evolve
education group

Interim
Financial Report
For the Six Month Period Ended
30 September 2016

CONTENTS

Steady Growth Learning Excellence

Revenue
↑ 9%
(Over 30 September 2015)

Net Profit after Tax	EBITDA*	Earnings per share	Interim Dividend
↑ 5%	↑ 10%	↑ 5c	↑ 2.5cps
(Over 30 September 2015)	(Over 30 September 2015)	(4.8c 30 September 2015)	(2.38cps 30 September 2015)

*EBITDA is earnings before interest, tax, depreciation and amortisation and it also excludes acquisition and integration costs (refer page 15).

Chair and Chief Executive Officer's Update

We are pleased to report Evolve Education Group Limited's (Evolve) strong result for the half year to 30 September 2016.

Our half year results showed solid revenue of $76.4m up 9% on the corresponding period last year and EBITDA* (excluding acquisition and integration costs) grew 10% to $15.1m.

Net profit after tax (NPAT) was $8.8m.

Our early childhood education (ECE) centres represent the major segment of our business. These centres make up 83% of the group's revenue with EBITDA* growing 12% in the half year and achieving an EBITDA* margin of 26.5%.

We continue to grow EBITDA* of the base portfolio of 84 centres which added $528k of incremental EBITDA* in the half year. This has been achieved through higher occupancy and well managed costs.

Centre acquisitions also contributed to the earnings growth. The FY 2015/16 acquisitions added $1.157m of EBITDA* in the period and the FY 2016/17 acquisitions contributed $289k of EBITDA* in the period.

Our home-based businesses Porse and Au Pair Link had slightly lower demand in the first half with revenue down 3% and EBITDA* down 4%.

Net assets per security of $0.93 at 30 September 2016 ($0.89 at 30 September 2015) includes tangible and intangible assets. A significant component of net asset value is represented by goodwill arising from acquisitions. Net tangible assets per security (excluding intangible assets) were ($0.18) as at 30 September 2016 (($0.15) as at 30 September 2015).

Focus

Evolve remains focused on delivering high quality parent engagement, child-centred learning and care across all of our services.

We have just hosted our second ECE centre managers' conference bringing the teams together to network, focus on exceeding parents' expectations, defining learning journeys for our children and enhancing professional development.

We are heartened by the camaraderie and engagement across our centre leadership which builds our capability and networks.

A number of our centres and home-based services have achieved the highest ERO (Education Review Office) reports reflecting a four-year review.

Chair and Chief Executive Officer's Update

Our training organisation, Porse Education and Training has recently achieved a four-year External Evaluative Review process led by NZQA. This process is mandatory for all tertiary training providers to assure compliance and quality.

Acquisitions and Developments

At the end of September our centre portfolio reached 110. Subsequently we settled an additional eight centres, bringing our acquisitions this year to 13. A number of these centres were acquired at a lower occupancy, which will generate revenue upside through increasing enrolments in the ensuing periods.

To further extend our portfolio we have opened the first leasehold development centre, to bring our total operating centre portfolio to 119. The centre opened in Pegasus, north of Christchurch, on 31 October 2016. Evolve has contracted a further two leasehold centres which will open in the next financial year.

With an experienced team on education and property management, we believe we can demonstrate a strong return over time through these acquired and developed centres.

Dividend

We are pleased to report an interim dividend of 2.5 cents per share, fully imputed, to be paid on 21 December 2016. This is a 5% increase on the same period last year.

Shareholders are able to reinvest all or part of their dividend payments into additional fully paid Evolve shares under Evolve's Dividend Reinvestment Plan ("DRP"). To participate in the DRP for this interim dividend, a DRP Notice must have been received no later than 5:00pm on 7 December 2016.

Our shareholders can be assured our focus is on exceeding family expectations through an engaged professional workforce. This in turn will ensure continuous growth of earnings for shareholders.

Thank you for your continued support.

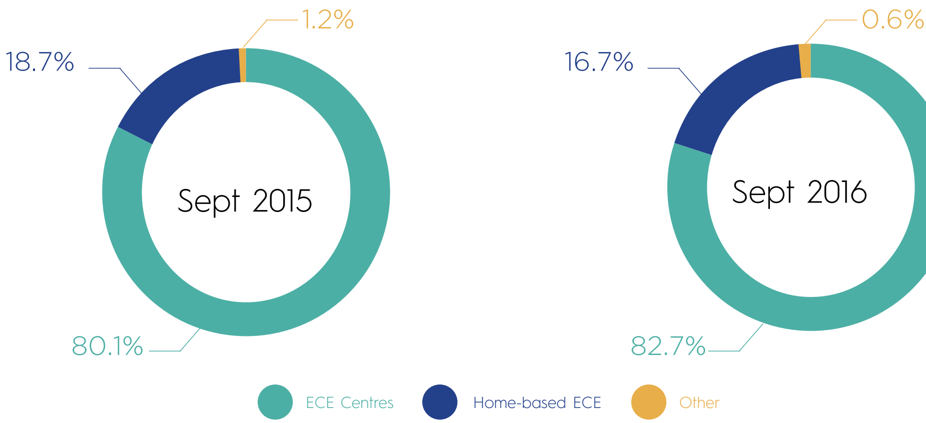
Norah Barlow
Chair
Evolve Education Group Limited

Alan Wham
Chief Executive Officer
Evolve Education Group Limited

Financial and Operational Highlights

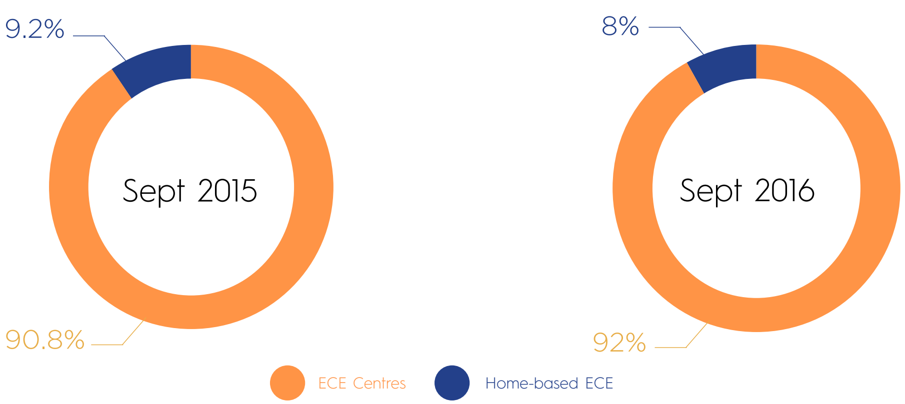
Revenue ($000)

Sept 2016
$ 76,368
Sept 2015
$ 70,215



EBITDA (excluding acquisition and integration costs) **($000)**

Sept 2016
$ 15,145
Sept 2015
$ 13,763



(% contribution to EBITDA excluding corporate, acquisition and integration costs)

Financial and Operational Highlights (continued)

Staff Employed

Sept 2016
2,495
Sept 2015
2,096

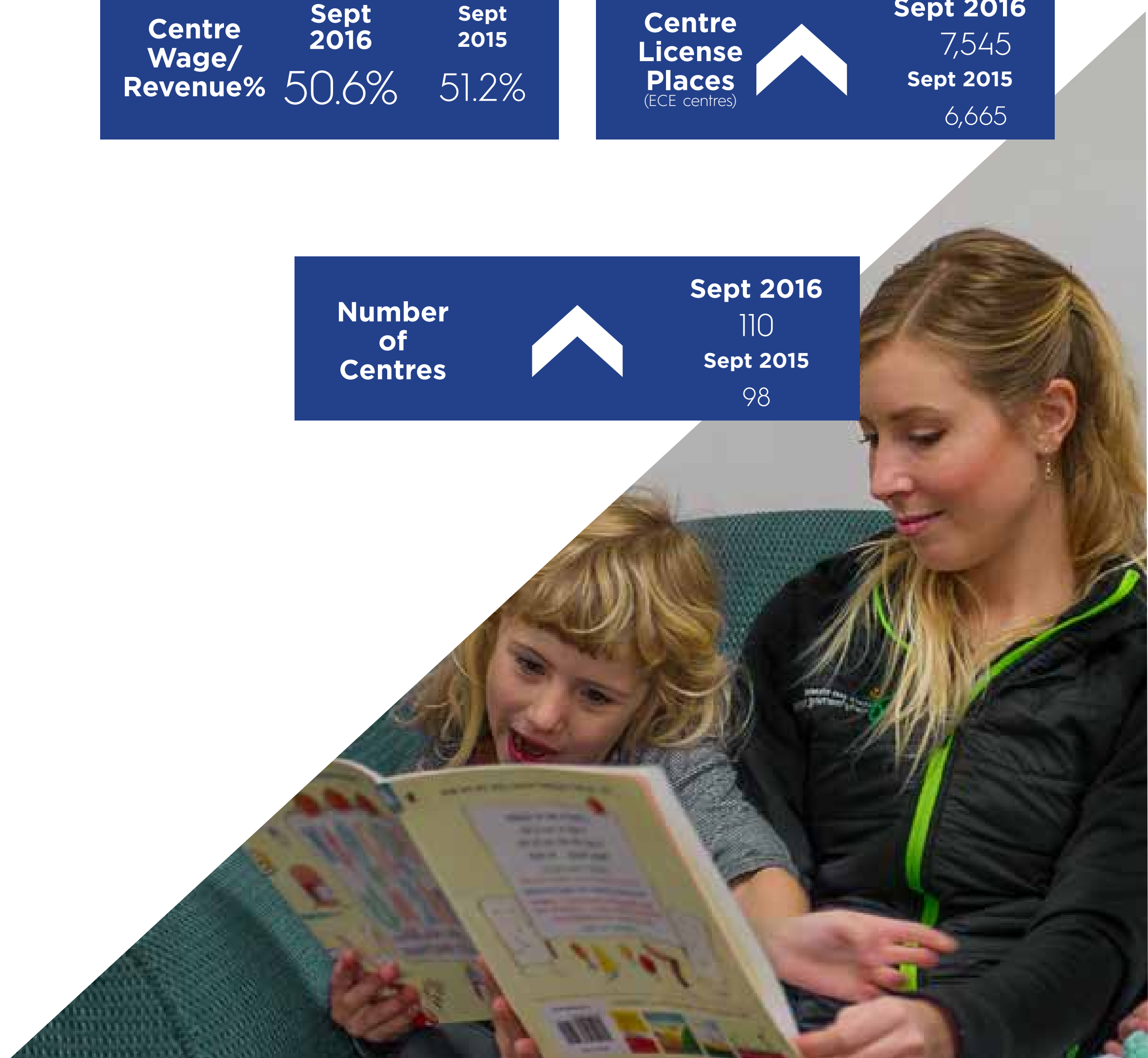
Centre Wage/ Revenue%	Sept 2016	Sept 2015
	50.6%	51.2%

Centre License Places (ECE centres)

Sept 2016
7,545
Sept 2015
6,665

Number of Centres

Sept 2016
110
Sept 2015
98



Evolve Education Group Limited

Interim Financial Statements

For the Six Month Period Ended 30 September 2016

The Directors have pleasure in presenting the Interim Financial Statements of Evolve Education Group Limited, for the six month period ended 30 September 2016.

The Interim Financial Statements presented are signed for and on behalf of the Board and were authorised for issue on 21 November 2016.

Norah Barlow
Chair
21 November 2016

Alistair Ryan
Director
21 November 2016

Consolidated Statement of Comprehensive Income

For the six month period ended 30 September 2016

$'000	Note	UNAUDITED 6 MONTHS 30 SEPTEMBER 2016	UNAUDITED 6 MONTHS 30 SEPTEMBER 2015
Revenue	2	76,368	69,799
Other income	2	-	294
Share of profit of equity accounted joint venture		-	122
Total income		**76,368**	**70,215**
Expenses			
Employee benefits expenses		(41,217)	(37,910)
Building occupancy expenses		(9,727)	(8,512)
Direct expenses of providing services		(8,039)	(7,826)
Acquisition expenses		(451)	(723)
Integration expenses		(328)	(205)
Depreciation		(1,004)	(779)
Amortisation	4	(300)	(222)
Other expenses		(2,240)	(2,204)
Total expenses		**(63,306)**	**(58,381)**
Profit before net finance expense and income tax		**13,062**	**11,834**
Finance income		52	102
Finance costs		(599)	(668)
Net finance expense		(547)	(566)
Profit before income tax		**12,515**	**11,268**
Income tax expense		(3,678)	(2,833)
Profit after income tax attributed to the owners of the Company		**8,837**	**8,435**
Other comprehensive income		-	-
Total comprehensive income attributed to the owners of the Company		**8,837**	**8,435**
Earnings per share			
Basic (and diluted) earnings per share (expressed as cents per share)		5.0	4.8

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

Consolidated Statement of Movements in Equity

For the six month period ended 30 September 2016

$'000	ISSUED SHARE CAPITAL	RETAINED EARNINGS	TOTAL
Balance at 31 March 2015 (audited)	156,926	(8,058)	**148,868**
Profit for the period (unaudited)	-	8,435	**8,435**
Other comprehensive income for the period (unaudited)	-	-	**-**
Total comprehensive income (unaudited)	**-**	**8,435**	**8,435**
Balance as at 30 September 2015 (unaudited)	**156,926**	**377**	**157,303**
Balance at 31 March 2016 (audited)	157,364	3,369	**160,733**
Profit for the period (unaudited)	-	8,837	**8,837**
Other comprehensive income for the period (unaudited)	-	-	**-**
Total comprehensive income (unaudited)	-	8,837	**8,837**
Shares issued under Dividend Re-investment Plan	428	-	**428**
Share issue costs relating to shares issued	(7)	-	**(7)**
Dividends paid	-	(4,226)	**(4,226)**
Balance as at 30 September 2016 (unaudited)	**157,785**	**7,980**	**165,765**

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

Consolidated Statement of Financial Position

As at 30 September 2016

$'000	Note	UNAUDITED AS AT 30 SEPTEMBER 2016	AUDITED AS AT 31 MARCH 2016	UNAUDITED AS AT 30 SEPTEMBER 2015
Current assets				
Cash and cash equivalents		3,085	38,624	2,717
Assets held for sale (investment in equity accounted joint venture)	11	-	1,605	-
Funding receivable	6	1,279	-	-
Other current assets		2,204	1,313	1,826
Total current assets		**6,568**	**41,542**	**4,543**
Non-current assets				
Property, plant and equipment		5,879	5,502	5,785
Investment in equity accounted joint venture	11	-	-	1,584
Deferred tax asset		840	786	826
Intangible assets	4	197,606	190,857	182,205
Total non-current assets		**204,325**	**197,145**	**190,400**
Total assets		**210,893**	**238,687**	**194,943**
Current liabilities				
Trade and other payables	5	5,099	8,413	5,060
Current income tax liabilities		556	1,286	1,101
Funding received in advance	6	-	16,318	112
Employee entitlements		6,273	6,072	5,942
Total current liabilities		**11,928**	**32,089**	**12,215**
Non-current liabilities				
Borrowings	7	33,200	45,865	25,425
Total non-current liabilities		**33,200**	**45,865**	**25,425**
Total liabilities		**45,128**	**77,954**	**37,640**
Net assets		**165,765**	**160,733**	**157,303**
Equity				
Issued share capital		157,785	157,364	156,926
Retained earnings		7,980	3,369	377
Total equity		**165,765**	**160,733**	**157,303**

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

Consolidated Statement of Cash Flows

For the six month period ended 30 September 2016

$'000	Note	UNAUDITED 6 MONTHS 30 SEPTEMBER 2016	UNAUDITED 6 MONTHS 30 SEPTEMBER 2015
Cash flows from operating activities			
Receipts from customers (including Ministry of Education funding)		58,320	52,966
Dividends received		76	59
Payments to suppliers and employees		(65,755)	(61,372)
Taxes paid		(4,508)	(2,782)
Net cash flows from operating activities	**8**	**(11,867)**	**(11,129)**
Cash flows from investing activities			
Payments for purchase of businesses	3	(6,983)	(14,713)
Proceeds from sale of investment in equity accounted joint venture	11	1,550	-
Payments for property, plant and equipment		(1,269)	(1,151)
Interest received		52	102
Net cash flows from investing activities		**(6,650)**	**(15,762)**
Cash flows from financing activities			
Share issue costs		(7)	-
Interest paid on borrowings		(599)	(427)
Bank borrowings drawn		163,840	45,425
Bank borrowings repaid		(176,505)	(20,000)
Dividends paid		(3,751)	-
Net cash flows from financing activities		**(17,022)**	**24,998**
Net cash flows		**(35,539)**	**(1,893)**
Cash and cash equivalents at beginning of period		38,624	4,610
Cash and cash equivalents at end of period		**3,085**	**2,717**

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

1. Basis of Presentation and Accounting Policies

The principal activities of Evolve Education Group Limited (the "Company") and its subsidiaries (the "Group") are the investment in the provision and management of high quality early childhood education services which give parents and caregivers the option of which service best suits their child's learning and care needs (see Note 2, Segment Information). The Group operates within New Zealand. During the period the Group acquired a number of additional early childhood education centres, as disclosed in Note 3, as part of its strategy to form centrally managed early childhood education services.

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

These condensed interim financial statements were approved for issue on 21 November 2016.

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

These consolidated condensed interim financial statements of the Group are unaudited and have been prepared using the same accounting policies, methods of computation, significant judgements, estimates and assumptions, as the financial statements and related notes included in the Group's audited financial statements for the year ended 31 March 2016. Accordingly, these interim financial statements are to be read in conjunction with those audited financial statements.

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

Going Concern

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

Functional and Presentation Currency

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

Comparative Period

The comparative period is for the six months ended 30 September 2015.

Notes to the Consolidated Financial Statements
For the six month period ended 30 September 2016

2. Segment Information

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

ECE Centres – generally purpose built facilities that offer all day or part-day early childhood services, and
Home-based ECE – involves an 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.

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

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

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

- **Acquisition expenses –** in acquiring the businesses and net assets in Note 3 the Group incurred certain expenses directly related to those acquisitions including agents' commissions, legal fees, financing fees and financial, tax and operational due diligence fees.
- **Integration expenses –** costs associated with the integration of the businesses acquired including the employment costs of the Group's acquisition and integration team and third party costs of establishing for example, IT and communications with the Group and the transfer of employment/payroll records to the Group's payroll provider.

Other than the items noted above, EBITDA includes increases or decreases to amounts provided for contingent consideration (in respect of the prior year comparatives).

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

2. Segment Information (continued)

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

Unaudited 30 September 2015	ECE Centres $'000	Home-based ECE $'000	Unallocated $'000	Consolidated $'000
Total revenue	**56,085**	**13,143**	**571**	**69,799**
Other income	-	-	294	294
Share of profit of equity accounted joint venture	122	-	-	122
Operating expenses	(41,322)	(11,628)	(3,502)	(56,452)
EBITDA before acquisition and integration expenses	**14,885**	**1,515**	**(2,637)**	**13,763**
Acquisition expenses	-	-	(723)	(723)
Integration expenses	-	-	(205)	(205)
EBITDA	**14,885**	**1,515**	**(3,565)**	**12,835**
Depreciation	(526)	(226)	(27)	(779)
Amortisation	(30)	(99)	(93)	(222)
Earnings before interest and tax	**14,329**	**1,190**	**(3,685)**	**11,834**
Net finance expense	-	-	(566)	(566)
Reportable segment profit/(loss) before tax	**14,329**	**1,190**	**(4,251)**	**11,268**

Notes to the Consolidated Financial Statements
For the six month period ended 30 September 2016

3. Business Combinations

Centre Acquisitions

During the six months ended 30 September 2016 the Group acquired 5 centres from several separate vendors, for a combined purchase price of $7.2m payable in cash. Total net assets acquired were $38,000 resulting in goodwill on acquisition of $7.1m. Total acquisition costs incurred during the period were $451,000 and these are included in the Statement of Comprehensive Income and cash flows from operating activities in the Statement of Cash Flows. No cash was acquired.

Assets and liabilities acquired and consideration paid	$'000
Assets	
Other current assets	43
Property, plant and equipment	215
	258
Liabilities	
Funding received in advance	(212)
Employee entitlements	-
Other current liabilities	(8)
	(220)
Total identifiable net assets at fair value	**38**
Goodwill arising on acquisition	7,125
Purchase consideration transferred	**7,163**
Purchase consideration	
Cash paid	6,983
Cash payable relating to retentions	180
Total consideration	**7,163**

The goodwill of $7.1m predominantly comprises the future earnings potential of the acquired ECE centres and the value expected from continuing to bring together a group of ECE centres and home-based ECE providers under one centrally managed group. Goodwill is allocated to each of the segments identified at Note 2, as appropriate.

Year to date the acquisitions have contributed revenue of $1.4m and a net profit after tax of $45,000 to the Group's results before allowing for upfront acquisition expenses and integration costs. As the acquisitions were made at different times during the six month period it is anticipated these acquisitions would have contributed revenue of $2.9m and a net profit after tax of $335,000 (excluding upfront and non-recurring acquisition costs of $451,000 and integration expenses of $328,000) had they all been acquired on 1 April 2016 and operated for the full six month period covered by these interim financial statements.

4. Intangible Assets

$'000	UNAUDITED 30 SEPTEMBER 2016	AUDITED 31 MARCH 2016	UNAUDITED 30 SEPTEMBER 2015
Goodwill	191,472	184,346	175,891
Brands	4,787	4,787	4,787
Other	1,347	1,724	1,527
Total Intangible assets (net book value)	**197,606**	**190,857**	**182,205**

Intangible assets comprise goodwill, brands, customer lists, software, syllabus material and management contracts. The total cost of intangible assets has increased by $7.2m during the period. This is mainly due to the acquisitions detailed in Note 3 which have resulted in additional goodwill of $7.1m. The remaining change in the net book value of intangible assets is due to software additions less amortisation for the six month period ended 30 September 2016 of $300,000 (30 September 2015: $222,000).

5. Trade And Other Payables

$'000	UNAUDITED 30 SEPTEMBER 2016	AUDITED 31 MARCH 2016	UNAUDITED 30 SEPTEMBER 2015
Trade payables	1,054	838	1,135
Amounts accrued in respect of contingent consideration	-	-	1,012
Amounts accrued in respect of business combinations	180	115	-
Goods and services tax	98	4,652	-
Other payables	3,767	2,808	2,913
Total trade and other payables	**5,099**	**8,413**	**5,060**

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

Notes to the Consolidated Financial Statements

For the six month period ended 30 September 2016

6. Funding Receivable and Funding Received in Advance

$'000	UNAUDITED 30 SEPTEMBER 2016	AUDITED 31 MARCH 2016	UNAUDITED 30 SEPTEMBER 2015
Funding received in advance	(7,000)	(20,216)	(7,256)
Funding receivable	8,279	3,898	7,144
Total funding receivable/(received in advance)	**1,279**	**(16,318)**	**(112)**

Ministry of Education funding is received three times per year on 1 March, 1 July and 1 November. Each funding round includes 75% of the estimated funding for the four months ahead. At 30 September 2016 funding received in advance relates to October 2016. Funding receivable relates to the remaining 25% of funding, adjusted for any changes in occupancy levels, in respect of June to September 2016.

7. Borrowings

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

$'000	UNAUDITED 30 SEPTEMBER 2016	AUDITED 31 MARCH 2016	UNAUDITED 30 SEPTEMBER 2015
Facility Limits			
Senior revolving facility	30,000	30,000	30,000
Acquisition facility	60,000	60,000	60,000
Total lending facilities	**90,000**	**90,000**	**90,000**
Utilisation			
Senior revolving facility	-	20,000	8,800
Acquisition facility	33,200	25,865	16,625
Total borrowings	**33,200**	**45,865**	**25,425**
Total unused facilities	**56,800**	**44,135**	**64,575**

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

$'000		UNAUDITED 6 MONTHS 30 SEPTEMBER 2016	UNAUDITED 6 MONTHS 30 SEPTEMBER 2015
Profit after tax		8,837	8,435
Adjustments for:			
	Depreciation and amortisation	1,304	1,001
	Contingent consideration adjustments	-	(294)
	Net finance expense	547	412
	Deferred tax	(54)	(376)
	Share of profits in joint venture	-	(63)
	Other	9	(91)
Changes in operating assets and liabilities:			
Working capital movements:			
	Increase/(decrease) in funding received in advance	(17,810)	(16,188)
	(Increase)/decrease in other current assets	(891)	(739)
	Increase/(decrease) in trade and other payables	(3,280)	(6,043)
	Increase/(decrease) in current income tax liabilities	(730)	427
	Increase/(decrease) in employee entitlements	201	827
Other items:			
	Business combination completion payment classified as investing	-	937
	Change in contingent consideration provided classified as investing	-	626
Net cash flows from operating acivities		**(11,867)**	**(11,129)**

As per Note 6, Ministry of Education ("MOE") funding is received by Evolve every four months. In the six months to 30 September MOE funding was received on 1 July only, with the next funding due on 1 November and then again on 1 March.

9. Commitments and Contingencies

Guarantees

In addition to the lending facilities disclosed at Note 7, the Group has a lease guarantee facility of $3,000,000 at 30 September 2016 (31 March 2016: $3,000,000; 30 September 2015: $3,000,000). At the reporting date utilisation of the facility was $2,395,000 (31 March 2016: $2,363,000; 30 September 2015 $2,363,000).

Taxation

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

9. Commitments and Contingencies (continued)

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

10. Related Party Transactions

Parent entity

Evolve Education Group Limited is the parent entity.

Identity of Related Parties

Related parties of the Group are:

- The Board of Directors comprising Norah Barlow, Alistair Ryan, Mark Finlay, Greg Kern and Alan Wham.
- Certain senior executives of the Group, including Alan Wham as Chief Executive Officer.
- Kern Group (Paddington) Pty Limited and Kern Group NZ Limited, companies associated with Greg Kern.
- LEP Limited, LEDC Limited (the vendor of 5 development centres acquired by the Company in March 2016), LEP Construction Limited, Birkenhead Properties Limited, LEP1 Limited, LEDC1 Limited and Wildfire Limited, companies associated with Mark Finlay.
- Wraith Capital Group NZ Limited, one of the Company's shareholders.

Related party transactions and related party relationships that have ended

The following related party transactions and relationships ended prior to 1 April 2016:

- Acquisition related costs paid to Kern Group (30 September 2015: $211,000). Greg Kern continues to be related, however, through his directorship of the Company.
- Acquisition related costs paid to Wraith Capital Group NZ Limited (30 September 2015: $221,000).
- Payments for consultancy services made to Mark Finlay (30 September 2015: $40,000). Mark Finlay continues to be a related party, however, through his directorship of the Company.
- Rents paid to interests of Jenny Yule, former Chief Executive Officer of the Porse group (30 September 2015: $161,000). Jenny Yule ceased to be a related party on 31 December 2015.

Related party transactions arising during the period:

In addition to salaries paid to certain key personnel of the Group the following related party transactions occurred between 1 April 2016 and 30 September 2016:

- Directors' fees paid of $195,833 (30 September 2015: $192,500).
- Shares issued pursuant to the Company's dividend reinvestment plan to Alan Wham (13,837 shares valued at $12,453), Alistair Ryan and Norah Barlow (2,013 shares each valued at $1,812 each), Vivek Singh (7,548 shares valued at $6,793) and Greg Kern (285 shares valued at $257). No shares were issued in the corresponding prior period.
- Rent, in respect of six ECE centres and the support office, paid to interests of Mark Finlay of $578,000 (30 September 2015: $395,000 relating to 4 ECE centres and the support office).

10. Related Party Transactions (continued)

- Management fee income derived from centres related to Mark Finlay $43,000 (30 September 2015: $59,000).

11. Equity Accounted Joint Venture

During the period the Group sold its 50% investment in the Halfmoon Bay joint venture for $1.6m. The sale realised a $24,000 gain and this is recorded within the Statement of Financial Performance.

The effect on the Group is the loss of equity accounted earnings of approximately $200,000 per annum.

12. Events after the Reporting Period

Dividend

On 21 November 2016, the Board approved the payment of a fully imputed dividend of 2.50 cents per share, payable in December 2016. The Company's dividend reinvestment plan will be in effect.

Centre Acquisitions

Subsequent to 30 September 2016 the Group acquired a further 8 ECE centres for consideration of $12.5m net of purchase price adjustments. The acquisitions are a continuation of the Group's strategy to form a nationwide group of centrally-owned and managed ECE providers. The goodwill acquired comprises the value of expected synergies arising from the acquisitions including those that occurred during the period.

A summary of the provisional net assets acquired is below. Acquisition costs of approximately $0.4m were incurred.

	$'000
Assets	
Other current assets	16
Funding receivable	218
Property, plant and equipment	294
Deferred tax	116
	644
Liabilities	
Other current liabilities	(42)
	(42)
Total identifiable net assets at fair value	**602**
Goodwill arising on acquisition	11,882
Purchase consideration transferred	**12,484**
Purchase consideration	
Cash	12,384
Cash payable related to retentions	100
Total consideration	**12,484**

12. Events after the Reporting Period (continued)

It is anticipated these acquisitions would have contributed revenue of $5.7m and a net profit after tax of $581,000 had they all been acquired on 1 April 2016 and operated for the full six month period covered by these interim financial statements.

In addition to the above the Group has entered into agreements for the acquisition of a further three ECE centres for $3.2m total consideration. At the date of signing these financial statements the agreements are conditional.

Development centres

On 31 October 2016 the Company opened its first development centre, Moreporks Pegasus, in Christchurch.

Independent Review Report

to the shareholders of Evolve Education Group Limited

Report on the Interim Financial Statements

We have reviewed the accompanying consolidated interim financial statements of Evolve Education Group Limited (the Company) on pages 9 to 23, which comprise the consolidated statement of financial position as at 30 September 2016, and the consolidated statement of comprehensive income, the consolidated statement of movements in equity and the consolidated statement of cash flows for the period ended on that date, and a summary of significant accounting policies and selected explanatory notes.

Directors' Responsibility for the Financial Statements

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

Our Responsibility

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

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

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

Conclusion

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

Restriction on Distribution or Use

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants Auckland

21 November 2016

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Mark Finlay
Greg Kern
Alistair Ryan
Alan Wham

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Alan Wham – Chief Executive Officer
Stephen Davies – Chief Financial Officer
Fay Amaral - Chief Operating Officer
Rachel Nottingham – General Manager, Acquisition, Development and Corporate Affairs (incl Company Secretary)
Allan McGilvray – General Manager, People and Capability
Paul Matthews – Chief Information Officer
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