or

- (ii) cancel this agreement by serving on the Sellers notice in writing whereupon the Buyer shall be entitled to the return of any money paid by the Buyer and no Party shall have any right or claim against the others.
- (b) if the loss, destruction or damage is at Completion not sufficient to constitute a Material Adverse Change, the Buyer shall complete the purchase at the agreed Purchase Price less a sum equal to the amount by which the insurance money (which the Buyer is satisfied (acting reasonably) has been received or will be receivable by or on behalf of the relevant Group Company in respect of such loss, destruction or damage) is insufficient to remedy the loss (including loss of profits) destruction or damage.

11. RESTRAINT ON COMPETITION

11.1 Non-competition: The Sellers and the Sellers' Directors undertake that they will not, and that they will procure that each other Restricted Person, LEDC Limited and LEP Limited will not:

- (a) carry on any Restricted Business as principal or on its own account or as agent for any other person;
- (b) advertise, market or promote in any way any proposed Restricted Business;
- (c) have any direct or indirect financial interest in any Restricted Business including as shareholder, member, unitholder, beneficiary, partner, guarantor, lender or financier; or
- (d) provide services in relation to any Restricted Business including as director, partner, or employee of, or adviser or consultant to, any person referred to in clauses 11.1(a) or 11.1(c).

11.2 Non-solicitation: The Sellers and the Sellers' Directors must not, and must procure that each other Restricted Person, LEDC Limited and LEP Limited does not:

- (a) approach any person who is at Completion or was at any time during the two year period before Completion a client of the Business for the purpose of obtaining that person as a client for goods or services of the type provided by the Business at Completion;
- (b) induce or encourage any Employee to leave the employment of the Buyer; or
- (c) interfere with the relationship between the Buyer and any clients, employees of, or suppliers to, the Business.

11.3 Restraint period: The undertakings in clauses 11.1 and 11.2 are given for the period starting on the Completion Date and ending on the date that is three years after the Completion Date.

11.4 Restraint area: The undertakings in clause 11.1 apply only if the Restricted Business in relation to which the activity prohibited by clause 11.1 occurs is within a 3 kilometre radius from the Premises.

11.5 Severability: Each undertaking contained in clause 11.1 , 11.2 and 11.6 is to be read and construed independently of the other undertakings contained in that clause so that if one or more should be held to be invalid as an unreasonable restraint of trade or for any other reason whatsoever then the remaining undertakings are to be valid to the extent that they are not held to be so invalid.

- 11.6 **Additional non-competition:** The Sellers and the Sellers' Directors must not and must procure that each other Restricted Person, LEDC Limited and LEP Limited will not, for the period commencing on the Completion Date and ending on the date that is three years after the Completion Date, acquire (whether by way of an acquisition of shares or assets or otherwise), roll-up or otherwise aggregate any Restricted Businesses in New Zealand.
- 11.7 **Modification:** If any undertaking in clauses 11.1, 11.2 and 11.6 is held to be invalid as an unreasonable restraint of trade or for any other reason but would have been valid if part of the wording had been deleted or the period reduced or the range of activities or the area dealt with reduced in scope, these undertakings will apply with such modifications necessary to make them valid and effective.
- 11.8 **Acknowledgement:** The Sellers acknowledge that the value of the Assets, upon which the Purchase Price has been assessed and accepted by the Buyer, is dependent upon each of them giving the undertakings contained in clauses 11.1, 11.2 and 11.6 and that those undertakings are reasonable in all the circumstances and have been given for the protection of the Buyer in respect of the goodwill of the Business. The Sellers acknowledge that they have had the opportunity to seek independent legal advice as to the effect of the restraints in clauses 11.1, 11.2 and 11.6.
- 11.9 **Exceptions:** Clauses 11.1, 11.2 and 11.6 do not prevent any Restricted Person from:
- (a) holding securities in any listed corporation or unit trust which in aggregate carry not more than 5% of the votes which could be cast at a general meeting of that corporation or a meeting of holders of units in that unit trust; or
 - (b) holding the Consideration Shares; or
 - (c) in the case of LEP Limited, LEDC Limited, LEP1 Limited and LEDC1 Limited, any of their Related Companies, any Restricted Person, or the Sellers' Directors, exercising their respective rights and performing its obligations under the IP Agreement; or
 - (d) in the case of Scott Fin ECE Limited or its Related Companies, from carrying on the Summerfield business on its own account (as landlord and / or business owner) at the premises where it is located at the date of this Agreement; or
 - (e) advertising employment vacancies in any newspaper, website or other publication or through a recruitment agency (except where the recruitment agency targets Employees) and interviewing and negotiating with any person responding to that advertisement; or
 - (f) undertaking a prohibited activity within a Restraint Area with the Buyer's express written consent.

11.10 No Conflict with JVCo Restraints: No restraint on competition provided for under any binding sale and purchase agreement referred to in clause 7.7(a), or any terms of transfer referred to in clause 7.8(a), shall otherwise prevent LEP Limited, LEDC Limited, LEP1 Limited and LEDC1 Limited, any of their Related Companies or the Sellers' Directors, exercising their respective rights and performing its obligations under the IP Agreement.

12. WARRANTIES

12.1 Warranties: The Warrantors represent and warrant to the Buyer that each of the Warranties is true, accurate and not misleading as at:

- (a) the Agreement Date; and
- (b) the time immediately prior to Completion,

unless the Warranty is expressed to be given only at a particular time in which case it is given at that time. The Warranties are given severally (and not jointly and severally) by each of the Warrantors and no Warrantor will be responsible for any breach of a Warranty that is given by the other.

12.2 Reliance: The Warrantors acknowledge that the Buyer enters into this agreement in reliance on the Warranties.

12.3 Knowledge and awareness of the Warrantors: If any Warranty is qualified by the Warrantors awareness or knowledge, the facts of which the Warrantors are aware or that are within the Warrantors knowledge are taken to be a reference to the actual knowledge of any of the Sellers' Directors, the Sellers' Directors having made due and careful enquiry into the relevant matters of all people who might reasonably be expected to have knowledge or awareness of relevant facts.

12.4 Warranties separate: Each Warranty is to be treated as a separate warranty and is not limited by reference to any other Warranty or any other provision of this agreement.

12.5 Warranty survival: Each Warranty will remain in full force and effect after Completion and a Warranty Claim is not limited to breaches identified prior to Completion.

12.6 Warranties not limited: Except as expressly set out in this agreement, no Warranty is excluded or limited by:

- (a) any inquiry or investigation made by or on behalf of the Buyer or any of its Representatives;
- (b) any actual or constructive knowledge of the Buyer or any of its Representatives that any Warranty is or may be incorrect; or
- (c) any other act, matter or thing.

12.7 Indemnity for breach: The Warrantors must indemnify the Buyer and each Group Company against any Loss suffered or incurred by the Buyer or any Group Company arising out of or in connection with the breach of any Warranty (including any additional Tax assessable on the Buyer

arising out of or in connection with the receipt by the Buyer of a payment under this clause 12.7 or otherwise in respect of the breach of Warranty).

- 12.8 **Deemed Loss:** For the purposes of clause 12.7 the Buyer shall be deemed to incur a Loss equal to any loss, claim, damage, expense, liability or proceeding suffered by the Group that relate to any breach referred to in clause 12.7. It shall not be necessary for the Buyer to establish damage to the Buyer (whether by way of net loss in value in the Shares or otherwise).
- 12.9 **Limitation:** Any claim brought by the Buyer and/or the Group against the Warrantors on an indemnity basis is subject to the limitations and qualifications set out in this clause 12 as if the indemnity claim were a Warranty Claim. For the avoidance of doubt, the Buyer is entitled to bring a claim either on an indemnity basis or on a contractual basis for breach of Warranty, or both, provided that the Buyer is only entitled to recover once in respect of the same loss.
- 12.10 **Seller to notify of breach:** If before Completion, the Warrantors becomes aware of any fact, matter or circumstance which results in or is reasonably likely to result in a breach of any Warranty before Completion the Warrantors must promptly provide to the Buyer notice describing that fact, matter or circumstance in reasonable detail.
- 12.11 **Buyer Warranties:** The Buyer represents and warrants to the Sellers and the Sellers' Directors, that each Buyer Warranty is true, accurate and not misleading as at the Agreement Date and as at the time immediately prior to Completion.
- 12.12 **Undertaking not to make Claims:** The Buyer must not make a Claim for breach of any Warranty against the Sellers or any director, officer, employee, advisor or representative of the Company, other than the relevant Warrantors.

13. LIMITATIONS OF LIABILITY

- 13.1 **Disclosure:** The Warrantors are not liable in respect of a Warranty Claim (other than a Warranty Claim in relation to Tax) if the fact, matter or circumstance giving rise to the Warranty Claim:
- (a) is fully and fairly disclosed in this agreement; or
 - (b) is fully and fairly disclosed in the Due Diligence Materials or in the Disclosure Letter;
 - (c) could have been determined from a search of the public records under the names of the Group Companies, on or before the Working Day immediately prior to the date of this agreement, of:
 - (i) the Companies Office (including the PPSR);
 - (ii) any New Zealand High Court registry; or
 - (iii) IPONZ and Domainz;
 - (d) was done or omitted at the written request, or with the written approval, of the Buyer;

- (e) the qualification that the Warrantors will not be liable to the Buyer for any claim for a breach of Warranty to the extent that the Buyer has made a full recovery in respect of the relevant matter, including under the Tax Indemnity.

13.2 **Fair disclosure:** For the purposes of clause 13.1(b), a fact, matter or circumstance is fully and fairly disclosed if sufficient information has been disclosed that the fact, matter or circumstance which might constitute a breach of Warranty, and the nature and extent of the breach of Warranty, would be immediately obvious to a reasonable and experienced buyer.

13.3 **Circumstances where limitations not to apply:** None of the limitations in this clause 12.12 apply to any Claim to the extent that it arises out of, or is increased as a result of any fraud, wilful default or wilful concealment by the Warrantors or any of their Representatives.

13.4 **Notice of Warranty Claims:**

- (a) The Buyer must give the Warrantors written notice of a Warranty Claim or anything the Buyer becomes aware of that may result in a Warranty Claim ("**Claim Notice**").
- (b) A Claim Notice must include reasonable details of the Warranty Claim (to the extent known by the Buyer) including the nature of the Warranty Claim.

13.5 **Time Limits:**

Notwithstanding anything to the contrary contained in this agreement, the Warrantors will not be liable for any Warranty Claim (other than a Warranty Claim in relation to Tax):

- (a) unless the Buyer has given the Warrantors notice in writing, as soon as reasonably practicable after the Buyer becomes so aware, with a reasonable summary of the facts or circumstances known to the Buyer which give or may give rise to the Warranty Claim; and
- (b) unless the Buyer has given written notice to the Warrantors setting out reasonable details of the Warranty Claim to the extent known to the Buyer within 18 months after the Completion Date.

13.6 The Buyer and/or the Group shall not be entitled to make or pursue any Claim for a breach of the Tax Warranties and/or under the Tax Indemnity, unless the Buyer and/or the Group, acting in good faith, provides the Warrantors with written notice of the Claim, setting out all reasonable particulars of the grounds on which it was made, with such notice being required to be received by the Warrantors within 3 months after the end of the period during which the Inland Revenue Department or any other Taxation Authority is entitled to assess the Buyer and/or the Group in relation to any period up to and including the Completion Date.

13.7 **Amounts of Claims:**

- (a) The Buyer shall not be entitled to make or pursue any claim under the Warranties (excluding a Tax Warranty) unless the amount of that claim (excluding legal costs) exceeds \$2,500, or is one of a series of related claims exceeding \$2,500; and

- (b) when aggregated with other claims under the Warranties to be made or that have been made (including those claims that satisfy clause 13.7(a) but have not been made because of this clause 13.7(b), exceeds \$50,000. If the aggregated amount exceeds that figure the Warrantors' liability to meet any valid claims shall extend to the entire amount claimed.

13.8 Limitation of liability:

- (a) Notwithstanding any other provision of this agreement, but subject to the provisions of clauses 13.8(d) and (e), the maximum aggregate liability of each Warrantor in respect of all Claims under or in connection with this agreement, but including, without limitation:
 - (i) all Warranty Claims under or in connection with the Warranties, including the Tax Warranties and the Tax Indemnity;
 - (ii) the indemnities provided by the Sellers in clause 12.7;
 - (iii) the indemnities provided by the Sellers in clause 7.8(b); and
 - (iv) whether in tort, contract or otherwise,

is limited to that Warrantor's proportionate share of all the fully paid shares in the capital of the Buyer issued pursuant to clause 4.2(a)(ii) as at Completion multiplied by NZ\$30,000,000.00.

- (b) The Buyer or any Group Company's recourse against each Warrantor pursuant to clause 13.8(a), shall be limited to the shares in the capital of the Buyer issued to that Warrantor pursuant to clause 4.2(a)(ii) as at Completion, and the amount of the proceeds of sale of any such shares.
- (c) Neither the Buyer nor any Group Company shall make a Claim for breach of this agreement against any director, officer, employee, advisor or representative of the Sellers.
- (d) The limitations set out in clause 13.8(a) do not apply in respect of any Claim arising from a breach by the Sellers of clause 8 of this Agreement.
- (e) The limitations set out in clause 13.8(a) do not apply in respect of any Warranty Claim made pursuant to clauses 1.1, 1.10 and 2.1 of Schedule 10, where the maximum aggregate liability of each Warrantor shall be limited to the amount of the Purchase Price received by that Warrantor.

13.9 Duty to Mitigate and Breach:

- (a) The Buyer shall take, and shall procure that the Company takes, all reasonable steps to avoid or mitigate any Loss or liability which would give rise to a Claim under any Warranty or the Tax Indemnity.
- (b) The Buyer will use reasonable endeavours to notify the Warrantors of any Claim under the Warranties (other than Tax Warranties and the Tax Indemnity which are subject to the procedure set out in clause 15):
 - (i) as soon as practicable following the Buyer becoming aware of the Claim; and

- (ii) in any case will provide notice of any such claim within 20 Working Days of the Buyer becoming aware of the Claim.

13.10 Recoveries from Third Parties:

- (a) If the Buyer or the Company recovers from a third party any amount of any valid Claim which would, but for the provisions of clause 13.7(b), be a valid Claim under clauses 13 or 14, then, to the extent of the amount so recovered, the Claim shall no longer be taken into account when aggregating the claims under clause 13.7(b); and
- (b) If the Buyer or the Company recovers from a third party any amount relating to any Claim the payment of which has already been made by the Warrantors to the Buyer, then the Buyer shall without withholding or deduction except as required by law pay immediately or procure the immediate payment of the amount so recovered to the Warrantors, as applicable (such amount being limited to an amount equal to the payment already made by the Warrantors to the Buyer).

13.11 Other Limitations: The Warrantors shall not be liable for any Claim under this clause 12.12 for Loss arising from a breach of Warranty:

- (a) based on a contingent liability unless and until the contingent liability becomes an actual liability and is due and payable as at the expiry of the relevant time limits referred to in clause 13.5;
- (b) if and to the extent that provision or a reserve was expressly made for the matter giving rise to the Claim in the Completion Working Capital Statement;
- (c) to the extent that any such loss is covered by an insurance policy in force at the date of Loss or would have been covered had the Buyer maintained equivalent insurance cover as the insurance policies in place as at the Completion Date and as fully and fairly disclosed in the Due Diligence Materials (net of any loss of no claims benefit or other additional cost arising from any Claim made under such policies in respect of the relevant Claim, which loss of benefit and/or cost shall be recoverable, subject to the other terms of this agreement);
- (d) where the relevant circumstance or amount has been or is made good to the satisfaction of and within a period satisfactory to the Buyer (acting reasonably) without cost or liability to the Buyer;
- (e) the Loss claimed is or represents opportunity costs arising (directly or indirectly) from a breach of the Warranties;
- (f) to the extent the Buyer and/or a Group Company has made a Tax Savings in relation to the matters giving rise to the relevant Claim;
- (g) to the extent the relevant Loss arises from or is attributable to a change in, or change in implementation or interpretation of, accounting policies, or law (including Tax Law) or regulation or governmental or local authority policy, taking effect after the Agreement Date;

- (h) to the extent arising out of any other act or omission, or obligation entered into or made, by the Buyer or the Group after Completion; or
- (i) which is capable of remedy without cost to the Buyer, unless the Sellers' Directors are given written notice of the breach by the Buyer and such breach is not remedied within 30 Working Days after the date on which such notice is served on the Sellers' Directors. Without prejudice to its duty to mitigate any Loss, the Buyer shall (or shall procure that the Group shall) provide all reasonable assistance to the Sellers Directors' to remedy any such breach.

13.12 Warrantor Assets: Each Warrantor agrees that at all times during the period commencing on the Completion Date and ending on the date that is the later of:

- (a) 18 months after the Completion Date; and
- (b) The latest date on which any Claim notified under clause 13.4 within the time period specified in clause 13.5(b) has been finally settled or determined by a court of competent jurisdiction,

("Security Period") each Warrantor will hold free from all Encumbrances an amount of shares equivalent to the number of shares provided for in clause 4.2(a)(ii) and any proceeds received by it on any transfer of those shares under a takeover offer in accordance with the Escrow Deed. Each Warrantor also agrees that at all times during the Security Period it will not have any debt or any security over those shares either by way of a general security interest or a specific security interest.

14. TAX INDEMNITY

14.1 Buyer and Group Indemnified: The Warrantors indemnify the Buyer and the Group and undertake to keep the Buyer and the Group at all times fully and effectively indemnified from and against any loss suffered or moneys payable on account of any Taxation or Tax Claim, whether arising alone or in conjunction with another event, act, occurrence or omission, and whenever arising, whether by the Warrantors or any other person, in respect of the Group, which:

- (a) wholly or partly (in which event the liability of the Warrantors shall be limited to that part) results or arises from or relates to any actual or deemed income, profits or gains earned or received or arising, or the denial of any deduction or other Relief (whether directly or indirectly) or arising, or the denial of any deduction or other Relief (whether directly or indirectly) relating to any period, on or before the Completion Date;
- (b) is either wholly or partly (in which event the liability of the Warrantors shall be limited to that part) attributable to any event, act, occurrence or omission on or before the Completion Date; or
- (c) is either wholly or partly (in which event the liability of the Warrantors shall be limited to that part) attributable to a Pre-completion Transaction; or
- (d) wholly or partly (in which event the liability of the Warrantors shall be limited to that part) arises from a breach of a Tax Warranty.

14.2 Timing of Payment:

- (a) Subject to clause 14.2(b), any payment required to be made pursuant to the Tax Warranties or Tax Indemnity ("**Indemnity Payment**") shall be paid in cleared funds to the Buyer five Working Days prior to the day on which the Taxation in respect of which that Indemnity Payment is required to be made is due for payment.
- (b) Where the amount of Taxation is payable immediately, the Indemnity Payment must be paid immediately upon notice of the claim being given to the Warrantors.

14.3 Gross Up: If:

- (a) the Warrantors are required by law to make any deduction or withholding from any sum payable under this agreement; or
- (b) the Buyer or any Group Company or any person on the behalf of the Buyer or a Group Company is required by law to make any payment on account of Taxation or any other matter on or in relation to any amount received or receivable by the Buyer, a Group Company or that person under this agreement,

then the sum so payable by the Sellers will be increased to the extent necessary to ensure that after the making of such deduction, withholding or payment, the Buyer, Group Company or that person receives and retains (free of any liability in respect of such deduction, withholding or payment) a net sum equal to the sum that the Buyer, Group Company or that person would have received and so retained had no such deduction, withholding or payment been made.

14.4 Limitations relating to taxation: The Warrantors will not be required to meet any claim under the Tax Warranties or the Tax Indemnity to the extent that:

- (a) the Taxation would not have arisen, or would have been reduced or eliminated but for a failure or omission on the part of the Buyer and/or a Group Company to make a claim or election or to give any notice or consent the making or giving of which was notified by the Sellers' Directors in writing to the Buyer prior to Completion;
- (b) it is for any Tax loss or memorandum account balance of the Group which is eliminated as a result of the transfer of Shares pursuant to this agreement;
- (c) the Buyer and/or a Group Company has made a Tax Saving in relation to the matters giving rise to the Tax Indemnity;
- (d) it arises as a result of any change in law, including any increase in rates of Tax, announced after the Agreement Date;
- (e) the Tax liability arises or is increased as a result of any voluntary change in accounting principles or in the treatment of any item for Tax purposes made by the Buyer and/or a Group Company after the Completion Date (unless the change is required by law and the Sellers' Directors consents to the change, which consent will not be unreasonably withheld);
- (f) the Tax liability would not have arisen but for the Buyer and / or a Group Company, without the written consent of the Sellers' Directors', amending or requesting an amendment to, or filing any Tax Return, relating to any period prior to Completion with a Tax Authority;

- (g) the Buyer and / or a Group Company, without the prior written consent of the Sellers' Directors, has made a payment (except as required by law) or admission of liability, in respect of a Tax liability, or has taken other steps (including failing to notify the Sellers' Directors), in either case after the Completion Date, which is reasonably likely to prejudice any challenge to, or defence of, that Tax liability;
- (h) the Tax liability would not have arisen but for:
 - (i) a change (on or after the Completion Date) of the balance date of the Buyer and / or any Group Company;
 - (ii) any change in ownership (including by reference to direct or indirect voting interests or market value interests) in the Buyer and / or any Group Company after the Completion Date;
- (i) an increased Tax liability in one entity is offset by a reduced Tax liability in another entity; or
- (j) an increased Tax liability in one period is offset by a reduced Tax liability in another period.

14.5 Reduction of Purchase Price: Any payment the Warrantors are required to make in relation to the Tax Warranties or the Tax Indemnity:

- (a) is to be made to the Buyer in reduction and refund of the Purchase Price;
- (b) is to be filed in the Buyer's Tax Return on the basis:
 - (i) that it is not gross income; and
 - (ii) that the Sellers' Directors are not required to make any withholding or deduction from the payment; and
 - (iii) will be subject to clause 15, if the payment is subject to a Tax Claim.

14.6 Recover from Third Parties: If the Buyer or the Company recovers from a third party any amount on account of Tax in relation to the same matter as any the payment of which has already been made by the Warrantors to the Buyer under clause 14.1, or under a Tax Warranty, then the Buyer shall without withholding or deduction except as required by law pay immediately or procure the immediate payment of the amount so recovered to the Warrantors, as applicable (such amount being limited to an amount equal to the payment already made by the Warrantors to the Buyer).

14.7 Taxation Returns: The Buyer will, and will procure that the Group will, consult with the Sellers:

- (a) prior to filing in respect of all Tax Returns and Tax computations for the Group for all accounting and other periods ended on or prior to the Completion Date ("Returns"). The Buyer will provide the Returns and any other relevant supporting material to the Sellers within sufficient time for the Sellers to review prior to the date of filing. The Returns must be filed in time to comply with the Group Company's obligation under the relevant Tax Law; and
- (b) shall provide the Sellers with such reasonable assistance as is required by the Sellers or their duly authorised agents, to prepare and lodge any Tax Returns for the Tax period ending 31

March 2015 and in respect of any amendment to a Tax Return relating to a Tax assessment for that period.

15. TAX CLAIM PROCEDURES

- 15.1 **Notice:** If the Group receives a Tax Claim which may give rise to a Claim under the Tax Warranties or the Tax Indemnity against the Warrantors, the Buyer will procure that the Warrantors are provided with notice of that Tax Claim as soon as is practicable.
- 15.2 **Actions by the Buyer:** The Buyer must procure that the Group Company promptly takes such action, and gives such information and assistance as the Warrantors may reasonably and promptly, by written notice, request to avoid, resist, appeal or compromise the Tax Claim, or to challenge or appeal any decision of a competent authority (including a Court or the Taxation Review Authority) in relation to the Tax Claim, or to minimise the prospect of the Warrantors being required to indemnify the Buyer and to minimise the amount of any such indemnification.
- 15.3 **Consultation:** The Warrantors will at all times prior to taking any action in accordance with this clause 15, consult with the Buyer in relation to the conduct and progress of the dispute of the Tax Claim, keep the Buyer fully informed of any progress and provide the Buyer with copies of all relevant documents. The Warrantors, following such consultation, are to take into account all reasonable concerns and issues raised by the Buyer in all action that is taken by the Warrantors following consultation (though the Warrantors will ultimately make the final decision regarding the approach to be taken in relation to the Tax Claim).
- 15.4 **No Damage:** The Warrantors, in the course of avoiding, contesting or compromising a Tax Claim, will not do anything, or make any admissions or statements, which would damage the business or commercial reputation of the Group.
- 15.5 **Costs:** Without limiting any other right of the Buyer, all reasonably incurred out of pocket costs and expenses (including legal fees and disbursements) properly incurred by the Group in carrying out any action requested by the Warrantors under clause 15.2 will be payable by the Warrantors on receipt of reasonable evidence of those costs and expenses.
- 15.6 **Access to Records in a Dispute:** In the event that Warrantors elect to challenge, resist or appeal a Tax Claim, the Buyer must procure the Group Company provide the Warrantors with all records, materials and Tax Returns of the Group Company reasonably required by the Warrantors in order to challenge, resist or appeal the Tax Claim.
- 15.7 **Refunds of Disputed Tax:** If a Tax Claim (in relation to which the Buyer has previously received a payment under the Tax Indemnity) is ultimately successful in whole or in part and the Group Company receives any Tax Savings, Tax credit, refund or reimbursement of costs, the Buyer or Group Company will promptly pay the Sellers' Directors an amount equal to that Tax Savings, Tax credit, refund or cost, together with any interest which the Buyer or Group Company has received from a Tax Authority in relation to the Tax Claim (to the extent that the amount of the Tax Savings, Tax credit, refund or cost, does not exceed the amount previously paid by the Warrantors).

16. CONFIDENTIALITY

16.1 **No announcement or other disclosure of transaction:** Except as permitted by clause 16.2 the Sellers and the Buyer must keep confidential, and must procure that each of their respective Representatives keeps confidential, the existence of and the terms of this agreement, all negotiations between the parties in relation to the subject matter of this agreement and all other information given to it under this agreement.

16.2 **Permitted disclosure:** Nothing in this agreement prevents a person from disclosing matters referred to in clause 16.1:

- (a) if disclosure is required to be made by law or the rules of a recognised stock or securities exchange;
- (b) if disclosure is made by way of a written announcement the terms of which have been agreed in writing by the parties prior to the making of the announcement;
- (c) if disclosure is reasonably required to enable a party to perform its obligations under this agreement;
- (d) to any professional adviser of a party who has been retained to advise in relation to the transactions contemplated by this agreement or to the auditor of a party, provided that person has entered into a written agreement in favour of the Buyer undertaking to keep that information confidential;
- (e) to any financier who has made a bona fide proposal to provide finance to a party in relation to the transactions contemplated by this agreement, provided that person has entered into a written agreement in favour of the Buyer undertaking to keep that information confidential;
- (f) with the prior written approval of each party other than the party whose obligation it is to keep those matters confidential or procure that those matters are kept confidential; or
- (g) where the matter has come into the public domain otherwise than as a result of a breach by any party of this agreement,

provided that:

- (a) the above exclusions are only effective to the extent that the recipient can prove the facts, supported by reference to the recipients own, and third party, business records; and
- (b) nothing in this agreement prevents the Buyer from disclosing matters referred to in clause 16.1 to a potential acquirer of shares in the Buyer or a potential acquirer of the Business but only if that person has entered into a written agreement in favour of the Buyer undertaking to keep that information confidential.

16.3 No use or disclosure of Confidential Information: The Sellers must not at any time whether before or after Completion use or disclose to any person other than the Buyer and its Representatives any Confidential Information except if disclosure is required to be made by law or with the prior written approval of the Buyer.

17. TERMINATION

17.1 Termination by Buyer: The Buyer may terminate this agreement at any time before Completion:

- (a) in accordance with clause 2.6 or clause 8.8; or
- (b) by notice to the other parties if there is a breach of the Warranty set out in paragraph 2.4 of schedule 3.

17.2 Termination by Sellers: The Sellers may terminate this agreement at any time before Completion in accordance with clause 8.8.

17.3 Effect of Termination: If this agreement is terminated then:

- (a) the provisions of this agreement will cease to have effect except for the provisions of clauses 1, 16.1 and 16.2, this clause 17 and clauses 19 to 20 which will survive termination;
- (b) each party retains the rights it has against the others in respect of any breach of this agreement occurring before termination.

17.4 Return of information: If this agreement is terminated for any reason, the Buyer must immediately, upon being requested in writing by the Sellers to do so:

- (a) return to the Sellers all documents, records and materials (including copies) which were obtained by the Buyer or on its behalf in the course of access allowed by the Sellers;
- (b) delete from any computer or data storage device all information relating to the Business or the Assets obtained from the Sellers or to which the Buyer was allowed access by the Sellers;
- (c) destroy all copies of all analyses, compilations, studies, data tables or other documents (including those stored electronically) prepared by or on behalf of the Buyer on the basis of information relating to the Business or the Assets to which the Buyer was allowed access by the Sellers; and
- (d) comply with, and procure that their Related Companies comply with, the confidentiality obligations set out in this agreement.

18. PAYMENTS

18.1 Direction: A party to whom a payment must be made under this agreement may, by notice in writing to the person who must make the payment, direct them to make all or part of the payment to another person.

18.2 Method of payment: Unless otherwise expressly stated, payment of any amount due under this agreement by any party must be made by the paying party to the recipient party by:

- (a) electronic funds transfer of cleared funds into the bank account nominated in writing by the party to whom a payment must be made at least three Working Days before the due date for payment and confirmed by the paying party to the recipient party by notice;
- (b) any other method agreed in writing between the party who must make the payment and the party to whom it is to be made.

19. NOTICES

19.1 Form of notice: Each notice or other communication given under this agreement must be in writing and sent by facsimile, email, personal delivery or by post to the addressee at the facsimile number, email address or postal address, and marked for the attention of the person (if any), last notified for the purpose by the addressee to the other party or parties. The initial facsimile number, email address, postal address and relevant contact person or officeholder of each Party is:

Sellers

To the addresses set out in Item 3 of schedule 1

Buyer

To the Buyer's Solicitors at the addresses set out in Item 6 of schedule 1.

19.2 Notice effective: A communication given in accordance with clause 19.1 is deemed to be received by the addressee:

- (a) in the case of a facsimile, upon production of a transmission report by the machine from which the facsimile was sent which indicates the facsimile was sent in its entirety to the facsimile number of the recipient;
- (b) in the case of personal delivery, when delivered;
- (c) in the case of email, the time specified in the record of the computer system from which the email was sent, if that computer system:
 - (i) has received an acknowledgement of receipt from the party to whom the email was intended to be sent; or
 - (ii) has not generated a record that the notice has failed to be transmitted;
- (d) in the case of a letter posted to a New Zealand address, on the third Working Day after posting; and
- (e) in the case of a letter posted by airmail to an address outside New Zealand, on the seventh Working Day after posting,

provided that any notice received or deemed received after 5pm or a non-Working Day shall be deemed to have been received on the next Working Day.

20. GENERAL

20.1 **Legal costs:** Except as expressly stated otherwise in this agreement, each party must pay its own legal and other costs and expenses of negotiating, preparing, executing and performing its obligations under this agreement.

20.2 **Amendment:** This agreement may only be varied or replaced by a document executed by all the parties.

20.3 **Waiver and exercise of rights:**

- (a) A single or partial exercise or waiver by a party of a right relating to this agreement does not prevent any other exercise of that right or the exercise of any other right.
- (b) A party is not liable for any Loss, cost or expense of any other party caused or contributed to by the waiver, exercise, attempted exercise, failure to exercise or delay in the exercise of a right.

20.4 **Rights cumulative:** Except as expressly stated otherwise in this agreement, the rights of a party under this agreement are cumulative and are in addition to any other rights of that party.

20.5 **Consents:** Except as expressly stated otherwise in this agreement, a party may conditionally or unconditionally give or withhold any consent to be given under this agreement and is not obliged to give its reasons for doing so.

20.6 **Further steps:** Each party must promptly do whatever any other party reasonably requires of it to give effect to this agreement and to perform its obligations under it.

20.7 **Contracts Privity Act 1982:** the parties acknowledge that the covenants of the Sellers and the Sellers' Directors in this agreement are given for the benefit of, and are enforceable by LEP Limited, LEDC Limited, LEP1 Limited and LEDC1 Limited, pursuant to the Contracts (Privity) Act 1982.

20.8 **Governing law and jurisdiction:**

- (a) This agreement is governed by and is to be construed in accordance with the laws applicable in New Zealand.
- (b) Each party irrevocably and unconditionally submits to the exclusive jurisdiction of the New Zealand courts.

20.9 **Assignment:**

- (a) The Sellers must not assign or deal with any right under this agreement without the prior written consent of the Buyer.
- (b) The Buyer shall be entitled to assign or deal with its rights under this agreement in its sole discretion.

20.10 **Counterparts:**

- (a) This agreement may consist of a number of counterparts and, if so, the counterparts taken together constitute one document.

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- (b) A party may execute this agreement or any counterpart and exchange it by facsimile or as an electronic copy by email.

20.11 Effect of execution: This agreement is not binding on any party unless it or a counterpart has been duly executed by each person named as a party to this agreement.

20.12 Entire understanding:

- (a) This agreement contains the entire understanding between the parties as to the subject matter of this agreement.
- (b) All previous negotiations, understandings, representations, warranties, memoranda or commitments concerning the subject matter of this document are merged in and superseded by this agreement and are of no effect. No party is liable to any other party in respect of those matters.
- (c) No oral explanation or information provided by any party to another:
 - (i) affects the meaning or interpretation of this agreement; or
 - (ii) constitutes any collateral agreement, warranty or understanding between any of the parties.

20.13 Relationship of parties: This agreement is not intended to create a partnership, joint venture or agency relationship between the parties.

20.14 Indemnities:

- (a) Each indemnity in this agreement is a continuing obligation, separate and independent from the other obligations of the parties.
- (b) It is not necessary for a party to incur expense or to make any payment before enforcing a right of indemnity conferred by this agreement.

20.15 Limitation of liability of professional trustees: The Buyer acknowledges that:

- (a) Geoffrey Hosking is acting as a professional trustee of the Mark Finlay Investment No.2 Trust and the 111 Investment Trust;
- (b) Mark Finlay and Mark Dobson Trustee Company Limited are acting as professional trustees of the H R Finlay Family Trust, but for the avoidance of doubt, Mark Finlay is not acting as a professional trustee in his capacity as trustee of the Mark Finlay Investment No.2 Trust; and
- (c) The above trustees' liability under this agreement shall not be unlimited or personal, but shall at all times and for all purposes, be limited to the assets from time to time under his or its control as trustee of the relevant trust(s) listed above. Where any such trustee is acting as a professional trustee of more than one trust, the limitation of liability in this clause 20.15 shall apply separately in relation to each such trust, so that liability incurred as trustee of one trust is limited to the assets of that particular trust from time to time under his control as trustee of that trust.

20.16 Continuing rights and obligations: All rights and obligations of a party which have not been exercised or performed at Completion are not extinguished or affected by Completion, unless those rights or obligations are specifically waived or released in writing by a document signed by all parties.

20.17 Reasonable endeavours: Any provision of this agreement which requires a party to use reasonable endeavours or all reasonable endeavours to procure that something is performed or occurs or does not occur does not include any obligation:

- (a) to pay any money or to provide any financial compensation, valuable consideration or any other incentive to or for the benefit of any person except for payment of any applicable fee for the lodgement or filing of any relevant application with any Governmental Authority; or
- (b) to commence any legal action or proceeding against any person, except where that provision expressly specifies otherwise.

20.18 Construction: Unless expressed to the contrary, in this document:

- (a) words in the singular include the plural and vice versa;
- (b) any gender includes the other genders;
- (c) if a word or phrase is defined its other grammatical forms have corresponding meanings;
- (d) 'includes' means includes without limitation;
- (e) no rule of construction will apply to a clause to the disadvantage of a party merely because that party put forward the clause or would otherwise benefit from it;
- (f) a reference to:
 - (i) a law means all legislation, regulations, common law, regulatory codes, standards, industry requirements, by-laws, ordinances and other laws;
 - (ii) a person includes a partnership, joint venture, unincorporated association, corporation and a government or statutory body or authority;
 - (iii) a person includes the person's legal personal representatives, successors, assigns and persons substituted by novation;
 - (iv) any legislation includes subordinate legislation under it and includes that legislation and subordinate legislation as modified or replaced;
 - (v) an obligation includes a warranty or representation and a reference to a failure to comply with an obligation includes a breach of warranty or representation;
 - (vi) a right includes a benefit, remedy, discretion or power;
 - (vii) time is to local time in Auckland, New Zealand;
 - (viii) '\$' or 'dollars' is a reference to New Zealand currency;

- (ix) this or any other document includes the document as novated, varied or replaced and despite any change in the identity of the parties;
- (x) writing includes:
 - (1) any mode of representing or reproducing words in tangible and permanently visible form, and includes facsimile transmissions and email; and
 - (2) words created or stored in any electronic medium and retrievable in perceivable form;
- (xi) this agreement includes all schedules and annexures and exhibits to it;
- (xii) a clause, schedule or annexure is a reference to a clause, schedule or annexure, as the case may be, of this agreement; and
- (g) if the date on or by which any act must be done under this agreement is not a Working Day, the act must be done on or by the next Working Day;
- (h) where time is to be calculated by reference to a day or event, that day or the day of that event is excluded; and
- (i) an obligation to use reasonable endeavours does not require a party to incur a substantial commercial detriment or payment obligation.

20.19 Headings: Headings do not affect the interpretation of this agreement.

SCHEDULE 3 – SELLER WARRANTIES

1. GROUP COMPANIES

- 1.1 **Capital of the Company:** Each Seller warrants that it is the legal and beneficial owner of the number of Shares set out next to its name in Item 1 of Schedule 1.
- 1.2 **Capital of the other Group Companies:** The Company is the legal and beneficial owner of all the shares in each other Group Company (other than the Joint Venture Companies) and such shares comprise the entire issued share capital of the other Group Companies (other than the Joint Venture Companies). The Company is the legal and beneficial owner of 50 shares, representing 50% of the total issued shares, in JV Birkenhead. The Company is the legal and beneficial owner of 75 shares, representing 75% of the total issued shares, in JV Hastings. The Company is the legal and beneficial owner of 50 shares, representing 50% of the total issued shares, in JV Halfmoon Bay.
- 1.3 **Shares on issue:** The Shares comprise the entire issued share capital of the Company and no further shares in the capital of any Group Company have been created or issued or are awaiting issue and there are no outstanding options or agreements which entitle any person to subscribe for or otherwise be allotted shares in the capital of any Group Company.
- 1.4 **Shares:** The Shares and the shares in each other Group Company are fully paid, have been validly issued and confer 100% of the voting power at a general meeting of the relevant Group Company (other than the Joint Venture Companies) and the entitlement to the distribution of 100% of the profits of the relevant Group Company (other than the Joint Venture Companies).
- 1.5 **Insolvency Event:** No Insolvency Event has occurred or is currently occurring in relation to any Group Company.
- 1.6 **Incorporation:** Each Group Company is validly incorporated under the Companies Act 1993.
- 1.7 **Group Company subsidiaries:** Other than the Joint Venture Companies, no Group Company has, nor will on Completion have, any subsidiaries (as defined in section 5 of the Companies Act 1993) and no Group Company holds or is beneficially entitled to, or will on Completion hold or be beneficially entitled to, shares in any other company.
- 1.8 **Power:** Each Group Company has full corporate power and authority to own the Assets and carry on the Business as conducted at the date of this agreement and at Completion.
- 1.9 **Arrangements:** Except as disclosed, no Group Company:
- (a) has any legal or beneficial right in, or has agreed to acquire, subscribe for or take up, any shares or other securities in any company, unit trust or other entity;
 - (b) controls any company or other entity;
 - (c) is a member of or party to any joint venture, consortium, partnership or unincorporated association, other than a recognised trade association; or

- (d) except for arrangements with the Seller which will terminate on Completion, is not party to any agreement for participation with any other person in any business activity deriving profits, commissions or other income.

1.10 **Unencumbered property (Shares):** Each Seller warrants that the legal and beneficial title to the Shares set out next to its name in Item 1 of Schedule 1 will pass to the Buyer free of all Encumbrances on Completion.

1.11 **Unencumbered property (shares in Group Companies)** and on Completion there will be no Encumbrances (or any agreement to give or create any Encumbrance) over the shares in any Group Company.

2. THE SELLERS

2.1 **Capacity and authorisation:** Each Seller has the legal right and full power and capacity to:

- (a) execute and deliver this agreement; and
- (b) perform its obligations under this agreement and each transaction effected by or made under this agreement,

and has obtained or will obtain prior to Completion all necessary authorisations and consents and taken all other actions necessary to enable it to do so.

2.2 **Valid obligations:** This agreement constitutes (or will when executed constitute) valid legal and binding obligations of the Sellers and the Sellers' Directors and is enforceable in accordance with its terms.

2.3 **Breach or default:** The execution, delivery and performance of this agreement by the Sellers does not and will not result in a breach of or constitute a default under:

- (a) any agreement to which a Seller is party, except for arrangements which will terminate on Completion;
- (b) any Encumbrance or other document which is binding on a Seller or any Group Company and does not and will not result in the creation or imposition of any Encumbrance or restriction of any nature over any of its assets or the acceleration of the date of payment of any obligation existing under any Encumbrance or other document which is binding on a Seller or any Group Company, except for arrangements which will terminate on Completion;
- (c) any provision of the constitution of or any Group Company; or
- (d) any law or regulation or any order, judgment or determination of any court or Government Authority by which a Seller or any Group Company is bound.

2.4 **Insolvency Event:** No Insolvency Event has occurred or is currently occurring in relation to any Seller.

3. ASSETS

- 3.1 **Ownership:** The Assets of each Group Company are the exclusive and absolute property of that Group Company and, with the exception of the Permitted Encumbrances will remain with that Group Company free of Encumbrances.
- 3.2 **Third party rights:** Other than Permitted Encumbrances and arrangements which will terminate on Completion, there is no Encumbrance, option, right of pre-emption, right of first or last refusal or other third party right over any of the Assets, no third party has a right to use any of the Assets and, as far as the Warrantors are aware, no third party has claimed to have any Encumbrance or any other right over any of the Assets.
- 3.3 **Adequacy of Assets:** The Assets comprise all of the assets which are:
- (a) used in the conduct of the Business by a Group Company; and
 - (b) as far as the Sellers are aware, reasonably necessary to enable the Group to conduct the Business in the manner in which it is conducted at the Agreement Date.
- 3.4 **Title:** All documents which are necessary to establish or evidence title of a Group Company to the Assets are in the possession or control of the Group Company.
- 3.5 **Equipment:**
- (a) As far as the Sellers are aware, each item of Equipment is in good repair and condition (subject to fair wear and tear), is in satisfactory working order and can be efficiently and properly used, in all material respects, for the purpose for which it was acquired.
 - (b) As far as the Sellers are aware, there is no Claim outstanding against any supplier of the Equipment or of maintenance services for that Equipment in connection with any defect in that Equipment.
- 3.6 **Leased equipment:**
- (a) As far as the Sellers are aware, each asset used by a Group Company under an equipment lease is in good repair and condition (subject to fair wear and tear), is in satisfactory working order and can be efficiently and properly used for the purpose for which it was leased.
 - (b) As far as the Sellers are aware, there is no Claim outstanding against any supplier of the asset used by a Group Company under an equipment lease or of maintenance services for that asset in connection with any defect in that asset.
- 3.7 **Stock:**
- (a) Each item of Stock is of merchantable quality and fit for the purpose for which it is intended to be used, is not redundant, obsolete and conforms with all relevant conditions, warranties, guarantees and standards implied by law.
 - (b) There is sufficient Stock (excluding perishables) for an operational period of at least 20 days.
 - (c) There are sufficient perishables included in the Stock for an operational period of 5 days.

4. CONDUCT OF BUSINESS

4.1 Compliance:

- (a) Each Group Company has at all times conducted the Business in all material respects in accordance with all applicable laws.
- (b) No Group Company is in breach of any order, judgment or award of any court, tribunal or Government Authority in any jurisdiction relating to the Business, the Assets or the Premises.

4.2 **Licences:** Each Group Company has obtained all Licences (including any required resource consents) necessary to own and operate the Assets, to occupy the Premises and to conduct the Business from the Premises and in the manner in which it is conducted at the Agreement Date and the Completion Date and true and complete copies of each of those Licences have been disclosed to the Buyer in the Due Diligence Materials.

4.3 **Compliance with Licences:** Each Group Company has complied with the terms of all Licences (including all resource consents) referred to in Warranty 4.2 and, as far as the Warrantors are aware, no circumstance exists which may:

- (a) result in an Licences being terminated, suspended or modified in any material respect or not being renewed; or
- (b) require a Group Company to carry out or incur material work or expenditure to maintain, secure the ability to renew or obtain replacement Licences.

4.4 **Agreements with Government Authorities:** True and complete copies of each agreement or arrangement between each Group Company and any Government Authority relating to the Business have been disclosed to the Buyer in the Due Diligence Materials.

4.5 **Orders, directions and notices:** Neither the Sellers nor any Group Company has received any order, direction or notice from any Governmental Authority or any other person which might adversely affect the Business or the use of the Premises that has not been complied with in full. As far as the Sellers are aware no circumstance exists that may result in any order of this type being made or direction or notice being given.

4.6 **Child occupancy rates:** The child occupancy rate of the Business for the period from the Agreement Date to the Completion Date has not fallen below the average child occupancy rate for the same period in the prior calendar year (as evidenced by the RS7 form) by an amount of 5% or more.

4.7 **No claim:** No fact or circumstance has occurred or has been alleged to have occurred involving or concerning child abuse (whether sexual or physical in nature) of a child attending a centre owned by the Business either:

- (a) at a centre owned by the Business; or
- (b) involving or concerning a past or present employee or contractor to the Group Companies.

- 4.8 **No Material Adverse Change:** As far as the Warrantors are aware, in the period beginning on the Agreement Date and ending on Completion no Material Adverse Change has occurred.
- 4.9 **External interests:** Neither the Sellers nor any Group Company is, in respect of the Business, a member of or party to any joint venture, consortium, partnership or unincorporated association.
- 4.10 **Books and records:** All Business Records:
- (a) have been fully and properly maintained and contain complete and accurate records of all matters required to be entered in them by any law or regulation; and
 - (b) are in the possession or control of the Group Companies, and no Group Company has received any notice or allegation that any of them is incorrect or should be rectified or amended.

5. FINANCIAL POSITION

5.1 **Last Accounts:** The Last Accounts:

- (a) have been prepared in accordance with all relevant legislation and generally accepted accounting principles and standards applied on a consistent basis;
- (b) show a true and fair view of the financial position and assets and liabilities of the Group as at the Last Balance Date and of its income, expenses and results of operations for the financial period ended on the Last Balance Date.
- (c) are not affected by any unusual or non-recurring items; and
- (d) include all reserves and provisions desirable to cover liabilities (including, without limitation, liabilities for long service leave and annual leave entitlements).

5.2 **Position since Last Balance Date:** No material changes have occurred in the assets and liabilities of the Business from those disclosed in the Last Accounts.

6. LIABILITIES

6.1 **At Completion:**

- (a) no Group Company will be a party to (or have agreed to be a party to) any guarantee or indemnity in respect of, or will be otherwise liable or contingently liable in any way for the obligations of, any other person (other than another Group Company);
- (b) no Group Company will owe any money to the Sellers or any of the Sellers' Related Companies or any of the Excluded Companies or the Joint Venture Companies; and
- (c) neither the Sellers nor any Related Company of the Sellers nor any of the Excluded Companies nor any of the Joint Venture Companies will owe any money to any Group Company.

7. CONTRACTS

7.1 **Disclosure of certain contracts:** True and complete copies of each of the following have been disclosed to the Buyer in the Due Diligence Materials:

- (a) each material agreement or arrangement entered into by a Group Company in connection with the operation of the Business that is not fully performed at Completion;
 - (b) the Leases;
 - (c) the Centre Licences;
 - (d) each equipment lease between to which a Group Company is party;
 - (e) each contract between a Group Company and any Related Party of the Group Company in relation to the Business;
 - (f) any offer or proposal relating to the Business that remains open for acceptance and if accepted would result in a Group Company being party to any agreement or arrangement within paragraphs (a) to (e) above; and
 - (g) all documents varying or otherwise affecting the terms of any agreement, arrangement, offer or proposal within paragraphs (a) to (f) above,
- (each a “**Contract**” and together the “**Contracts**”).

7.2 **Arms length contracts:** No Contract:

- (a) was entered into outside the ordinary course of the Business or is not on arm's length terms;
 - (b) establishes any agency, distributorship, marketing, purchasing, manufacturing or licensing or other arrangement which restricts or limits the ability of a Group Company to undertake any activity relating to the Business in any place in any manner as it determines; or
 - (c) cannot be performed without undue or unusual expenditure,
- and there is no offer or proposal relating to the Business that remains open for acceptance and if accepted would result in a Group Company being party to any agreement or arrangement within paragraphs (a) to (c) above.

7.3 **Validity:** As far as the Warrantors are aware each Contract is valid, binding and enforceable.

7.4 **Breach, default or contractual liabilities:** As far as the Warrantors are aware, no Group Company is in breach of, or liable to make payment under any warranty or indemnity given in, any Contract. As far as the Warrantors are aware,

no other party is in breach of, or liable to make payment under any warranty or indemnity given in, any Contract.

7.5 **Termination:** No party to any Contract has given any notice terminating or purporting to or advising of an intention to terminate that Contract.

8. PREMISES

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8.1 **General:** The Premises comprise all of the real property:

- (a) leased, occupied or used by the Group Companies in relation to the Business;
- (b) reasonably necessary to enable the Group Companies to conduct the Business in the manner in which it is conducted at the Agreement Date; and
- (c) no Group Company is party to any contract or commitment to acquire, lease or occupy any real property in relation to the Business other than the Premises.

8.2 **Leasehold Properties:** True and complete copies of each Lease, each other deed or agreement affecting each terms of the Lease or the fitout of the Premises and each notice served under each Lease have been disclosed to the Buyer in the Due Diligence Materials and except as disclosed there are no incentives, rent-free periods, reduced-rent periods or other reductions or abatements of rent or outgoings in relation to any of the Premises.

8.3 **Condition of the property:** As far as the Warrantors are aware, there is not:

- (a) Any deficiency which requires correction in the state or condition of any building or other structure on or forming part of any Premises.
- (b) Any flooding, subsidence or other defect of any kind (including a design or construction defect) affects or has affected any Premises.
- (c) Any building or other structure on or forming part of the Premises containing a deleterious substance or a substance which is not at the Agreement Date used in generally accepted good building practice (for example, asbestos).

8.4 **Encumbrances:** All right, title and interest of the Group Companies in the Premises is held free and clear of any Encumbrance.

8.5 **Lease:** In relation to each Lease,:

- (a) the land that is the subject of the Lease is not "sensitive" land as defined by Part 1, Schedule 1 of the Overseas Investment Act 2005;
- (b) the Lease is valid, binding and enforceable against the parties to it and is not subject to any invalidity, ground for termination, avoidance or repudiation valid;
- (c) the relevant Group Company has made all payments required by the Lease, has otherwise complied with all terms of the Lease and all other covenants affecting the property subject of the Lease and has not received any notice alleging that any circumstance exists that may constitute a breach of the Lease;
- (d) there are no outstanding repair, maintenance, reinstatement or redecoration works required under the Lease and the relevant Group Company has complied with and or paid such obligations up to the Completion Date and so far as the Warrantors are aware there are no repair, maintenance, reinstatement or redecoration obligations which have been or will be invoked on the Agreement Date or the Completion Date;
- (e) so far as the Warrantors are aware there is no fact or circumstance which:

- (i) could entitle or require a person (including a landlord or licensor) to forfeit or enter on, or take possession of, or occupy, the Premises;
 - (ii) could restrict or terminate the relevant Group Company's continued and uninterrupted possession or occupation of the Premises; or
 - (iii) could prevent or restrict a Premises' development for which planning permission has been or is expected to be obtained;
 - (f) so far as the Warrantors are aware, the relevant Group Company is not in breach and has not received any complaint from the landlord or any other person of any breach of the terms of the Lease;
 - (g) where the relevant Group Company has done or caused to be done on the Premises any works:
 - (i) any permit, resource consent or building consent required by law was obtained; and
 - (ii) to the Sellers' Directors knowledge, the works were completed in compliance with those permits or consents; and
 - (iii) where appropriate, a code compliance certificate was issued for those works.
- 8.6 **Disputes:** There is no outstanding litigation, arbitration, claim, dispute or complaint between the Sellers, any Group Company or the owner or occupier of any adjoining or neighbouring property, or which relates to the Premises or its use and so far as the Warrantors are aware there are no circumstances which may give rise to any such claim, dispute or complaint.
- 8.7 **Notices:** No notice or requirement affecting any Premises or its use has been given or received.
- 8.8 **Covenants:** There has been no release of any covenant, obligation or restriction affecting adjoining or neighbouring land and benefiting any Premises and no waiver of any breach of any such covenant, obligation or restriction.
9. **IT SYSTEM**
- 9.1 **IT System:** As far as the Sellers' Directors are aware, at Completion the IT System will comprise a standalone IT environment that is designed, configured, and integrated to meet the information technology requirements needed to operate the Business consistent with the manner and to the standard in which it was operated in the six month period prior to the Agreement Date.
- 9.2 **Functionality:** As far as the Sellers' Directors are aware, the elements of the IT System:
- (a) are functioning properly and in accordance with all applicable specifications;
 - (b) are not defective in any respect;
 - (c) do not contain any software virus;
 - (d) have sufficient capacity and performance to meet the current and foreseeable requirements of the Business; and

- (e) include sufficient user information to enable reasonably skilled personnel in the field to use and operate the IT System without the need for further assistance.

10. INTELLECTUAL PROPERTY AND CONFIDENTIAL INFORMATION

- 10.1 **Registered Business Intellectual Property:** Complete and accurate details of all Business Intellectual Property that has been registered have been disclosed to the Buyer in the Due Diligence Materials.
- 10.2 **Ownership and use of Business Intellectual Property:** The Group Companies are the sole legal and beneficial owner of the Business Intellectual Property and:
 - (a) no person other than the Group Companies has any right to use the Business Intellectual Property and there has been no unauthorised use by any other person of the Business Intellectual Property; and
 - (b) nothing has been done or omitted to be done by the Group Companies and the Sellers' Directors have not received any notice of other circumstance existing that may affect the validity or ownership of the Business Intellectual Property.
- 10.3 **Infringement of third party rights:** As far as the Warrantors are aware, none of the activities of the Business infringes or is likely to infringe any Intellectual Property Rights of any third party and as far as the Warrantors are aware no Claim has been made against the Sellers or a Group Company in respect of any alleged infringement.

11. EMPLOYEES

- 11.1 **Sellers disclosure:** The Warrantors have fully, accurately, clearly and fairly disclosed:
 - (a) copies of all employment agreements, independent contractor agreements, handbooks, policies and other documents which apply to the employees or independent contractors of the Business;
 - (b) the total number of Employees, including those who are on maternity leave, on secondment or absent because of disability or other long-term leave of absence, and who have or may have a right to return to work in the Business;
 - (c) full particulars of the current terms of employment, or engagement, remuneration and benefits of all Employees and independent contractors of the Business, whether or not recorded in writing, or implied by custom or practice or otherwise, including commencement date, period of continuous employment, job title, current remuneration, bonuses, incentives, commission, superannuation schemes or any other rights and benefits; and
 - (d) total number of Employees that are members of a union and copies of all agreements or arrangements with any union, employee representative or body of employees or their representatives and details of any such unwritten agreements or arrangements which may affect the Employees.

- 11.2 **No disputes:** No Group Company is engaged or involved in any personal grievance, dispute, wrongful dismissal claim or legal proceedings or any other claim (whether arising under contract, common law, statute or equity) with any of the Employees or any other person currently or previously employed by or engaged in the Business and the Warrantors are not aware of any event which could give rise to such dispute, claim or proceedings.
- 11.3 **No enquiries, investigations or prosecutions:** The Sellers' Directors have not received any notice of any:
- (a) enquiries, investigations, infringements or prosecutions existing, pending or threatened affecting a Group Company or the Business by the Human Rights Commission, the Privacy Commissioner, the Labour Group within the Ministry of Business, Innovation and Employment and WorkSafe New Zealand or any other regulatory agency,
 - (b) Nor are there any circumstances of which the Sellers are or ought to be aware, which might give rise to such enquiries, investigations, infringements, fines or prosecutions.
- 11.4 **No changes to terms:** No changes have been made in the terms of employment, benefits or conditions of service of any Employee or to the benefits provided to any person engaged to any extent in the Business (now or in the past), or to the terms of any agreement or arrangement (whether written or unwritten and whether binding or not) with any union, employee representative or body of employees or their representatives since the date the Buyer completed its due diligence.
- 11.5 **Fixed term employment:** All employment agreements entered into between a Group Company and any Employee that purports to be for a fixed term are enforceable as fixed term agreements and do not form the basis of an employment relationship that is for an indefinite term.

12. LEGAL PROCEEDINGS

- 12.1 **Litigation:** No Group Company, is (nor any person whose acts or defaults a Group Company may be vicariously liable) a claimant or defendant in, or otherwise a party to, any litigation, arbitration or mediation proceedings in relation to the Business, the Assets or the Premises. The Warrantors are not aware of any proceedings of this type pending or threatened against a Group Company and as far as the Sellers are aware no circumstance exists that is likely to give rise to any proceedings of this type.
- 12.2 **Investigations and prosecutions:** No Group Company is the subject of any investigation, inquiry, prosecution or enforcement proceedings by any Governmental Authority. The Warrantors are not aware of any investigations, inquiries, prosecutions or proceedings of this type pending or threatened against a Group Company or the Business and as far as the Sellers are aware no circumstance exists that is likely to give rise to any proceedings of this type.

13. INSURANCE

- 13.1 **Insurance:** Each of the Assets which is insurable is at the Agreement Date is insured with a well-established and reputable insurer against fire, earthquake and such other risks as are normally insured against by a person operating the types of business as the Business.

13.2 **Claims:** There is no claim outstanding under any policy of insurance held by or for the benefit of a Group Company relating to the Business, the Assets, the Premises or the Employees.

14. TAX

14.1 **Records:** Each Group Company has, on or before the Completion Date, created and maintained adequate and correct records to enable it to comply, and each Group Company has, on or before the Completion Date, so complied, with its obligations to:

- (a) prepare and submit any information, notices, computations, returns and payments required in respect of any Tax Law;
- (b) prepare any accounts necessary for the compliance with any Tax Law; and
- (c) retain necessary records as required by any Tax Law.

14.2 **Adequacy of records:** On or before the Completion Date, all information, notices, computations and returns that have been submitted by each Group Company to any Government Agency in respect of any Tax:

- (a) disclose all facts that must be disclosed under any Tax Law;
- (b) do not omit to mention income from any source; and
- (c) as far as the Sellers' Directors are aware, were not misleading in any respect.

14.3 **Accounts:** The Last Accounts have made full provision or reserve for all Taxation liable to be assessed on the Group, including in particular (but without limitation) Taxation of profits, gains, income and receipts, benefits and other items subject to Taxation for any period ending on or before, and for any transaction or events occurring down to, the Last Balance Date.

14.4 **Tax Returns:** All Tax Returns or any other document required by a Tax Law to be lodged or filed by each Group Company prior to the Completion Date, have been, or will be, duly lodged or filed.

14.5 **No gross income:** As far as the Sellers' Directors are aware, no gross income would arise if any capital asset of a Group Company were to be sold, disposed of or distributed, except for depreciation recovery income arising under section CG 1 of the Tax Act.

14.6 **Payment of Taxes:** All Taxes (other than those which may be still paid without penalty or interest) for which each Group Company is liable, including any penalty or interest, and all instalments of provisional tax due prior to Completion, have been or will be paid when due, and all Taxes that are required by any Tax Law to be withheld or deducted by each Group Company from payments made by it on or before Completion have been or will be duly withheld or deducted and paid in full to the relevant Tax Authority when due.

14.7 **Residency:** No Group Company is resident for Tax purposes in any jurisdiction other than New Zealand, and none have any permanent establishment (as that expression is defined in any relevant double taxation agreement to which New Zealand is a party) outside New Zealand and is neither currently, nor required to be, registered in any other jurisdiction as a foreign company.

14.8 **Disputes:** There is no current, pending or threatened dispute between any Group Company and the IRD or any other Government Agency at the date of this agreement, nor is there any current, pending or threatened Tax audit or investigation of any Group Company at the date of this agreement, and, to the best of the Warrantors knowledge, no such dispute, Tax audit or investigation is anticipated.

14.9 Registration: The Seller and each Group Company:

- (a) is a registered person for the purposes of the GST Act;
- (b) has complied in all respects with the GST Act; and
- (c) is not in default of any obligation to make any payment or return or notification under the GST Act.

14.10 Available subscribed capital: The "Available Subscribed Capital" of each Group Company for the purposes of the Tax Act is at Completion no less than the amount of the share capital in the Last Accounts.

14.11 Rulings: On or before the Completion Date, except as disclosed in writing to the Buyer, no person has applied for or requested a binding ruling relating to or on behalf of any Group Company, or any other similar binding ruling in relation to Taxation able to be granted under any Tax Law.

14.12 Imputation credits: Each Group Company's imputation credit account does not have a debit balance at 31 March 2014 and will not have a debit balance at the time of Completion.

14.13 Additional liability: Since the Last Balance Date, but on or before the Completion Date, no additional liability for Tax has, or will, accrue to any Group Company otherwise than as a result of trading activities in the ordinary course of business.

14.14 Contravention: As far as the Sellers' Directors are aware, no Group Company has entered into, or been a party to, any transaction or dealing which contravenes, any anti-avoidance provisions of any Tax Law (including, but not limited to, section BG 1 and Part G of the Tax Act and section 76 of the GST Act) on or before the Completion Date.

14.15 Deductions: All Taxes and levies required to be deducted or withheld from employment income, or from salaries or wages of employees, have been deducted from all payments made by each Group Company on or before the Completion Date, and all amounts due and payable to the relevant Tax Authority prior to the date of this agreement have been paid.

14.16 Deductions records: Proper records have been maintained in respect of all such deductions and payments and all regulations applicable thereto have been complied with on or before the Completion Date.

14.17 Encumbrances: None of the assets which are owned by the Group are the subject of any encumbrance in favour of any Tax Authority.

14.18 Forgiveness: On or before the Completion Date no amount owing by a Group Company has been forgiven, assigned or otherwise dealt with in circumstances which would cause a gain to arise to the Group Company for Taxation purposes or would be treated as a forgiveness for Taxation purposes.

14.19 Additional gross income: No Group Company is deemed, to have derived any additional gross income, or to have incurred a lesser amount of expenditure, for the purposes of the Tax Act by reason of the application of sections GC 6 to GC 14 of the Tax Act to any supply or acquisition of goods, services or anything else on terms which were not at arm's length on or before Completion.

14.20 Pre-completion Transactions: The Pre-completion Transactions will not result in any amount of Tax becoming payable by a Group Company after Completion.

15. DISCLOSURE

- 15.1 Other than as provided for in this agreement, all information contained in the Due Diligence Materials is true, complete, and accurate in all material respects.
- 15.2 Other than as provided for in clause 13.1(b):
- (a) there is no fact, matter or circumstance known to the Warrantors which renders in any material respect any of the information referred to in Warranty 15.1 misleading; and
 - (b) the Warrantors have not purposely or knowingly withheld any information which might reasonably be expected to materially affect the value of the Shares.

SCHEDULE 4 – BUYER WARRANTIES

1. THE BUYER

1.1 Capacity and authorisation: The Buyer:

- (a) is a company properly incorporated and validly existing under the laws of New Zealand; and
- (b) has the legal right and full corporate power and capacity to:
 - (i) execute and deliver this agreement; and
 - (ii) perform its obligations under this agreement and each transaction effected by or made under this agreement,

and has obtained all necessary authorisations and consents and taken all other actions necessary to enable it to do so.

1.2 Valid obligations: This agreement constitutes (or will when executed constitute) valid legal and binding obligations of the Buyer and is enforceable against the Buyer in accordance with its terms.

1.3 Breach or default: The execution, delivery and performance of this agreement by the Buyer does not and will not result in a breach of or constitute a default under:

- (a) any agreement to which the Buyer is party;
- (b) any provision of the constitution of the Buyer; or
- (c) any law or regulation or any order, judgment or determination of any court or Governmental Authority by which the Buyer is bound.

SCHEDULE 5 – PREMISES

CENTRE	ADDRESS
Albany	PO Box 302805 North Harbour 406 Rosedale Road Albany
Auckland Central	PO Box 1403 Shortland Street Auckland 1140 92 Albert Street Auckland
Blighs Road	PO Box 5591 Papanui Christchurch 8542 40-42 Blighs Road Strowan Christchurch 8052
Britomart	PO Box 1404 Shortland Street Auckland 1140 8 Tangihua Street Auckland
Broadway	PO Box 20012 257 Broadway Avenue Palmerston North
Browns Bay	41 Bute Road PO Box 35721 Browns Bay 0753
Ellerslie Millennium Centre	P O Box 11151 Ellerslie Building C 600 Gt South Rd Ellerslie
Head Office	PO Box 2646 Level 2 54 Fort Street Auckland 1143
Greenlane	PO Box 26131 Epsom Gate B, Alexandra Park Greenlane Rd Greenlane

Grey St	PO Box 9045 Terrace End 134 Grey Street Palmerston
Highbrook	P O Box 204053 Highbrook Manukau 2161 130 Kerwyn Avenue East Tamaki
Henderson	P O Box 104 210 Lincoln North Cnr Universal Drive & Lincoln Road Henderson
Jervois Road	1/272 Jervois Rd Herne Bay PO Box 46266 Herne Bay 1011
Lower Hutt Central	22a Pretoria Street PO Box 3071 Lower Hutt 5040
Napier Port	PO Box 12186 Ahuriri 27 Ossian Street Napier
Masterton	PO Box 284 342 Queen Street Masterton
Palmerston North	PO Box 20012 Palmerston North 199-201 Ruapehu Dv Palmerston North
Parnell	PO Box 4435 Shortland Street Auckland 1140 8-20 Carlaw Park Lane Auckland
Patten Street	PO Box 24196 Eastgate Christchurch 8642 7 Patten Street Avonside Christchurch 8061
Petone	121 The Esplanade Petone Lower Hutt 5012

Remuera	PO Box 128 540 Remuera 1541 45a Ascot Avenue Remuera
St Lukes	PO Box 41485 St Lukes 1346 55 Sainsbury Road St Lukes
Te Rapa	PO Box 10034 Te Rapa Hamilton 44 Church Road Te Rapa Hamilton
Upper Hutt	851-857 Fergusson Dv Upper Hutt
Vickery St	53 Vickery Street Te Rapa Hamilton
Victoria PN	PO Box 10052 Palmerston North 4 Victoria Avenue Palmerston North
Waikato Hospital	PO Box 10034 Te Rapa Hamilton 230 Pembroke Street West Hamilton
Waiwhetu	30 Waikare Avenue Waiwhetu Lower Hutt

SCHEDULE 6 – NOT USED

SCHEDULE 7 – ESCROW DEED

Escrow Deed

relating to the initial public offering of
shares in Evolve Education Group
Limited

The persons named in the Schedule (**Holders**)

Evolve Education Group Limited (**Evolve Education**)

MinterEllisonRuddWatts

L A W Y E R S

20th Floor, Lumley Centre, 88 Shortland Street, Auckland 1010
TEL + 64 9 3539700 FAX + 64 9 3539701
www.minterellison.co.nz

Escrow Deed

relating to the initial public offering of shares in Evolve Education Group Limited

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Details

Date

Parties

Name	Evolve Education Group Limited
Short name	Evolve Education
Notice Details	c/- Minter Ellison Rudd Watts, Level 20, Lumley Centre, 88 Shortland Street, Auckland
Fax	09 353 9701
Email	Mark.stuart@minterellison.com
Attention	Mark Stuart

Name	The persons named in the Schedule
Short name	Holders and each a Holder
Notice Details	As set out in the Schedule

Background

- A Evolve Education is intending to undertake an IPO, pursuant to which Evolve Education will offer new shares in Evolve Education under a separate investment statement and prospectus. Application has been or will be made to NZX and ASX for Evolve Education's shares to be quoted on the NZX Main Board and ASX.
- B For the purposes of the IPO, each Holder has agreed that, except as expressly permitted under this Deed, it will, during the Embargo Period, retain the legal and beneficial ownership of any shares in Evolve Education that are issued to it by Evolve Education.

Agreed terms

1. Defined terms and interpretation

1.1 Defined terms

In this deed:

Associated Person has the meaning given to that term from time to time in the NZSX Listing Rules.

Business Day means a day on which the NZX Main Board is open for trading.

Director means a director of Evolve Education.

Embargo Period means the period commencing on the date of completion under the Sale and Purchase Agreement and ending at 8am on the date that is 2 years after the date of completion under the Sale and Purchase Agreement.

Holding means the number of shares that are set out next to each Holders name in the Schedule.

IPO means the initial public offering of shares in Evolve Education.

Non-Interested Directors means, in relation to any decision, Directors that are not “interested” for the purposes of the Companies Act 1993.

NZX Main Board means the main board equity securities market operated by NZX.

NZSX Listing Rules means the listing rules of the NZSX (by whatever name called), as amended from time to time.

NZX means NZX Limited.

Sale and Purchase Agreement means the agreement for the sale and purchase of shares in Lollipops Educare Holdings Limited entered into between Evolve Education and the Holders on or about the date of this deed.

Schedule means the schedule to this deed.

Shares means ordinary shares in Evolve Education.

Takeovers Code means the Takeovers Code set out in the schedule to the Takeovers Code Approval Order 2000, as amended or replaced from time to time.

1.2 Interpretation

In this deed references to the singular include the plural and vice versa.

2. Retain Ownership

Each Holder unconditionally and irrevocably agrees and undertakes to the Non-Interested Directors, Evolve Education and NZX, that, subject to clause 4, it will retain the legal and beneficial ownership of its Holding for the Embargo Period.

3. Prohibition on disposal or transfer of shareholding

Each Holder unconditionally and irrevocably agrees and undertakes to the Non-Interested Directors, Evolve Education and NZX, that, subject to clause 4, during the Embargo Period it will not:

- (a) sell, grant an option over, assign, transfer by way of security or otherwise dispose of, or offer for sale or agree to sell, grant an option over, assign, transfer by way of security or otherwise dispose of, directly or indirectly; or
- (b) do, or omit to do, any act if the act or omission would have the effect of transferring effective ownership or control of,

the rights, title and interest (legal or beneficial) in all or any part of its Holding. If at any time during the Embargo Period the Shares are sub-divided or consolidated then the provisions of this deed shall continue to apply in respect of the Holding as sub-divided or consolidated (and all references to "Holding" in this deed shall be read accordingly). The rights of the Holders to deal with its Holding are also subject to the NZSX Listing Rules, the ASX Listing Rules (if applicable) and the Securities Markets Act 1988.

4. Permitted sale and security interests

4.1 Offer under Takeovers Code, Amalgamations and Scheme of Arrangements

Notwithstanding clauses 2 and 3, if a partial or full offer is made under the Takeovers Code for the Shares during the Embargo Period, or an amalgamation or scheme of arrangement with respect to the Shares is proposed, then the Holders may sell, or agree or offer to sell, all or any part of its Holding to the offeror under that takeover offer or dispose of its Holding in the context of the amalgamation or scheme of arrangement.

4.2 Compliance with Takeovers Code

Notwithstanding clauses 2 and 3, the Holders may sell, or agree or offer to sell, all or any part of its Holding to the extent required to comply with the Takeovers Code.

4.3 Security interest permitted

Notwithstanding clauses 2 and 3, the Holders may create, or agree to create, a mortgage, charge or other form of security interest over or in respect of all or any part of its Holding in favour of a recognised bank or other similar recognised lending institution provided that the lender enters into an escrow deed with Evolve Education in relation to the relevant Shares on the same terms as this deed, to take effect from the enforcement of the security interest, for the remainder of the Embargo Period.

4.4 Change in Trustee

Notwithstanding clauses 2 and 3, each of the Holders may transfer all of its Holding to any new or replacement trustee of that trust provided that the new or replacement trustee first enters into an escrow deed with Evolve Education in relation to the relevant Shares on the same terms as this deed for the remainder of the Embargo Period.

4.5 Transfer to Associated Persons

Notwithstanding clauses 2 and 3, each of the Holders may transfer all of its Holding to an Associated Person of that Holder with the prior written approval of the Non-Interested Directors (to be given at their sole discretion), provided that the Associated Person enters into an escrow deed with Evolve Education in relation to the relevant Shares on the same terms as this deed for

the remainder of the Embargo Period (with such deed to also require such person to transfer such Holding back to the Holder if it ceases to be an Associated Person of the Holder).

5. Share register matters

5.1 Direction to share registrar

To give effect to clauses 2 and 3 of this deed, each Holder will sign and deliver to Evolve Education's share registrar a direction in respect of its Holding, in favour of Evolve Education, requesting that Evolve Education's share registrar tag the Holding in its system as being unavailable for transfer during the Embargo Period.

5.2 Notice to registrar of release from restrictions

If the Holding (or any part of it), in respect of which a direction has been given under clause 5.1, is to be released from the restrictions in accordance with clause 4 of this deed, the relevant Holder may, by notice in writing to Evolve Education, request that Evolve Education instruct its share registrar to remove or amend the tag attaching to the Holding (or any part of it) and to release the same from the restrictions on transfer to the extent permitted under clause 4.

5.3 Removal of restrictions

Following receipt of a notice referred to in clause 5.2, Evolve Education shall procure that its share registrar immediately remove or amend the tag attaching to the relevant Holding and release the same from the restrictions on transfer to the extent permitted under clause 4.

6. Limitation Of Liability Of Trustees

6.1 Trustee Limitation of Liability ([•] Trust): [repeat for each trust]

- (a) [name] have entered into this agreement in their capacity as trustees of the [name of trust] Trust and not personally;
- (b) the liability under this agreement of [name(s) of trustees] and their successors as trustees of the [name of trust] Trust is not an unlimited personal liability but is limited to the assets of the [name of trust] Trust in their hands; but
- (c) [optional] nothing in this clause will limit in any way the liability of [name of persons], who is personally liable under this agreement.

7. General

7.1 Alterations to deed

No waiver, modification or alteration of, or addition to, any of the provisions of this deed shall be made unless agreed by each of the Holders, the Non-Interested Directors and Evolve Education in writing. Before agreeing to any such waiver, modification or alteration of, or addition to, this deed, Evolve Education must first obtain the written approval of NZX in accordance with NZSX Listing Rule 7.9.2.

7.2 Liability

The liability of each Holder under or otherwise in connection with this deed, is several only and shall not be joint or collective.

7.3 Independent legal advice

Each of the Holders acknowledges that it has had the opportunity to obtain independent legal advice with respect to this deed.

7.4 Counterparts and facsimiles

This deed may be executed in two or more counterparts (including facsimile or email copies) each of which shall be deemed an original, but all of which together shall constitute the same instrument.

7.5 Termination if not listed

This deed will terminate and be of no further force or effect if Evolve Education is not first listed on the NZX Main Board before 31 December 2014, or if Evolve Education ceases (otherwise than by way of suspension) to be listed on the NZX Main Board.

7.6 Specific Performance

Each Holder agrees that damages alone would be an inadequate remedy for breach of its obligations under this deed and the appropriate remedies for such a breach will include orders for specific performance, injunctive relief, any other equitable relief and/or damages.

7.7 Enforceability

For the purposes of the Contracts (Privity) Act 1982, this deed and its provisions are for the benefit of, and are intended to be enforceable by, the Non-Interested Directors, Evolve Education and NZX. Evolve Education shall advise NZX immediately if it becomes aware of a breach or likely breach of this deed and shall in consultation with NZX take such steps as NZX may require to enforce this deed or prevent or remedy a breach of this deed.

7.8 Compliance with ASX Listing Rules

During the Embargo Period, and if, and for so long as, the Company is listed on the official list of the ASX:

- (a) notwithstanding anything contained in this Deed, if the ASX Listing Rules prohibit an act being done, that act must not be done;
- (b) nothing contained in this Deed prevents an act being done that the ASX Listing Rules require to be done;
- (c) if the ASX Listing Rules require an act to be done or not to be done, authority is given for that act to be done or not to be done (as the case may be);
- (d) if the ASX Listing Rules require this Deed to contain a provision and it does not contain such a provision, this Deed is deemed to contain that provision;
- (e) if the ASX Listing Rules require this Deed not to contain a provision and it contains such a provision, this Deed is deemed not to contain that provision; and
- (f) if any provision of this Deed is or becomes inconsistent with the ASX Listing Rules, this Deed is deemed not to contain that provision to the extent of the inconsistency.

7.9 Notices

- (a) Any written notice required to be given pursuant to this deed shall (without limitation) be deemed validly given if:
 - (i) delivered by hand or sent by email (provided that the sender's email system confirms transmission to the intended recipient) to the intended recipient's physical address or email, as set out in this deed (or to such other physical address

or email as the intended recipient shall notify to the other party by written notice from time to time); and

- (ii) signed by the party giving that notice.
- (b) For the purposes of this deed, any notice delivered or transmitted by email after 5.00 pm on a Business Day, or at any time on a non Business Day, shall be deemed received at 9.00 am on the next Business Day.

7.10 Governing law and jurisdiction

This deed is governed by the laws of New Zealand and each party irrevocably and unconditionally submits to the non-exclusive jurisdiction of the courts of New Zealand.

Schedule

Holders	Notice Details	Number of Shares
Mark Clayton Finlay and Geoffrey Robertson Ashley Hosking	Address: C/- Anthony Harper, Level 8, Chorus House, 66 Wyndham Street, Auckland Attn: Geoff Hosking Email: Geoff.Hosking@ah.co.nz	
Russell Warren Thompson and Geoffrey Robertson Ashley Hosking	Address: C/- Anthony Harper, Level 8, Chorus House, 66 Wyndham Street, Auckland Attn: Geoff Hosking Email: Geoff.Hosking@ah.co.nz	
Scottfin ECE Limited	Address: 16 Wynyard Street, Devonport, Auckland 0624 Email: andy@cvp.uk.com	
Mark Clayton Finlay and Mark Dobson Trustee Company Limited as trustees of the Heath Finlay Trust	Address: C/- Anthony Harper, Level 8, Chorus House, 66 Wyndham Street, Auckland Attn: Geoff Hosking Email: Geoff.Hosking@ah.co.nz	

Signing page

EXECUTED as a deed

SIGNED by **MARK CLAYTON FINLAY**:

Signature of Mark Clayton Finlay

Signature of witness

Name of witness

Occupation of witness

City/town of residence

SIGNED by **GEOFFREY ROBERTSON
ASHLEY HOSKING**:

Signature of Geoffrey Robertson Ashley Hosking

Signature of witness

Name of witness

Occupation of witness

City/town of residence

SIGNED by **GEOFFREY ROBERTSON
ASHLEY HOSKING** as trustee of the [●]
trust:

Signature of Geoffrey Robertson Ashley Hosking

Signature of witness

Name of witness

Occupation of witness

City/town of residence

SIGNED by RUSSELL WARREN THOMPSON:

Signature of **Russell Warren Thompson**

Signature of witness

Name of witness

Occupation of witness

City/town of residence

SIGNED by MARK CLAYTON FINLAY as trustee of the [●] trust:

Signature of **Mark Clayton Finlay**

Signature of witness

Name of witness

Occupation of witness

City/town of residence

MARK DOBSON TRUSTEE COMPANY LIMITED as trustee of the [●] trust by:

Signature of director

Name of director

Signature of director

Name of director

SCOTTFIN ECE LIMITED by:

Signature of director

Name of director

Signature of director

Name of director

EVOLVE EDUCATION GROUP LIMITED by:

Signature of director

Name of director

Signature of director

Name of director

SCHEDULE 8 – IP AGREEMENT

LICENCE TO USE INTELLECTUAL PROPERTY

between

EVOLVE EDUCATION GROUP LIMITED

and

LOLLIPOPS EDUCARE HOLDINGS LIMITED

and

LEP LIMITED

and

LEDC LIMITED

and

LEP1 LIMITED

and

LEDC1 LIMITED



Auckland
Level 8, Chorus House
66 Wyndham Street
PO Box 2646
Auckland 1140
Telephone +64 9 920 6400
Facsimile +64 9 920 9599

Christchurch
Level 9, HSBC Tower
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Licence to Use Intellectual Property

Dated:

2014

Parties

- 1 **EVOLVE EDUCATION GROUP LIMITED** (Company number 5236543) a company incorporated in Auckland, New Zealand ("**Evolve**");
 - 2 **LOLLIPOPS EDUCARE HOLDINGS LIMITED** (Company number 1682573) a company incorporated in Auckland, New Zealand ("**Licensor**");
 - 3 **LEP LIMITED** (Company number 3689424) a company incorporated in Auckland, New Zealand;
 - 4 **LEDC LIMITED** (Company number 3689480) a company incorporated in Auckland, New Zealand;
 - 5 **LEP1 LIMITED** (Proposed company number 5497164) a company to be incorporated on or about the date of this deed; and
 - 6 **LEDC1 LIMITED** (Proposed company number 5497065) a company to be incorporated on or about the date of this deed
- (each a "**Licensee**")

Introduction

- A The Licensor owns certain Intellectual Property Rights as described in this deed.
- B In consideration of each Licensee granting a first right of refusal for the benefit of Evolve to purchase a Centre or shares in the Licensee, each Licensee has requested, and Evolve has agreed to procure that the Licensor grants, a licence to the Intellectual Property Rights in favour of each Licensee, on the terms and subject to the conditions set forth in this deed.

1 Definitions and interpretation

Definitions

- 1.1 In this deed, unless the context otherwise requires:

"**Affiliate**" means a person or entity that directly or indirectly controls, is controlled by or is under common control with, a party to this deed.

"**Applicable Law**" means, with respect to a party, any domestic or foreign statute, law, ordinance, rule, administrative interpretation, regulation, order, writ, injunction, directive, judgment, decree or other requirement of any New Zealand Governmental Authority.

"**Business**" means the early child care business conducted by the Licensor from time to time.

"**Business Day**" means a day on which registered banks are open for business in Auckland, excluding Saturdays, Sundays and public holidays.

"**Centre**" means each of the child care centre businesses carried on by the Licensee or any Related Company or Related Party, being New Centres and Existing Centres (as such terms are defined in this deed).

"**Claim**" means any claim or cause of action of whatever nature in contract, tort, under statute or otherwise.

"Commencement Date" means the **"Completion Date"** as that term is defined in the LEHL SPA.

"Control" has the meaning given to that term in section 7 of the Companies Act 1993.

"Directors" means Mark Clayton Finlay, in respect of LEP Limited and LEDC Limited, and Mark Finlay and Russell Warren Thompson, in respect of LEP1 Limited and LEDC1 Limited, both of Auckland and directors of each Licensee respectively.

"Disposal" or **"Disposal"** includes, in relation to a share or a unit, entering into a transaction in relation to the share or the unit (or any interest in the share or the unit), which results in a person other than the registered holder of the share or the unit:

- (a) acquiring any legal or equitable interest in the share or the unit, including an equitable interest arising from a declaration of trust, an agreement for sale and purchase or an option agreement or an agreement creating a charge or other Security Interest in the share or the unit;
- (b) acquiring any right to receive directly or indirectly any dividends payable in respect of the share or the unit;
- (c) acquiring any rights of pre-emption, first refusal or like control over the disposal of the share or the unit;
- (d) acquiring any rights of control over the exercise of any voting rights or rights to appoint directors attaching to the share or the unit; or
- (e) otherwise acquiring legal or equitable rights against the registered holder of the share or the unit which have the effect of placing the person in the same position as if the person had acquired a legal or equitable interest in the share or the unit itself.

"Existing Centre" means each Centre listed in Schedule 2 to this deed.

"Holding Company" has the meaning given in section 5 of the Companies Act 1993.

"Improvements" means any addition, improvement, modification, enhancement or development to the Intellectual Property Rights or any materials in which the Intellectual Property Rights subsist from time to time.

"Insolvency Event" means, in relation to either party:

- (a) a receiver, receiver and manager, administrator, trustee or similar official is appointed over all or any of the assets or undertaking of that party;
- (b) that party is or becomes unable to pay its debts when they are due;
- (c) that party enters into or resolves to enter into any arrangements, composition or compromise with, or assignment for the benefit of, its creditors or any class of them;
- (d) an application or order is made for the appointment of a liquidator, to that party or a resolution is passed or steps are taken to pass a resolution for the appointment of a liquidator of that party.

"Intellectual Property Rights" means:

- (a) all patents, designs, Trademarks and service marks (whether registered or unregistered);
- (b) all copyright (including copyright in software, websites, databases and advertising and other promotional materials and all upgrades in relation thereto);
- (c) Know-How.

"Know-How" means any knowledge, policies, proprietary information or data which is not generally publicly known, in respect of the physical Business of the Licensor.

"LEHL SPA" means the document entitled 'Agreement for Sale and Purchase of Shares in Lollipops Educare Holdings Limited' between Evolve (as buyer), the previous shareholders of the Licensor (as sellers) and Mark Finlay and Russell Thompson (as the sellers' directors) in the form prepared by the solicitors for Evolve and dated on or about the date of this agreement.

"Licensed Purpose" means the operation of a Centre by the Licensee or a Related Company or Related Party as the case may be.

"MOE Licence" means any licence (or provisional or probationary licence) issued by the Ministry of Education under the Education (Early Childhood Centres) Regulations 1998 or Education (Early Childhood Services) Regulations 2008 (as relevant) necessary to operate a Centre.

"New Centre" any new Centre (which for the avoidance of doubt may not include any Existing Centre) owned, acquired or developed by the Licensee or any of its Related Companies or Related Parties.

"Offer Notice" means each notice given in accordance with clause 10.1 or 10.2.

"Related Company" has the meaning given in section 2(3) of the Companies Act 1993 amended such that the term and **"Related Companies"** means any number of such companies.

"Related Party" means (and **"Related Parties"** has its corresponding meaning), any of the following persons:

- (a) any of the Directors; or
- (b) any trust established for the benefit of any of the Directors and/or their immediate families; or
- (c) any company in which at least 30 percent (inclusive) of the shares are held by or on behalf of any of the Directors.

"Restructure Agreement" has the meaning given to it in the LEHL SPA.

"ROFR Period" means in respect of each Existing Centre, 3 years from the date of this deed, and in respect of each New Centre, 3 years from the date on which the Licensee notifies the Evolve of that New Centre under clause 6.1(c). For the avoidance of doubt, the Restructure Agreement shall be deemed to have been signed prior to the date of this deed and not during the ROFR Period.

"ROFR Trigger Date" means, in respect of each Centre:

- (a) the earliest to occur of (i) the date on which the Centre achieves 80% occupancy and (ii) the date that is 3 years after the date of this deed (in relation to an Existing Centre) or 3 years after the date on which the Licensee notifies Evolve of that New Centre under clause 6.1(c) (**First Trigger Date**); and
- (b) in the event that Evolve or a Third Party does not acquire the Centre in accordance with clause 12 following the First Trigger Date, the date that is 1 year after the First Trigger Date (**Second Trigger Date**).

"Term" has the meaning given to that term in clause 9.1.

"Third Party" means any person or entity other than Evolve, the Licensee, the Licensor or any of their respective Affiliates.

"Trademarks" means the "Lollipops" and "Lollipop's Educare" trademark owned by the Licensor, which relates to the Business, as set out in Schedule 1 of this deed and any other trademarks of the Licensor notified to the Licensee by the Licensor from time to time.

Interpretation

1.2 In this deed:

- (a) where the context permits, the singular includes the plural and vice versa;
- (b) references to any "**party**" mean a party to this deed;
- (c) references to a party include the successors, executors, administrators and permitted assignees (as the case may be) of that party;
- (d) references to clauses and schedule(s) are to clauses in, and the schedule(s) to, this deed (unless stated otherwise). Each such schedule forms part of this deed;
- (e) references to any document (however described) are references to that document as modified, novated, supplemented, varied or replaced from time to time; and
- (f) where the context permits, references to a "**person**" include an individual, firm, company, corporation or unincorporated body of persons, any public, territorial or regional authority, any government, and any agency of any government or of any such authority.

2 Licence

- 2.1 Subject to the terms and conditions of this deed, the Licensor hereby grants to the Licensee, and the Licensee hereby accepts, a royalty-free, non-exclusive, non-transferable licence, to utilise and enforce, the Intellectual Property Rights and Improvements for the Licensed Purpose ("**Licence**") for the Term in accordance with the terms of this deed.
- 2.2 The Licensee agrees that the Intellectual Property Rights and Improvements may only be used in New Zealand and only for the Licensed Purpose and subject to clause 9.4 only for so long as the Licensee or a Related Company or Related Party of the Licensee owns those Centres. The Licensee will allow the Licensor reasonable access to inspect any Centre to determine whether the Licensee is complying with the terms of the Licence.
- 2.3 The Licensee shall:
 - (a) comply with such written directions as the Licensor may issue from time to time regarding the use of the Intellectual Property Rights so as to ensure that the Licensor is using the Intellectual Property Rights in a manner that is consistent with the Licensor's use of the Intellectual Property Rights;
 - (b) use the Trademarks in the form stipulated from time to time;
 - (c) only use the Intellectual Property Rights for the purposes authorised in this deed;
 - (d) not use the Trademarks in a manner that would allow them to become generic, lose their distinctiveness, mislead the public or be materially detrimental to or inconsistent with the good name, goodwill, reputation and image of the Licensor;
 - (e) not use the Trademarks accompanied by other trademarks (whether registered or not) without the prior written consent of the Licensor;
 - (f) not obtain or claim any right, title or interest in or to the Trademarks or other Intellectual Property Rights licensed to the Licensee under this deed and acknowledges and agrees that the benefit of all such use and goodwill in the Trademarks shall at all times enure to the Licensor;
 - (g) not adopt, apply to register or use anywhere in the world any trade mark, symbol or device which incorporates or is confusingly or deceptively similar to or a colourable imitation of the Trademarks.
- 2.4 The Licensee shall promptly disclose to the Licensor in confidence and in such detail as the Licensor may reasonably require all Improvements developed or acquired during the Term.

The Licensor shall own all Improvements and all intellectual property rights in or to Improvements and the Licensee and any Related Company and Related Party shall have no right, title or interest in or to Improvements except the right to use them on the terms of this deed shall vest immediately in the Licensor on creation.

- 2.5 In consideration for Evolve procuring the Licensor to grant the Licence to the Licensee, the Licensee grants Evolve the rights set out in clause 10 of this deed.
- 2.6 No restraint on competition provided for under any binding sale and purchase agreement referred to in clause 7.7(a) of the LEHL SPA, or any terms of transfer referred to in clause 7.7(b) of the LEHL SPA, shall otherwise prevent LEP Limited, its Related Companies or the Related Parties, exercising their respective rights and performing their obligations under this deed.
- 2.7 No restraint on competition provided for in the LEHL SPA shall, in the case of each Licensee, its Related Companies or its Related Parties, exercise their respective rights and performing their obligations under this deed.

3 Sub-Licence

- 3.1 The Licensee has the right to sub-licence all its rights under this deed to a third party, with the prior written approval of the Licensor (such consent not to be unreasonably withheld in the case of a reputable and responsible sub- licensee and in any case to be supplied or withheld as the case may be within 10 Working Days), or to a Related Company or Related Party but on the basis that the Licensee agrees to procure that the third party, Related Company or Related Party complies with the terms of this deed, and that any such third party, Related Company or Related Party enters into a deed of adherence, allowing the Licensor to directly enforce the relevant sub-licence and that any such sub-licence terminates immediately upon termination of this deed or:
- (a) in the case of a sub-licence to a Related Company, upon the Related Company ceasing to be a Related Company of the Licensee, whichever occurs earlier; or
 - (b) in the case of a sub-licence to a Related Party, upon the Related Party ceasing to be a Related Party of the Licensee, whichever occurs earlier.
- 3.2 The rights contained in clause 3.1 apply only prior to the grant of the MOE Licence for the relevant Centre operated by the sub- licensee.

4 Infringement of Intellectual Property Rights

Notification of Infringement or Claim

- 4.1 If either party to this deed shall learn or believe that:
- (a) any unauthorised person has come into possession of any part of the Intellectual Property Rights or is infringing, or threatening to infringe, the Intellectual Property Rights; or
 - (b) any person is alleging or claiming (whether in writing or otherwise) that the use of the Intellectual Property Rights by the Licensee or the Licensor infringes any Third Party rights.

that party must immediately notify the other party, including full particulars of the infringement or claim, and the parties must, subject to clause 4.2, confer and decide what course should be taken as soon as is practicable after such a notification.

Licensor Elects to Proceed Solely

- 4.2 The Licensor has the first right, but not the obligation, to solely institute or defend any proceedings concerning the Intellectual Property Rights, and, if the Licensor elects to exercise that right:

- (a) the Licensee must, at the reasonable cost and expense of the Licensor, provide to the Licensor all reasonable assistance in its power with respect to the proceedings, including allowing the Licensor to institute proceedings in the name of the Licensee;
- (b) the Licensor must fully consult with, and have due regard to the interests of, the Licensee;
- (c) the Licensee must, at the reasonable cost and expense of the Licensor, execute a power of attorney or other authority to enable the Licensor to institute or defend any proceedings;
- (d) the Licensor may solely give all instructions to legal representatives;
- (e) the Licensor must not settle or compromise any action without the prior written consent of the Licensee not to be unreasonably withheld;
- (f) the Licensor shall solely be responsible for all legal fees and disbursements with respect to such proceedings; and
- (g) the Licensor shall retain any damages or other monies that accrue from those proceedings.

Parties Decide to Act Jointly

- 4.3 If the Licensor does not exercise its right to solely institute or defend any proceedings under clause 4.2 and the parties decide to jointly proceed with instituting or defending any proceedings concerning the Intellectual Property Rights, the parties will enter into an agreement setting out the terms upon which the institution of defence of proceedings will occur.

Licensee's Right to Take Action

- 4.4 If the Licensor does not exercise its right to solely institute or defend any proceedings under clause 4.2 and the parties do not decide to act jointly under clause 4.3, the Licensee may take such action at the Licensee's cost, provided that:
- (a) the Licensor must, at the reasonable cost and expense of the Licensee, provide to the Licensee all reasonable assistance in its power with respect to the proceedings;
 - (b) the Licensee must fully consult with, and have due regard to the interests of, the Licensor;
 - (c) the Licensor must, at the reasonable cost and expense of the Licensee, execute a power of attorney or other authority to enable the Licensee to institute or defend any proceedings;
 - (d) the Licensee may solely give all instructions to legal representatives;
 - (e) the Licensee must not settle or compromise any action without the prior written consent of the Licensor;
 - (f) the Licensee shall solely be responsible for all legal fees and disbursements with respect to such proceedings; and
 - (g) the Licensee shall retain any damages or other monies that accrue from those proceedings.

5 Representations and Warranties

Mutual Representations

- 5.1 Each party hereby represents and warrants to the other as follows (except in each case as has been previously disclosed in writing by such party to the other party):

- (a) **Due Organisation:** it is a company duly organised, validly existing and in good standing, under the laws of its jurisdiction of incorporation.
- (b) **Due Authority:** it has the full right, power and authority to execute and deliver this deed, and to perform its obligations hereunder.
- (c) **No Conflict:** The execution, delivery and performance by it of this deed and its compliance with the terms and provisions hereof does not and will not conflict with or result in a breach of any of the terms and provisions of, or constitute a default under or a violation of:
 - (i) any agreement or deed where such conflict, breach or default would impair in any material respect the ability of such party to perform its obligations hereunder; or
 - (ii) the provisions of its constitution or equivalent rules; or
 - (iii) any Applicable Law.
- (d) **Binding Obligation:** This deed has been duly authorised, executed and delivered by it and constitutes its legal, valid and binding obligation enforceable against it in accordance with its terms subject, as to enforcement, to bankruptcy, insolvency, reorganisation and other laws of general applicability relating to or affecting creditors' rights and to the availability of particular remedies under general equitable principles.

6 Licensee Obligations

6.1 In addition to its other obligations under this deed, the Licensee will:

- (a) notify the Licensors as soon as is practicable in the event it receives a notice of regulatory non-compliance with Applicable Law or is the object of any governmental or regulatory action which pertains to a Centre, or the Licensee;
- (b) allow the Licensors reasonable access to inspect the Centre, and/or provide the Licensors with reasonable access to any information requested by the Licensors, at the Licensors' cost, in regards to the Centre, or the Licensee that is the subject of the notice of regulatory non-compliance with Applicable Law or is the object of any governmental or regulatory action referred to in clause 6.1(a); and
- (c) the Licensee shall provide the Licensors with a notice in the form set out in Schedule 3 fully and accurately completed ("**New Centre Notification**") not more than two months but not less than one month prior to any New Centre commencing operations.

7 Licensee Non-Compete

- 7.1 The Licensee undertakes to Evolve and the Licensors that neither the Licensee, nor any of its Affiliates, Related Parties or Related Companies shall, during the Term, develop or acquire any childcare centre business within a 3 kilometre radius from any childcare centre business owned or managed by Evolve, the Licensors or any of their respective Related Companies, unless:
- (a) there is an existing resource management consent held by a third party for the centre to be developed by the Licensee, its Affiliates, Related Parties or Related Companies; or
 - (b) by mutual agreement of the parties (with the Licensors acting reasonably) if the relevant childcare centre owned or managed by the Licensors has an average occupancy over the preceding 3 months of 80% or greater.

8 Confidentiality

- 8.1 The Licensee shall keep all the Intellectual Property Rights and all materials in which Intellectual Property Rights subsist (to the extent that such Intellectual Property Rights or

materials as the case may be are not in the public domain) and the terms of this deed (together "**Confidential Information**") secret and confidential and shall not at any time nor for any reason disclose or allow any Confidential Information to be disclosed to any Third Party except:

- (a) to the extent permitted in this deed or in any other deed and/or agreement between the Licensor and the Licensee; or
- (b) with the written consent of the Licensor; or
- (c) the Licensee may, subject to an undertaking of confidentiality in substantially the same terms as this clause 8.1, disclose or allow Confidential Information to be disclosed:
 - (i) pursuant to a sub-licence granted to any sub-licensee;
 - (ii) to a potential investor in the Licensee who also agrees not to use the Confidential Information for any purpose other than assessing the potential investment in the Licensee; or
 - (iii) to a potential sub-licensee who also agrees not to use the Confidential Information for any purpose other than assessing the potential sub-licence.

8.2 The obligations of the Licensee under this clause 9 shall survive the expiry or termination for whatever reasons of this deed.

9 Term and Termination

Term and Renewal

9.1 Subject to clause 9.4 this deed shall commence on the Commencement Date and shall continue for a period of 10 years ("**Term**") unless terminated earlier in accordance with the terms of this deed.

Termination

9.2 This deed may be terminated at any time and with immediate effect by written notice given by either party (referred to in this clause as the "**First Party**") to the other party (referred to in this clause as the "**Second Party**") if:

- (a) the Second Party has failed to comply with an earlier written notice given by the First Party specifying a breach of this deed by the Second Party and, in the case of a breach which is capable of remedy, requiring that the Second Party remedy that breach within 30 days after receipt of that earlier notice, provided that the First Party may not at any time give such a notice terminating this deed if, at that time, the First Party is in default under this deed; or
- (b) an Insolvency Event occurs in relation to the Second Party;
- (c) there is a change of Control of the Licensee, other than pursuant to the Restructure Agreement;
- (d) the Licensee (or any Related Company of the Licensee) applies to list its securities on a stock exchange; or
- (e) there is a child death at any Centre where the Licensor considers, acting reasonably, that such event is detrimental to the reputation of the Licensor's business.

9.3 Upon termination of this deed for whatever reason:

- (a) such termination shall be without prejudice to the rights and remedies of either party in respect of any breach of this deed by the other party, where such breach occurred prior to the termination of this deed; and

- (b) the provisions of clauses 5 and 8 together with those other provisions of this deed which are incidental to, and required in order to give effect to those clauses, shall remain in full force and effect.

- 9.4 If at any time a Centre is sold by the Licensee or a Related Company or a Related Party, the Licence to use the Trademarks shall continue for a period of 6 calendar months following sale of the Centre solely for the purpose of the Licensee to sublicense the Trademarks to the purchaser of that Centre on a transitional basis and provided that the purchaser enters into a sublicense consistent with the terms of clause 3.1 as if that purchaser were a Related Company or a Related Party (as the case may be). The Licensee may on the prior written consent of the Licensor sell any Centre with the ongoing right to use manuals and other materials in which Intellectual Property Rights of the Licensor other than the Trademarks subsist.

10 Licensor's Right of First Refusal

- 10.1 On each ROFR Trigger Date in respect of a Centre, the Licensee (or the relevant Related Company or Related Party of the Licensee) that owns the relevant Centre must offer to sell that Centre to Evolve by giving Evolve a written notice ("**Offer Notice**") setting out the terms and conditions of the offer. The Licensee must provide to Evolve such due diligence information in respect of the relevant Centre as Evolve may reasonably require.

- 10.2 If at any time during the ROFR Period of a Centre the Licensee (or the relevant Related Company or Related Party of the Licensee that owns the Centre) wants to:

- (a) sell a Centre; or
- (b) allow the Disposal of shares or units to a person who is not (i) an existing shareholder in the Licensee, or (ii) a Related Company or Related Party of the Licensee, such that there is a change of Control in the Licensee or a Related Company or Related Party, or a change in Control of any entity that Controls the Licensee; and

subject to the Licensee seeking legal advice as to the structure of the sale or Disposal, the Licensee must first offer to sell each Centre to Evolve on the same terms as any offer the Licensee has received from a Third Party ("**Third Party Offer**") by giving Evolve a written notice ("**Offer Notice**") setting out the terms and conditions of the Third Party Offer. The Licensee must provide to Evolve such due diligence information in respect of the relevant Centre or Centres as Evolve may reasonably require. For the purposes of this clause 10.2, the definition of Related Party is amended by deleting the reference to "at least 30 percent" in sub-clause (c) and replacing it with "in excess of 50 percent".

- 10.3 Evolve may accept the offer contained in the Offer Notice by giving notice of acceptance to the Licensee before the end of the Offer Period ("**Acceptance Notice**").
- 10.4 The Acceptance Notice may contain terms which vary the terms of the Offer Notice if the terms upon which Evolve agrees to buy the Centre are not commercially less favourable to the Licensee than those contained in the Offer Notice.
- 10.5 For the purpose of this clause 12, ("**Offer Period**") means the period of 10 Business Days after the Licensor confirms in writing to the Licensee that it has received all the due diligence information that the Licensee reasonably requires in relation to the relevant Centre.
- 10.6 If the Licensee receives the Acceptance Notice during the Offer Period the Licensee must sell and Evolve must purchase the Centre upon the terms and conditions contained in the Offer Notice as may be varied by the Acceptance Notice.
- 10.7 If Evolve does not accept the offer contained in the Offer Notice within the Offer Period, the Licensee is entitled to sell the Centre or allow the Disposal of shares or units to a Third Party within 60 Business Days after the end of the Offer Period as long as:
- (a) the sale or Disposal is not made for less than the price specified in the Offer Notice or on the terms and conditions more favourable to the third party than those contained in the Offer Notice; and

- (B) if the Licensee does not sell the Centre within the period referred to in clause 10.7 the rights of Evolve are revived and the Licensee must not permit any sale or Disposal without first offering the Centre to Evolve in accordance with this clause 12;
 - (C) on any sale to a Third Party the Licence in respect of the relevant Centre or Centres shall terminate on completion of the sale to the Third Party and the provisions of clause 9.4 shall apply.
- 10.8 If Evolve has not acquired the relevant Centre following the Second Trigger Date then the Licence shall terminate in respect of that Centre on the date that Evolve notifies the Licensee in writing that it will not purchase the relevant Centre. If the Licence terminates, the Licence to use the Trademarks shall continue for a period of 6 calendar months following the date of termination solely for the purpose of the Licensee change its branding.

11 Limitation of Liability

- 11.1 Except to the extent expressly set out in this deed, all representations, conditions, warranties or undertakings (including those arising by statute, general law or otherwise) are expressly excluded from this deed to the fullest extent permissible by Applicable Law.
- 11.2 Any Claim by a party to this deed is excluded to the extent that it is for indirect or consequential loss, loss of profit, loss of revenue, anticipated loss of profit or revenue, loss of production, loss of business opportunity, loss of use, loss of or damage to goodwill or reputation, however it arises.

12 Nominee

- 12.1 The Licensee may, by giving the Vendor 2 Business Days' notice prior to the Commencement Date, nominate a Holding Company, to receive the Licence. In the event of such a nomination, the Licensee shall procure that its nominee promptly execute, and provide to the Licensor and Evolve a binding acknowledgement in favour of the Licensor and Evolve ("**Nominee's Acknowledgement**"), providing that the nominee agrees to be bound by the provisions of this deed as if the nominee was the Licensee and then that company nominated by the Licensee pursuant to this clause, shall be deemed to be the "Licensee" for the purposes of this deed.

13 General

Counterparts

- 13.1 This deed may be executed in one or more counterpart copies which, read together, shall constitute one and the same instrument.
- 13.2 Any electronic or facsimile copy of this deed (including any pdf or facsimile copy of any document evidencing the execution of this deed by either party) may be relied upon by the other party as though it were an original copy.

Entire Agreement

- 13.3 This deed, together with all exhibits and schedules attached hereto, contains the entire agreement and understanding of the parties hereto, and supersedes any prior agreements, deeds or understandings between the parties with respect to the subject matter hereof.

Further Assurances

- 13.4 Each party shall do all things and execute all documents reasonably required in order to give effect to the provisions and intent of this deed.

Force Majeure

- 13.5 Neither party shall be liable for any act, omission or failure under this deed if that act, omission or failure arises directly from a cause beyond the reasonable control of the party

concerned, including (without limitation) extreme weather conditions, civil disruption or industrial action, provided that:

- (a) the party claiming the protection of this clause shall, as soon as possible after becoming aware of such cause or the likelihood of such cause, give the other party written notice accordingly;
- (b) notwithstanding the intervention of such cause, each party shall continue to use all reasonable endeavours to perform its obligations as required under this deed (excluding any obligations which have already been duly performed as at the date of the relevant cause) despite that cause; and
- (c) in any such event, neither party shall be deemed to have accepted any extra costs which may be incurred or sustained by the other party through a delay resulting from that cause.

Relationship of the Parties

- 13.6 Nothing expressed or implied in this deed shall constitute either party as the partner, agent, employee or officer of, or as a joint venture with, the other party, and neither party shall make any contrary representation to any other person.

Use of Names

- 13.7 Neither party shall use the name, trade name or trade mark of the other party in connection with this deed without the express prior written consent of the other party.

Authorised Representatives

- 13.8 Each party shall nominate, by notice to the other party, an authorised representative who shall be available at reasonable notice, during business hours, and shall have full authority to bind the party they represent, including, without limitation, to settle any dispute arising from this deed.
- 13.9 The initial authorised representatives of each of the parties to this deed shall be the persons first named in Schedule 4.

Notices

- 13.10 Each notice or other communication given under this deed must be in writing and sent by facsimile, email, personal delivery or by post to the addressee at the facsimile number, email address or postal address, and marked for the attention of the person (if any), last notified for the purpose by the addressee to the other party or parties.

Waivers and Modifications

- 13.11 The failure of any party to insist on the performance of any obligation hereunder shall not be deemed to be a waiver of such obligation. Waiver of any breach of any provision hereof shall not be deemed to be a waiver of any other breach of such provision or any other provision.

Amendment

- 13.12 No waiver, modification, release or amendment of any obligation under this deed shall be valid or effective unless in writing and executed by both parties in the same manner as that in which this deed has been executed.

Costs

- 13.13 Subject to any express contrary provision in this deed, each party shall meet its own costs in connection with the negotiation, preparation, execution and implementation of this deed.

Survival

13.14 The provisions of the following clauses of this deed shall survive expiry or termination of this deed, 2.3(f), 2.3(g), 2.4, 4.2, 8, 11 and 13.

Executed as a DEED

Signed for and on behalf of **Evolve Education Group Limited** by:

Director's signature

Director's signature

Director's full name

Director's full name

Signed for and on behalf of **Lollipops Educare Holdings Limited** by:

Director's signature

Director's signature

Director's full name

Director's full name

SIGNED for and on behalf of)
)
LEDC Limited as Licensee)
in the presence of)

Director

Witness signature

Full Name

Address

Occupation

)
SIGNED for and on behalf of

)
LEP Limited as Licensee

)
in the presence of

Director

Witness signature

Full Name

Address

Occupation

Signed for and on behalf of **LEP1 Limited** as
Licensee by:

Director's signature

Director's signature

Director's full name

Director's full name

Signed for and on behalf of **LEDC1 Limited**
as Licensee by:

Director's signature

Director's signature

Director's full name

Director's full name

SCHEDULE 1

INTELLECTUAL PROPERTY

TRADEMARKS AND TRADEMARK APPLICATIONS

Trademark Number	Title	Class	Date Filed	Country
638753	LOLLIPOP'S EDUCARE; LOLLIPOP'S EDUCARE.	41	30 May 2001	New Zealand
655585	LOLLIPOP'S EDUCARE; LOLLIPOP'S EDUCARE.	43	16 April 2002	New Zealand
737056	L O L L I P O P S EDUCARE; L O L L I P O P S EDUCARE.	41	13 October 2005	New Zealand

SCHEDULE 2

CENTRES

Name of Centre	Address
Newton	6 Basque Road, Newton, Auckland
Takanini	64a Walter Strevens Drive, Connifer Grove, Takanini, Auckland
Levin	40-46 Wareroa Road, Levin
Swanson	114 Swanson Road, Swanson, Auckland
Pukekohe Central	1, 1A and 2B Harrington Avenue, Pukekohe, Auckland

SCHEDULE 3
NEW CENTRE NOTIFICATION

1. **Name of Centre:**
2. **Location of Centre:**
3. **Centre Commencement Date:**
4. **Occupancy:**
5. **Special conditions:**
6. **Date of commencement:**

SCHEDULE 4

AUTHORISED REPRESENTATIVES

For the Licensor:

For LEP Limited: Mark Finlay/ Russell Thompson (jointly).

For LEDC Limited: Mark Finlay/Russell Thompson

For LEP1 Limited: Mark Finlay/Russell Thompson

For LEDC1 Limited: Mark Finlay/Russell Thompson

SCHEDULE 9 – CENTRE MANAGEMENT AGREEMENT

Centre Management Agreement

LEDC Limited and LEP Limited (**Owners**)

Evolve Education Group Limited (**Centre Manager**)

SC-284200-11-186-V2

MinterEllisonRuddWatts

L A W Y E E R S

20th Floor, Lumley Centre, 88 Shortland Street, Auckland 1010
TEL + 64 9 3539700 FAX + 64 9 3539701
www.minterellison.co.nz

Centre Management Agreement

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Details

Date

Parties

Name	LEDC Limited and LEP Limited
Short name	Owners
Notice details	Unit 9, 22a Kalmia Street, Ellerslie, Auckland
Facsimile	09 377 8712
Attention	Mark Finlay

Name	Evolve Education Group Limited
Short name	Centre Manager
Notice details	Level 2, 54 Fort Street, Auckland
Facsimile	
Attention	Chief Financial Officer

Background

- A The Owners are in the business of developing and operating child care centres.
- B The Owners intend that the Centre Manager will manage the Centres on the terms of this Agreement.
- C The Owners are, or will be, the owners of the Centres.
- D The Centre Manager has agreed to accept the appointment. As consideration, the Owners will pay the Management Fees to the Centre Manager.

Agreed terms

1. Defined terms and interpretation

1.1 Defined terms

In this agreement:

Agreement means this agreement, including any schedule or annexure to it.

Building means the building and all improvements from which the Centres operate, including all fixtures and fittings in the buildings from time to time.

Business and Businesses has the meaning given to it in Item 8 of Schedule 1.

Business Day means a day that is not a Saturday, Sunday or any other day which is a public holiday or a bank holiday in the place where an act is to be performed or a payment is to be made.

Business Hours has the meaning given to it in Schedule 1.

Centre means each of the child care centre Businesses carried on by the Owners or any of their Related Companies, including New Centres and Existing Centres (as such terms are defined in clause 2.2).

Centre Commencement Date has the meaning given to it in Schedule 3 and which is to be confirmed by the Owners in writing 60 days prior to the stated date.

Claim means any claim or cause of action of whatever nature in contract, tort, under statute or otherwise.

Commencement Date means the date this Agreement commences specified in Item 1 of Schedule 1.

Control has the meaning given in section 7 of the Companies Act 1993.

Costs means any costs, expenses, fees, charges, bonds, development contributions, disbursements, duties or levies whatsoever in relation to the Centre.

Default Rate has the meaning given to it in Item 13 of Schedule 1;

Dispose or Disposal includes, in relation to a share or a unit, entering into a transaction in relation to the share or the unit (or any interest in the share or the unit), which results in a person other than the registered holder of the share or the unit:

- (a) acquiring any legal or equitable interest in the share or the unit, including an equitable interest arising from a declaration of trust, an agreement for sale and purchase or an option agreement or an agreement creating a charge or other Security Interest in the share or the unit;
- (b) acquiring any right to receive directly or indirectly any dividends payable in respect of the share or the unit;
- (c) acquiring any rights of pre-emption, first refusal or like control over the disposal of the share or the unit;
- (d) acquiring any rights of control over the exercise of any voting rights or rights to appoint directors attaching to the share or the unit; or

- (e) otherwise acquiring legal or equitable rights against the registered holder of the share or the unit which have the effect of placing the person in the same position as if the person had acquired a legal or equitable interest in the share or the unit itself; and

Establishment Services means the services to be provided by the Centre Manager in relation to commencement of each Centre and the transition of the management of that Centre to the Centre Manager.

Further Term means the period or periods set out in Item 7 of Schedule 1.

GST means goods and services tax under the Goods and Services Tax Act 1985.

Initial Term means the period described in Item 6 of Schedule 1.

Insolvency Event means, in respect of a Party:

- (a) an order being made, or a resolution being passed or any steps being taken to pass such a resolution, for the Party's liquidation or for the Party to be placed under official management or otherwise wound up or dissolved;
- (b) an application being made to a court for an order for the Party's liquidation or for the Party to be placed under official management or otherwise wound up or dissolved, or any steps being taken to seek such an order, unless the application is withdrawn or dismissed within 15 Working Days;
- (c) an administrator or statutory manager being appointed to the Party;
- (d) the Party resolving to appoint, or any steps being taken to appoint, a receiver or receiver and manager, official manager, administrator or similar official to the Party or any material part of the Party's assets;
- (e) an application being made to a court for an order to appoint a receiver or receiver and manager, official manager, administrator or similar official, provisional liquidator, trustee for creditors or analogous person to the Party or any material part of the Party's assets, unless the application is withdrawn or dismissed within 15 Working Days;
- (f) an appointment of the kind referred to in paragraph (e) above being made (whether or not following an application);
- (g) the holder of a security interest taking possession of any material part of the Party's assets;
- (h) the Party suspending payment of its debts (that are not the subject of a bona fide dispute), ceasing (or threatening to cease) to carry on the majority of its business or being or becoming unable to pay its debts when they are due or being or becoming otherwise insolvent; or
- (i) the Party taking any step to enable it to enter into a court-sanctioned compromise or arrangement with, or assignment for the benefit of, any of its creditors, unless such event takes place as part of a solvent reconstruction, amalgamation, merger or consolidation;
- (j) an event happens analogous to an event specified in clauses (a) to (i) to which the law of another jurisdiction applies and the event has an effect in that jurisdiction similar to the effect which the event would have had if the law of New Zealand applied;

Invoice Payment Period has the meaning given to it in Item 12 of Schedule 1.

Invoice Period has the meaning given to it in Item 11 of Schedule 1.

IP Licence means the Licence to use intellectual property entered into between LEP Limited Lollipops Educare Holdings Limited and the Centre Manager on or about the date of this Agreement.

Loss includes any damage, loss, Cost, Claim, liability or expense.

Management Fees means the fees to be paid to the Centre Manager in respect of each Centre and calculated in accordance with Item 10 of Schedule 1.

Offer Notice has the meaning given to it in clause 10 of the IP Licence.

Other Licensee means any person other than LEP or LEDC, who is granted, and entitled to, the benefit of a licence under the IP Licence.

Premises has the meaning given to it in Schedule 1.

Property Manager has the meaning given to it in Item 15 of Schedule 1.

Quarter means each period of 3 months ending March 31, June 30, September 30 and December 31.

Related Companies have the meaning given in section 2(3) of the Companies Act amended such that the term "Companies" where used in that section includes any corporate entity wherever incorporated and "Related Companies" means any number of such companies.

Responsible Authority means any person or government, municipal, statutory or other authority or body having authority or jurisdiction over a Centre, the Services or any systems or utilities or services supplied or connected to a Centre.

ROFR Period has the meaning given to it in clause 1 of the IP Licence.

ROFR Trigger Date has the meaning given to it in clause 1 of the IP Licence.

Security Interest means any interest held as security for the payment of a monetary obligation or the performance of any other obligation, including:

- (a) a mortgage, charge, encumbrance, lien, pledge or hypothecation; and
- (b) a bill of sale, assignment, title retention arrangement, trust or power held as security;

Services means the specific services to be performed by the Centre Manager in relation to each Centre, including those services specified in Item 9 of Schedule 1; and

Term means the term of this Agreement, being the Initial Term and any Further Terms under clause 2.3(b).

Third Party has the meaning given to that term in clause 1 of the IP Licence.

1.2 Interpretation

In this Agreement:

- (a) reference to:
 - (i) one gender includes the others;
 - (ii) the singular includes the plural and the plural includes the singular;
 - (iii) a person includes a body corporate;
 - (iv) a party includes the party's executors, administrators, successors and permitted assigns;
 - (v) a thing includes the whole and each part of it separately;

- (vi) a statute, regulation, code or other law or a provision of any of them includes:
 - (A) any amendment or replacement of it; and
 - (B) another regulation or other statutory instrument made under it, or made under it as amended or replaced.
- (b) “Including” and similar expressions are not words of limitation;
- (c) where a word or expression is given a particular meaning, other parts of speech and grammatical forms of that word or expression have a corresponding meaning;
- (d) headings and any table of contents or index are for convenience only and do not form part of this Agreement or affect its interpretation;
- (e) a provision of this Agreement must not be construed to the disadvantage of a party merely because that party was responsible for the preparation of the Agreement or the inclusion of the provision in the Agreement;
- (f) all monetary amounts are in New Zealand dollars, unless otherwise stated; and
- (g) if an act must be done on a specified day which is not a Business Day, the act must be done instead on the next Business Day.

2. Appointment of the Centre Manager

2.1 Appointment of Centre Manager

The Owners exclusively appoint the Centre Manager to perform the Services, and the Centre Manager accepts its appointment in consideration for the payment of the Management Fees.

2.2 Existing and New Centres

- (a) The Centre Manager agrees to provide the Services to the Centres identified in Schedule 2 (the “**Existing Centres**”) with effect from the date of the commencement specified in Schedule 1 and otherwise on the terms of Schedule 1 and this Agreement.
- (b) The Centre Manager and the Owners agree that the Centre Manager shall have an exclusive right to manage any new centre owned, acquired or developed by the Owners or any of their Related Companies (each a “**New Centre**”) on the terms of this Agreement.
- (c) The Owners shall provide the Centre Manager with a notice in the form set out in Schedule 3 (“**New Centre Notification**”) prior to any New Centre commencing operations.

2.3 Term

- (a) This Agreement commences on the Commencement Date, and unless terminated in accordance with this Agreement, will continue for the Initial Term.
- (b) The Centre Manager or the Owners may by notice to the other party extend the Term for the Further Terms by notice in writing at least three months prior to the expiry of the current Term (and the first Further Term, if extended). If extended, this Agreement continues on the same terms until the expiry of the last of the Further Terms, unless terminated by either party earlier in accordance with this Agreement.

2.4 Exclusive appointment

The appointment of the Centre Manager under this Agreement is exclusive. During the Term, the Owners must not, and must procure that each of their Related Companies does not, appoint or engage a third party to provide services for the Centres that are the same as, or equivalent to, the Services.

2.5 Actions of Related Companies

The Parties acknowledge that the Owners may own or operate Centres through wholly owned subsidiaries or Related Companies in which case the Owners must procure that such subsidiaries and Related Companies comply with this Agreement as if they were the Owners.

2.6 No partnership, joint venture or trust

Nothing contained or implied in this Agreement constitutes the Centre Manager as the partner, joint venturer or legal representative of the Owners for any purpose, or creates any partnership, joint venture or trust, and the Centre Manager has no authority to bind the Owners in any way other than as expressly provided in this Agreement.

2.7 Return of business records

The Centre Manager must deliver all leases, agreements, business records, schedules, lists and other documentation relating to the Centre (whether prepared by the Centre Manager or otherwise) in its possession or control to the Owners or as the Owners otherwise direct upon the earlier of:

- (a) expiry or termination of this Agreement; or
- (b) expiry or termination of the Centre Manager's appointment under this Agreement in respect of a Centre.

3. Obligations of the Centre Manager

3.1 Centre management obligations

- (a) The Centre Manager is responsible for undertaking the Services in relation to the Centres for the Term.
- (b) The Centre Manager agrees to:
 - (i) extend the benefit of, and any rights derived under, this Agreement to any Other Licensee; and
 - (ii) enter into a Centre Management Agreement with any Other Licensee on the same terms and conditions of this Agreement for the remainder of the Term of this Agreement.

3.2 Standard of conduct

- (a) In providing the Services, the Centre Manager must:
 - (i) comply with all applicable laws, and Applicable Regulations and must maintain all licences and authorisations for the continued operation of the Centre at the cost of the Owners;
 - (ii) perform the Services to that standard of care and skill to be expected of a consultant who regularly acts as a manager of childcare facilities and who possesses the knowledge, skill and experience of a consultant qualified to act in that capacity;
 - (iii) carry out the Services in a timely and expeditious manner in accordance with usual industry practice for the provision of services such as, or similar to, the Services;
 - (iv) ensure that it has the staff, facilities and capacity to ensure that it can properly perform the Services;
 - (v) keep the Owners regularly informed on all key issues concerning the Centres and take into account the views of the Owners concerning those matters;

- (vi) obtain, and maintain current, all necessary licences, permits or consents as are required so as to enable it to lawfully perform its duties and obligations in terms of this Agreement; and
 - (vii) comply with all reasonable written directions which the Owners may give in relation to the Services within a reasonable time, being no more than 14 days from receipt of the direction.
- (b) The Centre Manager warrants that it has the skill, competence, resources and experienced personnel available to perform the Services.

3.3 Personnel

(a) Supervision

The Centre Manager must:

- (i) cause to be hired, paid and supervised (as employees of the Centre Manager or as independent contractors) all other persons necessary to provide the Services in accordance with this Agreement; and
- (ii) if Item 17 of Schedule 1 provides that the Centre Manager will manage payroll support and services including superannuation, award advice and updates, the Centre Manager will manage such payroll support and services.

(b) Consultation

Subject to the written instructions of the Owners, the Centre Manager must consult with and instruct from time to time, other consultants such as child care experts, on the Owners' behalf, which are in the opinion of the Owners necessary to be consulted in the provision of the Services.

(c) Staff meeting, induction and training

- (i) Within the first month from the Commencement Date, the Centre Manager will:
 - (A) procure that all the Owners' employees or independent contractors (**Staff**) attend, and will conduct, a compulsory meeting of all Centre Staff in relation to:
 - (I) the transition of management to the Centre Manager; and
 - (II) the Centre Manager's obligations in respect of the Services and under this Agreement; and
 - (B) conduct individual meetings with relevant members of Staff to be determined at the Centre Manager's sole discretion in relation to their obligations in respect of the Services.
- (ii) Within the first month from the Commencement Date, the Centre Manager will conduct individual training with relevant members of Staff to be determined at the Centre Manager's sole discretion in relation to policies and procedures training.

(d) Professional indemnity insurance

- (i) The Centre Manager must take out with an insurance company acceptable to the Owners and maintain current throughout the Term and any extension of this Agreement, a policy of Professional Indemnity Insurance in the sum of not less than the amount per event specified in Item 15 of Schedule 1.

- (ii) The Centre Manager must produce to the Owners a copy of the policy and certificates of currency upon renewal of the policy.

(e) **Compliance with agreed budget**

The Centre Manager must, in performing the Services, comply with the budget that has been agreed by the parties in respect of the Services for each Centre.

(f) **Accounts**

The Owners and the Centre Manager agree that:

- (i) the Owners will code expenses and administration accounts (which on completion shall be provided to the Centre Manager), and shall be responsible for the payment of all third party suppliers for each Centre; and
- (ii) the Centre Manager must establish, maintain and keep full and adequate books of account, including all third party accounts with the suppliers of each Centre, other records reflecting the conduct of the Services and all other financial and accounting matters associated with the Centres. If directed by the Owners, the books of account and records must be securely kept by the Centre Manager at each Centre and made available to the Owners and its representatives, at all reasonable times, for examination, audit, inspection and transcription. All of such books and records at all times shall be the property of the Owners.

(g) **Reporting**

For the Term of this Agreement, the Centre Manager will provide the Owners, on a monthly basis (or such other period requested by the Owners and agreed to by the Centre Manager), a report detailing:

- (i) income and Costs incurred in relation to each Centre;
- (ii) debtor information;
- (iii) payroll summary;
- (iv) staffing and operations;
- (v) significant issues affecting the Centre;
- (vi) strategies and recommendations to improve the Centre; and
- (vii) such other matters as the Owners direct from time to time.

(h) **Annual audit**

If required by the Owners, the Centre Manager must assist the Owners (at the Owners' cost) with the conduct of audits in respect of all financial aspects of the Centre.

4. The Owners' obligations

4.1 Management Fees

- (a) The Management Fees payable by the Owners to the Centre Manager for the Services provided under this Agreement are to be determined in accordance with Item 10 of Schedule 1, and the Owners shall not be liable for any additional costs, fees or expenses in respect of the Services provided under this Agreement.
- (b) The Centre Manager may from time to time by notice to the Owners amend, vary or replace the Management Fees.

4.2 Payment and invoicing of Management Fees

(a) Obligation to pay

In consideration of the Centre Manager providing the Services to the Owners under this Agreement, the Owners must pay to the Centre Manager the Management Fees for those Services.

(b) Invoicing

The Centre Manager must provide the Owners with an invoice at the end of each Invoice Period specifying the amount of the Management Fees payable by the Owners to the Centre Manager for the Services provided by the Centre Manager to the Owners in that Invoice Period.

(c) Payment

- (i) The Owners must pay each invoice received from the Centre Manager within the Invoice Payment Period after the date of the invoice and otherwise in accordance with the Centre Manager's standard invoicing terms as they apply from time to time during the term of this Agreement.
- (ii) Payments to the Centre Manager due under this Agreement for Management Fees must be made by way of direct debit. A service agreement will be entered into between the Owners and the Centre Manager for the purpose of establishing direct debit arrangements for the payment of Management Fees by the Owners to the Centre Manager for the Term of this Agreement.

4.3 Interest

If the Owners fail to pay any amount to the Supplier by the date due under this Agreement, the Owners must pay interest on that amount at the Default Rate, from the time the amount should have been paid until it is paid. Interest accrues daily, may be capitalised by the Centre Manager and is payable on demand.

4.4 Dispute of invoice

- (a) If the Owners dispute the whole or any part of an invoice issued by the Centre Manager, they must notify the Centre Manager within 5 Business Days of receiving the invoice.
- (b) If the dispute has not been resolved within 5 Business Days after the Centre Manager receives details of the dispute under clause 4.4(a), either party may give the other party a notice of dispute in accordance with clause 122.
- (c) If the Owners have disputed an invoice issued by the Centre Manager and the dispute has not been resolved by the date due under this Agreement, the Owners must pay any undisputed amount relating to the invoice on the date due.
- (d) If, as a result of the agreement of the parties or at the completion of dispute resolution procedures, the Owners are required to pay a further amount on account of an invoice, the Owners must pay the amount within 10 Business Days after the date of the resolution of the dispute.
- (e) If an amount is payable by the Centre Manager to the Owners under this Agreement or any other agreement between the parties, the Owners are entitled to set-off that amount against any amount payable by the Owners to the Centre Manager.

4.5 Compliance with law

- (a) The Owners must at all times maintain any licence required by applicable law in relation to each of the Centres.

- (b) The Owners will provide the Centre Manager with copies:
 - (i) of all licences maintained in accordance with clause 4.5(a); and
 - (ii) all notices or correspondences received by the Owners from any Responsible Authority or any other person or entity that directly or indirectly affects the Centre Manager or the Services,
 as soon as reasonably practicable.

4.6 Accounts

- (a) The Owners are responsible for preparing and filing any taxation returns, at its cost, associated with the Centre.
- (b) Except as specified in this Agreement, the Centre Manager is responsible for the following financial and accounting matters, at its cost, associated with the Centre, including but not limited to:
 - (i) books of account and other records reflecting the conduct of the Services on an accrual basis;
 - (ii) preparing profit loss and GST statements; and
 - (iii) other compliance documentation required by any Responsible Authority.

4.7 Further actions by the Owners

- (a) The Owners will, upon notice or request of the Centre Manager, execute all documents, applications, consents, approvals and requests and do all such acts and things as may be necessary or desirable for the operation of the Centre.
- (b) The Owners will, at their own cost, collect all monies due by customers and any other benefits due to the Owners for conducting the Business.

4.8 The Centre Manager to be put into funds

The Owners will ensure that the Centre Manager is put into sufficient funds to perform the Services, as specified in the relevant budget agreed by the parties in respect of the Services.

5. Insurance

5.1 Owners to insure the Centre

- (a) The Owners are responsible for maintaining any policies of insurance they consider necessary for the Centres or, where specified, in accordance with Item 17 of Schedule 1. The Owners must provide to the Centre Manager copies of all policies of insurance (if approval has been obtained by the insurer to provide such policy of insurance to the Centre Manager) in respect of each of the Centres.
- (b) The Centre Manager must familiarise itself with each insurance policy and use its best endeavours to ensure that nothing occurs on or within the Centres which causes a breach of any condition of any such insurance policy.
- (c) The Centre Manager must notify the Owners promptly if it becomes aware of any matter which may prejudice the Owners' rights under any insurance policy held by the Owners.

5.2 Assistance by the Centre Manager

The Centre Manager must provide assistance to the Owners in respect of any claim on any insurance policy including:

- (a) Reviewing and collating all relevant documents and records;

- (b) Preparing the claim and providing all supporting documentation;
- (c) Providing written statements or affidavits; and
- (d) Appearing in any court or tribunal to give evidence,

and otherwise taking all reasonable steps to ensure the claim is processed expeditiously and successfully.

6. Warranties

- (a) In addition to, and despite all other warranties, express or implied, in this Agreement, the Owners warrant and covenant that:
 - (i) there is no litigation, arbitration or administrative proceeding taking place, pending or, to its knowledge, threatened against it or in relation to the Centres as at the date of this Agreement which could have a material adverse effect on their ability to perform their obligations under this Agreement;
 - (ii) they will as soon as practicable notify the Centre Manager of the occurrence of, or pending or threatened occurrence of, any event that:
 - (A) may cause or constitute a material breach of any of the acknowledgments, representations, warranties or covenants contained in this Agreement; or
 - (B) could have a material adverse effect on its ability to perform its obligations under this Agreement;
 - (iii) they have before the date of this Agreement and after diligent enquiry and investigation, fully disclosed to the Centre Manager all information concerning them and the Centres that could reasonably be regarded as affecting in any way the decision of the Centre Manager to enter into this Agreement;
 - (iv) no statement or representation made by them or on their behalf to the Centre Manager in negotiations prior to this agreement is misleading or deceptive in any material respect; and
- (b) All acts to be performed and all obligations to be discharged by the Owners under this Agreement will be performed or discharged with all due care and expertise.
- (c) In addition to and despite all other warranties, express or implied, in this Agreement, the Owners warrant and covenant that:
 - (i) they are empowered to enter into this Agreement and to do all things that will be required by this Agreement;
 - (ii) all things have been done or will be done as may be necessary to render this Agreement legally enforceable in accordance with its terms and fully valid and binding on them; and
 - (iii) all authorisations by any Responsible Authority (whether in New Zealand or not) that are required or will be required in connection with the execution and delivery of, the performance of obligations under or the validity or enforceability of, this Agreement have been obtained or effected and are or will be fully operative and in full force and effect.

7. Limitation of liability

7.1 Exclusion of liability

Except to the extent expressly set out in this Agreement, all representations, conditions, warranties or undertakings (including those arising by statute, general law or otherwise) are expressly excluded from this Agreement to the fullest extent permissible by Law.

7.2 Limit on Centre Manager's Liability

The Centre Manager's maximum liability under or in connection with this Agreement (whether in contract, tort (including negligence) or otherwise) shall not in any year exceed 2 times its annual Management Fees in respect of that year. This limitation does not apply to limit the Centre Manager's liability for fraud.

7.3 No Claims for consequential loss

Any Claim by a party is excluded to the extent that it is for indirect or consequential loss, loss of profit, loss of revenue, anticipated loss of profit or revenue, loss of production, loss of business opportunity, loss of use, loss of or damage to goodwill or reputation, however it arises.

8. Centre Manager's authority

8.1 Authority

Nothing in this Agreement authorises the Centre Manager or the Owners to make or enter or purport to make or enter into any:

- (a) agreement (including without limitation, maintenance or service agreements);
 - (b) lease, surrender, assignment or sub-lease;
 - (c) waiver of any income or obligation due to the Owners; or
 - (d) release, concession, admission or denial to any third party,
- on behalf of the Owners.

8.2 Restriction

The Centre Manager must not do or purport to do any act, matter or thing which it is not expressly authorised to do pursuant to this Agreement without the prior written authority of the Owners.

9. Confidential information

9.1 No disclosure

- (a) Except as stated in this Agreement, each party must not and must not permit any of its officers, employees, agents, contractors or related bodies corporate to disclose the information provided in connection with this Agreement to any person without the prior written consent of the party to whom the information relates, other than in the following circumstances:
 - (i) on a confidential basis to its advisers (including bankers) to enable them to advise in connection with this Agreement (including its administration or enforcement);
 - (ii) to a person whose consent is needed in connection with this Agreement if the party seeking consent uses reasonable endeavours to get the consenting person to agree to keep the information confidential (and then only to the extent that the consenting person needs to know the information in order to decide whether to consent);

- (iii) if that information is in the public domain (other than because the party has disclosed it);
 - (iv) if the party lawfully had the information before it was disclosed to them in connection with this Agreement;
 - (v) in connection with legal or other proceedings relating to this Agreement; or
 - (vi) if compelled by law or by any Responsible Authority, including any stock exchange.
- (b) A party disclosing under this clause 9.1 must, as far as practical prior to such disclosure, consult with the other party as to the content and timing of the disclosure.

9.2 Centre Manager's obligations of confidentiality

- (a) All documents and information, in any form (whether written, digital or otherwise), in relation to the Centres or the functions of the Centre Manager under this Agreement remain at all times the property of the Owners.
- (b) Upon the expiration or termination of this Agreement, the Centre Manager must return to the Owners all property belonging to the Owners.
- (c) The Centre Manager must not, whether during or after the Term, make any improper use of:
 - (i) any confidential information or trade secret of the Owners;
 - (ii) the position of the Owners on any confidential matter; or
 - (iii) any other information whatsoever which may be detrimental to the interests of the Owners or of any other person who has provided it to the Owners on a confidential basis, unless the disclosure is required by law.
- (d) The Centre Manager must use its best endeavours to prevent the improper publication or disclosure of any such information by anyone else.

9.3 Owners' obligations of confidentiality

- (a) The Owners must not, whether during or after the Term, make any improper use of:
 - (i) any confidential information or trade secret of the Centre Manager;
 - (ii) the position of the Centre Manager on any confidential matter; or
 - (iii) any other information whatsoever which may be detrimental to the interests of the Centre Manager or of any other person who has provided it to the Centre Manager on a confidential basis, unless the disclosure is required by law.
- (b) The Owners must use their respective best endeavours to prevent the improper publication or disclosure of any such information by anyone else.

9.4 Benefit and survival

This clause 9:

- (a) Operates for the benefit of all parties; and
- (b) Continues despite the termination of this Agreement.

10. Default and termination

10.1 For default

A party may terminate this Agreement at any time by notice to the other party (**Defaulting Party**) if any of the following apply:

- (a) the Defaulting Party fails to carry out any provision of this Agreement and the failure is capable of remedy and the Defaulting Party does not remedy that failure within 20 Business Days after written notice to the Defaulting Party requiring it to be remedied;
- (b) if the Defaulting Party is the Owners and the Owners fail to pay the Management Fees to be paid to the Centre Manager within 10 Business Days after receiving written notice from the Centre Manager demanding the payment and there being no dispute between the parties in respect of the payment; or
- (c) the Defaulting Party is subject to an Insolvency Event.

10.2 On transfer of Centre

- (a) The Owners may terminate the appointment of the Centre Manager in respect of an individual Centre at any time after the Initial Term by notice to the Centre Manager if the Owners sell or otherwise effects a transfer of title to the Centre held by the Owners to a Third Party provided that the terms of the IP Licence have been complied with by the Owners.
- (b) Despite clause 10.2(a), if a Centre is sold by the Owners, the Owners must use reasonable endeavours to assign this Agreement to the purchaser of the Centre.

10.3 On notice

The Centre Manager and the Owners may terminate this Agreement on 6 months written notice at any time after the Initial Term.

10.4 On right of first refusal

- (a) If at any time during the ROFR Period, the Owners choose to exercise its rights under clause 10 of the IP Licence, then the following provisions shall apply:
 - (i) if the Centre Manager accepts the Offer Notice, then this Agreement shall terminate as of, and with effect from, the date of such sale and purchase of the Centre to the Centre Manager; or
 - (ii) if the Centre Manager does not accept the Offer Notice and the Owners exercise its rights in accordance with clause 10.7 of the IP Licence, then, in respect of such sale and purchase of a Centre to a Third Party, the Centre Manager may terminate this Agreement in respect of that Centre.
- (b) If on the expiry of the ROFR Period the Centre Manager does not wish to accept the Offer Notice, and the Owners wish to exercise its rights in accordance with clause 10.7 of the IP Licence, then, in respect of such sale and purchase of a Centre to a Third Party, the Centre Manager may terminate this Agreement in respect of that Centre.

10.5 For failure to hold necessary licence or permit

A party may terminate this Agreement at any time by notice to the other party if the other party for any reason ceases to hold current any necessary licence, permit or insurance required to enable it to lawfully perform its duties or to comply with its obligations under this Agreement.

10.6 Termination not to prejudice rights

On termination of this Agreement under this clause 100, each party retains its rights against the other party in respect of any past breach, in addition to any other rights, powers or remedies provided by law.

10.7 Centre Manager's rights on termination

If this Agreement is terminated by the Centre Manager in accordance with clause 10.1, or terminated by the Owners in accordance with clause 10.2, the Centre Manager may recover from the Owners the Management Fees payable up until the date of termination together with any other costs and charges incurred by the Centre Management up to the date of termination.

11. Notices

11.1 Notices to be in writing

A notice or other communication connected with this Agreement (**Notice**) has no legal effect unless it is in writing.

11.2 Method of service

In addition to any other method of service provided by law, the Notice may be:

- (a) sent by prepaid post to the address of the addressee set out in this Agreement or subsequently notified;
- (b) sent by facsimile to the facsimile number of the addressee;
- (c) sent by email to the email address of the addressee; or
- (d) delivered at the address of the addressee set out in this Agreement or subsequently notified.

11.3 Evidence of sending and delivery

A certificate signed by a party giving a Notice or by an officer or employee of that party stating the date on which that Notice was sent or delivered under clause 11.2 is prima facie evidence of the date on which that Notice was sent or delivered.

11.4 When notice received

- (a) If the Notice is sent or delivered in a manner provided by clause 11.2, it must be treated as given to and received by the party to which it is addressed:
 - (i) if sent by post, on the 2nd Business Day (at the address to which it is posted) after posting;
 - (ii) if sent by facsimile or email before 5pm on a Business Day at the place of receipt, on the day it is sent and otherwise on the next Business Day at the place of receipt; or
 - (iii) if otherwise delivered before 5pm on a Business Day at the place of delivery, upon delivery, and otherwise on the next Business Day at the place of delivery.
- (b) Despite clause 11.4(a):
 - (i) A facsimile is not treated as given or received unless at the end of the transmission the sender's facsimile machine issues a report confirming the transmission of the number of pages in the Notice;
 - (ii) An email message is not treated as given or received if the sender's computer reports that the message has not been delivered; and

- (iii) A facsimile or email message is not treated as given or received if it is not received in full and in legible form and the addressee notifies the sender of that fact within 3 hours after the transmission ends or by 12 noon on the Business Day on which it would otherwise be treated as given and received, whichever is later.
- (c) If a Notice is served by a method which is provided by law but is not provided by clause 11.2, and the service takes place after 5pm on a Business Day, or on a day which is not a Business Day, it must be treated as taking place on the next Business Day.

11.5 Addresses for Service

- (a) The Owners' address for service, facsimile number and email address are as specified at Item 3 of Schedule 1.
- (b) The Centre Manager's address for service, facsimile number and email address are as specified at Item 5 of Schedule 1.
- (c) A Notice sent or delivered in a manner provided by clause 11.2 must be treated as validly given to and received by the party to which it is addressed even if:
 - (i) the addressee has been liquidated or deregistered or is absent from the place at which the Notice is delivered or to which it is sent;
 - (ii) the Notice is returned unclaimed; or
 - (iii) in the case of a Notice sent by email, the email message is not delivered or opened (unless the sender's computer reports that it has not been delivered).
- (d) A party may change its address for service, facsimile number or email address by giving Notice of that change to each other party.
- (e) If the party to which a Notice is intended to be given consists of more than 1 person then the Notice must be treated as given to that party if given to any of those persons.
- (f) Any Notice by a party may be given and may be signed by its solicitor.

12. Disputes

12.1 No proceedings

A party must not start court proceedings (except proceedings seeking interlocutory relief) in respect of a dispute arising out of this agreement (**Dispute**) unless it has complied with clause 12.2.

12.2 Notice of Dispute

A party claiming that a Dispute has arisen must give each party to the Dispute notice setting out details of the Dispute.

12.3 Best efforts to resolve Dispute

Each party to the Dispute (**Disputant**) must use its best efforts to resolve the Dispute within 10 Business Days after the notice is given under clause 12.2 (or any longer period agreed by the Disputants) (**Initial Period**).

12.4 Referral to CEOs

If the Disputants cannot resolve the Dispute within the Initial Period, the Dispute must be referred to the CEO (or their nominee) of each Disputant who must use their best efforts to resolve the Dispute within 10 Business Days after the Dispute is referred to them (**Second Period**).

12.5 Termination of Dispute resolution process

After the Second Period, a Disputant that has complied with clause 13.4 may terminate the dispute resolution process by giving notice to each other Disputant.

12.6 Breach of this clause

If a Disputant breaches clauses 12.1 to 12.4 (inclusive), each other Disputant does not have to comply with those clauses.

13. General**13.1 Assignment**

Subject to the provisions of clause 10.3:

- (a) The Owners may not assign or otherwise deal with this Agreement except with the prior written consent of the Centre Manager.
- (b) The Centre Manager is not required to give consent or to justify the withholding of consent. The Centre Manager may consent to the assignment or novation of this Agreement subject to such conditions as it chooses to impose.
- (c) The Centre Manager may assign or novate this Agreement or any right, benefit or interest under this Agreement and the Owners must promptly, upon request by the Centre Manager, execute all documents required by the Centre Manager to give effect to any such assignment or novation.

13.2 Sub-contracting

The Centre Manager may sub-contract some or all of the performance of this Agreement or any part of this Agreement to any of its Related Companies or to any third party, and engage individuals on a sub-contract or consultancy basis, whether or not operating under a corporate structure, to assist in the provision of Services pursuant to this Agreement.

13.3 Severability

If any provision in this Agreement is unenforceable, illegal or void or makes this Agreement or any part of it unenforceable, illegal or void, then that provision is severed and the rest of this Agreement remains in force.

13.4 Further assurance

Each party must promptly at its own cost do all things (including executing and if necessary delivering all documents) necessary or desirable to give full effect to this Agreement.

13.5 Entire understanding

This Agreement:

- (a) is the entire agreement and understanding between the parties on everything connected with the subject matter of this Agreement; and
- (b) supersedes any prior agreement or understanding on anything connected with that subject matter.

13.6 Variation

An amendment or variation to this Agreement is not effective unless it is in writing and signed by the parties.

13.7 Waiver

- (a) A party's failure or delay to exercise a power or right does not operate as a waiver of that power or right.

- (b) The exercise of a power or right does not preclude either its exercise in the future or the exercise of any other power or right.
- (c) A waiver is not effective unless it is in writing.
- (d) Waiver of a power or right is effective only in respect of the specific instance to which it relates and for the specific purpose for which it is given.

13.8 Time is of the essence

Time is of the essence in respect of obligations to pay money under this Agreement.

13.9 Good faith

In exercising its discretion, powers and rights, and performing its obligations under this Agreement, the Owners must genuinely consult with the Centre Manager and act in good faith and must not act unreasonably towards the Centre Manager.

13.10 Costs and outlays

Each party must bear its own costs and expenses of negotiating, preparing, signing, delivering, stamping, registering and performing this Agreement and any other agreement or document entered into or signed under this Agreement.

13.11 Goods and services tax

- (a) In this clause 13.11:
 - (i) **GST** means goods and services tax chargeable under the Goods and Services Tax Act 1985 as amended (**GST Act**) or any replacement or other relevant legislation and regulations;
 - (ii) words or expressions used in this clause which have a particular meaning in the GST Act have the same meaning, unless the context otherwise requires;
 - (iii) any reference to GST payable by a party includes any corresponding GST payable by the representative member of any GST group of which that party is a member;
 - (iv) any reference to an input tax deduction entitlement by a party includes any corresponding input tax deduction entitlement by the representative member of any GST group of which that party is a member; and
 - (v) if the GST Act treats part of a supply as a separate supply for the purpose of determining whether GST is payable on that part of the supply or for the purpose of determining the taxable period to which that part of the supply is attributable, such part of the supply is to be treated as a separate supply.
- (b) Unless GST is expressly included, the consideration to be paid or provided under any other clause of this Agreement for any supply made under or in connection with this Agreement does not include GST.
- (c) To the extent that any supply made under or in connection with this Agreement is a taxable supply, the GST exclusive consideration to be paid or provided for that taxable supply is increased by the amount of any GST payable in respect of that taxable supply and that amount must be paid at the same time and in the same manner as the GST exclusive consideration is to be paid or provided.
- (d) A party's right to payment under clause 13.11(c) is subject to a valid tax invoice being delivered to the party who is the recipient of the taxable supply.
- (e) To the extent that a party is required to reimburse or indemnify another party for a loss, cost or expense incurred by that other party, that loss, cost or expense does not include any

amount in respect of GST for which that other party is entitled to claim an input tax deduction.

To the extent that any consideration payable to a party under this Agreement is determined by reference to a cost incurred by a party, or is determined by reference to a price, value, sales, revenue or similar amount, the GST exclusive amount of that cost, price, value, sales, revenue or similar amount must be used.

13.12 Force majeure

- (a) If a party (**Affected Party**):
 - (i) is prevented from or delayed in performing an obligation (other than to pay money) by a Prescribed Event;
 - (ii) as soon as possible after the Prescribed Event occurs, notifies the other party of full particulars of:
 - (A) the Prescribed Event;
 - (B) the effect of the Prescribed Event on performance of the Affected Party's obligations;
 - (C) the anticipated period of delay; and
 - (D) the action (if any) the Affected Party intends to take to mitigate or remove the effect and delay; and
 - (iii) promptly and diligently acts to mitigate or remove the Prescribed Event and its effect;

then:

 - (iv) the obligation is suspended during, but for no longer than, the period the Prescribed Event continues and such further period as is reasonable in the circumstances; and
 - (v) if the Affected Party is prevented from or delayed in performing the obligation by the Prescribed Event for at least 10 weeks, any party may by notice to the other party terminate this Agreement.
- (b) The party which is not the Affected Party must use reasonable endeavours to remove or mitigate the Prescribed Event and its effects.
- (c) Nothing in clause 13.12(a)(iii) or clause 13.12(b) obliges either party to settle any strike, lockout, ban, limitation of work or other industrial disturbance.
- (d) In this clause 13.12 Prescribed Event means any of the following events:
 - (i) act of God;
 - (ii) war, terrorism, riot, insurrection, vandalism or sabotage;
 - (iii) strike, lockout, ban, limitation of work or other industrial disturbance; or
 - (iv) law, rule or regulation of any government or governmental agency, and executive or administrative order or act of general or particular application;

which:

 - (v) is unforeseen by the Affected Party;
 - (vi) is beyond the control of the Affected Party; and

- (vii) occurs without the fault or negligence of the Affected Party.

13.13 Counterparts

- (a) This Agreement may be executed in any number of counterparts. Each counterpart is an original but the counterparts together are one and the same agreement.
- (b) This Agreement is binding on the parties on the exchange of executed counterparts. A copy of an original executed counterpart sent by facsimile machine or by email:
 - (i) must be treated as an original counterpart;
 - (ii) is sufficient evidence of the execution of the original; and
 - (iii) may be produced in evidence for all purposes in place of the original.

13.14 Governing law and jurisdiction

- (a) The law of New Zealand governs this Agreement.
- (b) The parties submit to the non-exclusive jurisdiction of the courts of New Zealand.

13.15 Other Licensee / Third Parties - Privity of Contract

This Agreement is intended to be for the benefit of, and enforceable by, any Other Licensee and Third Party in accordance with the Contracts (Privity) Act 1982, notwithstanding that the respective Other Licensee and Third Party are not a party to this Agreement.

Schedule 1 – Agreement

- Item 1 Commencement Date**
- The date that the Centre Manager is admitted to the Main Board of the New Zealand Stock Exchange.
- Item 2 Owners**
- LEDC Limited and LEP Limited
- Item 3 The Owners' address for service**
- Attention : Mark Finlay
- Address : Unit 9, 22a Kalmia Street, Ellerslie, Auckland
- Facsimile no : 09 377 8712
- Email address : mark@ledu.co.nz
- Item 4 Centre Manager**
- Evolve Education Group Limited, Company Number 5236543
- Item 5 The Centre Manager's address for service**
- Attention : Chief Operating Officer
- Address : Level 2, 54 Fort Street, Auckland
- Facsimile no : < CM Facsimile No. for Service >
- Email address : < CM Email Address for Service >
- Item 6 Initial Term**
- (a) For Existing Centres, the Term shall be from the Commencement Date until the 3rd anniversary of the Commencement Date or the ROFR Trigger Date, whichever is the earliest date to occur.
- (b) For New Centres, the Term shall be from the Centre Commencement Date until the 3rd anniversary of the Centre Commencement Date or the ROFR Trigger Date, whichever is the earliest date to occur.
- Item 7 Further Term**
- 2 terms of 3 years each.
- Item 8 Businesses**
- See Existing Centres in Schedule 2.
- And any New Centre notified to the Centre Manager from time to time in accordance with this Agreement.
- Item 9 Services**
- The Services include:
- (c) assisting the Owners to replace members of management, staff, and contractors of the Centre after the initial hiring by the Owners, which shall

- include ensuring that such management, staff or contractors are employed on the Centre Manager's standard form employment agreement;
- (d) providing access to the Centre Manager's human resource services to facilitate resolution of any employment dispute which may arise in respect of each Centre;
 - (e) coordinating and rostering the management, staff and contractors of the Centre as required during the Centre's Business Hours;
 - (f) establishing and overseeing operating procedures and administrative systems for the Centre;
 - (g) designing and implementing a marketing campaign for the Centre using approved trademarks and sales strategies;
 - (h) managing and maintaining compliance, licensing and approval process requirements for the Centres as set out by local council, Ministry of Education, and any other organisations involved in the administration of a childcare service;
 - (i) liaising with relevant Responsible Authorities on behalf of the Centre;
 - (j) assisting the Property Manager in the performance of its duties in respect of the Centre;
 - (k) attending to the catering needs of the Centre;
 - (l) co-ordinating and supervising the installation of equipment, software and other technology in the Centre;
 - (m) negotiating, booking and arranging for use of the Centre by customers;
 - (n) setting and reviewing from time to time appropriate fees and charges payable by customers for use of the Centre;
 - (o) developing and reviewing the Centre policies as required by legislation and recommendations from the Owners;
 - (p) programming audits, curriculum development and planning support for the Owners' employees employed at the Centre on a quarterly basis;
 - (q) ordering signage and stationery for the Centre;
 - (r) reporting to the Owners all matters creating a hazard or danger at the Centre, and remedying these if it is reasonable to do so;
 - (s) completing bi-annual employee appraisals to assist with establishing staff professional goals and develop in-service training schedules to meet these goals;
 - (t) providing access to, and facilitating any necessary service contracts with, any service provider of the Centre Manager as otherwise provided for in any other centre operated by the Centre Manager for the purposes of enhancing the operations of the Centre;
 - (u) offering, from time to time, employee training, workshops and professional development programmes for the Owners' employees employed at the Centre as otherwise provided by the Centre Manager to its own centres; and

- (v) performing any other services, as otherwise provided by the Centre Manager to its own centres, which in the opinion of the Centre Manager, enhances the amenity and operation of the Centre.

Item 10

Management Fee

- (a) Management for any New Centres will be establishment Cost Reimbursement Fee of \$4,000.00 (four thousand NZ dollars) plus GST per Centre payable on the Centre Commencement Date in respect of establishment services, which shall include providing services to set up systems programmes, a resource and procurement set up checklist, overseeing, and providing for, operational set up and marketing and establishing accounts for the Centre, provided up to and including the Centre Commencement Date.

- Management Fee of between \$30,000.00 (thirty thousand NZ dollars) and \$50,000 (fifty thousand NZ dollars) plus GST per Centre per annum for each of the Newton Centre and the Takanini Centre, payable in equal monthly instalments in advance, from Commencement Date specified in Item 1 of Schedule 1.

The Management Fee for any other Existing Centres and any New Centres shall be negotiated and agreed by the parties in good faith having regard to the size and capacity of the other Existing Centres and any New Centres when compared to the Newton Centre and Takanini Centre with such management fee payable in equal monthly instalments from the Centre Commencement Date for any other Centre. In the event that the parties cannot agree on the Management Fee for any particular Centre then the parties agree to jointly appoint a suitably qualified person to determine the Management Fee based on the criteria set out in this paragraph.

Where the Management Fee will be calculated on a pro-rata basis if the Commencement Date or the Centre Commencement Date is not the first business day of the Invoice Period.

The Management Fee will increase by 3.5% on the first day of July each year from the Commencement Date until the date of termination.

Item 11

Invoice Period

Monthly.

Item 12

Invoice Payment Period

14 days.

Item 13

Default Rate

10.85% per annum.

Item 14

Property Manager

<insert property manager details. If none, then insert landlord details>

Item 15

Professional indemnity insurance to be maintained by the Centre Manager

\$7 million

Item 16

Insurance to be maintained by the Owners

All reasonable insurances required of an owner of the Centres and Businesses that provide full protection against any losses incurred by Centre Manager, as a result of the actions of the Owners, including property/business interruption, public liability (including molestation), professional indemnity, workers compensation, comprehensive motor vehicle and directors' and officers' liability/management liability insurances.

Item 17

Additional agreed terms

The Centre Manager will manage payroll support and services including Kiwisaver.

The parties will, on an annual basis, agree the budget and business plan for each Centre. The Owners shall prepare a draft for consideration by the parties.

Schedule 2 – Centres

Name of Centre	Address	Commencement Date
Newton	6 Basque Road, Newton, Auckland	December 2014
Takanini	64a Walter Strevens Drive, Connifer Grove, Takanini, Auckland	December 2014
Levin	40-46 Wareroa Road, Levin	January 2015
Swanson	114 Swanson Road, Swanson, Auckland	March 2015
Pukekohe Central	1, 1A and 2B Harrington Avenue, Pukekohe, Auckland	July 2015

Schedule 3 – New Centre Notification

1. **Name of Centre:**
2. **Location of Centre:**
3. **Centre Commencement Date:**
4. **Occupancy:**
5. **Special conditions:**
6. **Date of commencement:**

Signing page

EXECUTED as an agreement

LEDC LIMITED by:

Signature of director

Name of director

LEP LIMITED by:

Signature of director

Name of director

EVOLVE EDUCATION GROUP LIMITED by:

Signature of director

Name of director

SCHEDULE 10 – NOT USED
INTENTIONALLY LEFT BLANK

SCHEDULE 11 – COMPLETION WORKING CAPITAL STATEMENT PRINCIPLES

The Completion Working Capital Statement must be prepared, and the Working Capital Amount must be calculated, using principles and practices applied in the following order of priority:

- (a) in accordance with any specific rules agreed between the parties prior to the Due Diligence Date which will include, for the purposes of calculating the Target Working Capital, that Employee leave entitlements will be deemed to be zero;
- (b) in accordance with the Accounting Standards;
- (c) in accordance with past accounting practices of the Company in the Last Accounts.

The Completion Working Capital Statement must be prepared in the same format (including the same line items) as the Pro Forma Accounts.

Share sale agreement

relating to shares in PORSE In-Home
Childcare (NZ) Limited; PORSE
Franchising (NZ) Limited; PORSE
Education & Training (NZ) Limited; and
FOR Life Education & Training (NZ)
Limited

The persons listed in Schedule 1 (**Vendors**)

Evolve Home Day Care Limited (**Purchaser**)

MinterEllisonRuddWatts

L A W Y E R S

Share sale agreement

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Details

Date

22 SEPTEMBER 2014

Parties

Name	The persons listed as vendors in Schedule 1
Short form name	Vendors
Notice details	c/- Sainsbury Logan & Williams 61 Tennyson Street, Napier, 4140

Email: arw@slw.co.nz
Facsimile: 06 835 6746
Attention: Vendors' Representative

Name	Evolve Home Day Care Limited
Short form name	Purchaser
Notice details	c/- Minter Ellison Rudd Watts Level 20, 88 Shortland Street Auckland 1010

Email: kerng@kerngroup.com.au
Attention: Greg Kern

Background

- A The Shares are legally and beneficially owned by the Vendors.
- B The Vendors have agreed to sell and the Purchaser has agreed to purchase the Shares on the terms and conditions set out in this Agreement.

Agreed terms

1. Defined terms & interpretation

1.1 Defined terms

In this Agreement:

Accounting Standards means:

- (a) all applicable financial reporting standards (approved under the Financial Reporting Act); and
- (b) in relation to matters for which no provision is made in applicable financial reporting standards and that are not subject to any applicable rule of Law, accounting policies that are appropriate to the circumstances of the Companies and have authoritative support within the accounting profession in New Zealand.

Accounts means the balance sheet of each of the Companies and the profit and loss statement and statement of cash flows of each of the Companies for the financial years ending on the Accounts Date, 31 December 2011 and 31 December 2012 together with the notes to, and the reports of the directors in respect of, those accounts.

Accounts Date means 31 December 2013.

Adjustment Amount means the Working Capital Amount less the Debt on Completion (and can be a negative amount).

Adjustment Target means \$0.

Agreement means this share sale agreement.

Agreement Date means the date this Agreement is executed by all the parties to it.

Agreed Form means in a form agreed between the parties and initialled by each of them for the purposes of identification.

Associate means, in relation to a person:

- (a) a Related Company;
- (b) a company or trust of which the person has control (as that term is defined in section CW 42(5) of the Tax Act);
- (c) if the person is a company, its directors and shareholders; and
- (d) an Associate of any party in clauses (a) to (c).

Business means the businesses carried on by each of the Companies as at the date of this Agreement.

Business Day means a day that is not a Saturday, Sunday or public holiday in Auckland or Napier, New Zealand.

Business Plan means in respect of a Company, the business plans of that Company (including a capital expenditure budget and an operational budget) for the financial years ending 31 December 2014 and 31 December 2015 prepared by the Vendors and disclosed to the Purchaser during due diligence.

Claim includes a claim, notice, allegation, threat, press release, demand, action, proceeding, litigation, investigation, judgment, damage, loss, cost, expense or liability however arising, whether present, unascertained, immediate, future or contingent, whether based in contract, tort, statute or otherwise and whether involving a third party or a party to this Agreement.

Companies Act means the *Companies Act 1993*.

Companies means PORSE In-Home Childcare (NZ) Limited, PORSE Franchising (NZ) Limited, PORSE Education & Training (NZ) Limited and FOR Life Training (NZ) Limited, further details of which are set out in Schedule 1.

Company Intellectual Property Rights means all Intellectual Property Rights used by any of the Companies in the course of and for the purposes of the Business.

Completion means completion of the sale and purchase of the Shares contemplated by this Agreement.

Completion Accounts means the consolidated balance sheet of the Companies as at the close of business on the Completion Date and the consolidated profit and loss statement of the Companies for the period from the Accounts Date to the close of business on the Completion Date, to be prepared in accordance with clause 6.

Completion Date means 2 December 2014, or such later date as the Purchaser may notify to the Vendors' Representative by notice in writing given at least 10 Business Days prior to 2 December 2014 (such date not to be later than 31 December 2014), or such other date as agreed between the Purchaser and the Vendors' Representative in writing.

Conditions means the conditions set out in clause 2.1.

Confidential Information means in respect of a person:

- (a) all information of or used by the person relating to its transactions, operations and affairs;
- (b) all other information treated by the person as confidential;
- (c) all notes, data, reports and other records (whether or not in tangible form) based on, incorporating or derived from information referred to in paragraphs (a) or (b); and
- (d) all copies (whether or not in tangible form) of the information, data, notes, reports and records referred to in paragraphs (a), (b) or (c),

that is not public knowledge (otherwise than as a result of a breach of a confidentiality obligation of a party) and prior to Completion, Confidential Information of the Company is deemed to be Confidential Information of the Vendors.

Debt means:

- (a) the aggregate amount owed by the Companies to any bank or other external lender or person in respect of loans (including any accrued but unpaid interest);
- (b) the aggregate amount owed by the Companies to the Vendors or their Associates (whether in respect of repayment of Shareholder Loans, payment of fees, or any other amounts), excluding amounts payable to the Vendors in their capacity as employees or contractors of each of the Companies in the ordinary course of business;
- (c) all bonuses, whether contractual or discretionary, owed by the Companies to any person in relation to the transaction contemplated by this Agreement;
- (d) dividends or other distributions declared by any of the Companies but not yet paid;

- (e) bank guarantees in respect of obligations of the Companies in favour of customers, suppliers or landlords, to the extent that such guarantees have been drawn on or drawn down at Completion and are unpaid.

To avoid doubt no item of Debt is to be included in the computation of the Working Capital Amount.

Debt on Completion means the amount of Debt as at Completion (as set out in the Completion Accounts) as agreed by the parties or determined by the Independent Accountant as the case may be.

Determination Date means the fifth Business Day after the date on which the Adjustment Amount becomes final and binding on the Vendors and the Purchaser under this Agreement.

Disclosure Letter means a letter in the Agreed Form, from the Vendors' Solicitors disclosing matters with respect to the Warranties.

Due Diligence Materials means:

- (a) the written information and documents provided by the Vendors to the Purchaser and its Representatives during the due diligence process; and
- (b) the written questions raised by the Purchaser in the due diligence process and the written responses given to those questions by the Vendors and its Representatives,

in each case, prior to confirmation of satisfaction of the Condition in clause 2.1(a).

Due Diligence Date means the date that is 22 Business Days after the Agreement Date.

Earn Out Accounts means the consolidated audited balance sheet, profit and loss statement and statement of cash flows for the Companies for the period from 1 January 2015 and ended on 31 December 2015.

Earn Out Amount means an amount calculated as follows: (FY2015 Actual EBIT less \$1,850,000) x 4.75, and adjusted in accordance with clause 10.2 (if applicable).

Earn Out Determination Date means the fifth Business Day after the date on which the Earn Out Accounts and the Earn Out Amount become final and binding on the Vendors and the Purchaser under this Agreement.

EBIT means earnings before interest and tax.

Employment Agreement means the individual employment agreement between Jenny Yule and Holdco or a wholly owned subsidiary of Holdco (as agreed by Jenny Yule).

Encumbrance includes a mortgage, charge, lien, restriction against transfer, encumbrance, security interest or other third party interest.

Escrow Agreement means the escrow agreement relating to the Escrow Completion Deliverables (as defined in clause 5.8).

Equitable Adjustment has the meaning given to that term in clause 10.2(a).

Financial Reporting Act means the *Financial Reporting Act 1993* and the *Financial Reporting Act 2013* (as applicable).

FY2015 Actual EBIT means the consolidated EBIT of the Companies for the period from 1 January 2015 and ended on 31 December 2015, as set out in the Earn Out Accounts.

Government Agency means any government or any governmental, semi-governmental, administrative, fiscal, judicial, local governmental, public, statutory authority, organisation, body

or delegate having jurisdiction, authority or power over or in respect of the Companies or the Business in New Zealand or any other part of the world.

GST Act means *the Goods and Services Tax Act 1985*.

GST means goods and services tax chargeable in accordance with the GST Act and includes, but is not limited to, any interest, fine, penalty, charge, fee or any other amount imposed on or in respect of goods and services tax.

Holdco means Evolve Education Group Limited (Company number 5236543).

Independent Accountant means the accountant appointed under clause 6.7(d).

Initial Purchase Price means NZ\$10,000,000.

Intellectual Property Licences means all agreements under which any of the Companies have the right to use, but not ownership of, Intellectual Property Rights used in connection with the Business, including those listed in Schedule 4.

Intellectual Property Rights means all intellectual property and proprietary rights (whether registered or unregistered) including:

- (a) business names;
- (b) trade or service marks;
- (c) any right to have information (including Confidential Information) kept confidential;
- (d) patents, patent applications, drawings, discoveries, inventions, improvements, trade secrets, technical data, formulae, computer programs, data bases, know-how, logos, designs, design rights, copyright and similar industrial or intellectual property rights; and
- (e) all marketing materials, workbooks, educational materials, question banks, power point presentations and other resources used in the Business.

IRD means the Inland Revenue Department in New Zealand.

Key Employees means Erin Maloney, Kerry Henderson, Paul Matthews, Mike Batey and such other persons as are agreed between the parties to be “Key Employees” prior to the Satisfaction Date.

Law includes:

- (a) principles of law or equity established by decisions of the courts of New Zealand or any other relevant jurisdiction;
- (b) statutes, regulations or by-laws of any Government Agency; and
- (c) requirements and approvals (including conditions) of any Government Agency that have the force of law.

Leased Properties means the properties listed in Schedule 5.

Leases means the leases of the Leased Properties.

Liabilities includes all liabilities (whether actual, contingent or prospective), losses, damages, outgoings, costs and expenses (including reasonable legal costs on a solicitor-client basis) of whatever description.

Licence means any licence, consent, permit, approval, registration, accreditation, certification or other authorisation given or issued by any Government Agency to the Vendors and/or the Companies in connection with the Business, including the Services Licences.

MoE means the Ministry of Education.

Moral Rights means each right defined as a moral right in Part IV of the *Copyright Act 1994*, and any similar rights capable of protection under the laws of any foreign jurisdiction.

NZQA means the New Zealand Qualifications Authority.

NZX means New Zealand Exchange Limited.

Personal Information means 'personal information' (as defined in the *Privacy Act 1993*) held by each of the Companies.

Plant and Equipment means all plant, equipment, computer and computer communications equipment, motor vehicles, machinery, furniture, fixtures and fittings and other assets, fittings or chattels owned by each of the Companies and used in the Business (including, without limitation, education resources and loan equipment to educators such as cots and buggies).

PORSE Equine means PORSE Equine Education Limited (company number 4087798).

Pre Completion Dividend means any dividend or dividends agreed between the parties and paid after the Agreement Date and before the Satisfaction Date.

Privacy Law means:

- (a) the *Privacy Act 1993*;
- (b) an approved code of practice (as defined in the *Privacy Act 1993*) that applies to each of the Companies; and
- (c) any other Law relating to the protection of Personal Information that any of the Companies must observe.

Pro Forma Accounts means the pro forma consolidated accounts of the Companies.

Purchase Price means the amount specified or described (as to calculation) in clause 4.1.

Records means all original and copy records, documents, books, files, reports, accounts, plans, correspondence, letters and papers of every description and other material regardless of their form or medium and whether coming into existence before, on or after the date of this Agreement, belonging or relating to or used by each of the Companies including (without limitation) certificates of registration, minute books, statutory books and registers, books of account, Tax returns, title deeds and other documents of title, customer lists, price lists, computer programs and software, and trading and financial records.

Related Companies has the meaning given in section 2(3) of the Companies Act amended such that the term "Companies" where used in that section includes any corporate entity wherever incorporated and "Related Companies" means any number of such companies.

Relevant Event means any of the following (some of which may overlap):

- (a) the merger of the Business or a part of the Business with any other business;
- (b) a change in the nature of, a disposition of, or a termination of, all or part of the Business;
- (c) an amendment or deviation from the Business Plan;
- (d) the underfunding of the Business relative to the Business Plan;
- (e) changes in staff levels relative to the Business Plan;
- (f) the sale or transfer of all or substantially all of the assets of any of the Companies to any other person (other than another Company or a wholly owned subsidiary of a Company);

- (g) the discontinuance of all or a part of the Business;
- (h) the announcement or introduction of an initiative (including with MoE, NZQA, TEC or any Government Agency) that negatively impacts on a Business Plan, including any announcement to reduce or terminate programmes in or after the Earn Out Period (or both);
- (i) the termination of the employment of Jenny Yule or any Key Employee other than for cause;
- (j) the change of an accounting or return period or the treatment or recognition of an expense or revenue item from that previously recognised or adopted by the Companies;
- (k) an act or event whether by itself or in combination with another which reduces the Earn Out Amount and/or is contrary to the spirit of the earn out arrangements and the acknowledgements contained in clause 10.

Relief includes:

- (a) any loss, allowance, credit, deduction, rebate, set-off or other relief taken into account in computing any Tax liability, or any grant conferred on any person; or
- (b) any right to repayment of Tax (whether or not including interest or penalties) available to that person,

whether in New Zealand or elsewhere.

Representatives mean in relation to a party, all directors, officers, partners, employees, professional advisers, agents and attorneys of the party or of its Related Companies.

Satisfaction Date means the date that the conditions in clauses 2.1(a) and 2.1(c) are satisfied or waived.

Service Licences means all licences (or provisional or probationary licences) issued by the MoE under the Education (Early Childhood Centres) Regulations 1998 or Education (Early Childhood Services) Regulations 2008 (as relevant) in respect to Companies and the Business which are required to manage and operate the Business.

Shareholder Loans means all amounts owed:

- (a) by any of the Companies to any of the Vendors or their Associates;
- (b) to any of the Companies by any of the Vendors or their Associates.

Shares means 100% of the shares in each of the Companies as set out in Schedule 1.

Superannuation Arrangement means any fund, plan, scheme, agreement or arrangement under which superannuation benefits, retirement benefits, life assurance benefits, death or disability benefits, pensions, annuities or other allowances, gratuities or benefits are or may be provided to or in respect of any present or former employees of each of the Companies or their respective dependants.

Tax, Taxes, Taxation includes:

- (a) all forms of taxation, duties, dues, imposts, rates and levies of New Zealand or elsewhere including, income tax, fringe benefit tax, stamp duty, estate duty, goods and services tax, gift duty, dividend withholding payments, customs or excise duties, and withholding taxes;
- (b) loss of Relief; and

- (c) all costs, charges, interest, penalties, fines, and expenses incidental and relating to or arising in connection with any such Tax or loss of Relief or the negotiation of any settlement of any dispute as to the liability of any person for them, or any actual or threatened taxation claim or proceedings of whatsoever nature and wheresoever undertaken in connection with them.

Tax Act means the *Income Tax Act 2007*.

Tax Authority means any government, semi-government, administrative, municipal, statutory, fiscal or judicial body, department, commission, authority, tribunal, agency, entity or person responsible for the collection of any Tax or administration of any Tax Law in New Zealand or elsewhere including (but without limitation), IRD, the Customs Department, the Accident Rehabilitation and Compensation Insurance Corporation in New Zealand and any overseas bodies with similar functions or powers.

Tax Claim means any Claim in writing by a Tax Authority for any Tax in respect of a period (or part period) prior to Completion, to the extent not provided for in the Completion Accounts.

Tax Indemnity means the indemnity given by the Vendors in relation to Tax under clause 9.1.

Tax Law means any Law in relation to any Tax including, without limitation, Tax imposed under the Tax Act, the *Tax Administration Act 1994* and the GST Act.

Tax Saving in respect of a loss, liability, cost or expense, includes:

- (a) where the amount of a loss, liability, cost or expense suffered or incurred is wholly or partly deductible for income tax purposes, the amount of the deduction to which the relevant person is entitled multiplied by the relevant Tax rate (and that deduction is to be treated as arising in the same Tax year as the relevant loss, liability, cost or expense is suffered or incurred); and
- (b) the amount of any relevant GST input tax credit or other deduction from output tax under the GST Act,

in either case in any past, current or future period.

Tax Warranties means each of the representations and warranties given at Warranty 9 in Schedule 3.

TEC means the Tertiary Education Commission.

Warranties means each of the representations and warranties given under clause 8 and set out in Schedule 3.

Vendors' Representative means Jenny Yule, or such other person notified by the Vendors to the Purchaser in writing.

Working Capital Amount means the amount of working capital of the Companies (expressed on a consolidated basis) as at the close of business on the Completion Date (as set out in the working capital statement forming part of the Completion Accounts) as agreed by the parties or determined by the Independent Accountant, as the case may be.

1.2 Interpretation

In this Agreement, except where the context otherwise requires:

- (a) the singular includes the plural and vice versa, and a gender includes other genders;
- (b) another grammatical form of a defined word or expression has a corresponding meaning;

- (c) a reference to a clause, paragraph, schedule or annexure is to a clause or paragraph of, or schedule or annexure to, this Agreement, and a reference to this Agreement includes any schedule or annexure;
- (d) a reference to a document or instrument includes the document or instrument as novated, altered, supplemented or replaced from time to time;
- (e) a reference to **NZ\$, \$NZ, dollar** or **\$** is to New Zealand currency;
- (f) a reference to time is to New Zealand time;
- (g) a reference to a party is to a party to this Agreement, and a reference to a party to a document includes the party's executors, administrators, successors and permitted assigns and substitutes;
- (h) a reference to a person includes a natural person, partnership, body corporate, association, governmental or local authority or agency or other entity;
- (i) a reference to a statute, ordinance, code or other Law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them;
- (j) the meaning of general words is not limited by specific examples introduced by including, for example or similar expressions;
- (k) any agreement, representation, warranty or indemnity by two or more parties (including where two or more persons are included in the same defined term) binds them jointly and severally;
- (l) any agreement, representation, warranty or indemnity in favour of two or more parties (including where two or more persons are included in the same defined term) is for the benefit of them jointly and severally;
- (m) a rule of construction does not apply to the disadvantage of a party because the party was responsible for the preparation of this Agreement or any part of it; and
- (n) if a day on or by which an obligation must be performed or an event must occur is not a Business Day, the obligation must be performed or the event must occur on or by the next Business Day.

1.3 Headings

Headings are for ease of reference only and do not affect interpretation.

2. Conditions

2.1 Conditions

Completion of the sale and purchase of the Shares under this Agreement is subject to the following conditions precedent being satisfied or waived in accordance with this Agreement.

Condition	Party entitled to benefit
(a) Due Diligence: on or before the Due Diligence Date, the Purchaser being entirely satisfied (in its absolute discretion) with the results of its due diligence investigations regarding each of the Companies, the Business, the Disclosure Letter and all other relevant matters and giving written notice of satisfaction to the Vendors.	Purchaser

Condition	Party entitled to benefit
(b) Consent: on or before the date that is 10 Business Days prior to the Completion Date, each of the Companies obtaining (with the Purchaser's reasonable assistance if requested) any required consents or approvals from the MoE, NZQA, TEC and from any other Government Agency or from any person that is party to a contract with any of the Companies, with respect to change of control of each of the Companies.	Purchaser
(c) Agreement on form of Employment Agreement, escrow agreement and other matters: on or before the Due Diligence Date, the Employment Agreement and the Escrow Agreement being in the Agreed Form, and the Vendors' Representative and the Purchaser having agreed on: (i) the specific rules/formats/line items to be applied to calculate the Working Capital Amount pursuant to clause (a) of Schedule 2; (ii) the specific rules to be applied to calculate the Earn Out Accounts and the Earn Out Amount (before any Equitable Adjustment); (iii) the amount and terms of any Pre-Completion Dividend; (iv) the form of the Pro Forma Accounts and the Earn Out Accounts; (v) the terms and conditions upon which PORSE Equine can subcontract (as a long term arrangement and in accordance with rule 17.2 of the NZQF Programme Approval and Accreditation Rules 2014) the use of the NZQA accreditation, TEC funding approval and moderation of PORSE Education and Training (NZ) Limited in the conduct of the business of PORSE Equine following Completion; and (vi) the steps (if any) to be taken with respect to WINZ funding of the Business (including agreeing the Purchaser's approach to WINZ funding after Completion and protocols for correspondence with WINZ).	Purchaser and Vendors
(d) Finance: on or before the Completion Date, the Purchaser: (i) arranging for the provision to it of sufficient debt and/or equity finance on terms and conditions satisfactory to the Purchaser (in its absolute discretion) to enable the Purchaser to complete the acquisition of the Shares; and (ii) satisfying all conditions precedent to drawdown or use of the debt and/or equity funds arranged in relation to the acquisition of the Shares, other than any	Purchaser

Condition	Party entitled to benefit
conditions precedent which will be satisfied upon Completion.	
(e) Key Employees: Each of the Key Employees remaining employed by the relevant Company as at the date that is 10 Business Days prior to the Completion Date, and the Vendors' Representative confirming on that date that she is not aware of any circumstances or reasons why any of the Key Employers would cease to be employed by the relevant Company following Completion.	Purchaser

2.2 Waiver of Conditions

- (a) The Conditions in clause 2.1 may only be waived in writing by a party entitled to the benefit of that Condition (as set out in the table in clause 2.1) and will be effective only to the extent specifically set out in that waiver.
- (b) The party entitled to the benefit of a Condition (as set out in the table in clause 2.1) may waive or agree to waive that Condition Precedent under this clause 2.2 in its absolute discretion.

2.3 Conduct of the parties

Each party must use all reasonable endeavours to satisfy and to assist the other to satisfy, as applicable, each Condition on or before the date for satisfaction under clause 2.1.

2.4 Notice

The Vendors and the Purchaser must promptly:

- (a) notify the other when they learn that any Condition is satisfied or that it cannot or is unlikely to be able to be satisfied; and
- (b) keep the other party reasonably informed of any developments relevant to the satisfaction, waiver or otherwise of any Condition.

2.5 Failure of Condition

So long as it has complied in full with its obligations under clause 2.3, a party is entitled to terminate this Agreement by notice to each other party at any time before Completion:

- (a) if any Condition has not been satisfied or waived in accordance with this clause 2 before the relevant due date for satisfaction of that Condition Precedent specified in clause 2.1; or
- (b) if any Condition has become incapable of satisfaction and has not been waived in accordance with this clause 2.

3. Sale and purchase

3.1 Sale of Shares

The Vendors as legal and beneficial owners of the Shares agree to sell to the Purchaser, and the Purchaser agrees to buy from the Vendors, the Shares:

- (a) for the Purchase Price;
- (b) free from Encumbrances;

- (c) on the Completion Date;
- (d) with all rights, including dividend and voting rights, attached or accrued to them on or after the Agreement Date (other than the right to be paid the Pre Completion Dividend); and
- (e) otherwise on the terms of this Agreement.

3.2 Nominee

The Purchaser may nominate any person(s) who is a wholly-owned subsidiary of Holdco to be the purchaser(s) of the Shares pursuant to this Agreement provided that such nomination shall not relieve the Purchaser from its obligations under this Agreement (with the intent that the Purchaser shall be fully liable for, and guarantees, the due and punctual performance of any nominee) and provided that the Vendors' disclosure to the Purchaser or its nominee is deemed to be disclosure to the Purchaser for the purposes of this Agreement.

4. Purchase Price

4.1 Amount

The Purchase Price is the Initial Purchase Price as adjusted in accordance with clause 4.4 plus the Earn Out Amount (if any).

4.2 Lowest Price

For the purposes of subpart EW of the Tax Act, the parties:

- (a) acknowledge that the Purchase Price is the lowest price that they would have agreed on with respect to the Shares at the time this Agreement was entered into if payment had been required in full at the time at which the first "right" (as defined in section YA 1 of the Tax Act) in the Shares was transferred from the Vendors to the Purchaser. Accordingly, the Purchase Price is the lowest price in accordance with the Tax Act; and
- (b) agree that they will compute their taxable income for the relevant period(s) on the basis that the Purchase Price includes no capitalised interest and they will file their New Zealand tax returns accordingly.

4.3 Payment of Initial Purchase Price

The Purchaser must on the Completion Date, subject to the Vendors complying with their obligations under clause 5.2, pay the Initial Purchase Price to the Vendors in cash.

4.4 Adjustment Amount

On the Determination Date, if the Adjustment Amount is:

- (a) less than the Adjustment Target, then the Vendors must pay an amount equal to the difference to the Purchaser in cash; and
- (b) more than the Adjustment Target, then the Purchaser must pay an amount equal to the excess to the Vendors in cash.

4.5 Payment of Earn Out Amount

On the Earn Out Determination Date, the Purchaser must pay the relevant Earn Out Amount (if any) in cash to the Vendors.

4.6 Cleared funds

All payments under this Agreement, must be made in cleared funds by electronic transfer to an account or accounts nominated in writing by the party receiving payment pursuant to a protocol to be agreed between the parties or their solicitors.

4.7 Default Payment

If either party (**Defaulting Party**) does not make payment (other than any payment that is ordered by a Court) of any amount due to the other party (**Other Party**) on the due date for payment, the Defaulting Party must pay to the Other Party interest at a rate of 10% per annum, from the due date for payment until the date that the payment is actually paid.

5. Completion

5.1 Time and place

If all of the Conditions have been fulfilled or waived under clause 2.2, Completion will take place at midday on the Completion Date at the offices of Minter Ellison Rudd Watts, Level 20, Lumley Centre, 88 Shortland Street, Auckland, or at such other place or time as agreed by the parties.

5.2 Vendors' obligations – Completion Date

At or before Completion, the Vendors must:

- (a) deliver to the Purchaser:
 - (i) duly executed and completed transfers in favour of the Purchaser of the Shares in registrable form together with the relevant share certificates (if any) or a certificate from a director of each of the Companies certifying that no share certificates have been issued;
 - (ii) if the transfers are executed other than by all the Vendors personally, any power of attorney or other authority under which the transfers of the Shares are executed;
 - (iii) confirmation, together with such evidence as the Purchaser reasonably requires, that all Shareholder Loans have been repaid;
 - (iv) duly executed instruments irrevocably waiving in favour of the Purchaser all rights of pre-emption which any person has in respect of any of the Shares;
 - (v) duly executed releases of any Encumbrances over the Shares;
 - (vi) a copy of the Employment Agreement duly executed by Jenny Yule;
 - (vii) evidence to the satisfaction of the Purchaser that Porse Equine, PORSE Group Holdings Limited and PORSE Move It Lifestyle and Fitness (NZ) Limited have each changed their names to a name that does not include, and is not capable of confusion with, the name "PORSE";
 - (viii) a letter of resignation (in the form required by the Purchaser) from each director (other than Jenny Yule) resigning as a director of each of the Companies with effect from Completion and acknowledging that he or she has no Claim against any of the Companies for breach of contract, loss of office, redundancy, compensation, payment or repayment of loans or otherwise, except for payments properly payable as an employee for accrued salary, holiday pay and long service leave up to (and including) the Completion Date;
 - (ix) all Records complete and up to date (it being agreed that they shall be delivered by leaving them at the Leased Properties);
 - (x) the Companies key or authorisation for each of the Companies;
- (b) cause the board of directors of each of the Companies to resolve that the transfers of the Shares be approved and registered;

- (c) cause the persons notified in writing by the Purchaser to the Vendors' Representative before Completion to be appointed as directors of each of the Companies with effect from Completion;
- (d) do all other things reasonably required to transfer the Shares, to complete any other transaction contemplated by this Agreement by Completion and to place the Purchaser in effective control of each of the Companies and the Business as may be notified to the Vendors' Representative at least 5 Business Days prior to Completion.

5.3 Obligations of the Purchaser

The Purchaser must, subject to the Vendors complying with their obligation under clause 5.2:

- (a) at Completion, pay the Initial Purchase Price;
- (b) at or before Completion, deliver to the Vendors:
 - (i) duly executed counterparts of any document to be delivered by the Vendors at Completion to which the Purchaser or any of its related parties or Related Companies is a party;
 - (ii) a deed of indemnity for Jenny Yule, as a director; and
 - (iii) written consents to act signed by the persons to be appointed as the directors of each of the Companies referred to in clause 5.2(c);
- (c) on the Determination Date, if the Adjustment Amount is more than the Adjustment Target, pay an amount required to the excess to the Vendors; and
- (d) on the Earn Out Determination Date, pay the Earn Out Amount (if any).

5.4 Simultaneous actions at Completion

In respect of Completion:

- (a) the obligations of the parties under this Agreement are interdependent;
- (b) all actions required to be performed will be taken to have occurred simultaneously on the Completion Date; and
- (c) the Purchaser need not complete the purchase of any Shares unless the purchase of all the Shares is completed simultaneously.

5.5 Release of guarantees etc

Following Completion, the Purchaser agrees to use its best endeavours to procure the release of all guarantees and assurances or other securities given by any of the Vendors and their Associates in respect of any of the Companies' obligations or the Business of any Company and which have been disclosed to the Purchaser prior to the satisfaction or waiver of the Condition in clause 2.1(a) (**securities**) that have not been released at Completion and, until such release (without liability), to indemnify the Vendors and their Associates on a continuing basis for any demand or liability or Claim they may have or receive under any of those securities that arises or is made after Completion.

5.6 Notice to complete

If Completion does not occur in accordance with this clause 5 because of the failure of any party (**Defaulting Party**) to satisfy any of its obligations under this clause 5 then:

- (a) the Purchaser (where the Defaulting Party is the Vendors); or
- (b) the Vendors (where the Defaulting Party is the Purchaser),

(in either case the non-Defaulting Party (**Non-Defaulting Party**)) may give the Defaulting Party a notice requiring the Defaulting Party to satisfy those obligations within a period of five Business Days after the date of the notice and specifying that time is of the essence in relation to that notice.

5.7 Remedies for failure to comply with notice

If the Defaulting Party fails to comply with a notice given under clause 5.6, the Non-Defaulting Party may without limiting its other rights or remedies available under this Agreement or at Law:

- (a) immediately terminate this Agreement, in which case the Non-Defaulting Party may seek damages for breach of this Agreement; or
- (b) seek specific performance of this Agreement, in which case:
 - (i) if specific performance is obtained the Non-Defaulting Party may also seek damages for breach of this Agreement; and
 - (ii) if specific performance is not obtained the Non-Defaulting Party may then terminate this agreement and may seek damages for breach of this Agreement.

5.8 Completion Escrow

At any time after the date on which the Conditions set out in clauses 2.1(a), 2.1 (b), 2.1(c) and 2.1 (e) have been satisfied or waived, the Purchaser may elect that the documents referred to in clauses 5.2(a) to (c) (inclusive) and in clause 5.3(b) (**Escrow Completion Deliverables**) be delivered to the Purchaser's Solicitor to be held in escrow, by giving written notice to that effect to the Vendors' Representative (**Escrow Notice**) and notifying the Vendors' Representative of the expected Completion Date. If the Purchaser gives an Escrow Notice, the parties will, no less than 5 Business Days prior to the known/expected Completion Date deliver their respective Escrow Completion Deliverables to the Purchaser's solicitors to be held in escrow pursuant to the terms of the Escrow Agreement.

6. Completion Accounts and Earn Out Accounts

6.1 Completion Accounts

The Purchaser must as soon as reasonably practicable, and in any event no later than 60 Business Days after the Completion Date, deliver the Completion Accounts to the Vendors' Representative, and confirm the Adjustment Amount to the Vendors' Representative.

6.2 Earn Out Accounts

The Purchaser must deliver the Earn Out Accounts to the Vendors' Representative together with a certificate listing all Relevant Events (if any), containing (if not already provided under clause 10.2) the related information and the Purchaser's quantification of their effect or impact on the Earn Out Amount (and including where applicable details of all notices and any agreed adjustments under clause 10.2), within 5 Business Days of receiving the final form of the Earn Out Accounts from its accountants and in any event no later than 31 March 2016.

6.3 Basis of preparation of Completion Accounts

The Completion Accounts must be prepared, and the Adjustment Amount must be calculated:

- (a) in accordance with the Completion Accounts principles and practices (and priorities) set out or referred to in Schedule 2; and
- (b) in the same format (including the same line items) as the Pro Forma Accounts.

6.4 Basis of Preparation of Earn Out Accounts

The Earn Out Accounts and the Earn Out Amount must be prepared or calculated in accordance with the specific rules agreed under clause 2.1(c)(ii) and (iv) and the Accounting Standards (in that order of priority), and the Earn Out Amount must be adjusted (if applicable) in accordance with any agreed adjustment under clause 10.2 or as determined under clause 6.7.

6.5 Access to information

The:

- (a) Vendors must ensure that all information and assistance reasonably requested by the Purchaser is given to them to prepare the Completion Accounts and the Earn Out Accounts and to determine the Working Capital Amount, the Debt on Completion and the Earn Out Amount; and
- (b) the Purchaser must ensure that all information and assistance reasonably requested by the Vendors are given to them to review and audit the Completion Accounts and the Earn Out Accounts and to confirm the Working Capital Amount, the Debt on Completion and the Earn Out Amount (including information concerning all Relevant Events and any possible Equitable Adjustment).

6.6 Review of Completion Accounts and Earn Out Accounts

If the Vendors dispute any part of the Completion Accounts, the Earn Out Accounts, the Working Capital Amount, the Debt on Completion or the Earn Out Amount, in a Dispute Notice given before 5:00pm on the date that falls 10 Business Days after the date on which the Purchaser delivers the relevant documents to the Vendors, the dispute will be determined in accordance with clause 6.7. Otherwise the Completion Accounts, the Adjustment Amount, the Earn Out Accounts or the Earn Out Amount (as the case may be) will be deemed final and agreed by the parties.

6.7 Dispute Resolution Procedure

- (a) If the Purchaser or the Vendors dispute the Completion Accounts, the Earn Out Accounts, the Adjustment Amount, the Earn Out Amount (including with respect to one or more Relevant Events or any Equitable Adjustment) (**Disputing Party**), the Disputing Party must give the other party a notice (**Dispute Notice**) setting out in reasonable detail:
 - (i) each matter in dispute (**Disputed Matters**); and
 - (ii) the reasons why each of the Disputed Matters is disputed.
- (b) Within 10 Business Days of the Disputing Party giving the other parties a Dispute Notice, the other parties may give the Disputing Party a response in writing to each of the Disputed Matters (**Response**).
- (c) If the Purchaser and the Vendors have not resolved the dispute within 20 Business Days of the Disputing Party giving the Dispute Notice, the dispute must promptly be submitted for determination to the Independent Accountant to determine the Disputed Matters.
- (d) The Independent Accountant must be agreed by the Purchaser and the Vendors' Representative. If the Purchaser and the Vendors' Representative cannot agree within 10 Business Days of the Response being given to the Disputing Party, the Independent Accountant must be nominated, at the request of either the Purchaser or the Vendors' Representative, by the President of the New Zealand Institute of Chartered Accountants.
- (e) The Disputed Matters must be referred to the Independent Accountant by written submission which must include the Completion Accounts or the Earn Out Accounts, any Relevant Event Notices and/or Vendors' Adjustment Notices given under clause 10.2 (together with any other relevant information concerning each Relevant Event and

disputed Equitable Adjustment) the Dispute Notice, the Response and an extract of the relevant provisions of this Agreement. The Independent Accountant must determine the matter in dispute by applying the methodology or principles and acknowledgements referred to in clause 6.3, clause 6.4 or clause 10.2 (as applicable). The Independent Accountant must also be instructed to finish its determination no later than 20 Business Days after its appointment (or another period agreed by the parties). The Independent Accountant shall be entitled to seek (and, if the Vendors' Representative and the Purchaser so agree in writing, the Independent Accountant must seek) the advice of a reputable, independent law firm in relation to the interpretation of the relevant provisions of this Agreement.

- (f) The parties must promptly supply the Independent Accountant with any information, assistance and cooperation requested in writing by the Independent Accountant in connection with its determination. All correspondence between the Independent Accountant and a party must be copied to the other party.
- (g) The Independent Accountant must act as an expert and not as an arbitrator and its written determination on the issue in dispute will be final and binding on the parties in the absence of manifest error and:
 - (i) the Completion Accounts or Earn Out Accounts will be deemed to be amended accordingly and will be taken to comprise the final Completion Accounts or Earn Out Accounts (as the case may be); and/or
 - (ii) the determined Adjustment Amount or Earn Out Amount (if applicable as adjusted by the Independent Accountant to reflect any claimed Equitable Adjustments) will be the Adjustment Amount or Earn Out Amount for the purposes of this Agreement.

6.8 Costs

The costs of the Independent Accountant and/or independent law firm (if instructed) will be borne as to one half by the Purchaser and as to one half by the Vendors.

7. Obligations prior to Completion

7.1 Due diligence and access

- (a) The Vendors must ensure that from and including the Agreement Date until the earlier of the termination of this Agreement and the Completion Date the Vendors and their Representatives:
 - (i) provide the Purchaser and its Representatives with full access as reasonably necessary to the Business, the Leased Properties and all officers and the Key Employees of the Business, and the Purchaser agrees that it will not engage with the Vendors' employees (other than the Key Employees) concerning this Agreement (including the transaction hereunder) until after the Condition in clause 2.1(a) has been satisfied;
 - (ii) respond promptly and fully to any reasonable written enquiries of the Purchaser or its employees, agents and Representatives in respect of the Business;
 - (iii) provide any necessary authorisation to third parties to divulge reasonable information concerning each of the Companies, the Business and the Vendors to the Purchaser and its Representatives;
 - (iv) provide to the Purchaser:

- (A) true and complete written answers to any questions; and
 - (B) copies of any documentation requested, being such documentation as exists at the time of the request,

in any due diligence questionnaire or request for information supplied to the Vendors by the Purchaser or its Representatives, for the purposes of the Purchaser satisfying the Condition in clause 2.1(a) and assisting the Purchaser and its Representatives to understand the Business in order to prepare for transition to the Purchaser's normal working procedures.
- (b) The Purchaser must ensure that any access under clause 7.1(a) is exercised and conducted in a manner to avoid unreasonable disruption to the conduct of the Business and the activities and operations of the Vendors and its employees.
- (c) Subject to clause 12, the Vendors and the Purchaser must during the Purchaser's access under clause 7.1(a), keep confidential, and must procure that each of their Representatives keeps confidential, the existence of and the terms of this Agreement (including the transaction contemplated hereunder), all negotiations between the parties in relation to the subject matter of this Agreement and all other information given to it under this Agreement.
- (d) The Vendors acknowledge and agree with the Purchaser that the Purchaser can request information or documentation in respect of the Companies or the Business up to and including the Completion Date and the Vendors must, in accordance with clause 7.1(a), comply with that request.
- (e) Within 2 Business Days of the Agreement Date, the Purchaser will provide a due diligence questionnaire to the Vendors. The Vendors must use their best endeavours to provide:
 - (i) the fully completed due diligence questionnaire and any relevant documentation to the Purchaser within:
 - (A) the later of 5 Business Days after the Agreement Date and the date of receipt of the due diligence questionnaire in respect of certain financial and operational information requested; and
 - (B) the later of 10 Business Days after the Agreement Date and the date of receipt of the due diligence questionnaire, in respect of the balance of the information requested,

(and the Purchaser will confirm to the Vendors' Representative once it is satisfied with the information provided); and
 - (ii) complete responses to any requests for further information within a reasonable time after they are issued by the Purchaser.

7.2 Conduct of Business

Until Completion the Vendors must (and/or as applicable must ensure that each of the Companies will):

- (a) continue to carry on the Business in the ordinary and usual course and as a going concern and in substantially the same manner as it has done to date;
- (b) use their best endeavours to preserve intact the good name and reputation of the Business as well as their client, supplier and employee relationships (including carrying on all usual

marketing and promotional activities (including contacting parents about future enrolments));

- (c) conduct the Business in compliance with all Laws;
- (d) procure that repairs and maintenance are carried out to the Plant and Equipment in accordance with good commercial practice; and
- (e) promptly notify the Purchaser of any material abnormal or unusual events with respect to the Business or the occurrence of any event outside the ordinary course of business (including all information involving serious health and safety or concerning child abuse (whether sexual or physical in nature) of an enrolled child or involving or concerning a past or present employee of, contractor of or carer introduced by any of the Companies (whether having occurred or being alleged to have occurred)).

7.3 Restricted Conduct

Before Completion, except with the prior consent of the Purchaser (which consent must not be unreasonably withheld or delayed), each of the Vendors and the Companies must not:

- (a) create any Encumbrance over, dispose of or declare itself the trustee of any asset of any of the Companies or any interest in any asset of any of the Companies;
- (b) do or omit to do anything which might result in the variation, termination, suspension, revocation or non-renewal of any Licence;
- (c) enter into or incur in the name or on behalf of any of the Companies, any commitments or liabilities, other than in the ordinary course of business, or enter into any new contract which is material to any of the Companies. For the avoidance of doubt, new licences, new enrolments, and employment of staff necessary in respect of such enrolments, shall be deemed to be in the ordinary course of business;
- (d) offer any rebates, discounts or allowances to customers (other than normal rebates, discounts or allowances offered in the ordinary and usual course or in accordance with the Business Plan);
- (e) except as required by Law or other existing terms of employment or consistent with the Business Plan or normal practice in the 12 months prior to the Agreement Date or as envisaged by this Agreement:
 - (i) increase or make any representation about an increase in the annual remuneration of any employee or create or increase any entitlement for any employee to receive a bonus or other payment in addition to annual remuneration; or
 - (ii) otherwise materially vary the terms of employment or engagement of any employee;
- (f) except as envisaged by this Agreement enter into any profit sharing or profit or equity participation arrangement in relation to the Business with any employee, agent, representative or other person;
- (g) terminate or permit the termination or amendment of, or fail to renew on its expiry, any insurance policy as at the Agreement Date;
- (h) issue or grant any option to subscribe for any equity or loan securities in any of the Companies;
- (i) alter or agree to alter the constitution of any of the Companies except for the purposes of this Agreement;

- (j) pass any directors or shareholders resolution except for the purposes of this Agreement or to pay or declare a dividend;
- (k) pay or declare a dividend or distribution (as that term is defined by the Companies Act) other than the PreCompletion Dividend or as agreed with the Purchaser;
- (l) omit to pay all trade and other creditors as they fall due;
- (m) destroy or otherwise dispose of any Records;
- (n) enter into, vary, amend or terminate any contract or arrangement which is material to any of the Companies;
- (o) institute, settle or agree to settle any legal process; or
- (p) authorise, or agree conditionally or otherwise to do, any of the things referred to in the preceding paragraphs of this clause 7.3.

7.4 Terminate discussions

Until Completion or earlier termination of this Agreement, the Vendors must not solicit or respond to any enquiries or prospects by any person, other than the Purchaser, concerning an acquisition of the Shares or the assets of any of the Companies.

8. Warranties

8.1 Warranties

The Vendors jointly and severally represent and warrant to the Purchaser that each of the Warranties is true, and accurate as at the Agreement Date and will be true and accurate on the Completion Date.

8.2 Application of the Warranties

Each Warranty and the Tax Indemnity:

- (a) remains in full force and effect after Completion; and
- (b) is separate and independent and is not limited by reference to any other Warranty or any other provision in this Agreement.

8.3 Qualifications

The Warranties (other than the Tax Warranties) and any Claim in relation thereto are given subject to and are qualified by the matters that are fully and fairly disclosed in the Due Diligence Materials and the Disclosure Letter. The Tax Warranties and any Claim in relation thereto are given subject to and are qualified by the matters that are fully and fairly disclosed in the Disclosure Letter only.

8.4 Financial limits on Claims

The Vendors have no liability for a Claim for a breach of Warranty:

- (a) if the amount claimed in respect of the Claim or series of related Claims is less than \$15,000; and
- (b) until the aggregate of all qualifying Claims amounts exceeds \$75,000, in which event the Purchasers may claim the whole amount of any Claim or series of related Claims of \$15,000 or more.

8.5 Time limits on Claims

The Vendors have no liability for breach of Warranty or under the Tax Indemnity unless:

- (a) in the case of a Claim relating to any Warranty other than those referred to in clause 8.5(b), the Purchaser has given written notice of the Claim to the Vendors under clause 8.7, on or before that date that is 18 months following Completion Date; and
- (b) in the case of a Claim relating to any Tax Warranty or under the Tax Indemnity, the Purchaser has given written notice of the Claim to the Vendors' Representative under clause 8.7, within three months of the end of the period during which the IRD or any other Tax Authority is entitled to assess any of the Companies in relation to any period up to and including the Completion Date.

8.6 Maximum aggregate liability

The maximum aggregate liability of the Vendors for all Claims for (I) a breach of Warranty and (II) under the Tax Indemnity is an amount equal to the Purchase Price.

8.7 Notice of potential Claim

As soon as reasonably possible after a party first becomes aware of anything which is or may be reasonably likely to result in a breach of any Warranty:

- (a) it must notify the other party in writing of that fact, together with all available details; and
- (b) the Vendors must, as and when requested by the Purchaser, provide to the Purchaser any information and details which the Purchaser reasonably requires.

8.8 Mitigation

The Purchasers shall at all times take all reasonable steps to mitigate their losses in respect of any Claim under this clause 8.

8.9 Effect of payment

A payment to the Purchaser under clause 8 or 9 is to be treated as a pro rata reduction in the Purchase Price.

8.10 No representation by Companies

- (a) The Vendors acknowledge that none of the Companies give any representation, warranty or guarantee about the accuracy of any information or opinion given by any of the Companies or the Companies' officers, employees, agents or advisers to the Vendors or the Vendors' officers, employees, agents or advisers in connection with the Warranties, the Business, the affairs of each of the Companies, or the negotiation and preparation of this Agreement.
- (b) The Vendors irrevocably waive any right or Claim they may have against any of the Companies or the Companies' officers, employees, agents or advisers for any error or misrepresentation in, or omission from, any information or opinion referred to in clause 8.10(a). This clause is also for the benefit of, and may be enforced by, each of the Companies and its officers, employees, agents and advisers under the *Contracts (Privity) Act 1982*.

8.11 Survival

The provisions of clause 8 remain in full force and effect after Completion.

8.12 General restrictions on Tax Claims

Except to the extent otherwise provided for under this Agreement, no Claim may be made in respect of Tax, Tax Claims or the Tax Warranties other than in accordance with the procedures, and subject to the limitations that apply to the Tax Indemnity.

8.13 Claims provided for in Completion Accounts

The Purchaser cannot make any Claim under the Warranties or the Tax Indemnity to the extent that the Liability relating to that Claim is fully provided for in the Completion Accounts.

8.14 Right of termination

If, before Completion:

- (a) the Purchaser identifies a material breach of, or a material inaccuracy in, any of the Warranties; or
- (b) there is a material adverse change in the assets, liabilities, turnover, earnings, financial condition, trading position, affairs or prospects of the Companies (as a group),

the Purchaser may (without prejudice to any other remedy available to it) immediately terminate this Agreement by giving written notice to the Vendors' Representative.

8.15 Knowledge and awareness of Vendors

If any Warranty is qualified by the Vendors' awareness or knowledge, the facts of which the Vendors are aware or that are within the Vendors' knowledge are taken to be all facts of which the Vendors or Erin Maloney, Kerry Henderson, Paul Matthews and Mike Batey are actually aware at the relevant time.

9. Indemnities

9.1 Tax Indemnity

(a) The Purchaser Indemnified

The Vendors indemnify the Purchaser and undertake to keep the Purchaser at all times fully and effectively indemnified from and against any Tax for which any of the Companies becomes liable to pay to the extent that the Tax:

- (i) is in a Tax Claim;
- (ii) wholly or partly (in which event the liability of the Vendors shall be limited to that part) relates to any period ending on or before the Completion Date; or
- (iii) arises from a breach of a Tax Warranty or would not be payable if the Tax Warranty was true and accurate.

(b) Timing of Payment

- (i) Subject to clause 9.1(b)(ii), any payment required to be made pursuant to the Tax Warranties or Tax Indemnity (**Indemnity Payment**) shall be paid in cleared funds to the Purchaser five Business Days prior to the day on which the Taxation in respect of which that Indemnity Payment is required to be made is due for payment or five Business Days after the Purchaser has notified the Vendors' Representative of the liability for such payment, whichever is later.
- (ii) Where an amount of Taxation shown in a Tax Claim is payable immediately, the Indemnity Payment must be paid as soon as reasonably practicable and in any event within five Business Days upon notice of the Claim being given to the Vendors' Representative.

(c) Vendors Companies Limitations relating to taxation

The Vendors will not be required to meet any Claim under the Tax Warranties or the Tax Indemnity to the extent that:

- (i) the Claim is for any Tax loss or memorandum account balance of any of the Companies which is eliminated as a result of the transfer of Shares pursuant to this Agreement;
 - (ii) the Tax liability arises or is increased as a result of any voluntary change in accounting principles or in the treatment of any item for Tax purposes made by any Company after Completion unless the change is required to comply with Law;
 - (iii) the Tax results from or relates to the change (on or after the Completion Date) of the tax balance date of any Company;
 - (iv) the Taxation has arisen because any Company amends (or requests an amendment to) any Tax return that was filed in relation to a period ending on or before Completion without the consent of the Vendors (such consent not to be unreasonably withheld or delayed), except where such amendment is required by applicable Law;
 - (v) any Relief available to any Company in a period (or part period) prior to Completion is able to relieve or mitigate that Tax liability including if part year tax accounts were prepared and/or if necessary loss elections were made/notified by the Companies or any of them;
 - (vi) an increased liability for Tax in one period will be offset by a reduced liability for Tax (including Relief) in another period;
 - (vii) the Taxation has been provided for in the Completion Accounts;
 - (viii) the Tax arises in relation to the tax position taken in a pre-Completion return (as defined in clause 9.1(d)(i), where the Purchaser has not complied with its obligation to consult with the Vendors in accordance with clause 9.1(d)(ii);
 - (ix) the Purchaser does not comply with the Vendors' rights or requirements in clause 9.1(f) or clause 9.2;
 - (x) the monetary cap specified in clause 8.6 is exceeded or clause 8.13 applies; or
 - (xi) the Purchaser, or any of the Companies makes, will make, or has made a Tax Saving in relation to the matters giving rise to the claim under the Tax Indemnity,
- and, in any event, no Claim shall be made later than the period specified in clause 8.5(b).

(d) **Taxation Returns**

The Purchaser must:

- (i) procure that each of the Companies will file all Tax returns and make all payments of Tax that as at Completion are not yet due (for return or payment) and that in whole or in part related to the period up to and including Completion by their due date (**pre-Completion return**), which to avoid doubt will include the 2014/2015 income tax return and any GST return that straddles Completion;
- (ii) prior to filing a pre-Completion return, provide a copy of that draft return to the Vendors' Representative and will allow the Vendors a reasonable period of time to review prior to the date of filing.

In the event of a disagreement between the Vendors and the Purchaser as to the form and content of a pre-Completion return, the Vendors will determine the form and content of the return for the period up to and including Completion and the Purchaser will determine the form and content of the return for the period after Completion (and as far as possible they will endeavour to conform the treatment).

(e) **Indemnity is for net position**

- (i) The Vendors' aggregate liability under the Tax Indemnity is limited to the net, overall, liability for Tax incurred, or the net, overall, loss of Relief suffered by all of the Companies after taking into account any reduction in Tax or increase in Relief and which arises in any of the circumstances referred to in clause 9.1(a).
- (ii) If, during the period during which the Purchaser is entitled to make any Claim under the Tax Indemnity, any Company has actual reductions in its liability for Tax or actual increases in Relief with the result that it proves to have overpaid Tax or over provided for Tax in the Completion Accounts, any such reductions or increases will be taken into account in determining the net liability of the Vendors for Claims under this Agreement.

(f) **Access to Records**

The Purchaser must procure that the Company gives the Vendors reasonable access to books, accounts, records and personnel as is reasonable to allow the Vendors to be fully informed of matters relating to any dispute of a Tax Claim as soon as practicable.

9.2 Tax Claim Procedures

(a) **Notice**

If any of the Companies receives a Tax Claim which may give rise to a Claim under the Tax Warranties or the Tax Indemnity against the Vendors, the Purchaser will procure that the Vendors are provided with notice of that Tax Claim.

(b) **Actions by the Purchaser**

The Purchaser must procure that each of the Companies promptly take such action, and gives such information and assistance as the Vendors may reasonably and promptly, by written notice, request to avoid, resist, appeal or compromise the Tax Claim, or to challenge or appeal any decision of a competent authority (including a Court or the Taxation Review Authority) in relation to the Tax Claim, or to minimise the prospect of the Vendors being required to indemnify the Purchaser and to minimise the amount of any such indemnification.

(c) **Consultation**

The Vendors will at all times prior to taking any action in accordance with this clause 9.2, consult with the Purchaser in relation to the conduct and progress of the dispute of the Tax Claim, keep the Purchaser fully informed of any progress and provide the Purchaser with copies of all relevant documents. The Vendors, following such consultation, are to take into account all reasonable concerns and issues raised by the Purchaser in all action that is taken by the Vendors following consultation (though the Vendors will ultimately make the final decision regarding the approach to be taken in relation to the Tax Claim).

(d) **No Damage**

The Vendors, in the course of avoiding, contesting or compromising a Tax Claim, will not do anything, or make any admissions or statements, which would damage the business or commercial reputation of any of the Companies.

(e) **Costs**

Without limiting any other right of the Purchaser, all reasonably incurred out of pocket costs and expenses (including legal fees and disbursements) properly incurred by any of the Companies in carrying out any action requested by the Vendors under clause 9.2(b)

will be payable by the Vendors on receipt of reasonable evidence of those costs and expenses.

9.3 Representations

The Purchaser represents and warrants to the Vendors that each of the following statements is true and accurate at the date of this Agreement and will be true and accurate on the Completion Date:

- (a) it is validly existing under the Laws of New Zealand;
- (b) it has the power to enter into and perform its obligations under this Agreement and to carry out the transactions contemplated by this Agreement;
- (c) it has taken all necessary action to authorise its entry into and performance of this Agreement and to carry out the transactions contemplated by this Agreement; and
- (d) its obligations under this Agreement are valid and binding and enforceable against it in accordance with their terms.

9.4 Application of representations by the Purchaser

Each of the representations by the Purchaser under clause 9.3 remains in full force and effect on and after Completion.

10. Post Completion

10.1 Governing good faith principle affecting the Earn Out Amount

The parties acknowledge the Purchaser's right to operate and control the Business after Completion and the Vendors' rights, as part of the Purchase Price, to receive an Earn Out Amount in principle based on or referable to the Business Plan and how the Vendors would have funded, operated or controlled the Business and the Companies from Completion until 31 December 2015. The parties also acknowledge the difficulty in quantifying with precision the financial effect or impact with precision of particular acts or events or decisions made in relation to a business. To reflect these acknowledgements, the Purchaser and the Vendors agree to be open and transparent and to act in good faith on all matters that may affect or impact on the Earn Out Amount, and, further, none of the Purchaser, Holdco, the Companies or any of their Related Companies may:

- (a) take any step or action; or
- (b) omit to take any step or action,

which is intended to reduce or has the effect of reducing the Earn Out Amount without the Purchaser compensating the Vendors for the impact or effect of this act or omission by way of an adjustment to the Earn Out Amount (as it would otherwise have been calculated).

10.2 Equitable Adjustment

Without limiting clause 10.1, if any of the Purchaser, Holdco, the Companies or any of their Related Companies carry out or intend to carry out a Relevant Event, the Purchaser must notify the Vendors' Representative in writing (if reasonably possible before the Relevant Event is undertaken, so that the likely effect or impact (if any) of the Relevant Event on the Earn Out Amount can be discussed and (if possible) agreed by the parties before implementation, and in any event no later than specified in clause 6.2), providing all relevant details of the Relevant Event (**Relevant Event Notice**) and its good faith estimate or quantification of the effect or impact of the Relevant Event on the Earn Out Amount and the adjustment required, (**Estimated Adjustment**) if any, including detailed reasons and:

- (a) if the Relevant Event (whether notified or not) has, has had, or is likely to have, a negative effect or impact on the Earn Out Amount, the Vendors will be entitled to an equitable

adjustment to the Earn Out Amount (**Equitable Adjustment**) to preserve their economic position as if the Relevant Event had not occurred;

- (b) the Vendors' Representative must, within 10 Business Days of receiving a Relevant Event Notice, or otherwise as soon as reasonably possible upon becoming aware of a Relevant Event, notify the Purchaser:
 - (i) if a Relevant Event Notice was given, whether it agrees with the Estimated Adjustment, in which case (if necessary) the agreed Estimated Adjustment will be made to the Earn Out Amount when paid under clause 4.5;
 - (ii) if:
 - (A) no Relevant Event Notice was given, and the Vendors are otherwise aware of or consider a Relevant Event has occurred; or
 - (B) if the Vendors do not agree with the Estimated Adjustment, of the Vendors' intention to seek an Equitable Adjustment to the Earn Out Amount to compensate for the impact or effect of a Relevant Event, including details of the Relevant Event that the Vendors consider has taken place (and the Purchaser will in good faith assist the Vendors, if requested, in compiling these details), and their good faith estimate or quantification of the impact of the Relevant Event on the Earn Out Amount and the adjustment required (**Vendors' Adjustment Notice**);
- (c) if a Relevant Event Notice or a Vendors' Adjustment Notice has been given, and either the Vendors do not agree with the Estimated Adjustment notified in the Relevant Event Notice, or the Purchaser does not agree with the Vendors' good faith estimate or quantification of the adjustment notified in the Vendors' Adjustment Notice (and the Purchaser has notified the Vendors' Representative of its disagreement within 10 Business Days of receiving the Vendors' Adjustment Notice), then the Vendors and the Purchaser must attempt in good faith to determine whether an Equitable Adjustment is due and the amount, if any, of the Equitable Adjustment. If the Vendors and the Purchaser are unable to reach an agreement within 20 Business Days following receipt of a Relevant Event Notice or Vendors' Adjustment Notice, either party may require the dispute to be resolved pursuant to clause 6.7 by notice in writing (and the parties will do so in conjunction with, and as part of, a dispute with respect to the Earn Out Amount pursuant to that clause);
- (d) any Equitable Adjustment either agreed under this clause 10.2 or determined pursuant to clause 6.7 shall be made to the Earn Out Amount when paid under clause 4.5.

10.3 No adjustment in certain circumstances

Nothing in clauses 10.1 or 10.2 will apply, and the parties agree that no Relevant Event will arise, and the Vendors will not be entitled to any Equitable Adjustment, to the extent that any act, omission, Relevant Event was:

- (a) undertaken, omitted or otherwise carried out by the Purchaser, Holdco, the Companies or any of their Related Companies at the request, direction, instruction, or with the written consent, of the Vendors' Representative; or
- (b) required or expressly permitted by the Business Plan.

10.4 Use of business name

The Vendors must, and must procure that all of their Associates, as soon as reasonable practicable after the Completion Date but in any event within one month after the Completion Date, cease to use or display any trade or service marks, trade or service names or logos use or owned by the Company including "PORSE" or any confusingly similar mark, name or logo.

11. Restraint

11.1 Defined terms

In this clause 11:

engage in means to carry on, participate in, provide finance or services, or otherwise be directly or indirectly involved as a shareholder, unitholder, director, consultant, adviser, contractor, principal, agent, manager, employee, beneficiary, partner, associate, trustee or financier.

Prohibited Persons means:

- (a) Each of the Vendors;
- (b) Each Associate of the Vendors.

11.2 Prohibited activities

The Vendors (in consideration for the Purchaser entering into this Agreement at the request of the Vendors) undertake to the Purchaser that the Prohibited Persons will not:

- (a) engage in a business or an activity that is:
 - (i) the same or similar to the Business or any material part of the Business; or
 - (ii) in competition with the Business or any material part of the Business;
- (b) solicit, canvass, approach or accept an approach from a person who was at any time during the six months ending on the Completion Date a customer of any of the Companies with a view to obtaining their custom in a business that is the same or similar to the Business and is in competition with the Business;
- (c) interfere with the relationship between any of the Companies and their customers, employees or suppliers; or
- (d) induce or help to induce an employee of any of the Companies to leave their employment.

11.3 Duration of prohibition

The undertakings in clause 11.2 begin on the Completion Date and end 36 months after the Completion Date.

11.4 Geographic application of prohibition

The undertakings in clause 11.2 apply only if the activity prohibited by clause 11.2 occurs within New Zealand or Australia.

11.5 Exceptions

This clause 11 does not restrict a Prohibited Person from:

- (a) continuing to own and operate the business of PORSE Equine (but under a name not including "PORSE");
- (b) performing the Employment Agreement or any other employment or independent contractor agreement with any of the Companies or Holdco or being a director of any of the Companies or Holdco;
- (c) holding any shares in Holdco or 5% or less of the shares of a listed company; or
- (d) recruiting a person through a recruitment agency (except if the agency targets employees of any of the Companies) or in a response to a newspaper, web page or other public employment advertisement.

11.6 Acknowledgments

The Vendors acknowledge that:

- (a) all the prohibitions and restrictions in this clause 11 are reasonable in the circumstances and necessary to protect the goodwill of the Business;
- (b) damages are not an adequate remedy if a Prohibited Person breaches this clause 11; and
- (c) the Purchaser may apply for injunctive relief if:
 - (i) a Prohibited Person breaches or threatens to breach this clause 11; or
 - (ii) it believes a Prohibited Person is likely to breach this clause 11.

12. Confidentiality

12.1 No announcement or other disclosure of transaction

Except as permitted by clause 12.2 the Vendors and the Purchaser must keep confidential, and must procure that each of their respective Representatives keeps confidential, the existence of and the terms of this Agreement, all negotiations between the parties in relation to the subject matter of this Agreement and all other information given to it under this Agreement.

12.2 Permitted disclosure

Nothing in this agreement prevents a person from disclosing matters referred to in clause 12.1:

- (a) if disclosure is required to be made by Law or the rules of a recognised stock or securities exchange;
- (b) if disclosure is made by way of a written announcement the terms of which have been agreed in writing by the parties prior to the making of the announcement;
- (c) if disclosure is reasonably required to enable a party to perform its obligations under this agreement;
- (d) to any professional adviser of a party who has been retained to advise in relation to the transactions contemplated by this agreement or to the auditor of a party, provided that person has entered into a written agreement in favour of the Purchaser undertaking to keep that information confidential;
- (e) to any financier who has made a bona fide proposal to provide finance to a party in relation to the transactions contemplated by this agreement, provided that person has entered into a written agreement in favour of the Purchaser undertaking to keep that information confidential;
- (f) to any nominee of the Purchaser, under clause 3.2;
- (g) with the prior written approval of each party other than the party whose obligation it is to keep those matters confidential or procure that those matters are kept confidential; or
- (h) where the matter has come into the public domain otherwise than as a result of a breach by any party of this Agreement.

13. Termination

13.1 Termination by Purchaser

The Purchaser may terminate this Agreement at any time before Completion in accordance with clause 2.5, 5.7 or 8.14.

13.2 Termination by Seller

The Vendors may terminate this Agreement at any time before Completion in accordance with clause 2.5 or 5.7 .

13.3 Effect of Termination

If this Agreement is terminated then:

- (a) the provisions of this Agreement will cease to have effect except for the provisions of clauses 1, 12, 13, 14, 15 and 17 which will survive termination;
- (b) each party retains the rights it has against the others in respect of any breach of this Agreement occurring before termination.

13.4 Return of information

If this Agreement is terminated for any reason, the Purchaser must immediately, upon being requested in writing by the Vendors to do so:

- (a) return to the Vendors all documents, records and materials (including copies) which were obtained by the Purchaser or on its behalf in the course of access allowed by the Vendors;
- (b) delete from any computer or data storage device all information relating to the Business or the Companies obtained from the Vendors or to which the Purchaser was allowed access by the Vendors;
- (c) destroy all copies of all analyses, compilations, studies, data tables or other documents (including those stored electronically) prepared by or on behalf of the Purchaser on the basis of information relating to the Business or the Assets to which the Purchaser was allowed access by the Vendors; and
- (d) comply with, and procure that their Related Companies comply with, the confidentiality obligations set out in this Agreement and make no use of the information whatsoever.

14. Notices and other communications

14.1 Form of notice

Each notice or other communication given under this Agreement must be in writing and sent by facsimile, email, personal delivery or by post to the addressee at the facsimile number, email address or postal address, and marked for the attention of the person (if any), last notified for the purpose by the addressee to the other party or parties. The initial facsimile number, email address, postal address and relevant contact person or officeholder of each party is set out in the Details.

14.2 Notice effective

A communication given in accordance with clause 14.1 is deemed to be received by the addressee:

- (a) in the case of a facsimile, upon production of a transmission report by the machine from which the facsimile was sent which indicates the facsimile was sent in its entirety to the facsimile number of the recipient;
- (b) in the case of personal delivery, when delivered;
- (c) in the case of email, the time specified in the record of the computer system from which the email was sent, if that computer system:
 - (i) has received an acknowledgement of receipt from the party to whom the email was intended to be sent; or
 - (ii) has not generated a record that the notice has failed to be transmitted;

- (d) in the case of a letter posted to a New Zealand address, on the third Business Day after posting; and
- (e) in the case of a letter posted by airmail to an address outside New Zealand, on the seventh Business Day after posting,

provided that any notice received or deemed received after 5pm or a non-Business Day shall be deemed to have been received on the next Business Day.

15. Miscellaneous

15.1 Legal costs

Except as expressly stated otherwise in this Agreement, each party must pay its own legal and other costs and expenses of negotiating, preparing, executing and performing its obligations under this Agreement.

15.2 Amendment

This Agreement may only be varied or replaced by a document executed by all the parties.

15.3 Waiver and exercise of rights

- (a) A single or partial exercise or waiver by a party of a right relating to this Agreement does not prevent any other exercise of that right or the exercise of any other right.
- (b) A party is not liable for any loss, cost or expense of any other party caused or contributed to by the waiver, exercise, attempted exercise, failure to exercise or delay in the exercise of a right.

15.4 Rights cumulative

Except as expressly stated otherwise in this Agreement, the rights of a party under this Agreement are cumulative and are in addition to any other rights of that party.

15.5 Consents

Except as expressly stated otherwise in this Agreement, a party may conditionally or unconditionally give or withhold any consent to be given under this Agreement and is not obliged to give its reasons for doing so.

15.6 Further steps

Each party must promptly do whatever any other party reasonably requires of it to give effect to this Agreement and to perform its obligations under it.

15.7 Governing law and jurisdiction

- (a) This Agreement is governed by and is to be construed in accordance with the Laws applicable in New Zealand.
- (b) Each party irrevocably and unconditionally submits to the exclusive jurisdiction of the New Zealand courts.

15.8 Assignment

Neither party may assign or deal with any right under this Agreement without the prior written consent of the other party (which consent may be withheld in the sole discretion of that other party).

15.9 Liability

An obligation of two or more persons binds them jointly and severally, unless this Agreement expressly provides otherwise.

15.10 Counterparts

- (a) This Agreement may consist of a number of counterparts and, if so, the counterparts taken together constitute one document.
- (b) A party may execute this Agreement or any counterpart and exchange it by facsimile or as an electronic copy by email.

15.11 Effect of execution

This Agreement is not binding on any party unless it or a counterpart has been duly executed by each person named as a party to this Agreement.

15.12 Relationship of parties

This Agreement is not intended to create a partnership, joint venture or agency relationship between the parties.

15.13 Indemnities

- (a) Each indemnity in this Agreement is a continuing obligation, separate and independent from the other obligations of the parties.
- (b) It is not necessary for a party to incur expense or to make any payment before enforcing a right of indemnity conferred by this Agreement.

15.14 Continuing rights and obligations

All rights and obligations of a party which have not been exercised or performed at Completion are not extinguished or affected by Completion, unless those rights or obligations are specifically waived or released in writing by a document signed by all parties.

15.15 Reasonable endeavours

Any provision of this Agreement which requires a party to use reasonable endeavours or all reasonable endeavours to procure that something is performed or occurs or does not occur does not include any obligation:

- (a) to pay any money or to provide any financial compensation, valuable consideration or any other incentive to or for the benefit of any person except for payment of any applicable fee for the lodgement or filing of any relevant application with any Governmental Authority; or
- (b) to commence any legal action or proceeding against any person, except where that provision expressly specifies otherwise.

16. Vendors' Representative

- (a) The Vendors agree that when this Agreement provides that any power may be exercised by, any decision may be made by, any action may be performed by, any notice may be given by, or any consent may be given by, the Vendors:
 - (i) then that power may be exercised by, that decision may be made by, that action may be performed by, that notice may be given by and that consent may be given by the Vendors' Representative for and on behalf of the Vendors; and
 - (ii) the Purchaser may rely on the exercise, decision, action, notice or consent of the Vendors' Representative in relation to any such matters as having been given for and on behalf of the Vendors.
- (b) The Vendors:

- (i) agree to be bound by all acts and omissions of the Vendors' Representative in exercising its rights and performing its obligations under this Agreement; and
- (ii) indemnify the Vendors' Representative against all losses arising as a result of or in connection with the exercise in good faith of any power under this Agreement by the Vendors' Representative for and on behalf of the Vendors and the Vendors hereby waive any rights they have or may have to make or bring a claim against the Vendors' Representative in relation to the exercise of any power for and on behalf of the Vendors.

17. Limitation of Liability of independent Trustee

Notwithstanding anything else in this Agreement, Andrew Wares has entered into this Agreement in its capacity as a trustee of the Rugosa Trust, and, accordingly, the liability of Andrew Wares under this Agreement shall not be an unlimited liability but shall be limited to the funds from time to time belonging to the Rugosa Trust and coming into the hands of Andrew Wares in the administration of that trust and shall at all times be limited to the assets of that trust.

Schedule 1 - Companies details (clause 1.1)

Name	PORSE In-Home Childcare (NZ) Limited
Companies Number	808530
Registered office	31 Napier Road, Havelock North
Address for service	31 Napier Road, Havelock North
Date of incorporation	23 May 1996
Share capital	500,000
Directors	Alwyn Burr Dan Druzianic Amanda Fleming Jenny Yule

Vendors	Number of shares held
Jenny Yule, David Yule and Andrew Wares	257,500 B shares
David Yule	142,500 B shares
Jenny Yule	100,000 A shares

Name	PORSE Franchising (NZ) Limited
Companies Number	944077
Registered office	31 Napier Road, Havelock North
Address for service	31 Napier Road, Havelock North
Date of incorporation	29 January 1999
Share capital	500,000
Directors	Alwyn Burr Dan Druzianic Amanda Fleming Jenny Yule

Vendors	Number of shares held
Jenny Yule, David Yule and Andrew Wares	400,000 B shares
Jenny Yule	100,000 A shares

Name	PORSE Education and Training (NZ) Limited
Companies Number	941810
Registered office	31 Napier Road, Havelock North
Address for service	31 Napier Road, Havelock North

Date of incorporation 27 January 1999

Share capital 500,000

Directors Alwyn Burr
Dan Druzianic
Amanda Fleming
Jenny Yule

Vendors	Number of shares held
Jenny Yule, David Yule and Andrew Wares	400,000 B shares
Jenny Yule	100,000 A shares

Name FOR Life Education & Training (NZ) Limited

Companies Number 3474314

Registered office 31 Napier Road, Havelock North

Address for service 31 Napier Road, Havelock North

Date of incorporation 21 July 2011

Share capital 100,000

Directors Alwyn Burr
Dan Druzianic
Amanda Fleming
Jenny Yule

Vendors	Number of shares held
Jenny Yule, David Yule and Andrew Wares	80,000 B shares
Jenny Yule	20,000 A shares

Schedule 2 – Completion Accounts Principles

The Completion Accounts must be prepared, and the Working Capital Amount and Debt on Completion must be calculated, using principles and practices applied in the following order of priority:

- (a) in accordance with any specific rules and statements/ line items agreed between the parties during the Due Diligence period;
- (b) in accordance with the Accounting Standards;
- (c) in accordance with past accounting practices of the Companies in the Accounts; and
- (d) in the same format (including the same line items) as the Pro Forma Accounts.

Schedule 3 - Warranties

Warranty 1 - Vendors

- 1.1 This Agreement and all other agreements contemplated by this Agreement will, when executed by the Vendors, constitute binding obligations of the Vendors in accordance with their respective terms.
- 1.2 The execution, delivery and performance by the Vendors of this Agreement will not:
- (a) result in a breach of, or constitute a default under, any instrument to which the Vendors are a party or by which the Vendors are bound and which is material in the context of the transactions contemplated by this Agreement; or
 - (b) result in a breach of any order, judgment or decree of any court or governmental agency to which the Vendors are a party or by which the Vendors are bound and which is material in the context of the transactions contemplated by this Agreement.
- 1.3 No:
- (a) receiver, manager, statutory official, liquidator, administrator or officer of the Court has been appointed in relation to all or any material part of the undertaking or assets of the Vendors; or
 - (b) mortgagee or chargee has exercised or attempted or indicated an intention to exercise its rights under any security of which the Vendors are the mortgagor or chargor.
- 1.4 Each of the Vendors:
- (a) have not stopped paying their debts as and when they fall due; and
 - (b) are not and have never been subject to an application for bankruptcy.

Warranty 2 - The Companies

- 2.1 Each of the Companies are accurately described in Schedule 1.
- 2.2 No:
- (a) meeting has been convened, resolution proposed, petition presented or order made for the liquidation, winding up, statutory management, administration or similar procedure of any of the Companies;
 - (b) receiver, manager, statutory official, liquidator, administrator or officer of the Court has been appointed in relation to all or any material part of the undertaking or assets of any of the Companies; or
 - (c) mortgagee or chargee has exercised or attempted or indicated an intention to exercise its rights under any security of which any of the Companies are the mortgagor or chargor.
- 2.3 None of the Companies:
- (a) has any interest in the share capital of any other company;
 - (b) act or carry on business in partnership with any other person;
 - (c) are a member of any corporate or unincorporated body or association, undertaking or association (other than a trade association) or are party to any joint venture; and

- (d) hold or is liable on any share or security (other than a share or security in a trade association) which is not fully paid up or which carries any liability.
- 2.4 None of the Companies trade under a name other than its corporate name (excluding trademarks registered in a name other than its corporate name).
- 2.5 None of the Companies:
 - (a) are insolvent within the meaning of section 239C of the Companies Act;
 - (b) have stopped paying its debts as and when they fall due; or
 - (c) are subject to voluntary administration under Part 15A of the Companies Act.

Warranty 3 - Share capital

- 3.1 The Shares:
 - (a) comprise the entire share capital of each of Companies;
 - (b) are fully paid; and
 - (c) were validly issued.
- 3.2 The Vendors have complete and unrestricted power and right to sell, assign and transfer the Shares to the Purchaser.
- 3.3 There are no:
 - (a) securities convertible into shares of any of the Companies;
 - (b) options or other entitlements:
 - (i) over the Shares; or
 - (ii) to have shares or other securities in any of the Companies issued; or
 - (c) restrictions on the transfer of any shares in any of the Companies.
- 3.4 There is no Encumbrance over or affecting the Shares or any of them.

Warranty 4 - The Accounts

- 4.1 The Accounts:
 - (a) give a true and fair view of:
 - (i) the assets, liabilities, financial position and state of affairs of each of the Companies as at the Accounts Date; and
 - (ii) the financial performance of each of the Companies for the year ended on the Accounts Date;
 - (b) were prepared in accordance with:
 - (i) the Accounting Standards, the Financial Reporting Act and all other applicable Laws; and
 - (ii) the same accounting policies as were applied in the corresponding accounts for the previous three (3) years;
 - (c) contain proper and adequate provision for and full disclosure of all liabilities, whether actual, contingent or otherwise, of each of the Companies at the Accounts Date; and
 - (d) are not affected by any abnormal, extraordinary or exceptional items.

4.2 Since the Accounts Date:

- (a) Other than (i) any dividend paid pursuant to clause 7.3(k), (ii) the Pre-Completion Dividend or (iii) dividends paid prior to the Agreement Date as disclosed in the Due Diligence Materials, no dividend or distribution of capital or income has been declared, made, paid or determined to be payable in respect of any share capital of any of the Companies whether of cash, specific assets or otherwise;
- (b) each of the Companies has carried on the Business in the ordinary and usual course and has not entered into any contracts or arrangements other than in the ordinary and usual course of carrying on business of the Business;
- (c) none of the Companies have acquired or disposed of or dealt with any assets, nor have they entered into any agreement or option to acquire or dispose of any assets, other than in the normal course of business for full market value;
- (d) none of the Companies have implemented any new accounting or valuation method for this business, assets, property or rights;
- (e) no major supplier of any of the Companies have:
 - (i) reduced the level of its supplies to any of the Companies;
 - (ii) indicated an intention to cease or reduce the volume of its trading with any of the Companies after Completion; or
 - (iii) materially altered the terms on which it trades with any of the Companies;
- (f) no loans have been made nor bonuses paid by any of the Companies to employees, nor have any advances or loan money been accepted from any employees; and
- (g) no material Government funder of any of the Companies has:
 - (i) reduced the level of its funding to any of the Companies;
 - (ii) indicated an intention to cease or reduce the level of its funding to the Companies; or
 - (iii) materially altered the terms on which it trades with the Companies.

4.3 The management accounts of the Business for the 8 months ended on 31 August 2014:

- (a) are not misleading or deceptive in any material respect;
- (b) have been prepared applying the same principles, policies, practices and procedures as were applied in preparing the Accounts.

4.4 None of the Companies is a party to any foreign currency transaction.

4.5 None of the Companies has provided any letter of comfort or given any guarantee or other undertaking to any person in respect of the obligations or solvency of any other person or in support of or as an inducement to or otherwise in connection with the provision of financial accommodation, whether or not considered by any of the Companies to be legally binding.

Warranty 5 - Records

5.1 The Records:

- (a) are in the possession of the Companies and none of the Companies has received any allegation that any of them is incorrect or should be rectified or amended;

- (b) have been fully, properly and accurately maintained and contain complete and accurate records of all matters required by any Law or regulation;
- (c) do not contain material inaccuracies or discrepancies of any kind; and
- (d) as far as necessary, have been prepared in accordance with the requirements of the Companies Act, the Financial Reporting Act and the Accounting Standards.

Warranty 6 - Contracts and commitments

6.1 As at the Satisfaction Date there are no agreements, arrangements or understandings affecting any of the Companies or the Business that:

- (a) are material to the operation of the Business and have not been disclosed in the Due Diligence Materials;
- (b) are outside the ordinary and proper course of business of the Business;
- (c) are incapable of being fulfilled or performed on time without undue or unusual expenditure of money or effort;
- (d) entitle the other party to terminate the agreement, or impose terms less favourable to the Business, by reason of the change in ownership of any of the Companies; or
- (e) are not arm's length agreements,

and no such agreements will be entered into between the Satisfaction Date and Completion without the prior written consent of the Purchasers.

6.2 With respect to each contract material to the Business:

- (a) no party to the contract is in default; and
- (b) there are no grounds for rescission, avoidance or repudiation of that contract.

6.3 No offer, tender, quotation or the like given or made by any of the Companies is capable of giving rise to a contract merely by any unilateral act of a third party, other than in the ordinary course of business.

6.4 None of the Companies is party to any contract that:

- (a) establishes any agency, distributorship, marketing, purchasing, manufacturing or licensing or other arrangement which restricts or limits the ability of any of the Companies to undertake any activity relating to the Business in any place in any manner as it determines; or
- (b) cannot be performed without undue or unusual expenditure or is expected to result in a loss to any of the Companies on completion of performance.

6.5 As far as the Vendors are aware each material contract to which each of the Companies is a party is valid and binding.

6.6 None of the Companies is in breach of, or liable to make payment under any warranty or indemnity given in, any contract to which it is party. No party to any material contract has given any notice terminating or purporting to or advising of an intention to terminate that contract and, as far as the Vendors are aware:

- (a) no other party is in breach of, or liable to make payment under any warranty or indemnity given in, any contract; and
- (b) no circumstance exists which is likely to give rise to a breach by any party of, or a liability for payment by any party under any warranty or indemnity given in, any contract.

Warranty 7- Superannuation

- 7.1 Except in respect of compulsory employer contributions pursuant to the *KiwiSaver Act 2006*, none of the Companies contribute to, or have any obligation, liability or duty to make any payment to any person in respect of any Superannuation Arrangements.
- 7.2 The Companies have complied with all of its obligations, duties and liabilities under the *KiwiSaver Act 2006*.

Warranty 8 - Employees

- 8.1 Full and correct particulars of the employees of each of the Companies as at the Agreement Date, including those employed on a fixed term basis, are contained in the Records which have been or will be made available to the Purchaser for inspection prior to the Due Diligence Date and if there are changes, updated as necessary at the Satisfaction Date.
- 8.2 None of the Companies has made any agreement, contract, arrangement, understanding or representation (whether written or oral) under which one or more employees, contractors or agents will or may be entitled to any benefit (monetary or otherwise) if ownership (direct or indirect) of that Company changes, as will occur on the sale of the Shares.
- 8.3 None of the Companies is engaged or involved in any personal grievance, dispute, wrongful dismissal claim or legal proceedings or any other claim (whether arising under contract, common Law, statute or equity) with any of the employees or any other person currently or previously employed by or engaged in the Business and to the Vendors' knowledge there is no event which could give rise to such dispute, claim or proceedings.
- 8.4 Each of the Companies has complied with and continues to comply with all its obligations arising under individual employment agreements and independent contractor agreements (contracts for services) (including those imposed by Law with respect to occupational health and safety, annual leave, long service leave, equal opportunity, anti-discrimination, Tax, superannuation, and accident compensation) with respect to its past and present employees and contractors for service.
- 8.5 As at the Satisfaction Date:
- (a) there are no, and have not been, collective agreements or other instruments made or approved under Law which apply to employees of any of the Companies;
 - (b) the Due Diligence Materials will contain all copies of all contracts, arrangements or understandings with independent contractors for service of any of the Companies.
- 8.6 None of the Companies operate a bonus, profit share or employee incentive plan or scheme for its Employees or officers.
- 8.7 There are no enquiries, investigations, infringements or prosecutions existing, pending or threatened affecting any of the Companies or the Business by any Government Agency in relation to employment matters, nor are there any circumstances of which any of the Companies are or ought to be aware, which might give rise to such enquiries, investigations, infringements, fines or prosecutions.
- 8.8 Except as permitted by or within clause 7.3, no changes have been made in the terms of employment, benefits or conditions of service of any employee or to the benefits provided to any person engaged to any extent in the Business since the date the Purchaser completed its due diligence.

Warranty 9 - Tax

- 9.1 Each of the Companies have created and maintained adequate and correct records to enable it to comply, and each of the Companies have so complied, with its obligations to:
- (a) prepare and submit any information, notices, computations, returns and payments required in respect of any Tax Law;
 - (b) prepare any accounts necessary for the compliance with any Tax Law; and
 - (c) retain necessary records as required by any Tax Law.
- 9.2 All information, notices, computations and returns that have been submitted by each of the Companies to any Government Agency in respect of any Tax:
- (a) disclose all facts that must be disclosed under any Tax Law;
 - (b) do not omit to mention income from any source; and
 - (c) were not misleading in any respect.
- 9.3 The Completion Accounts will make full provision or reserve for all Taxation liable to be assessed on each of the Companies or for which it may be or become liable, including in particular (but without limitation) Taxation of profits, gains, income and receipts, benefits and other items subject to Taxation for any period ending on or before the Completion Date.
- 9.4 All Tax returns or any other document required by a Tax Law to be lodged or filed by each of the Companies prior to the Completion Date, have been, or will be, duly lodged or filed.
- 9.5 All Taxes (other than those which may be still paid without penalty or interest) for which any of the Companies are liable, including any penalty or interest, and all instalments of provisional tax due prior to Completion, have been or will be paid when due, and all Taxes that are required by any Tax Law to be withheld or deducted by any of the Companies from payments made by it on or before Completion have been or will be duly withheld or deducted and paid in full to the relevant Tax Authority when due.
- 9.6 None of the Companies is resident for Tax purposes in any jurisdiction other than New Zealand, and none of the Companies have any permanent establishment (as that expression is defined in any relevant double taxation agreement to which New Zealand is a party) outside New Zealand or are currently, or required to be, registered in any other jurisdiction as a foreign company.
- 9.7 There is no current, pending or threatened dispute between any of the Companies and the IRD or any other Government Agency, nor is there any current, pending or threatened Tax audit or investigation of any of the Companies, and, to the best of the Vendors' knowledge, no such dispute, Tax audit or investigation is anticipated.
- 9.8 Each of the Companies is a registered person for the purposes of the GST Act or is part of group of companies for the purposes of section 55 of the GST Act.
- 9.9 The imputation credit account of each of the Companies did not have a debit balance at 31 March 2014 and will not have a debit balance at the time of Completion.
- 9.10 No amount owing by any of the Companies has been forgiven, assigned or otherwise dealt with in circumstances which would cause a gain to arise for Taxation purposes or would be treated as a forgiveness for Taxation purposes.
- 9.11 None of the Companies has any Tax liability in relation to another person (not being another one of the Companies) as a result of being in a consolidated group for income tax purposes.

Warranty 10 - Litigation

- 10.1 None of the Companies are engaged in any prosecution, litigation or arbitration proceedings and;
- (a) no such proceedings are pending; and
 - (b) no such proceedings are threatened in respect of which verbal or written communication has been given or received by any of the Companies.
- 10.2 There are no disputes which may or might give rise to any prosecution, litigation or arbitration proceedings.
- 10.3 There are no unsatisfied judgements, awards, claims or demands against any of the Companies.

Warranty 11 - Privacy

- 11.1 Each of the Companies has complied with Privacy Law in relation to Personal Information.
- 11.2 No individual has claimed and no grounds exist for an individual to claim, compensation from the Companies for a breach of Privacy Law.
- 11.3 No notice has been received by any of the Companies from a competent authority alleging a breach of Privacy Law.

Warranty 12 - Intellectual property

- 12.1 Schedule 4 contains a complete and accurate list of all Intellectual Property Rights owned or used by each of the Companies as at the Agreement Date that are both capable of registration and are commercially significant but unregistered.
- 12.2 The Companies are the legal and beneficial owner of the Company Intellectual Property Rights.
- 12.3 In respect of each Intellectual Property Licence:
- (a) the Intellectual Property Licence is valid, binding and enforceable;
 - (b) none of the Companies are in breach of the Intellectual Property Licence; and
 - (c) the licensor has not given notice to terminate it nor intends to do so.
- 12.4 None of the Companies has licensed, granted any rights in respect of, assigned or otherwise dealt with any of the Company Intellectual Property Rights to any person.
- 12.5 None of the Companies have, and are not, infringing the Intellectual Property Rights of any other person and no person has infringed or is presently infringing any of the Company Intellectual Property Rights.
- 12.6 Other than in respect of the Intellectual Property Licences, there are no royalties, licence fees or other similar fees payable by any of the Companies in connection with the use of any Intellectual Property Rights.
- 12.7 Each of the Companies may do, or omit to do, any act in relation to any copyright works owned by that Company, or licensed under the Intellectual Property Licences (to the extent that the act or omission is permitted under the licence), without infringing the Moral Rights of the author in those works.

Warranty 13- Computer systems and software

- 13.1 All the computers and computer systems owned or used by any of the Companies:
- (a) are in full operating order and are fulfilling the purposes for which they were acquired or established in an efficient manner without material downtime or errors;

- (b) have adequate capacity for each of the Companies' present needs;
 - (c) have adequate security, back-ups, hardware and software support and maintenance and trained personnel to ensure so far as is reasonable:
 - (i) that breaches of security, errors and breakdowns are kept to a minimum; and
 - (ii) that no material disruption will be caused to the Business or any material part of the Business in the event of a breach of security, error or breakdown;
 - (d) are properly documented so as to enable them to be used and operated by any reasonably qualified personnel; and
 - (e) are owned and under the sole control of the Companies, are located in premises occupied by the Companies, are not shared with or used by or on behalf of or accessible by any other person.
- 13.2 No software owned by, or licensed to any of the Companies have been licensed or sub-licensed to any other person by any of the Companies or a Related Company of them.
- 13.3 All software used on the computers used by each of the Companies:
- (a) performs in accordance with its specification; and
 - (b) is lawfully held and used and does not infringe the Intellectual Property Rights of any person and all copies held have been lawfully made.

Warranty 14 - Insurance

- 14.1 A schedule of all relevant details of the insurance policies in respect of which any of the Companies have an interest will be set out in the Due Diligence Materials. There are no individual or related material outstanding claims under the policies referred to in this Warranty 14.1.
- 14.2 All premiums in respect of the insurances referred to in Warranty 14.1 will have been paid before the Completion Date.
- 14.3 Nothing has been done or omitted to be done which would make any insurance contract void or voidable.

Warranty 15 - Properties

- 15.1 The Due Diligence Materials will contain full, complete and accurate details of the Leased Properties.
- 15.2 None of the Companies own any real property.
- 15.3 The Leased Properties are the only land and buildings used or occupied by any of the Companies in connection with the Business.
- 15.4 The Companies have exclusive occupation and right of quiet enjoyment of the Leased Properties and the Leased Properties are not subject to any sub-lease, tenancy or right of occupation by any person other than the Companies.
- 15.5 No notices have been received by the Vendors or any of the Companies and there is no order, declaration, report, recommendation or approved proposal of a Governmental Authority which would materially affect the use of any Leased Property.
- 15.6 None of the Companies have any residual liability in respect of any former leased properties that it has assigned, whether or not the relevant lessor gave any release to that Company.

- 15.7 Each of the Leases:
- (a) will be provided in the Due Diligence Materials in writing, and will be a complete recording of its terms and there are no other agreements, documents or understandings in relation to that Lease; and
 - (b) is current and valid in accordance with its terms.
- 15.8 Neither the lessor nor lessee under a Lease:
- (a) has defaulted in the payment of rent or other moneys; or
 - (b) has breached any other material obligation.
- 15.9 The lessor under a Lease has not:
- (a) served any notice to terminate the Lease; or
 - (b) knowingly waived any breach of covenant, obligation or restriction under a Lease.
- 15.10 Neither any of the Companies nor the Vendors:
- (a) has agreed to any assignment, subletting, parting with possession or surrender of the Lease or any part of the property leased;
 - (b) has given any materially false or misleading information to a Government Authority having jurisdiction over property the subject of the Lease.
- 15.11 There is no dispute with any Government Authority having jurisdiction over the property the subject of the Lease.

Warranty 16 - Ownership of assets

- 16.1 Except for those assets the subject of equipment leases, each of the Companies legally and beneficially owns, free from any Encumbrances, all of the property and assets included in the Accounts which it purports to own and all assets acquired since the Accounts Date except for current assets subsequently sold or realised in the ordinary course of business.
- 16.2 Each of the Companies owns or has valid and subsisting leases to use all plant and equipment used by it, or which it requires, to conduct the Business.
- 16.3 The assets used by the Companies in the Business:
- (a) are in the physical possession or control of, or available for use by, the Companies and their employees; and
 - (b) are the only assets necessary for the conduct and operation of the Business as it is currently carried on.
- 16.4 Each material item of Plant and Equipment owned or leased by the Companies at Completion is:
- (a) in a good and safe state of repair and condition and satisfactory working order for its age and has been regularly and properly maintained;
 - (b) in the Companies' possession or control; and
 - (c) recorded in the plant register of the relevant Company.

Warranty 17 - Trade practices

- 17.1 None of the Companies nor any of its officers or employees has committed or omitted to do any act or thing the commission or omission of which is a contravention of the *Fair Trading Act 1986*.

Warranty 18 - Information

- 18.1 The Vendors have, prior to the Due Diligence Date, disclosed in writing to the Purchaser all information relating to the Companies and the Business which in a reasonable person's opinion is material for disclosure to an intending purchaser of all the issued share capital of the Companies.
- 18.2 Each statement and all information set out in the schedules to this Agreement and/or in the information provided to the Purchaser and its representatives in relation to the Companies during the course of the Purchaser's due diligence investigations and/ or provided by the Vendors to the Purchaser under clause 6.5(a) is true, complete, and accurate in all material respects.
- 18.3 There is no fact, matter or circumstance known to the Vendors which renders in any material respect any of the information referred to in Warranties 18.1 or 18.2 misleading and the Vendors have not purposely or knowingly withheld any information which might reasonably be supposed to materially affect the value of the Shares.

Warranty 19 - Compliance with applicable Laws and conduct of Business

- 19.1 The Companies have complied with all applicable Laws (whether applicable to the provision of services, conduct of the Business, the use of the Leased Properties and the other assets of the Companies or in any other manner).
- 19.2 Each of the Companies:
- (a) holds all Licences necessary to conduct of the Business and true and complete copies of each of those Licences have been disclosed to the Purchaser in the Due Diligence Materials; and
 - (b) has complied with all terms, conditions and other provisions of or applicable to those Licences.
- 19.3 There is no fact or matter which might prejudice the continuance or renewal, or result in the revocation or variation in any material respect, of any Licence.
- 19.4 Neither the Vendors nor any of the Companies have received any notice that any Licence will be revoked, suspended, modified or will not be renewed.
- 19.5 True and complete copies of each agreement or arrangement between each of the Companies and/or the Vendors and any Government Authority relating to the Business have been or will be disclosed to the Purchaser in the Due Diligence Materials.
- 19.6 No fact or circumstance has occurred or has been alleged to have occurred involving or concerning child abuse (whether sexual or physical in nature) of a child enrolled with any of the Companies either involving or concerning a past or present employee or contractor to any of the Companies, or any educator or co-ordinator involved in the provision of services.
- 19.7 Work and Income (or the Ministry of Social Development) (**WINZ**) is aware of its ongoing overfunding of the Companies and that overfunding is recorded by the Companies in their financial and reporting statements and regularly paid down by the Companies in a manner acceptable to WINZ and except to the extent provided for in the Completion Accounts, there is no Liability to WINZ in respect of such overfunding.

Warranty 20 - Effect of sale of Shares

- 20.1 Subject to the necessary consents being obtained, to the Vendors' knowledge the transfer of the Shares to the Purchaser under this Agreement will not result in any supplier or customer of any of the Companies ceasing or being entitled to substantially reduce its level of business with any of the Companies.

- 20.2 As far as the Vendor is aware, the entry into and performance of this Agreement does not and will not:
- (a) result in the breach of any of the terms, conditions or provisions of any agreement or arrangement to which any of the Companies is a party;
 - (b) relieve any person from any obligation to any of the Companies;
 - (c) result in the creation, imposition, crystallisation or enforcement of any Encumbrance or other third party right or interest on any of the Companies, its assets or undertaking; or
 - (d) result in any indebtedness of any of the Companies becoming due and payable.

Visio Standard	2010	1
Win Pro	7	2
Windows Server - Std Per Proc	2012	8
Windows Server CAL	2003	25
Windows Server Standard	2003	3
Windows Server Standard	2003	1
Windows Server Standard	2003 R2	1
Windows Server Standard	2008	6
Windows Server Standard	2008 R2	1
Windows Server User CAL	2008	15
Windows Server User CAL	2008	30
Windows Terminal Server CAL	2003	10
Windows Terminal Server User CAL	2003	5
Windows XP Professional	XP Pro	1
Windows XP Professional	XP Pro	1
Exonet Add Co		5
Exonet Financial		13
Exonet Fixed Asset		1
PEPI	<u>T2P Support Service</u>	
ESET Endpoint Security Edition Clients		250
IMS Payroll		
Adobe InDesign		6
Adobe Photoshop		6
Adobe Acrobat 9 Professional		5

2. Intellectual Property Licences

Nil

3. Trademarks

TRADE MARK REGISTRATIONS - all for PORSE In-Home Childcare (NZ) Limited

Official Number	Title	Country	Next Renewal Date
768602		Australia	28-Jul-2018
311402	Miracle Mums	New Zealand	21-Jun-2016
818372		New Zealand	18-Jan-2020
826646		New Zealand	02-Jul-2020
311403	PORSE	New Zealand	21-Jun-2016

733201		New Zealand	27-Jul-2015
732867		New Zealand	20-Jul-2015
2179374		United Kingdom	12-Oct-2018

4. Business names

PORSE In-Home Childcare (NZ) Limited
 PORSE Franchising (NZ) Limited
 PORSE Education & Training (NZ) Limited
 For Life Education & Training (NZ) Limited

5. Patents

Nil

6. Other

Nil

Schedule 5– Leased Properties

Office	Address
Whangarei	39 Walton St, Whangarei
Auckland Grey Lynn	2 Tuarangi Rd, Grey Lynn and 584 Great North Rd
Auckland Meadowbank	127/129 Meadowbank Road, Auckland
Auckland Albany	Unit H, 26 William Pickering Drive Albany
Auckland Onehunga	120 Church Street, Onehunga, Auckland
Auckland Pukekohe	Unit 3 / Stadium Drive, Pukekohe 2120
Auckland Howick	Ground Floor, Unit E, 272 Ti Rakau Drive, East Tamaki
Auckland Takanini	Unit B, 180 Great South Road, Takanini
Waikato Cambridge	141 Queen Street, Cambridge
Waikato Morrinsville	244 Thames Street, Morrinsville
BOP Mt Maunganui	2/22 Taupo Avenue, Mt Maunganui
BOP Rotorua	1131-1141 Amohau Street, Rotorua
HB Central HB	96 Ruataniwha Street, Waipukurau
HB Hastings	1/1105 Plunket Street, Hastings
HB Napier	cnr Carlyle Street and Tennyson Streets Napier actual address is 13 Carlyle Street
Taranaki Hawera	185 Glover Road, Hawera
Taranaki New Plymouth	220 Devon Street EAST, New Plymouth
Wanganui	348/350 Victoria Avenue, Wanganui
Manawatu Palmerston North	108 Albert Street, Palmerston North
Masterton	213 Queen Street, Masterton
WLG Central	212 Willis Street, Wellington
WLG Central Carpark	184 Victoria Street
WLG Lower Hutt	Shop 2, 118 Queens Drive, Lower Hutt
WLG Lower Hutt Carpark	Car park 24 - Queens Drive
WLG Lower Hutt Carpark	Beveridge Locksmith
WLG Kapiti	Unit 5, 1 Roto Drive, Paraparaumu
WLG Mana	Unit 2 Bridgepoint Complex, 15 Marina View, Mana, Wellington
WLG Upper Hutt	Unit 7 / 7 Gibbons Street, Upper Hutt
Blenheim	1 (Shop 7-8) Market Street, Blenheim
Nelson	261 Wakefield Quay, Nelson
West Coast	Como House, Hokitika
CHCH Addington	Cnr Lincoln Road & Spencer Street, Addington, Christchurch
Rolleston	833 Jones Drive, Rolleston 7675
Ashburton	306 Havelock Road, Ashburton
Dunedin	314 South Road, Caversham, Dunedin
Invercargill	81C Don Street, Invercargill
Queenstown	Unit CF2A2 at Terrace Junction 1088 - 1092 Frankton Road, Frankton, Queenstown
NSO	31 Napier Road, Havelock North

Signing page

EXECUTED as an agreement:

SIGNED by JENNY YULE:

Rob Macdonald

Signature of witness

Name of witness

Rob Macdonald
Solicitor
Napier

Occupation of witness

City/town of residence

J Yule

Signature of Jenny Yule

SIGNED by DAVID YULE:

Rob Macdonald

Signature of witness

Name of witness

Rob Macdonald
Solicitor
Napier

Occupation of witness

City/town of residence

D Yule

Signature of David Yule

**SIGNED by JENNY YULE FOR AND ON
BEHALF OF THE RUGOSA TRUST:**

Rob Macdonald

Signature of witness

Name of witness

Rob Macdonald
Solicitor
Napier

Occupation of witness

City/town of residence

J Yule

Signature

SIGNED by DAVID YULE FOR AND ON
BEHALF OF THE RUGOSA TRUST:

Romdon

Signature of witness

Name of witness

Rob Macdonald

Occupation of witness

Solicitor
Napier

City/town of residence

Signature

SIGNED by ANDREW WARES FOR AND ON
BEHALF OF THE RUGOSA TRUST:

Romdon

Signature of witness

Name of witness

Rob Macdonald

Solicitor

Occupation of witness

Napier

City/town of residence

Signature

SIGNED for and on behalf of EVOLVE HOME
DAY CARE LIMITED by:

C Roxburgh

Signature of witness

Corin Roxburgh

Name of witness

Assistant

Occupation of witness

Brisbane

City/town of residence

Signature of director

Russell Daly

Name of director

Signature of director

Greg Kern

Name of director

Dated

24 JUNE

2014

LOAN AGREEMENT

between

STUART BRUCE JAMES AND GILLIAN DOREEN
JAMES AS TRUSTEES OF THE S.B. JAMES
SUPERANNUATION FUND

and

EVOLVE EDUCATION GROUP LIMITED

BUDDLEFINDLAY
SOLICITORS

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AGREEMENT dated

24 JUNE 2014

PARTIES

(1) The parties named at Item 1 of Schedule 1 (together the "Lender")

AND

(2) The party named at Item 2 of Schedule 1 (the "Borrower")

BACKGROUND

- A. The Lender has agreed, at the request of the Borrower, to provide a Loan to the Borrower for the Loan Amount.
- B. The Lender and the Borrower have agreed to enter into this Agreement to set out the terms and conditions of the Loan.

AGREEMENT

1. DEFINITIONS AND INTERPRETATIONS

1.1 Definitions

In this document:

Approved Purpose means the purpose described in Item 7 of Schedule 1.

Agreement means this document and any schedules and annexures to it.

ASX means ASX Limited.

Business Day means a day which is not a Saturday, Sunday or public holiday in Auckland, New Zealand.

Completion Date means the date of completion of the Third Party Sale.

Evolve Shares means fully paid ordinary shares in the Borrower.

Event of Default means any of the events, omissions or occurrence specified in clause 5.2.

Insolvency Event means, in relation to a party, the occurrence of any of the following events:

- (a) that party ceases or threatens to cease to carry on all or any material part of its business or operations;
- (b) an application is made (which is not stayed or dismissed within 10 Business Days of being made) to a court for an order, or an order is made, or an effective resolution is passed or legal proceedings issued (other than a vexatious or frivolous proceeding), or any corporate action is taken, notice is given or other step is taken for the dissolution or reorganisation of that party except for the purpose of, and followed by, a solvent reconstruction, merger,

consolidation or voluntary liquidation on terms approved by the other party before that step is taken;

- (c) that party convenes a meeting for the purpose of making, or proposes to enter into, any general assignment, arrangement, compromise or composition with or for the benefit of any of its creditors with a view to avoiding insolvency or a notice of intention to remove it from the register (on which the party is legally registered to carry on business, or an equivalent or analogous procedure under the law of any jurisdiction in which the party is incorporated, domiciled, resident, carries on business or has assets) is given, in each case except for the purpose of, and followed by, a solvent reconstruction, merger, consolidation or voluntary liquidation previously approved in writing by the other party or an equivalent or analogous procedure under the law of any jurisdiction in which the party is incorporated, domiciled, resident, carries on business or has assets);
- (d) an encumbrancer takes possession, or a trustee, receiver, receiver and manager, administrator, liquidator, provisional liquidator, inspector under any companies or securities legislation, or similar official, is appointed in respect of that party or the whole or any material part of its assets, or steps are taken or threatened with a view to any such appointment;
- (e) an attachment or other execution is levied or enforced upon, or commenced against, any assets of that party and is not discharged or stayed within 10 Business Days, except, in each case, where the other party is satisfied that that party is contesting the same in good faith by appropriate proceedings;
- (f) that party is declared or becomes insolvent, is unable to pay its debts when they fall due, or is presumed unable to pay its debts in accordance with any applicable legislation;
- (g) that party suspends or stops or threatens to suspend or stop payments generally or a moratorium is agreed or declared in respect of or affecting all or any material part of its indebtedness;
- (h) that party seeks or obtains protection from its creditors under any statute or any other law;
- (i) that party is declared to be a corporation at risk under the Corporations (Investigation and Management) Act 1989;
- (j) a statutory or judicial manager is appointed over all or any of the assets of that party;
- (k) any recommendation is made by the Securities Commission to the Minister of Justice or, as the case may be, the Minister of Finance that that party or any associated person of that party be placed in statutory management under the Corporations (Investigation and Management) Act 1989; or
- (l) anything analogous or having a substantially similar effect to any of the events specified in paragraphs (a) to (k) above happens under the laws of any applicable jurisdiction in respect of that party.

IPO Price means the issue price for Evolve Shares set out in the Offer Document (if applicable) or otherwise set out in the allotment notice to the NZX and/or ASX (as applicable) on and in conjunction with Listing.

Listing means admission of the Borrower to:

- (a) the NZX and quotation of Evolve Shares on the NZX Main Board; or
- (b) the NZAX and quotation of Evolve Shares on the NZAX; and/or
- (c) the official list of ASX and granting of quotation of the Evolve Shares.

Listing Date means the date that the Listing occurs.

Loan means the provision of the Loan Amount to the Borrower by the Lender.

Loan Amount means the amount described in Item 3 of Schedule 1.

Loan Date means the date specified in Item 5 of Schedule 1.

NZAX means the alternative market operated by NZX.

NZX means NZX Limited also known as the New Zealand Stock Exchange.

NZX Main Board means the main board equity security market, operated by NZX.

Offer Document means the investment statement and prospectus (or product disclosure statements or equivalent documents) to the public offer of Evolve Shares.

Repayment Date means, subject to the provisions of clause 3.2, the date specified in Item 4 of Schedule 1.

Return Amount means the amount set out in Item 8 of Schedule 1 (as it applies either to a Listing or a Third Party Sale).

Sale Price means the final sale price for shares or assets in the Borrower (calculated as a price per share) determined in accordance with the terms and conditions of the SPA.

SPA means, in respect of a Third Party Sale, the sale and purchase agreement for shares or assets in the Borrower between: (i) if a share sale, the shareholders of the Borrower; or (ii) if an asset sale, the Borrower, and a third party purchaser.

Sunset Date means the date specified in Item 6 of Schedule 1.

Third Party Sale means completion of the sale of all of the shares or all (or substantially all) of the assets of the Borrower to a third party purchaser as part of a transaction or series of transactions.

1.2 Interpretation

Unless expressed to the contrary:

- (a) headings and boldings are for convenience only and do not affect the interpretation of this Agreement;
- (b) where an expression is defined anywhere in this Agreement another part of speech or grammatical form of that expression has a corresponding meaning;
- (c) a reference to:
 - (i) an individual or person includes a firm, corporation, incorporated association, and government or statutory body or authority;

- (ii) any gender includes all genders;
- (iii) the singular includes the plural and vice versa;
- (iv) recitals, clauses, schedules or annexures are to recitals, clauses, schedules or annexures of or to this Agreement;
- (v) a statute, ordinance or other law includes regulations and other statutory instruments made under it and consolidations, amendments and re-enactments of it;
- (vi) unless otherwise stated, money is to New Zealand currency;
- (vii) this Agreement or another document includes the document as varied or replaced; and
- (viii) any party to this Agreement, or any other document or arrangement includes that party's executors, administrators, substitutes, successors and permitted assigns.

2. LOAN

2.1 Loan

- (a) The Lender agrees to advance the Loan Amount to the Borrower on the Loan Date.
- (b) For the purposes of clause 2.1(a), the Loan Amount must be advanced by the Lender:
 - (i) by way of direct deposit into a bank account to be nominated by the Borrower; and
 - (ii) in Australian dollars in immediately available funds,by no later than 12 noon New Zealand time on the Loan Date.

2.2 Interest and Security

The parties agree that the Loan under this Agreement is to be made on an unsecured and interest free basis.

3. REPAYMENT

3.1 Repayment in the event of a Listing by the Sunset Date

- (a) If a Listing occurs in respect of the Borrower on or before the Sunset Date, then:
 - (i) the Borrower must repay and finally discharge the Loan Amount in full:
 - (1) by way of direct deposit into a bank account to be nominated by the Lender; and
 - (2) in Australian dollars in immediately available funds,by no later than 12 noon New Zealand time on the Repayment Date; and
 - (ii) the Borrower must, either:
 - (1) on the Repayment Date, pay the Return Amount to the Lender by issue and allotment of an equivalent amount of Evolve Shares (rounded to the nearest whole number of Evolve Shares) at the IPO Price; or

- (2) by no later than 12 noon on the Repayment Date, pay an amount equivalent to the Loan Amount by way of direct deposit into a bank account to be nominated by the Lender in Australian dollars and in immediately available funds,

the Borrower being entitled to nominate the method of payment in (ii) above in its sole discretion.

3.2 Repayment in the event of a Third Party Sale by the Sunset Date

- (a) If no Listing occurs before the Sunset Date but alternatively a Third Party Sale occurs in respect of the Borrower on or before the Sunset Date, then:

- (i) the Borrower must repay and finally discharge the Loan Amount in full:
 - (1) by way of direct deposit into a bank account to be nominated by the Lender; and
 - (2) in Australian dollars in immediately available funds,

by no later than 12 noon New Zealand time on the Repayment Date; and

- (ii) the Borrower must, either:
 - (1) if all of the consideration for the sale is to be paid in the form of shares in the purchaser (or the purchaser's related company) pay the Return Amount to the Lender prior to the Completion Date, by issuing to the Lender an equivalent amount of Evolve Shares (rounded to the nearest whole number of Evolve Shares) at the Sale Price on the condition that the Lender agrees to adhere to and sell those recently acquired Evolve Shares under the terms of the SPA; or
 - (2) by no later than 12 noon on the Repayment Date, pay an amount equivalent to the Loan Amount by way of direct deposit into a bank account to be nominated by the Lender in Australian dollars and in immediately available funds,

the Lender being entitled to nominate the method of payment in (ii) above in its sole discretion provided that where is not practical or possible without breaching any law or agreement to issue Evolve Shares to the Lender prior to the Completion Date in accordance with paragraph (1) above (for example, the issue of Evolve Shares would adversely affect the Borrower's ability to complete the Third Party Sale on terms acceptable to the Borrower) that option shall not be available to the Lender.

3.3 Discharge of obligations

The Lender acknowledges and agrees that following satisfaction of the Borrower's obligations under clause 3.1(a) or 3.2(a), the Borrower is immediately released and discharged from all obligations and liability of any nature under or in connection with repayment of the Loan Amount or any other debt or liability owed by the Borrower to the Lender under this Agreement.

3.4 Repayment in the event of no Listing and no Third Party Sale by the Sunset Date

If neither a Listing nor a Third Party Sale has not occurred in respect of the Borrower on or before the Sunset Date, then:

- (a) the Lender waives repayment of the Loan Amount;

- (b) the Loan Amount vests absolutely in the Borrower; and
- (c) the Lender acknowledges and agrees that the Borrower is immediately released and discharged from all obligations and liability of any nature under or in connection with repayment of the Loan Amount or any other debt or liability owed by the Borrower to the Lender under this Agreement.

3.5 Borrower's Undertaking

For as long as the Loan Amount remains outstanding under this Agreement to the Lender, the Borrower undertakes with the Lender as follows:

- (a) until such time as it is no longer practical, commercially viable or reasonably sensible to do so, the Borrower will use all means commercially reasonable to pursue a strategy of contracting to acquire child care businesses with a view to achieving a Listing, or alternatively a Third Party Sale, of the Borrower by the Sunset Date;
- (b) to apply the Loan for the Approved Purpose only;
- (c) to immediately notify the Lender of any event or change in the Borrower's circumstances, the effect of which either would or might render any representation or warranty made in this Agreement untrue or incorrect in any respect; and
- (d) to immediately deliver all financial and other information in respect of the Borrower which the Lender reasonably requires from time to time.

4. WARRANTIES

4.1 Mutual Warranties

Each party warrants to each other party, at the date of this Agreement and at the Repayment Date, that:

- (a) it has the power and authority to enter into and perform its obligations under this Agreement;
- (b) the execution, delivery and performance of this Agreement by it will constitute legal, valid and binding obligations of it, enforceable in accordance with its terms;
- (c) it is not subject to any Insolvency Event; and
- (d) the execution, delivery and performance of this Agreement will not violate:
 - (i) any legislation or rule of law or regulation, authorisation, consent or any order or decree of any governmental authority to which it may from time to time be subject;
 - (ii) its constitution or any legislation, rules or other document constituting that party or governing its activities; or
 - (iii) any instrument to which it is a party or which is binding on it or any of its assets, and will not result in the creation or imposition of any encumbrance or restriction of any nature on any of its assets.

4.2 Borrower Warranties

The Borrower warrants to the Lender that:

- (a) it is not in default under any deed, agreement or other document or obligation to which it is a party or by which it is bound, or in respect of any financial commitment or obligation (including obligations under guarantees or other contingent liabilities);
- (b) it is in full and ongoing compliance with its constitution and all companies and securities legislation and regulations and the Borrower is in full and ongoing compliance with all other legislation and regulations to which the Borrower may at any time and from time to time be subject;
- (c) if the Evolve Shares are issued pursuant to:
 - (i) clause 3.1(a)(ii), on their allotment and issue; or
 - (ii) clause 3.2(a)(ii)(1), on their issue,the Evolve Shares will be fully paid ordinary shares and will rank equally in all respects with the then existing issued ordinary shares.

4.3 Lender Warranties

The Lender warrants and represents that:

- (a) all information given by the Lender to the Borrower is true, accurate and correct;
- (b) the Lender does not in entering into and performing its obligations under this Agreement rely on any warranty or representation made by the Borrower not otherwise set out in this Agreement; and
- (c) the Lender has obtained comprehensive legal and financial advice concerning this Agreement.

5. DEFAULT AND TERMINATION

5.1 Consequences of default

If an Event of Default occurs or is deemed to have occurred, then at the Lender's option, without any demand or notice, and notwithstanding any delay or previous waiver of the right to exercise that option, all of the Loan Amount immediately becomes repayable.

5.2 Events of default

Each of the following events is an Event of Default:

- (a) if the Borrower fails to repay any of the Loan Amount when due; or
- (b) if the Borrower fails to perform or observe any of the covenants or provisions of this Agreement or any other agreement, instrument or document between the Lender and Borrower; or
- (c) if the Lender ascertains that any warranty made by the Borrower under this Agreement proves to be untrue or misleading when made or deemed to have been made; or
- (d) if this Agreement becomes wholly or partly void, voidable or unenforceable; or

- (e) if the authority or power of the Borrower to perform its obligations under this Agreement is revoked or so amended that the Borrower (as the case requires) is unable to fully and duly perform and observe those obligations; or
- (f) the continued performance of the obligations of the Borrower under this Agreement contravenes, or might in the Lender's opinion contravene, any applicable statute, ordinance, proclamation, rule, order, regulation, moratorium or decree of any governmental or other authority.

5.3 Acceptance of money

The Lender may exercise its rights under clause 5.1:

- (a) notwithstanding acceptance of any part of any of the amounts payable under this Agreement after the occurrence of any Event of Default;
- (b) notwithstanding the occurrence of any previous or other Event of Default; and
- (c) without the necessity for any notice to, or of any consent or concurrence on the part of, the Borrower or any other person.

6. GENERAL

6.1 GST

Without limiting any other provision contained in this Agreement, should any payment to be made to or received by the Lender under this Agreement be subject to the payment of GST, as a result of the operation of the Goods and Services Tax Act 1985, the Borrower must:

- (a) pay to the Lender such further sum; and
- (b) do all things reasonably necessary,

as will result in the receipt by the Lender of the full amount (including any applicable GST) to be paid to or received by the Lender as contemplated by this Agreement.

6.2 Non-merger

The rights and obligations of the parties under this Agreement do not merge on completion of any transaction contemplated by this Agreement.

6.3 Trust Provisions

Where a party has executed this Agreement in its capacity as trustee of a trust (Trust), whether or not the fact that a party is a trustee is disclosed to the other party, the party that is a trustee acknowledges that this Agreement is binding on that party personally and in its capacity as trustee of the Trust.

6.4 Statutes not to abrogate agreement

Unless application is mandatory by law, no statute, ordinance, proclamation, rule, order, regulation, moratorium or decree of any governmental or other authority, present or future, will apply to this Agreement so as to abrogate, extinguish, impair, diminish, fetter, delay or otherwise prejudicially

affect any rights, powers, remedies or discretions given or accruing to the Lender under this Agreement.

6.5 Assignments

The Lender may assign the benefit of this Agreement.

6.6 Time of the essence

Time is of the essence of the Borrower's obligations under this Agreement unless otherwise agreed in writing by the Lender.

6.7 Prohibition on oral amendments

Neither this Agreement nor any provision of this Agreement may be amended, modified, waived, discharged or terminated orally.

6.8 Defective execution

If there is any defect in the execution of this Agreement by the Borrower or the Lender, that party may re execute or ratify its purported execution. That re execution or ratification will relate back to the original purported execution by that party.

6.9 Execution by attorney

If this Agreement is executed on behalf of the Borrower or the Lender by a person authorised to execute it under power of attorney, that person, by his or her execution of this Agreement, states that at the time of such execution they had no notice of the revocation of that power of attorney.

6.10 Notices

- (a) Any notice or other communication to a party under this Agreement must be in writing and delivered personally, sent by prepaid mail, email, or sent by facsimile transmission to the recipient at the address, email address or the facsimile number appearing in Schedule 1 or such other address as may have been notified to the sender.
- (b) A notice is deemed to be received:
 - (i) if delivered personally, on the date of delivery;
 - (ii) if sent by prepaid post, 2 Business Days after posting;
 - (iii) if sent by email, when actually received in readable form by the recipient; and
 - (iv) if sent by facsimile transmission, on receipt by the sender of a facsimile transmission report confirming receipt.

6.11 Counterparts

This Agreement may be executed and delivered in any number of counterparts (including by way of electronic transmission) and all counterparts taken together will be deemed to be a single instrument.

6.12 Confidentiality

- (a) The terms and conditions of this Agreement and all negotiations between the parties relating to the subject matter of this Agreement are confidential.
- (b) A party must not make any public disclosure, communication or announcement about this Agreement except with the prior written consent of the other party or to comply with accounting, legal, stock exchange or other regulatory requirements.

6.13 Waiver

- (a) A failure or delay in exercise, or partial exercise, of a right, power, authority, discretion or remedy arising from a breach of or default under this Agreement, does not result in a waiver of that right, power, authority, discretion or remedy.
- (b) A party is not entitled to rely on a delay in the exercise or non-exercise of a right, power, authority, discretion or remedy arising from a breach of this Agreement or default under this Agreement as constituting a waiver of that right, power, authority, discretion or remedy.

6.14 Further Assurance

All parties must do all things reasonably necessary to give full effect to this Agreement and the transactions contemplated by this Agreement.

6.15 Severability

If any part of this Agreement is, or becomes, legally invalid or unenforceable, the remainder of this Agreement subsists and remains enforceable.

6.16 Entire Understanding

This Agreement contains the entire agreement between the parties. All representations or agreements, whether oral or in writing made prior to the date of this Agreement and relating to any matter dealt with in this Agreement are merged in this Agreement and do not have any effect from the date of this Agreement.

6.17 Governing Law

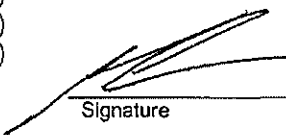
- (a) This Agreement is governed by the law of New Zealand.
- (b) Each party irrevocably submits to the non-exclusive jurisdiction of the courts of New Zealand and waives any objection to the venue of any legal process on the basis that the process has been brought in any inconvenient forum.

(Execution clauses follow on the next page)

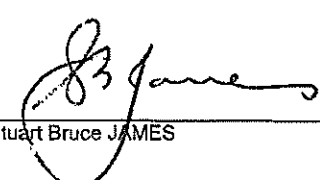
EXECUTED as an agreement

SIGNED for and on behalf of)
EVOLVE EDUCATION GROUP LIMITED)
by)

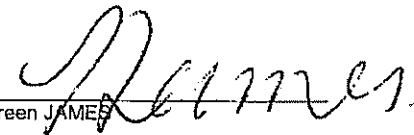
GREG PERRY
Print Name


Signature
DIRECTOR
Position

SIGNED by)
STUART BRUCE JAMES AS TRUSTEE)
OF THE S.B. JAMES)
SUPERANNUATION FUND)


Stuart Bruce JAMES

SIGNED by)
GILLIAN DOREEN JAMES AS)
TRUSTEE OF THE S.B. JAMES)
SUPERANNUATION FUND)


Gillian Doreen JAMES

SCHEDULE 1

ITEM 1:	LENDER:	Name: Stuart Bruce JAMES and Gillian Doreen JAMES as trustees of the S.B. JAMES SUPERANNUATION FUND Address: c/- 7 Glan Avon Road, Hawthorn, Victoria 3122, Australia Email: (insert details) <u>stuartjames@bigpond.com</u> Fax: (insert details) <u>(03) 9819 9728</u>
ITEM 2:	BORROWER:	Name: Evolve Education Group Limited (company number 5236443) Address: c/- Buddle Findlay, Level 18 PWC Tower, 188 Quay Street, Auckland Email: grant.dunn@buddlefindlay.com Fax: +64 9 358 2555 Attention: Grant Dunn
ITEM 3:	LOAN AMOUNT:	Australian dollars \$1,000,000
ITEM 4:	REPAYMENT DATE:	For a Listing: The sooner of: (a) the date that is 2 Business Days after the Listing Date; or (b) the date that is 2 Business Days after the Sunset Date. For a Third Party Sale: The sooner of: (a) the date that is 2 Business Days after the Completion Date; or (b) the date that is 2 Business Days after the Sunset Date.
ITEM 5:	LOAN DATE:	The date that is 2 Business Days after the date of this Agreement.
ITEM 6:	SUNSET DATE:	31 March 2015
ITEM 7:	APPROVED PURPOSE:	The Loan Amount may be used by the Borrower to pay for any costs relating to the acquisition of child care businesses by the Borrower and the Borrower seeking a Listing, or alternatively a Third Party Sale.
ITEM 8:	RETURN AMOUNT:	For a Listing:

		(a) Australian dollars \$1,000,000; or (b) the New Zealand dollar equivalent of Australian dollars \$1,000,000 (such rate to be based on the mid rate exchange rate for New Zealand dollars published by the Reserve Bank of New Zealand for the Listing Date on its website (or if the Listing Date has no published rate, then the published mid rate for the next Business Day), as nominated by the Borrower. For a Third Party Sale: (a) Australian dollars \$1,000,000; or (b) the New Zealand dollar equivalent of Australian dollars \$1,000,000 (such rate to be based on the mid rate exchange rate for New Zealand dollars published by the Reserve Bank of New Zealand for the Completion Date on its website (or if the Completion Date has no published rate, then the published mid rate for the next Business Day).

Dated

27 October

2014

LOAN AGREEMENT

between

**STUART BRUCE JAMES AND GILLIAN DOREEN
JAMES AS TRUSTEES OF THE S.B. JAMES
SUPERANNUATION FUND**

and

EVOLVE EDUCATION GROUP LIMITED

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2. LOAN	5
3. REPAYMENT	5
4. WARRANTIES	7
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PARTIES

- (1) The parties named at Item 1 of Schedule 1 (together the "**Lender**")

AND

- (2) The party named at Item 2 of Schedule 1 (the "**Borrower**")

BACKGROUND

- A. The Lender has agreed, at the request of the Borrower, to provide a Loan to the Borrower for the Loan Amount.
- B. The Lender and the Borrower have agreed to enter into this Agreement to set out the terms and conditions of the Loan.

AGREEMENT

1. DEFINITIONS AND INTERPRETATIONS

1.1 Definitions

In this document:

Approved Purpose means the purpose described in Item 7 of Schedule 1.

Agreement means this document and any schedules and annexures to it.

ASX means ASX Limited.

Business Day means a day which is not a Saturday, Sunday or public holiday in Auckland, New Zealand.

Completion Date means the date of completion of the Third Party Sale.

Evolve Shares means fully paid ordinary shares in the Borrower.

Event of Default means any of the events, omissions or occurrence specified in clause 5.2.

Insolvency Event means, in relation to a party, the occurrence of any of the following events:

- (a) that party ceases or threatens to cease to carry on all or any material part of its business or operations;
- (b) an application is made (which is not stayed or dismissed within 10 Business Days of being made) to a court for an order, or an order is made, or an effective resolution is passed or legal proceedings issued (other than a vexatious or frivolous proceeding), or any corporate action is taken, notice is given or other step is taken for the dissolution or reorganisation of that party except for the purpose of, and followed by, a solvent reconstruction, merger,

consolidation or voluntary liquidation on terms approved by the other party before that step is taken;

- (c) that party convenes a meeting for the purpose of making, or proposes to enter into, any general assignment, arrangement, compromise or composition with or for the benefit of any of its creditors with a view to avoiding insolvency or a notice of intention to remove it from the register (on which the party is legally registered to carry on business, or an equivalent or analogous procedure under the law of any jurisdiction in which the party is incorporated, domiciled, resident, carries on business or has assets) is given, in each case except for the purpose of, and followed by, a solvent reconstruction, merger, consolidation or voluntary liquidation previously approved in writing by the other party or an equivalent or analogous procedure under the law of any jurisdiction in which the party is incorporated, domiciled, resident, carries on business or has assets);
- (d) an encumbrancer takes possession, or a trustee, receiver, receiver and manager, administrator, liquidator, provisional liquidator, inspector under any companies or securities legislation, or similar official, is appointed in respect of that party or the whole or any material part of its assets, or steps are taken or threatened with a view to any such appointment;
- (e) an attachment or other execution is levied or enforced upon, or commenced against, any assets of that party and is not discharged or stayed within 10 Business Days, except, in each case, where the other party is satisfied that that party is contesting the same in good faith by appropriate proceedings;
- (f) that party is declared or becomes insolvent, is unable to pay its debts when they fall due, or is presumed unable to pay its debts in accordance with any applicable legislation;
- (g) that party suspends or stops or threatens to suspend or stop payments generally or a moratorium is agreed or declared in respect of or affecting all or any material part of its indebtedness;
- (h) that party seeks or obtains protection from its creditors under any statute or any other law;
- (i) that party is declared to be a corporation at risk under the Corporations (Investigation and Management) Act 1989;
- (j) a statutory or judicial manager is appointed over all or any of the assets of that party;
- (k) any recommendation is made by the Securities Commission to the Minister of Justice or, as the case may be, the Minister of Finance that that party or any associated person of that party be placed in statutory management under the Corporations (Investigation and Management) Act 1989; or
- (l) anything analogous or having a substantially similar effect to any of the events specified in paragraphs (a) to (k) above happens under the laws of any applicable jurisdiction in respect of that party.

IPO Price means the issue price for Evolve Shares set out in the Offer Document (if applicable) or otherwise set out in the allotment notice to the NZX and/or ASX (as applicable) on and in conjunction with Listing.

Listing means admission of the Borrower to:

- (a) the NZX and quotation of Evolve Shares on the NZX Main Board; or
- (b) the NZAX and quotation of Evolve Shares on the NZAX; and/or
- (c) the official list of ASX and granting of quotation of the Evolve Shares.

Listing Date means the date that the Listing occurs.

Loan means the provision of the Loan Amount to the Borrower by the Lender.

Loan Amount means the amount described in Item 3 of Schedule 1.

Loan Date means the date specified in Item 5 of Schedule 1.

NZAX means the alternative market operated by NZX.

NZX means NZX Limited also known as the New Zealand Stock Exchange.

NZX Main Board means the main board equity security market, operated by NZX.

Offer Document means the investment statement and prospectus (or product disclosure statements or equivalent documents) to the public offer of Evolve Shares.

Repayment Date means, subject to the provisions of clause 3.2, the date specified in Item 4 of Schedule 1.

Return Amount means the amount set out in Item 8 of Schedule 1 (as it applies either to a Listing or a Third Party Sale).

Sale Price means the final sale price for shares or assets in the Borrower (calculated as a price per share) determined in accordance with the terms and conditions of the SPA.

SPA means, in respect of a Third Party Sale, the sale and purchase agreement for shares or assets in the Borrower between: (i) if a share sale, the shareholders of the Borrower; or (ii) if an asset sale, the Borrower, and a third party purchaser.

Sunset Date means the date specified in Item 6 of Schedule 1.

Third Party Sale means completion of the sale of all of the shares or all (or substantially all) of the assets of the Borrower to a third party purchaser as part of a transaction or series of transactions.

1.2 Interpretation

Unless expressed to the contrary:

- (a) headings and boldings are for convenience only and do not affect the interpretation of this Agreement;
- (b) where an expression is defined anywhere in this Agreement another part of speech or grammatical form of that expression has a corresponding meaning;
- (c) a reference to:
 - (i) an individual or person includes a firm, corporation, incorporated association, and government or statutory body or authority;

- (ii) any gender includes all genders;
- (iii) the singular includes the plural and vice versa;
- (iv) recitals, clauses, schedules or annexures are to recitals, clauses, schedules or annexures of or to this Agreement;
- (v) a statute, ordinance or other law includes regulations and other statutory instruments made under it and consolidations, amendments and re-enactments of it;
- (vi) unless otherwise stated, money is to New Zealand currency;
- (vii) this Agreement or another document includes the document as varied or replaced; and
- (viii) any party to this Agreement, or any other document or arrangement includes that party's executors, administrators, substitutes, successors and permitted assigns.

2. LOAN

2.1 Loan

- (a) The Lender agrees to advance the Loan Amount to the Borrower on the Loan Date.
- (b) For the purposes of clause 2.1(a), the Loan Amount must be advanced by the Lender:
 - (i) by way of direct deposit into a bank account to be nominated by the Borrower; and
 - (ii) in Australian dollars in immediately available funds,
 by no later than 12 noon New Zealand time on the Loan Date.

2.2 Interest and Security

The parties agree that the Loan under this Agreement is to be made on an unsecured and interest free basis.

3. REPAYMENT

3.1 Repayment in the event of a Listing by the Sunset Date

- (a) If a Listing occurs in respect of the Borrower on or before the Sunset Date, then:
 - (i) the Borrower must repay and finally discharge the Loan Amount in full:
 - (1) by way of direct deposit into a bank account to be nominated by the Lender; and
 - (2) in Australian dollars in immediately available funds,
 by no later than 12 noon New Zealand time on the Repayment Date; and
 - (ii) the Borrower must, either:
 - (1) on the Repayment Date, pay the Return Amount to the Lender by issue and allotment of an equivalent amount of Evolve Shares (rounded to the nearest whole number of Evolve Shares) at the IPO Price; or

- (2) by no later than 12 noon on the Repayment Date, pay an amount equivalent to the Loan Amount by way of direct deposit into a bank account to be nominated by the Lender in Australian dollars and in immediately available funds,

the Borrower being entitled to nominate the method of payment in (ii) above in its sole discretion.

3.2 Repayment in the event of a Third Party Sale by the Sunset Date

- (a) If no Listing occurs before the Sunset Date but alternatively a Third Party Sale occurs in respect of the Borrower on or before the Sunset Date, then:

- (i) the Borrower must repay and finally discharge the Loan Amount in full:

- (1) by way of direct deposit into a bank account to be nominated by the Lender; and

- (2) in Australian dollars in immediately available funds,

by no later than 12 noon New Zealand time on the Repayment Date; and

- (ii) the Borrower must, either:

- (1) if all of the consideration for the sale is to be paid in the form of shares in the purchaser (or the purchaser's related company) pay the Return Amount to the Lender prior to the Completion Date, by issuing to the Lender an equivalent amount of Evolve Shares (rounded to the nearest whole number of Evolve Shares) at the Sale Price on the condition that the Lender agrees to adhere to and sell those recently acquired Evolve Shares under the terms of the SPA; or

- (2) by no later than 12 noon on the Repayment Date, pay an amount equivalent to the Loan Amount by way of direct deposit into a bank account to be nominated by the Lender in Australian dollars and in immediately available funds,

the Lender being entitled to nominate the method of payment in (ii) above in its sole discretion provided that where is not practical or possible without breaching any law or agreement to issue Evolve Shares to the Lender prior to the Completion Date in accordance with paragraph (1) above (for example, the issue of Evolve Shares would adversely affect the Borrower's ability to complete the Third Party Sale on terms acceptable to the Borrower) that option shall not be available to the Lender.

3.3 Discharge of obligations

The Lender acknowledges and agrees that following satisfaction of the Borrower's obligations under clause 3.1(a) or 3.2(a), the Borrower is immediately released and discharged from all obligations and liability of any nature under or in connection with repayment of the Loan Amount or any other debt or liability owed by the Borrower to the Lender under this Agreement.

3.4 Repayment in the event of no Listing and no Third Party Sale by the Sunset Date

If neither a Listing nor a Third Party Sale has not occurred in respect of the Borrower on or before the Sunset Date, then:

- (a) the Lender waives repayment of the Loan Amount;

- (b) the Loan Amount vests absolutely in the Borrower; and
- (c) the Lender acknowledges and agrees that the Borrower is immediately released and discharged from all obligations and liability of any nature under or in connection with repayment of the Loan Amount or any other debt or liability owed by the Borrower to the Lender under this Agreement.

3.5 Borrower's Undertaking

For as long as the Loan Amount remains outstanding under this Agreement to the Lender, the Borrower undertakes with the Lender as follows:

- (a) until such time as it is no longer practical, commercially viable or reasonably sensible to do so, the Borrower will use all means commercially reasonable to pursue a strategy of contracting to acquire child care businesses with a view to achieving a Listing, or alternatively a Third Party Sale, of the Borrower by the Sunset Date;
- (b) to apply the Loan for the Approved Purpose only;
- (c) to immediately notify the Lender of any event or change in the Borrower's circumstances, the effect of which either would or might render any representation or warranty made in this Agreement untrue or incorrect in any respect; and
- (d) to immediately deliver all financial and other information in respect of the Borrower which the Lender reasonably requires from time to time.

4. WARRANTIES

4.1 Mutual Warranties

Each party warrants to each other party, at the date of this Agreement and at the Repayment Date, that:

- (a) it has the power and authority to enter into and perform its obligations under this Agreement;
- (b) the execution, delivery and performance of this Agreement by it will constitute legal, valid and binding obligations of it, enforceable in accordance with its terms;
- (c) it is not subject to any Insolvency Event; and
- (d) the execution, delivery and performance of this Agreement will not violate:
 - (i) any legislation or rule of law or regulation, authorisation, consent or any order or decree of any governmental authority to which it may from time to time be subject;
 - (ii) its constitution or any legislation, rules or other document constituting that party or governing its activities; or
 - (iii) any instrument to which it is a party or which is binding on it or any of its assets, and will not result in the creation or imposition of any encumbrance or restriction of any nature on any of its assets.

4.2 Borrower Warranties

The Borrower warrants to the Lender that:

- (a) it is not in default under any deed, agreement or other document or obligation to which it is a party or by which it is bound, or in respect of any financial commitment or obligation (including obligations under guarantees or other contingent liabilities);
- (b) it is in full and ongoing compliance with its constitution and all companies and securities legislation and regulations and the Borrower is in full and ongoing compliance with all other legislation and regulations to which the Borrower may at any time and from time to time be subject;
- (c) if the Evolve Shares are issued pursuant to:
 - (i) clause 3.1(a)(ii), on their allotment and issue; or
 - (ii) clause 3.2(a)(ii)(1), on their issue,the Evolve Shares will be fully paid ordinary shares and will rank equally in all respects with the then existing issued ordinary shares.

4.3 Lender Warranties

The Lender warrants and represents that:

- (a) all information given by the Lender to the Borrower is true, accurate and correct;
- (b) the Lender does not in entering into and performing its obligations under this Agreement rely on any warranty or representation made by the Borrower not otherwise set out in this Agreement; and
- (c) the Lender has obtained comprehensive legal and financial advice concerning this Agreement.

5. DEFAULT AND TERMINATION

5.1 Consequences of default

If an Event of Default occurs or is deemed to have occurred, then at the Lender's option, without any demand or notice, and notwithstanding any delay or previous waiver of the right to exercise that option, all of the Loan Amount immediately becomes repayable.

5.2 Events of default

Each of the following events is an Event of Default:

- (a) if the Borrower fails to repay any of the Loan Amount when due; or
- (b) if the Borrower fails to perform or observe any of the covenants or provisions of this Agreement or any other agreement, instrument or document between the Lender and Borrower; or
- (c) if the Lender ascertains that any warranty made by the Borrower under this Agreement proves to be untrue or misleading when made or deemed to have been made; or
- (d) if this Agreement becomes wholly or partly void, voidable or unenforceable; or

- (e) if the authority or power of the Borrower to perform its obligations under this Agreement is revoked or so amended that the Borrower (as the case requires) is unable to fully and duly perform and observe those obligations; or
- (f) the continued performance of the obligations of the Borrower under this Agreement contravenes, or might in the Lender's opinion contravene, any applicable statute, ordinance, proclamation, rule, order, regulation, moratorium or decree of any governmental or other authority.

5.3 Acceptance of money

The Lender may exercise its rights under clause 5.1:

- (a) notwithstanding acceptance of any part of any of the amounts payable under this Agreement after the occurrence of any Event of Default;
- (b) notwithstanding the occurrence of any previous or other Event of Default; and
- (c) without the necessity for any notice to, or of any consent or concurrence on the part of, the Borrower or any other person.

6. GENERAL

6.1 GST

Without limiting any other provision contained in this Agreement, should any payment to be made to or received by the Lender under this Agreement be subject to the payment of GST, as a result of the operation of the Goods and Services Tax Act 1985, the Borrower must:

- (a) pay to the Lender such further sum; and
- (b) do all things reasonably necessary,

as will result in the receipt by the Lender of the full amount (including any applicable GST) to be paid to or received by the Lender as contemplated by this Agreement.

6.2 Non-merger

The rights and obligations of the parties under this Agreement do not merge on completion of any transaction contemplated by this Agreement.

6.3 Trust Provisions

Where a party has executed this Agreement in its capacity as trustee of a trust (Trust), whether or not the fact that a party is a trustee is disclosed to the other party, the party that is a trustee acknowledges that this Agreement is binding on that party personally and in its capacity as trustee of the Trust.

6.4 Statutes not to abrogate agreement

Unless application is mandatory by law, no statute, ordinance, proclamation, rule, order, regulation, moratorium or decree of any governmental or other authority, present or future, will apply to this Agreement so as to abrogate, extinguish, impair, diminish, fetter, delay or otherwise prejudicially

affect any rights, powers, remedies or discretions given or accruing to the Lender under this Agreement.

6.5 Assignments

The Lender may assign the benefit of this Agreement.

6.6 Time of the essence

Time is of the essence of the Borrower's obligations under this Agreement unless otherwise agreed in writing by the Lender.

6.7 Prohibition on oral amendments

Neither this Agreement nor any provision of this Agreement may be amended, modified, waived, discharged or terminated orally.

6.8 Defective execution

If there is any defect in the execution of this Agreement by the Borrower or the Lender, that party may re execute or ratify its purported execution. That re execution or ratification will relate back to the original purported execution by that party.

6.9 Execution by attorney

If this Agreement is executed on behalf of the Borrower or the Lender by a person authorised to execute it under power of attorney, that person, by his or her execution of this Agreement, states that at the time of such execution they had no notice of the revocation of that power of attorney.

6.10 Notices

- (a) Any notice or other communication to a party under this Agreement must be in writing and delivered personally, sent by prepaid mail, email, or sent by facsimile transmission to the recipient at the address, email address or the facsimile number appearing in Schedule 1 or such other address as may have been notified to the sender.
- (b) A notice is deemed to be received:
 - (i) if delivered personally, on the date of delivery;
 - (ii) if sent by prepaid post, 2 Business Days after posting;
 - (iii) if sent by email, when actually received in readable form by the recipient; and
 - (iv) if sent by facsimile transmission, on receipt by the sender of a facsimile transmission report confirming receipt.

6.11 Counterparts

This Agreement may be executed and delivered in any number of counterparts (including by way of electronic transmission) and all counterparts taken together will be deemed to be a single instrument.

6.12 Confidentiality

- (a) The terms and conditions of this Agreement and all negotiations between the parties relating to the subject matter of this Agreement are confidential.
- (b) A party must not make any public disclosure, communication or announcement about this Agreement except with the prior written consent of the other party or to comply with accounting, legal, stock exchange or other regulatory requirements.

6.13 Waiver

- (a) A failure or delay in exercise, or partial exercise, of a right, power, authority, discretion or remedy arising from a breach of or default under this Agreement, does not result in a waiver of that right, power, authority, discretion or remedy.
- (b) A party is not entitled to rely on a delay in the exercise or non-exercise of a right, power, authority, discretion or remedy arising from a breach of this Agreement or default under this Agreement as constituting a waiver of that right, power, authority, discretion or remedy.

6.14 Further Assurance

All parties must do all things reasonably necessary to give full effect to this Agreement and the transactions contemplated by this Agreement.

6.15 Severability

If any part of this Agreement is, or becomes, legally invalid or unenforceable, the remainder of this Agreement subsists and remains enforceable.

6.16 Entire Understanding

This Agreement contains the entire agreement between the parties. All representations or agreements, whether oral or in writing made prior to the date of this Agreement and relating to any matter dealt with in this Agreement are merged in this Agreement and do not have any effect from the date of this Agreement.

6.17 Governing Law

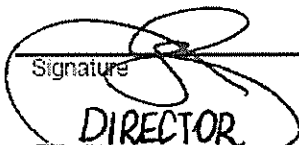
- (a) This Agreement is governed by the law of New Zealand.
- (b) Each party irrevocably submits to the non-exclusive jurisdiction of the courts of New Zealand and waives any objection to the venue of any legal process on the basis that the process has been brought in any inconvenient forum.

(Execution clauses follow on the next page)

EXECUTED as an agreement

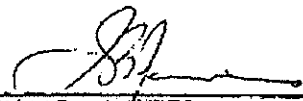
SIGNED for and on behalf of)
EVOLVE EDUCATION GROUP LIMITED)
by)

RUSSELL DALY
Print Name

Signature 

Position DIRECTOR

SIGNED by)
STUART BRUCE JAMES AS TRUSTEE)
OF THE S.B. JAMES)
SUPERANNUATION FUND)



Stuart Bruce JAMES

SIGNED by)
GILLIAN DOREEN JAMES AS)
TRUSTEE OF THE S.B. JAMES)
SUPERANNUATION FUND)



Gillian Doreen JAMES