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

Goldman Sachs

JOINT LEAD MANAGER

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.

# Contents


| | | |
|---|---|---|
| 1. | Offer at a Glance | 5 |
| 2. | Letter from the Chair | 11 |
| 3. | Investment Highlights | 12 |
| 4. | About Evolve Education | 18 |
| 5. | Risks | 45 |
| 6. | Board, Senior Management and Corporate Governance | 53 |
| 7. | Financial Information | 63 |
| 8. | Details of the Offer | 109 |
| 9. | Taxation Summary | 120 |
| 10. | Statutory Information | 122 |
| 11. | Glossary | 139 |
| 12. | Directory | 144 |

# 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 businesses[1] 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 of 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 Centres[9] 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

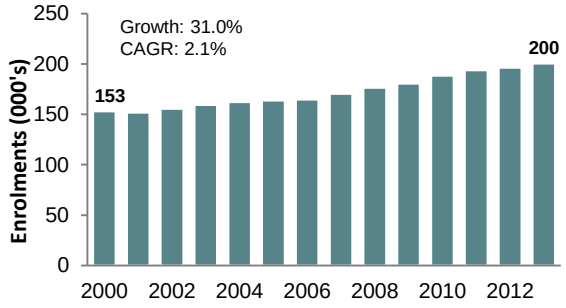
The investment highlights in this section should be read in conjunction with other parts of this Offer Document, including the risks set out in Section 5 *Risks*.

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

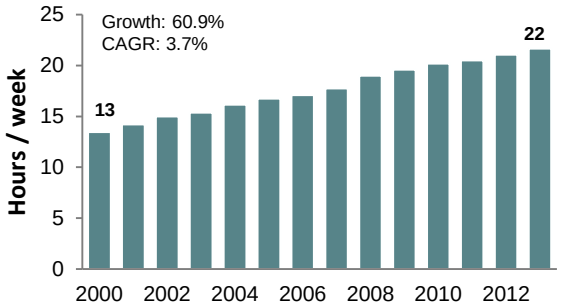
- Early childhood education (**ECE**) has been shown to positively affect a child's literacy, numeracy and problem-solving skills[11], and demand for ECE services has increased consistently from 2000 to 2013.

**ECE Industry Growth Indicators**

**Enrolments in ECE services[12]**




**Average hours spent in ECE per week**




*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.

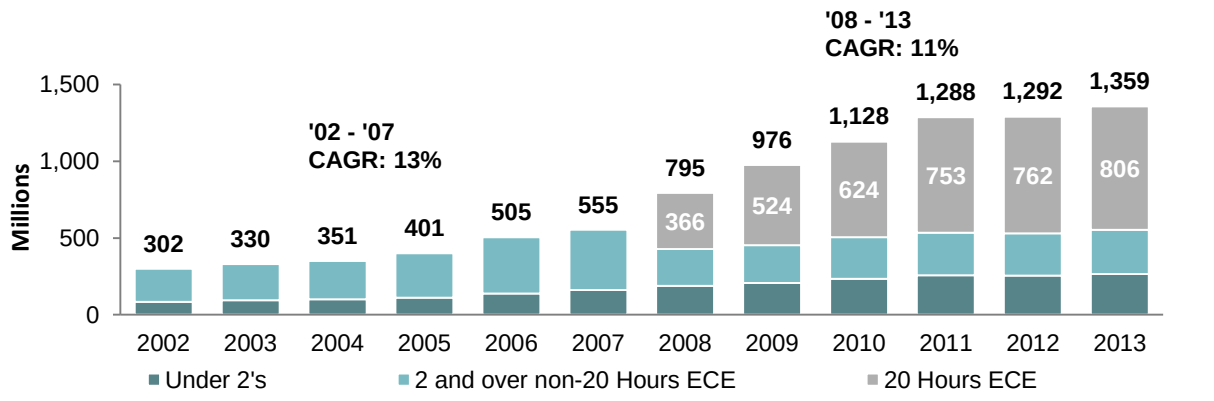
[11] "Participation in ECE" paper, pg 2. Stated source: OECD, 2011, Statistics NZ and Ministry of Pacific Island Affairs, 2010, and Whylie et al, 2009.

[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 children[13].

- 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 2007[14].

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

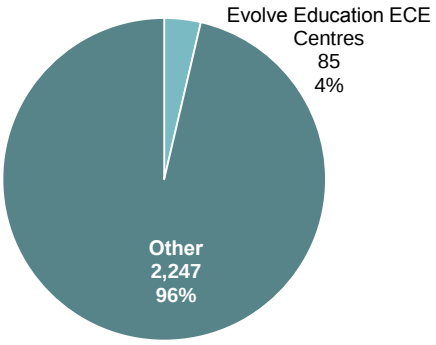
[14] Ministry of Education, Education Counts – ECE expenditure. Data as at June 2013, last updated May 2014.

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

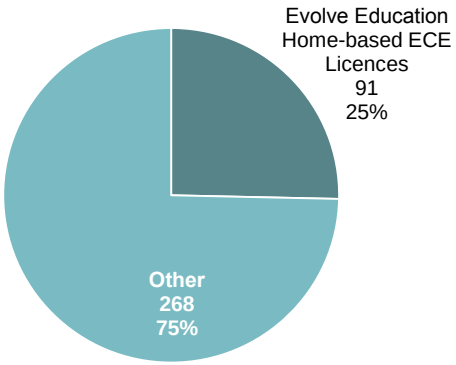
- Evolve Education's ECE Centres are expected to comprise approximately 4% of the ECE Centre market. Evolve Education's Home-based Licences are expected to comprise approximately 25% of the Home-based Licence market[15].

- 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** | LOLLIPOPS EDUCARE |
| **Home-based ECE** | PORSE In-Home Childcare Training • Work |

- 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 skills[20]. 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 Zealand[23]. 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.

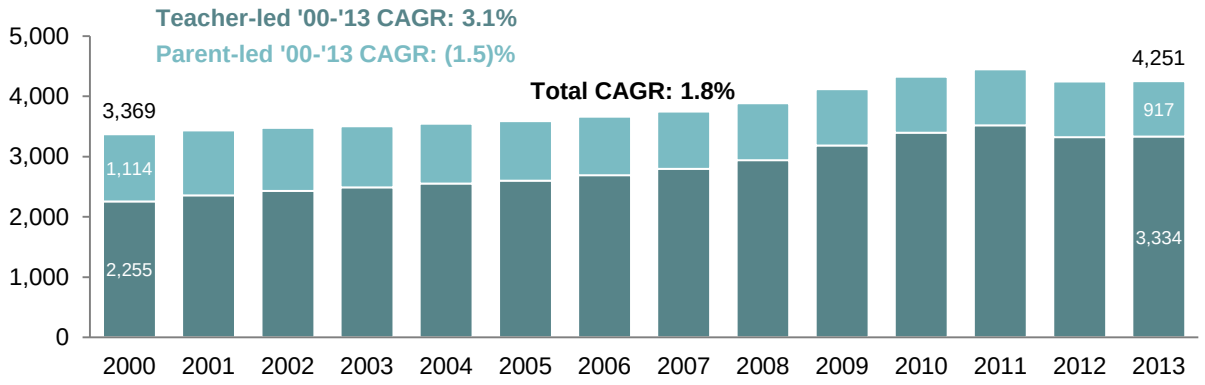
[20] Ministry of Education, "Participation in ECE". Stated source: OECD, 2011, Statistics NZ and Ministry of Pacific Island Affairs, 2010, and Whylie et al, 2009).

[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 group**[24]




*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<br>• 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<br>• 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<br># licensed places: 102,287<br>Average occupancy: 80%<br>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<br>• Provides all day or part day education and care and may also provide emergency care<br>• 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<br># licensed places: 26,281<br>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<br>• For kindergartens that offer morning and afternoon sessions, all teachers must be registered teachers who hold a Diploma in Teaching (ECE) or equivalent<br>• Kindergartens are members of kindergarten associations which are community based | # services: 643<br># licensed places: 24,949<br>Occupancy: 85%<br>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*

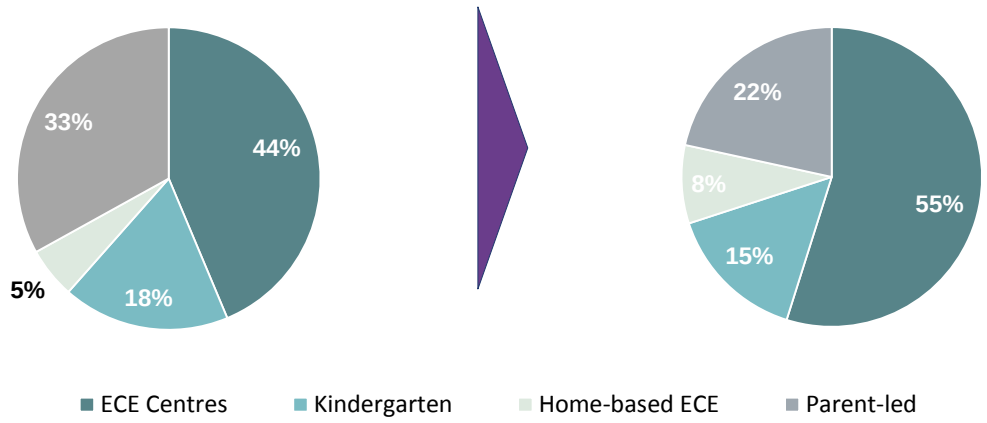
Evolve Education's Initial Portfolio will only include ECE Centres and Home-based ECE services, which have been the highest growth teacher-led business models since 2000. ECE Centres currently comprise 55% of the licensed New Zealand ECE market, while licensed Home-based ECE represents

[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.

8% of the market. These two models have grown at 3.6% per annum and 5.3% per annum respectively and now comprise a significantly larger portion of the industry than they did in 2000, as indicated below:

**Number of teacher- vs parent-led ECE Services**

| Year 2000 | Year 2013 |
|---|---|




| | | |
|---|---|---|
| ECE Centres | 1,472 | 2,332 (3.6% annual growth since 2000) |
| Home-based ECE | 183 | 359 (5.3% annual growth since 2000) |
| Kindergarten | 600 | 643 (0.5% annual growth since 2000) |
| Parent-led | 1,114 | 917 (1.5% annual decline since 2000) |
| **Total** | **3,369** | **4,251 (1.8% annual growth)** |

*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*

### Regulation

The Ministry of Education regulates all ECE services in New Zealand. The Ministry of Education issues licences and provides funding to ECE service providers that meet minimum standards set by the Government to ensure the health, comfort, care, education and safety of the children attending[25].

*Licensing criteria for ECE services*[26]

- All ECE service providers are regulated by the Ministry of Education and must meet the minimum standards of education and care described in the Education (Early Childhood Services) Regulations 2008 in order to hold a licence and receive Government funding.
- The licensing criteria covers four main areas:
  - Curriculum
    - The curriculum must be consistent with any curriculum framework prescribed by the Ministry of Education, provide a positive learning environment with an understanding of and respect for other cultures, and collaborate with the family.

[25] Education (Early Childhood Services) Regulations 2008, part 2 subpart 1.

[26] Education (Early Childhood Services) Regulations 2008.

- 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 2.5m$^2$ per child indoors and 5m$^2$ per child outdoors. Home-based ECE services must have 2.5m$^2$ 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 GDP [27]. In 2009, New Zealand had the 7th highest public expenditure on ECE as a proportion of total public expenditure for OECD countries[28].

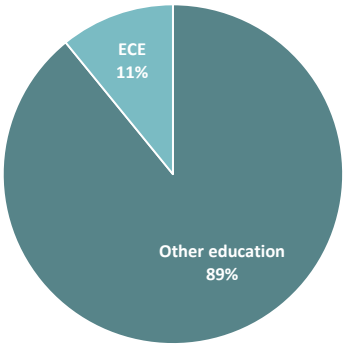
As at June 2013, Government funding for education was $12.5 billion and of this, 11% was allocated to the ECE industry, which was a Government contribution of $1.36 billion[29].

[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 ECE[30].

**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 funding[31].

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 included[32]:

- *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 provided[33]. 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 provider[34].

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.

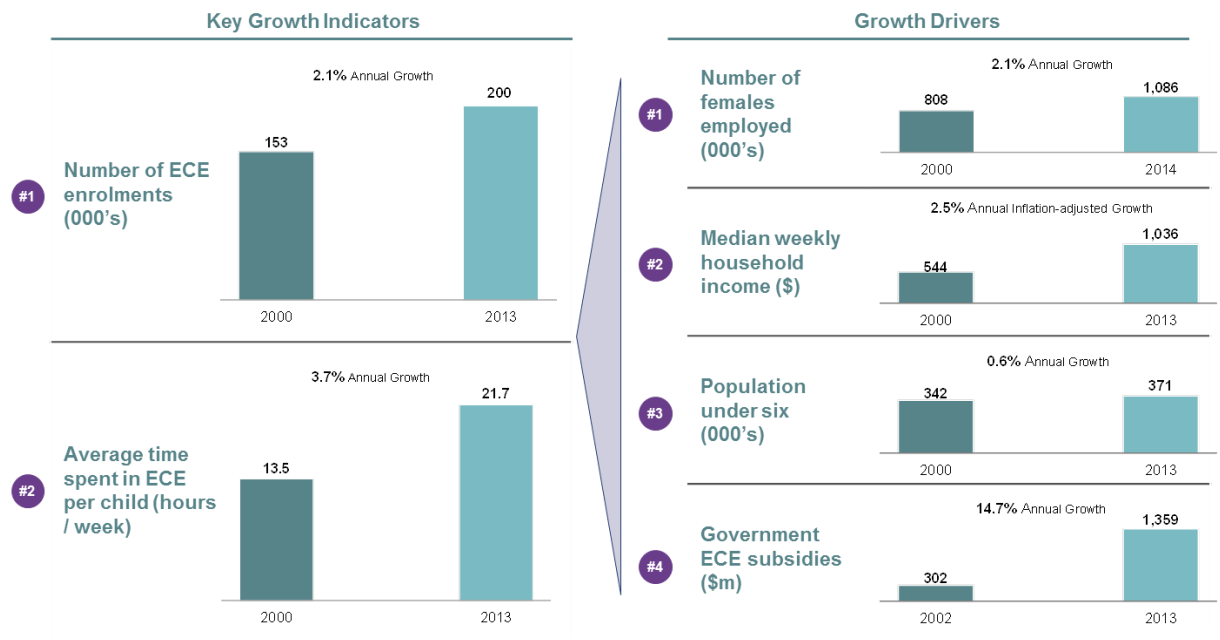
[34] ECE Funding Handbook – Chapter 4: *20 Hours ECE.*

### 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*

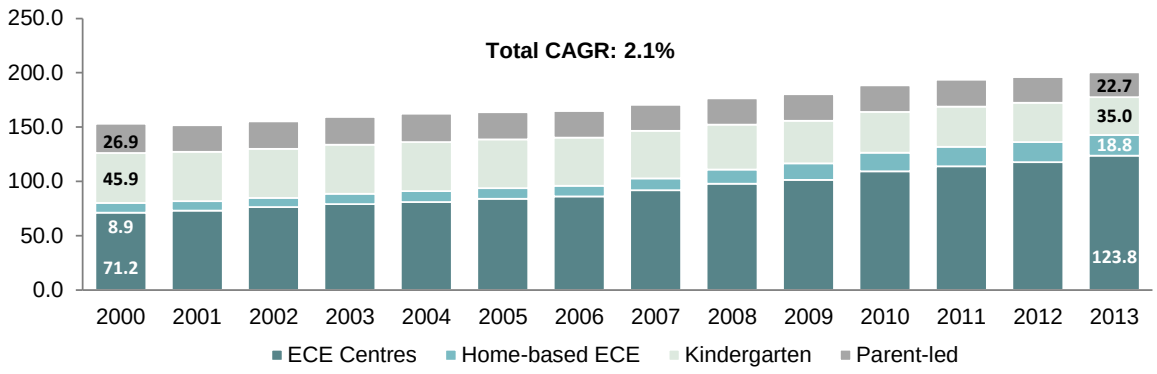
The number of children enrolled in ECE services has grown significantly since the year 2000, up 31% to approximately 200,000 children in 2013[35]. This growth has been led by Home-based ECE and ECE Centres, which have grown at an annual rate of 5.9% and 4.3% respectively over this period. In 2013, ECE 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 rising[37].

**Number of enrolments in licensed ECE services (000s)**

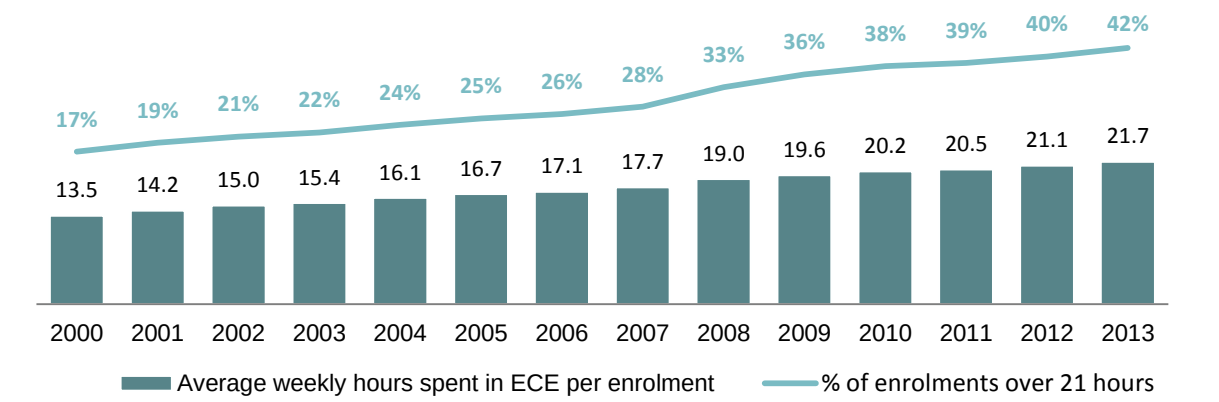



*Source: Ministry of Education, Education Counts - Enrolments in ECE. Data as at June 2013, last updated March 2014*

*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].

**Average weekly enrolment hours**




*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 2000[39].

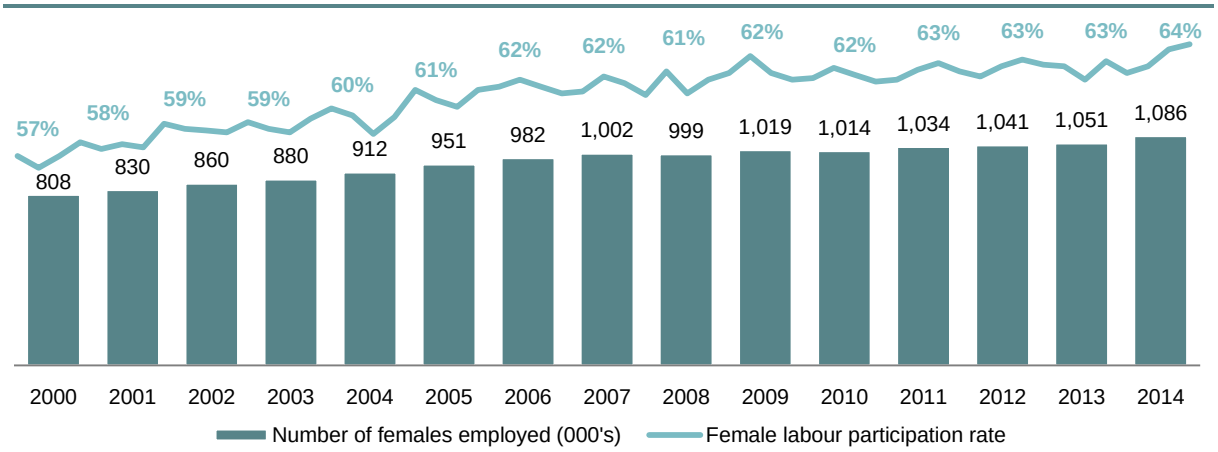
---

[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)**



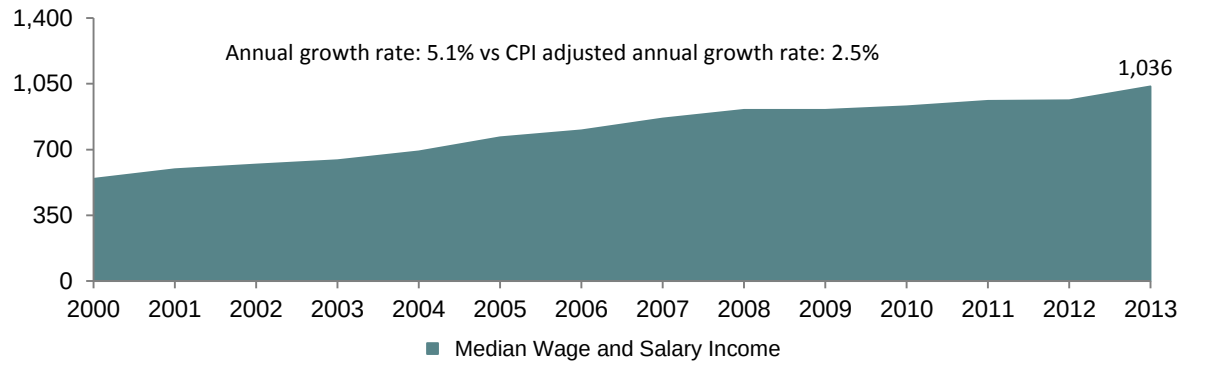

*Source: Statistics New Zealand: Key Labour Force Measures by Qualification, Age and Sex. Extracted 5 August 2014*

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 costs[40]. 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 ago[41].

**New Zealand weekly household income levels ($)**




*Source: Statistics New Zealand*

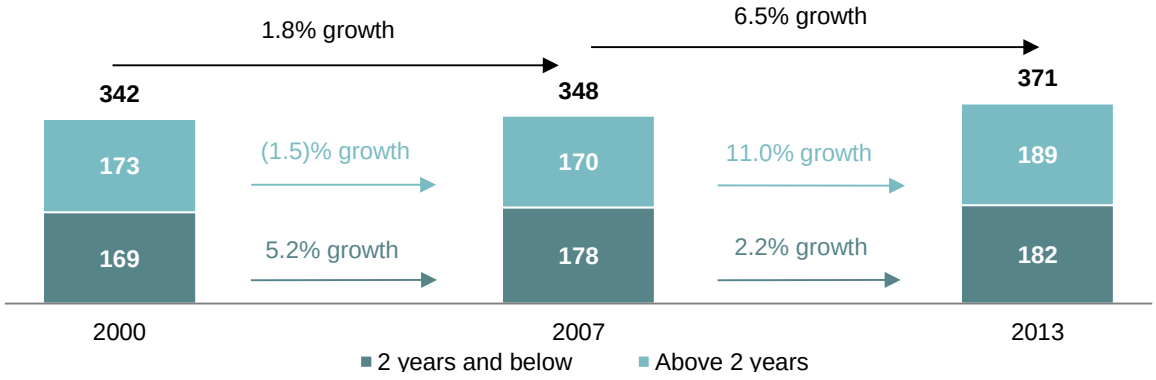
[40] Ministry of Women's Affairs - The labour participation response of mothers to changes in early childhood education costs. July 2012.

[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 2013[42].

**Population of children under six (000)**

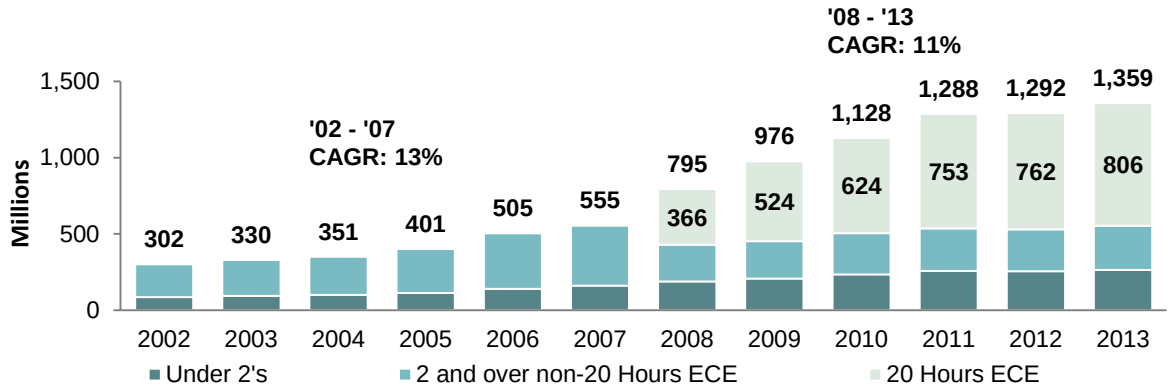



*Source: Statistics New Zealand*

*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 sector[43].

**ECE entitlement funding ($m)**




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

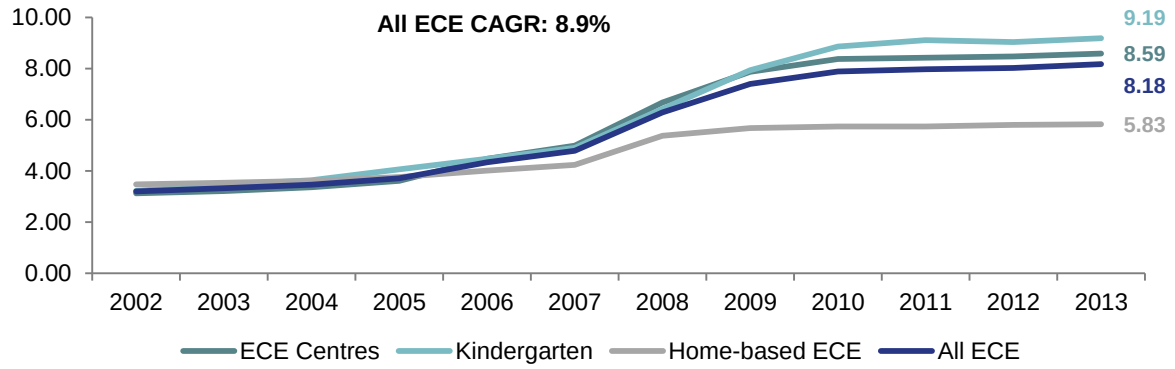
Across the various ECE services, ECE Centres and kindergartens have received the largest increases in Government funding rates per child. This is largely due to the fact that 20 Hours ECE applies primarily to the three year to five year child age bracket rather than the below three year child age bracket. 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 programme[44].

**ECE entitlement funding rates per child funded hour ($)**




*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.

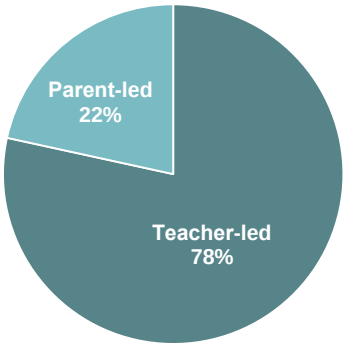
Evolve Education's primary focus will be on teacher-led ECE services which make up just under 80% of all ECE services[45].

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.

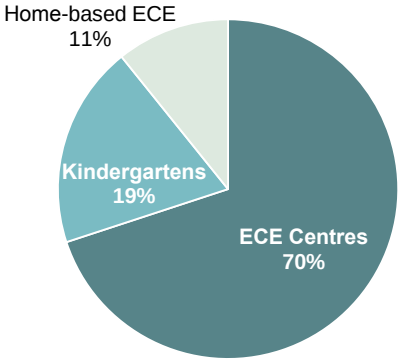
Evolve Education's ECE Centres are expected to comprise approximately 4% of the ECE Centre market and approximately 6% of the total Licensed Child Places within the ECE Centre market. On average, an ECE Centre has 44 Licensed Child Places whereas Evolve Education will, on average, have 70 Licensed Child 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 market[46].

**Teacher-led vs parent-led ECE services**




**Teacher-led ECE Services**

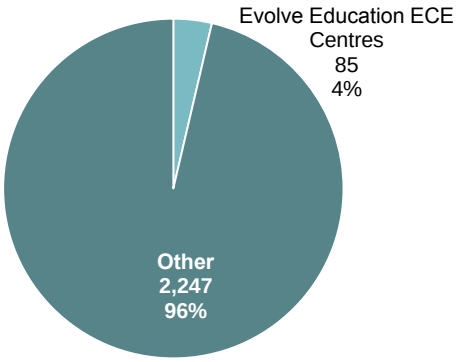



[45] Ministry of Education, Education Counts – Number of ECE services. Excludes casual education & care and hospital based care. Data as at June 2013, last updated April 2014.

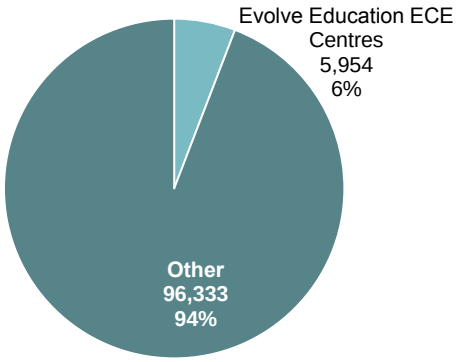
[46] Evolve Education / Ministry of Education, Education Counts – Number of ECE services and Number of Licensed Places as at June 2013. Excludes casual education & care and hospital based care.

**Evolve Education's Market Share**

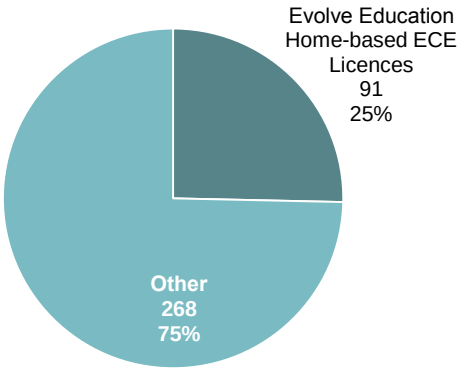
**ECE Centre Market**
**(Number of ECE Centres)**




**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.

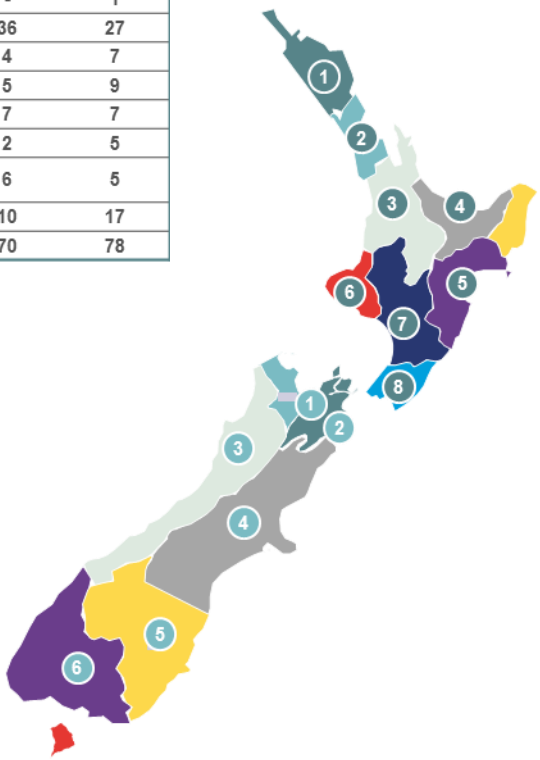
**Location of Initial Portfolio**

**North Island**

| | Region | # of Centres | # of Home-based Licences |
|---|---|---|---|
| 1 | Northland | - | 1 |
| 2 | Auckland | 36 | 27 |
| 3 | Waikato | 4 | 7 |
| 4 | Bay of Plenty | 5 | 9 |
| 5 | Hawkes Bay | 7 | 7 |
| 6 | Taranaki | 2 | 5 |
| 7 | Manawatu - Whanganui | 6 | 5 |
| 8 | Wellington | 10 | 17 |
| | Total | 70 | 78 |

**South Island**

| | Region | # of Centres | # of Home-based Licences |
|---|---|---|---|
| 1 | Nelson | 1 | 2 |
| 2 | Marlborough | 2 | 1 |
| 3 | West Coast | 1 | 1 |
| 4 | Canterbury | 9 | 7 |
| 5 | Otago | 1 | 2 |
| 6 | Southland | 1 | - |
| | Total | 15 | 13 |




*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

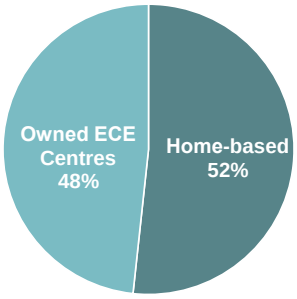
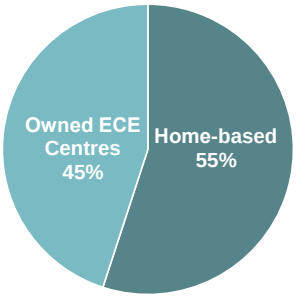
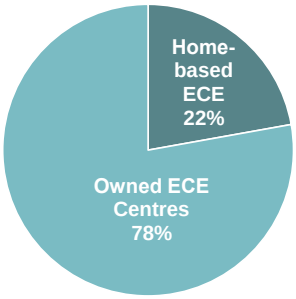
Evolve Education is a newly established childcare business that will be built around a solid foundation of existing ECE brands in both the ECE Centre and Home-based ECE categories. The key ECE Centre brand will be Lollipops Educare and the key Home-based ECE brand will be PORSE, which have both been 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 Centres[47] and 91 Home-based Licences[48] across its ECE services.

This Initial Portfolio is presented below.

**Evolve Education's Initial Portfolio**

| Number of Owned ECE Centres / Home-based ECE Licences | Licensed Child Places | FY16F revenue[49] |
|---|---|---|
|   |   |   |
| Home-based ECE: 91 home licences | Home-based ECE: 7,280 | Home-based ECE: $30.0m |
| Owned ECE Centres: 85 centres | Owned ECE Centres: 5,954 | Owned ECE Centres: $105.1m |

*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<br>• 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<br>• 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)<br>• 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:<br>— Ministry of Education funding, received three times a year with 75% in advance<br>— Revenue received from parents<br>• The number of educators is important to receiving Government funding. An operator must have over 50% of educators as registered teachers to receive funding<br>• 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<br>• 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<br>• Important to retain qualified teachers and staff, who are integral to providing high quality services to the children | • Employee expenses are the largest expense<br>• 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<br>• 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]<br>• 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<br>• 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 |

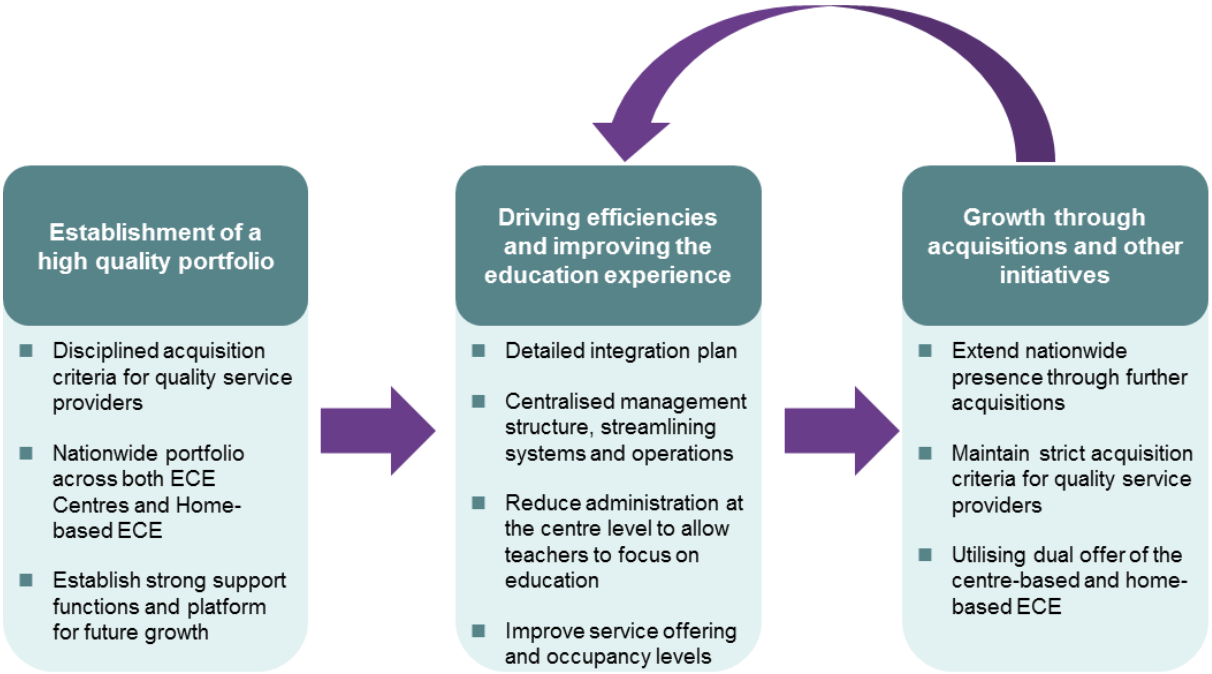
[50] The terms and conditions of each Evolve Education lease also vary, but typically the leases take the Auckland District Law Society standard form with some amendments in each case. As at the date of this Offer Document, the remaining term of the leases of the Owned ECE Centres where due diligence 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<br>• Targeted areas to create efficiency through operational clusters of ECE Centres throughout New Zealand |
| **Physical environment** | • Generally targeted purpose built or recently renovated premises<br>• 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<br>• 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 occupancy[53]** | 87.0% | NA | - | NA |
| **Employee expenses ratio[54]** | 52.5% | 44.9% | - | 53.2%[55] |
| **Building occupancy expenses ratio[56]** | 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

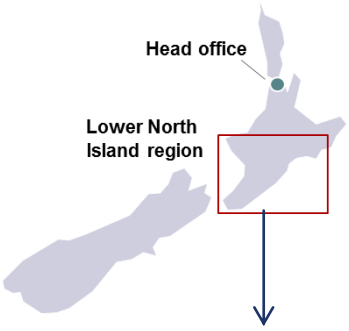
**Corporate**

Comprised of executive management who are expected to achieve economies of scale through the centralisation of shared services and administration functions

**Key responsibilities:**

- Group-wide education programmes
- Common policies and procedures
- Centralised staff development and training
- Centralised IT systems
- Common procurement policies

**Corporate Structure Applied Across Initial Portfolio**



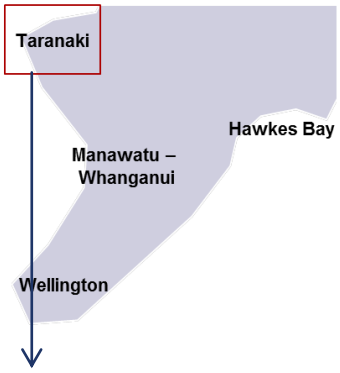

**Regional**

Regional Business Manager will have responsibility for centres that are grouped into geographic clusters

**Key responsibilities:**

- Regional Business Managers report to executive management
- Centre management across region
- Maximising centre performance through occupancy and other key indicators

**Regional Business Managers Oversight Region Clusters**



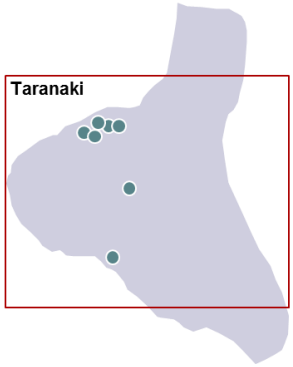

**Centre level**

Centre managers will be responsible for day-to-day centre management. Successful implementation of corporate level functions will allow individual centres to focus on providing quality ECE

**Key responsibilities:**

- Provide a quality ECE service
- Achieved by employing fully-qualified early childhood educators and utilising development and training
- Lead ECE Centre performance and parent satisfaction

**Centre Managers Responsible for Specific Sites**




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

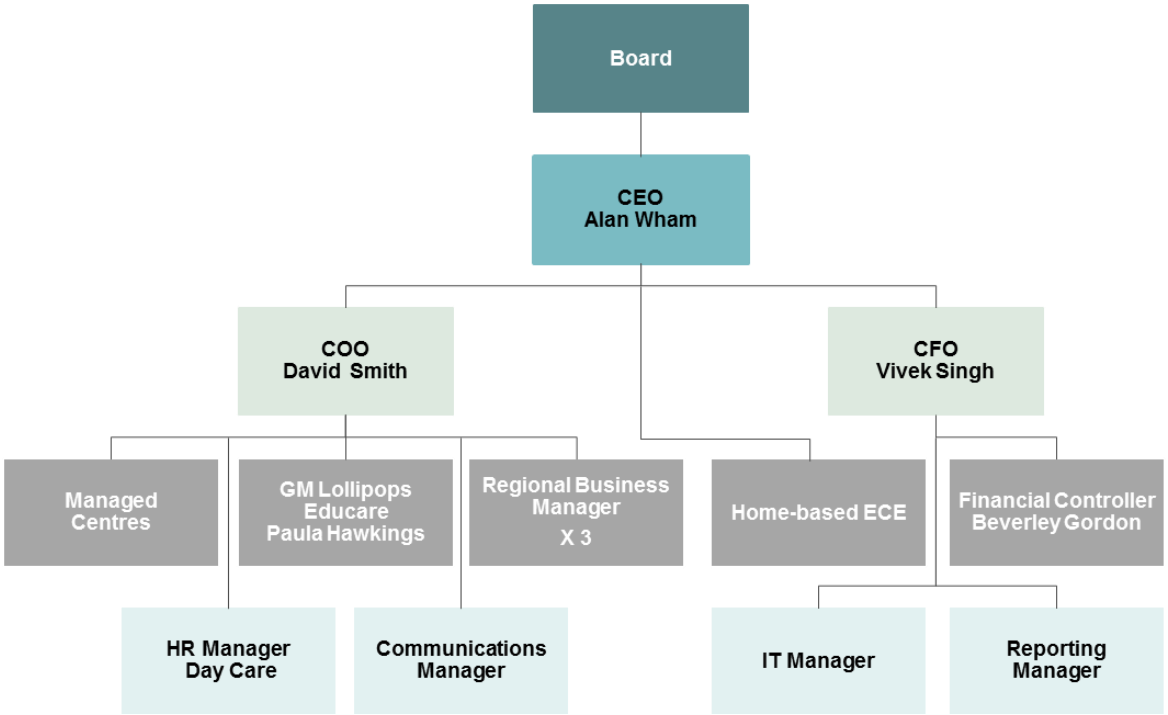
- Increased staff retention through a larger portfolio of centres able to provide improved career path training and progression, with increased vocational options across multiple centres.

**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 2000[57].

[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, SimplHealth, 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 acquired[58]. 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".

a. **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.

b. **Integration expenses:** Non-recurring costs associated with the integration of the businesses will be expensed.

c. **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 2014[59]. 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

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

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

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.

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

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

PricewaterhouseCoopers

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 3.50:1.00[60]. 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

Mark Finlay

Greg Kern

Alistair Ryan

Alan Wham

**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 *Details of the Offer* |
| **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 *Statutory Information*, 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 *Description of the Evolve Education Group's Financing Arrangements* |
| **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 *Statutory Information* |

## 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<br>54 Fort Street<br>Auckland 1010 | Kern Group NZ Limited<br>Wraith Capital Group NZ Limited<br>Samuel (Chris) Giufre |
| **DIRECTORS OF EVOLVE EDUCATION** | **SOLICITORS** |
| Norah Barlow (Chairperson)<br>Mark Finlay<br>Greg Kern<br>Alistair Ryan<br>Alan Wham | Minter Ellison Rudd Watts<br>Level 20, Lumley Centre<br>88 Shortland Street<br>Auckland 1010<br>Phone: +64 (9) 353 9700 |
| **AUDITOR AND INVESTIGATING ACCOUNTANT** | **SOLE BOOKRUNNER AND ARRANGER, JOINT LEAD MANAGER AND UNDERWRITER** |
| PricewaterhouseCoopers<br>188 Quay Street<br>Auckland 1142<br>Phone: +64 (9) 355 8000 | Goldman Sachs New Zealand Limited<br>Level 39, Vero Centre<br>48 Shortland Street,<br>Auckland 1010<br>Phone: +64 (9) 362 7300 |
| **ACCOUNTING ADVISER** | **JOINT LEAD MANAGER** |
| KPMG<br>18 Viaduct Harbour Avenue<br>Auckland 1140<br>Phone +64 (9) 367 5800 | Forsyth Barr Limited<br>Level 13, Forsyth Barr Tower<br>55 Shortland Street<br>Auckland 1010<br>Phone: +64 800 367 227 |
| **FINANCIAL ADVISER** | **SHARE REGISTRAR** |
| Kern Group (Paddington) Pty Ltd<br>Level 2/67 St Pauls Terrace<br>Spring Hill<br>Queensland<br>Australia 4004 | Link Market Services Limited<br>Level 7, Zurich House<br>21 Queen Street<br>Auckland 1010<br>Phone: +64 (9) 375 5998 |
| **BANKER AND LENDER** | |
| ASB Bank Limited<br>12 Jellicoe Street,<br>Auckland 1140<br>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<br>**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<br>**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<br>**For the period ended 31 August** | **Share Capital** | **Accumulated losses** | **Total Equity** |
|---|---|---|---|
| | | | |
| **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<br>**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<br>**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<br>**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<br>For the period ended 31 March | Share Capital | Retained Earnings | Translation Reserve | Non-controlling interest | Total Equity |
|---|---|---|---|---|---|
| **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<br>For the period ended 31 March | Share Capital | Retained Earnings | Translation Reserve | Non-controlling interest | Total Equity |
|---|---|---|---|---|---|
| **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<br>**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<br>**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<br>**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<br>**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<br>**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<br>**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<br>**For the period ended 31 December** | **2009** | **2010** | **2011** | **2012** | **2013** |
|---|---|---|---|---|---|
| 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<br>**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<br>**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<br>**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<br>**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<br>**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<br>**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

## Index to Financial Statements


| | |
|---|---|
| Business Profile | 2 |
| Independent Auditor's Report | 3 |
| Statements of Comprehensive Income | 5 |
| Statements of Financial Position | 6 |
| Statements of Changes in Equity | 7 |
| Statements of Cash Flows | 8 |
| Notes to Financial Statements | 9 |

# Business Profile
## as at 31 August 2014

| | |
|---|---|
| **Business Address** | Suite 2702, Level 27, PwC Tower<br>188 Quay Street<br>Auckland |
| **Postal Address** | PO Box 106623<br>Auckland 1143 |
| **Share Capital** | 1,200 Ordinary Shares |

**Shareholders**

| | Ordinary |
|---|---|
| Kern Group NZ Limited | 400 |
| Trustees of the S.B. James Superannuation Fund | 400 |
| Wraith Capital Group NZ Limited | 400 |
| Total Shares | 1200 |

| | |
|---|---|
| **Directors** | Russell Daly<br>Gregory Kern |
| **Registered Office** | c/- Minter Ellison Rudd Watts<br>Level 20, Lumley Centre<br>88 Shortland Street<br>Auckland 1010 |
| **Date of Incorporation** | 20 May 2014 |
| **Auditors** | PricewaterhouseCoopers<br>Chartered Accountants<br>Level 22, PwC Tower<br>188 Quay Street<br>Auckland 1142 |
| **Bankers** | National Australia Bank Limited<br>ASB Bank Limited |
| **Solicitors** | Minter Ellison Rudd Watts<br>Level 20, Lumley Centre<br>88 Shortland Street<br>Auckland 1010 |
| **Accountants** | Hayes Knight North Limited<br>5 William Laurie Place, Albany<br>Auckland |

pwc

# *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 pages5 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.

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

pwc

# *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.

PricewaterhouseCoopers

Chartered Accountants
12 November 2014

Auckland

## 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** | | (2,238) | (2,238) |
| Finance costs | 6 | (595) | (595) |
| **Loss before Income Tax** | | (2,833) | (2,833) |
| Income tax benefit | 9 | - | - |
| **Loss for the Period** | | (2,833) | (2,833) |
| **Other Comprehensive Income** | | - | - |
| **Total Comprehensive Loss for the Period** | | (2,833) | (2,833) |

| | | Cents |
|---|---|---|
| **Earnings per share** | | |
| Basic and diluted earnings per share | 19 | (56.65) |

## 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)

## 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) |

## 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** | | **35** | **35** |

## 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

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.

*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.

**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).

### (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.

### (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.

### (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)).

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.

### (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.

## 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.

## 9. Income Tax

| Profit Reconciliation | Group Aug 14 $'000 | Parent Aug 14 $'000 |
|---|---|---|
| Operating loss before income tax | (2,833) | (2,833) |
| Prima facie taxation at 28% | (793) | (793) |
| *Adjust for tax effect of:* | | |
| Expenses not deductible for tax purposes | 491 | 491 |
| Tax losses not recognised | 301 | 301 |
| Temporary differences not recognised | 1 | 1 |
| **Taxation Charge** | - | - |

| Unrecognised Deferred Tax Asset | Group Aug 14 $'000 | Parent Aug 14 $'000 |
|---|---|---|
| Temporary differences arising from normal operations | 2 | 2 |
| Unused tax losses | 1,077 | 1,077 |
| **Unrecognised deferred tax balances** | **1,079** | **1,079** |
| **Unrecognised deferred tax balances @ 28%** | **302** | **302** |

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 | - | - |
| | - | - |

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.

## 11. Intangible Assets

| | Group Aug 14 $'000 Trademarks | Parent Aug 14 $'000 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 Loans and receivables | Parent Aug 14 $'000 Loans and receivables |
|---|---|---|
| *Assets as per statement of financial position* | | |
| 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 |
| *Liabilities as per statement of financial position* | | |
| 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.

## 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** |

(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).

**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.

## 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) |
| *Adjustments for:* | | |
| 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.

**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.

*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

# Contents

| | |
|---|---|
| Company directory | 1 |
| Directors' declaration | 2 |
| Audit report | 3 |
| Statement of financial position | 5 |
| Statement of comprehensive income | 6 |
| Statement of changes in equity | 7 |
| Statement of cash flows | 8 |
| Notes to the financial statements | 9 |

# 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,<br>Ellerslie<br>Auckland, 1051 | |
| **Directors** | M Finlay<br>R Thompson<br>C Tapper<br>A Scott | |
| **Auditor** | Deloitte<br>Auckland | |
| **Bankers** | ANZ Bank Limited<br>Auckland | |
| **Solicitors** | Hesketh Henry<br>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

Deloitte.

# 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.

Deloitte.

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.

Deloitte

**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 | - | 389,067 |
| 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 | - | - | - | 642,993 |
| 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 | 1,631,068 |
| 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 |
| | 33,442,629 | 24,941,279 | 1,568,489 | 1,385,010 |
| 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) |
| | (27,955,581) | (23,446,956) | (1,811,497) | (1,622,922) |
| **Net cash flow from operating activities** | 5,487,048 | 1,494,323 | (243,008) | (237,912) |
| **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 |
| | 199,655 | 336,943 | 808,714 | 417,092 |
| 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) |
| | (2,753,994) | (1,289,656) | (1,236,576) | (796,493) |
| **Net cash flow from investing activities** | (2,554,339) | (952,713) | (427,862) | (379,401) |
| **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 |
| | 2,392,630 | 5,931,675 | 3,265,274 | 7,167,714 |
| 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) | - | - |
| | (5,576,600) | (5,292,819) | (3,001,000) | (5,704,937) |
| **Net cash flow from financing activities** | (3,183,970) | 638,856 | 264,274 | 1,462,777 |
| Net increase/(decrease) in cash held | (251,261) | 1,180,466 | (406,596) | 845,464 |
| Add opening cash and cash equivalents | 762,368 | (418,098) | 389,067 | (456,397) |
| Closing cash and cash equivalents | 511,107 | 762,368 | (17,529) | 389,067 |
| **Cash and cash equivalents comprise:** | | | | |
| Cash and cash equivalents | 614,477 | 840,756 | - | 389,067 |
| Bank overdraft | (103,370) | (78,388) | (17,529) | - |
| | 511,107 | 762,368 | (17,529) | 389,067 |

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 (Hastings) Limited
Lollipops Educare (Napier Port) Limited ***
Lollipops Educare (Blighs Road) Limited ***
Lollipops Educare (Te Rapa) Limited ***
Lollipops Educare (Patten Street) Limited ***
Lollipops Educare (Waikato Hospital) Limited ***
Lollipops Educare Investors Limited ("LEIL")
Lollipops Educare Centres Limited (LECL) *
Lollipops Educare (Wellington) Limited
Bambino Investments Limited ***
Lollipops Educare (Ellerslie) Ltd ***

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 (refered 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 ventres 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 | - | - |
| | 2,434 | 1,681 | 808,714 | 367,046 |

## 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 |
| | 24,296 | 69,769 | 11,469 | 77,595 |

## 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 | - | - |
| | 16,551,538 | 13,548,947 | - | - |

## 5 Depreciation and amortisation

| Depreciation expense | Group 2014 | Group 2013 | Company 2014 | Company 2013 |
|---|---|---|---|---|
| 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 | - | |
| | 799,778 | 791,955 | - | - |
| **Amortisation expense** | | | | |
| Computer software | 35,495 | 64,241 | - | - |
| **Total depreciation and amortisation expense** | 835,273 | 856,196 | - | - |

## 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 | - | - |
| | 1,118,245 | 1,043,520 | 1,112,385 | 1,026,495 |

## 7 Profit for the year

| Profit before income tax has been arrived at after charging the following expenses and losses from operations: | Group 2014 | Group 2013 | Company 2014 | Company 2013 |
|---|---|---|---|---|
| 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 facillity 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 |
| | 15,028,640 | 9,152,017 | 17,404,147 | 14,863,659 |

## 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 | - | |
| | 291,041 | 317,129 | 125,000 | 72,566 |

## 13 Derivative financial instruments

| | Group 2014 | Group 2013 | Company 2014 | Company 2013 |
|---|---|---|---|---|
| Current liabilities | | | | |
| Interest rate swaps | - | 24,296 | - | 11,469 |
| | - | 24,296 | - | 11,469 |

The group has entered into interest rate swap contracts to hedge interest rate exposure. The fair value of these interest rate swap contracts is measured at the present value of future cash flows using yield curves at balance date derived from quoted interest rates matching maturities of the contracts. The group has not adopted hedge accounting.

## 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) | - | |
| | 4,477,079 | 4,315,581 | - | |
| Office furniture and fittings at cost | 660,011 | 651,266 | - | - |
| Accumulated depreciation | (480,041) | (446,935) | - | - |
| | 179,970 | 204,331 | - | - |
| Plant and equipment at cost | 2,359,728 | 2,081,124 | - | - |
| Accumulated depreciation | (1,156,732) | (818,894) | - | - |
| | 1,202,996 | 1,262,230 | - | - |
| Motor vehicles at cost | 47,839 | 15,329 | - | |
| Accumulated depreciation | (8,619) | (9,221) | - | - |
| | 39,220 | 6,108 | - | |
| Equipment under finance lease at cost | 101,652 | 139,194 | - | - |
| Accumulated depreciation | (93,012) | (114,405) | - | - |
| | 8,640 | 24,789 | - | - |
| Net book value of property, plant and equipment | 5,907,905 | 5,813,039 | - | - |

## 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 | 8,437,052 | 5,523,590 | - | - |

**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 | - | - | - |
| | 8,437,052 | 5,523,590 | - | - |

## 16 Other intangible assets

| | Group 2014 | Group 2013 | Company 2014 | Company 2013 |
|---|---|---|---|---|
| Computer software | | | | |
| Gross carrying amount | 257,437 | 241,693 | - | - |
| Accumulated amortisation and impairment | (182,072) | (149,723) | - | - |
| Net carrying amount | 75,365 | 91,970 | - | - |

## 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 |
| | 2,206,986 | 1,872,256 | 2,284,702 | 1,385,844 |

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 | - | - |
| | 1,231,492 | 915,451 | - | - |

## 19 Interest-bearing loans

| | Group 2014 | Group 2013 | Company 2014 | Company 2013 |
|---|---|---|---|---|
| Current | | | | |
| 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 |
| | 9,211,265 | 8,119,051 | 9,211,265 | 8,119,051 |
| Non-current | | | | |
| 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

**Finance leases**

| | Group | | | |
|---|---|---|---|---|
| | Minimum future lease payments | | Present value of minimum future lease payments | |
| Finance lease liabilities | 2014 | 2013 | 2014 | 2013 |
| 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 |

**Operating leases**

| | Group 2014 | Group 2013 | Company 2014 | Company 2013 |
|---|---|---|---|---|
| Non-cancellable operating lease payments | | | | |
| 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

| Name of entity | Country of incorporation | 2014 % | 2013 % |
|---|---|---|---|
| **Parent entity** | | | |
| Lollipops Educare Holdings Limited | New Zealand | | |
| **Subsidiary** | | | |
| 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 |
| | 1,656 | 58,662 | 60,318 |
| Consideration | 647,440 | 589,136 | 1,236,576 |
| Fair value of previously held interests | 647,440 | 290,171 | 937,611 |
| | 1,294,880 | 879,307 | 2,174,187 |
| Fair value of net assets acquired | (1,656) | (58,662) | (60,318) |
| Goodwill | 1,293,224 | 820,645 | 2,113,869 |
| **Gain on disposal of previously held interests** | | | |
| Fair value of previously held interests | 647,440 | 290,171 | 937,611 |
| Carrying value | (13,608) | (258,309) | (271,917) |
| | 633,832 | 31,862 | 665,694 |

The acquisition of the 50% and 67% interests mean the holdings have increased to 100%.

| **Net cash outflow on acquisition** | Company & Group 2014 |
|---|---|
| Consideration paid in cash | 1,236,576 |
| Less: additional share of cash and bank balances acquired | (266,600) |
| | 969,976 |

| **2014 – Acquisition of centres** | Proportion of shares acquired | Cost of acquisition |
|---|---|---|
| Wonderwise | 100% | 750,000 |
| Masterton | 100% | 100,000 |
| Greys | 100% | 50,000 |
| | | 900,000 |

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 |
| | 50,000 | 750,000 | 100,000 | 900,000 |

# 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 |
| | | 571,493 |

**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 |
| | 571,493 | 571,493 |

| **Net cash outflow on acquisition** | 2014 | 2013 |
|---|---|---|
| Consideration paid in cash | 900,000 | 571,493 |
| | 900,000 | 571,493 |

**Goodwill arising on acquisition**

Goodwill arose in the above acquisitions due to the benefits of including the centres in the Lollipops group.

22 Associates

| Name of entity | Country of incorporation | 2014 | 2013 |
|---|---|---|---|
| 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 |

| **Movement in the carrying amount of the group's investments in associates:** | Group 2014 | Group 2013 |
|---|---|---|
| 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 | - | 258,309 |
| **Goodwill included in the carrying amount of the group's investments in associates – balance at opening and closing balances** | - | 243,032 |

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

| Name of entity | Country of incorporation | Ownership Interest 2014 | 2013 |
|---|---|---|---|
| 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 2014 | Group 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)

| (d) Loans to/(from) related parties | Group 2014 | Group 2013 | Company 2014 | Company 2013 |
|---|---|---|---|---|
| *Loans to related parties – other financial assets* | | | | |
| 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 |
| | 14,106,338 | 8,444,451 | 17,404,147 | 14,863,659 |

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 | - | - | - | - |
| | 39,732 | 19,300 | 2,181,141 | 1,288,080 |
| Interest-bearing loans – Scottfin ECE Limited (see note 19) | 1,100,000 | 2,207,787 | 1,100,000 | 2,207,786 |
| | 1,100,000 | 2,207,787 | 1,100,000 | 2,207,786 |
| *Trade with related parties* | | | | |
| Wildfire Consulting Ltd | 200,000 | 200,000 | - | - |
| 111 Consulting Ltd | 150,000 | 150,000 | - | - |
| Consulting Services provided by shareholders | 350,000 | 350,000 | - | - |

## 25 Share capital

| | Group 2014 | Group 2013 | Company 2014 | Company 2013 |
|---|---|---|---|---|
| 14,671,658 fully paid ordinary shares (including treasury shares) (2013: 14,786,508 ) | 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 | 14,786,508 | 5,261,063 | 15,110,764 | 5,633,956 |
| 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 | 14,671,658 | 5,108,985 | 14,671,658 | 5,108,985 |

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

| Group & company | 2014 Cents per share | 2014 Total $ | 2013 Cents per share | 2013 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) | (707,566) | - | - |
| 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 |
| | | 1,950,000 |

| 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 |
| | 1,100,000 | 850,000 | 1,950,000 |

# 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 | - |
| | 1,950,000 |

**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

Index


| | |
|---|---|
| 1 | COMPANY DIRECTORY |
| 2 to 3 | ANNUAL REPORT |
| 4 | STATEMENT OF COMPREHESIVE INCOME |
| 5 | STATEMENT OF CHANGES IN EQUITY |
| 6 | STATEMENT OF FINANCIAL POSITION |
| 7 | STATEMENT OF CASH FLOWS |
| 8 to 14 | NOTES TO FINANCIAL STATEMENTS |
| 15 | SCHEDULE OF PROPERTY, PLANT & EQUIPMENT |
| 16 | AUDITORS' REPORT |


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<br>HAVELOCK NORTH |
| **Directors** | Jennifer L Yule<br>Dan Druzianic<br>Alwyn J Burr<br>Andrew IG Harwood<br>Amanda J Fleming |
| **Auditors** | Gardiner Knobloch<br>NAPIER |
| **Solicitors** | Sainsbury, Logan & Williams<br>NAPIER<br><br>Chen Palmer<br>WELLINGTON |
| **Bankers** | ANZ Bank New Zealand Limited<br>Kiwi Bank Limited<br>NAPIER |
| **Business Location** | 31 Napier Road<br>HAVELOCK NORTH |

**Shareholders & Shareholding**

| | SHARES | |
|---|---|---|
| | **Voting** | **Non-Voting** |
| Jennifer L Yule | 100,000 | - |
| David C Yule | - | 142,500 |
| Rugosa Trust | - | 257,500 |
| | 100,000 | 400,000 |

**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 - | 31/12/13 | 31/12/12 |
|---|---|---|
| Surplus before Depreciation and Taxation | 561,915 | 1,428,289 |
| Plus(Less) - | | |
| Depreciation | (647,975) | (610,610) |
| Profit (Loss) before Taxation | (86,060) | 817,679 |
| Taxation | (37,740) | (238,053) |
| **Profit (Loss) after Taxation** | **$ (123,799)** | **$ 579,626** |
| **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 | 82,353 | 82,353 |
| | **$ 1,771,658** | **$ 1,937,067** |

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 - | 31/12/13 | 31/12/12 |
|---|---|---|
| Jennifer L Yule | 291,644 | 267,903 |
| Alwyn Burr | 15,000 | - |
| Dan Druzianic | 15,000 | - |
| Andrew Harwood | 7,500 | - |
| Amanda Fleming | 8,750 | - |
| | **$ 337,894** | **$ 267,903** |
| 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 Druzianc 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.

| | 31/12/13 | 31/12/12 |
|---|---|---|
| **PORSE Franchising (NZ) Limited -** | | |
| Management Fee Received | 70,000 | 312,000 |
| Royalties and Marketing Charges | (602,926) | (640,643) |
| Various Advances (Payable)/Receivable | (772,863) | (622,987) |
| | **$ (1,305,789)** | **$ (951,630)** |
| Balances at 31 December were - | | |
| Accounts Receivable | 91,125 | 149,401 |
| Accounts Payable | (325,228) | (1,606,857) |
| **Net Amount Receivable/(Payable)** | **$ (234,103)** | **$ (1,457,456)** |
| **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. | (769,758) | (760,024) |
| ECE Level 3 Certificate and module Expenses and Nanny Intern Fees | (219,336) | (176,237) |
| | **$ (829,094)** | **$ (786,261)** |
| Balances at 31 December were - | | |
| Accounts Receivable | 191,834 | 177,034 |
| Accounts Payable | (706,220) | (1,125,140) |
| **Net Amount Receivable/(Payable)** | **$ (514,386)** | **$ (948,106)** |

**Examined for Audit**
**Gardiner Knobloch**

| For Life Education & Training (NZ) Limited - | 31/12/13 | 31/12/12 |
|---|---|---|
| Management Fee Received | 70,000 | - |
| Charges and Advances for various Expense Items paid on usual terms of trade. | (159,019) | (190,242) |
| | $ (89,019) | $ (190,242) |
| Balances at 31 December were - | | |
| Accounts Receivable | 66,617 | 44,569 |
| Accounts Payable | (44,735) | (34,155) |
| **Net Amount Receivable/(Payable)** | $ 21,882 | $ 10,414 |
| **PORSE Equine Education Limited** | | |
| Charges and Advances for various Expense Items paid on usual terms of trade. | (26,950) | (16,344) |
| | $ (26,950) | $ (16,344) |
| Balances at 31 December were - | | |
| Accounts Receivable | 30,643 | 18,796 |
| **Net Amount Receivable/(Payable)** | $ 30,643 | $ 18,796 |
| PALJYN Investments Limited - | | |
| Rental Paid | $ 322,920 | $ 322,920 |

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

| | 31/12/13 | 31/12/12 |
|---|---|---|
| Donations made during the year totalled | $ 167 | $ 3,312 |

## 9 AUDITORS

| | | |
|---|---|---|
| Amount paid to the Auditors for auditing services | $ 8,000 | $ 10,000 |
| Amount paid to the Auditors for other services. | $ - | $ 2,600 |

For and on behalf of the Board

| | | | |
|---|---|---|---|
| | Director | | Director |
| 30 April 2014 | Date | 30 April 2014 | 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 | 31/12/13 | 31/12/12 |
|---|---|---|---|
| Revenue | | $ | $ |
| Ministry of Education Funding | | 23,448,244 | 25,128,416 |
| Franchise Payments | | (2,030,011) | (3,119,908) |
| | | 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 | | 300,000 | 462,000 |
| **Total Revenue** | | **23,319,665** | **23,910,345** |
| **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 | | 42,952 | 252,227 |
| **Total Direct Operational Expenses** | | **16,822,334** | **16,212,161** |
| **Gross Margin** | | **6,497,331** | **7,698,184** |
| **% 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 | | 256,692 | 237,883 |
| **Total Overhead Expenses** | | **6,110,790** | **6,589,413** |
| **Total Expenses** | | **22,933,124** | **22,801,573** |
| **Surplus before Depreciation** | | **386,541** | **1,108,771** |
| Less Depreciation | | 647,975 | 610,610 |
| | | 647,975 | 610,610 |
| **Results from Operating Activities** | | **(261,434)** | **498,161** |
| **Finance Income** Interest | | 173,909 | 318,991 |
| Dividends Dividends | | 2,254 | 2,140 |
| | | **176,164** | **321,132** |
| **Finance Costs** Interest paid | | 789 | 1,614 |
| **Net Finance Income** | | **175,374** | **319,518** |
| **Profit (Loss) before Tax** | | **(86,060)** | **817,679** |
| Taxation | 3 | 37,740 | 238,053 |
| **Total Comprehensive Income for the Year** | | **(123,799)** | **579,626** |

Examined for Audit
Gardiner Knobloch



The accompanying Notes form part of these Financial Statements in conjunction with the Audit Report

# PORSE IN-HOME CHILDCARE (NZ) LIMITED

## Statement of Comprehensive Income for the Year ended 31 December 2013

| | 31/12/13 | 31/12/12 |
|---|---|---|
| **Comprehensive Income attributable to -** | | |
| Company Shareholders | (123,799) | 579,626 |
| Non- controlling interests | - | - |
| **Total Comprehensive Income for the Year** | $ (123,799) | $ 579,626 |

## Statement of Changes in Equity during the Year ended 31 December 2013

| | Notes | 31/12/13 | 31/12/12 |
|---|---|---|---|
| | | $ | $ |
| 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 | | (300,000) | (1,915,000) |
| **Equity at 31 December 2013** | | **1,123,878** | **1,547,677** |

**Examined for Audit**
**Gardiner Knobloch**



The accompanying Notes form part of these Financial Statements in conjunction with the Audit Report

# 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 |
| | | 2,957,050 | 9,477,983 |
| MOE Funding in Advance | 4.1 | (99,458) | (4,451,519) |
| | | 2,857,591 | 5,026,464 |
| 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** | | **4,703,474** | **7,210,097** |
| **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** | | **1,727,986** | **1,956,525** |
| **Total Assets** | | **6,431,460** | **9,166,622** |
| **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** | | **5,225,230** | **7,536,592** |
| **Non - Current Liabilities** | 7 | | |
| Shareholders Loan Accounts | 7.1 | 82,353 | 82,353 |
| **Total of Non - Current Liabilities** | | 82,353 | 82,353 |
| **Total Liabilities** | | **5,307,582** | **7,618,944** |
| **Net Assets** | | **1,123,878** | **1,547,677** |
| **Shareholders Equity** | | | |
| Capital | | | |
| 500,000 shares paid to | | 500,000 | 500,000 |
| Retained Earnings | 8 | 623,878 | 1,047,677 |
| **Total Shareholders Equity** | | **1,123,878** | **1,547,677** |

Director _____ Director _____

Date 30 April 2014 Date 30 April 2014

**Examined for Audit**
**Gardiner Knobloch**



The accompanying Notes form part of these Financial Statements in conjunction with the Audit Report

# PORSE IN-HOME CHILDCARE (NZ) LIMITED

## Statement of Cash Flows
for the year ended 31 December 2013

| | 31/12/13 | 31/12/12 |
|---|---|---|
| | $ | $ |
| **Cash Flows from Operating Activities** | | |
| Cash was provided from - | | |
| Receipts from Ministry of Education & Sundry | 21,268,445 | 26,191,499 |
| Advanced receipts from Minstry of Education applied 2013 | 4,352,061 | 259,631 |
| Finance Income | 171,804 | 209,238 |
| Net GST | (739,718) | (71,199) |
| | 25,052,593 | 26,589,169 |
| 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) |
| | (26,759,993) | (26,437,003) |
| **Net Cash used in Operating Activities** | **(1,707,400)** | **152,166** |
| **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 |
| | 5,529,006 | 107,723 |
| 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) |
| | (448,122) | (3,769,911) |
| **Net Cash from (used in) Investing Activities** | **5,080,884** | **(3,662,188)** |
| **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) |
| | (4,393,670) | (2,012,015) |
| **Net Cash used in Financing Activities** | **(4,393,670)** | **(2,012,015)** |
| **Net Increase (Decrease) in Cash held** | **(1,020,187)** | **(5,522,037)** |
| Cash at the beginning of the Year | 2,472,586 | 7,994,622 |
| **Cash at end of Year** | **1,452,399** | **2,472,586** |
| **Bank Balances as per Statement of Financial Position** | | |
| Bank Accounts | 1,452,399 | 2,472,586 |
| **Total Bank Balances** | **1,452,399** | **2,472,586** |

**Examined for Audit**
**Gardiner Knobloch**



The accompanying Notes form part of these Financial Statements in conjunction with the Audit Report

## 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 |

Examined for Audit
Gardiner Knobloch

(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.

**Examined for Audit**
**Gardiner Knobloch**

**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.

**Examined for Audit**
**Gardiner Knobloch**

(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.

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.

| | | 31/12/13 | 31/12/12 |
|---|---|---|---|
| 3 | **TAXATION** | | |
| 3.1 | **Income Tax** | $ 37,740 | $ 238,053 |
| | Profit (Loss) before Taxation | (86,060) | 817,679 |
| | Permanent Taxation adjustments | 37,642 | 29,163 |
| | | $ (48,417) | $ 846,842 |
| | Timing Difference Taxation adjustments | $ 138,771 | $ 91,253 |
| | Income for Taxation purposes | $ 90,354 | $ 938,095 |
| | Tax at 28c in $ | 25,299 | 262,667 |
| | Imputation credits received | (864) | (838) |
| | **Taxation** | $ 24,435 | $ 261,829 |
| | Taxation for Year as above | $ 24,435 | $ 261,829 |
| | RWT and Provisional Tax paid | 235,250 | 498,899 |
| | **Balance Owing (Refund) at Balance Date** | $ (210,815) | $ (237,070) |
| | **Deferred Tax on Timing Differences** | $ 13,305 | $ (23,776) |
| | **Total Taxation as per Statement of Comprehensive Income** | $ 37,740 | $ 238,053 |
| 3.2 | **Imputation Credit Account** | | |
| | Opening balance of available Imputation Credits | 847,563 | 1,331,685 |
| | Plus Net Taxes paid during the year available for credits | 338,215 | 263,400 |
| | RWT on Interest | 35,250 | 72,354 |
| | IC attached to Dividends | 864 | 838 |
| | Less Transfers, refunds and adjustments | (237,068) | |
| | Credits attributed to Dividends declared | (116,667) | (820,714) |
| | **Closing Balance (Debit)** | $ 868,158 | $ 847,563 |
| 4 | **CURRENT ASSETS** | | |
| 4.1 | **MOE Funding in Advance** | $ 99,458 | $ 4,451,519 |
| | This comprises - | | |
| (a) | Ministry of Education ECE Funding Subsidy and 20 Hours ECE Advance Funding | - | 4,372,486 |
| | 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 | 99,458 | 79,033 |
| | Advance payments which have yet to be expended on the equity objectives approved by the Ministry of Education. | | |
| | | $ 99,458 | $ 4,451,519 |
| 4.2 | **Intergroup Receivables** | $ 367,217 | $ 389,800 |
| | Advances to - | | |
| | PORSE Education & Training (NZ) Ltd | 191,835 | 177,034 |
| | For Life Education & Training (NZ) Limited | 66,617 | 44,569 |
| | PORSE Equine Education Limited | 30,643 | 18,795 |
| | PORSE Franchising (NZ) Ltd | 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.

| | | 31/12/13 | 31/12/12 |
|---|---|---|---|
| 6 | **CURRENT LIABILITIES** | | |
| 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 |
| | | $ 2,971,354 | $ 2,948,613 |
| 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 |
| | | $ 1,076,183 | $ 2,766,152 |
| 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** | $ 623,877 | $ 1,047,677 |

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 - | 31/12/13 | 31/12/12 |
|---|---|---|
| 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.

**Examined for Audit**
**Gardiner Knobloch**

## 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 -

(a) Guarantee by the ANZ Bank to Botany Life Community Trust for Rental of $26,364. The expiry date is 30 June 2014.

(b) 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 |
| | $ 3,191,101 | $ 1,069,675 | $ 368,979 | $ 1,510,877 | $ 483,999 | $ 1,026,878 |
| **Signage** | $ 288,806 | $ 237,462 | $ 11,382 | $ 248,844 | $ 26,298 | $ 222,546 |
| **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 |
| | $ 429,471 | $ 374,179 | $ (3,827) | $ 237,288 | $ 72,902 | $ 164,388 |
| **Total** | $ 4,605,340 | $ 1,888,650 | $ 417,989 | $ 2,374,512 | $ 646,528 | $ 1,727,986 |

### 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 |
| | $ 3,314,300 | $ 1,069,674 | $ 487,612 | $ 1,557,286 | $ 415,388 | $ 1,141,899 |
| **Signage** | $ 403,278 | $ 136,977 | $ 120,630 | $ 257,607 | $ 20,145 | $ 237,462 |
| **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 |
| | $ 527,939 | $ 374,179 | $ 37,587 | $ 334,455 | $ 93,338 | $ 241,117 |
| **Total** | $ 5,048,830 | $ 1,888,650 | $ 744,671 | $ 2,556,009 | $ 599,484 | $ 1,956,525 |

**Examined for Audit**
**Gardiner Knobloch**

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 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**

PORSE FRANCHISING (NZ) LIMITED

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

INDEX


| | |
|---|---|
| 1 | Company Directory |
| 2-3 | Directors Review |
| 4 | Statement of Financial Performance<br>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 |

PORSE FRANCHISING (NZ) LIMITED

COMPANY DIRECTORY AS AT 31 DECEMBER 2013

| | |
|---|---|
| **Nature of Business** | Services to Franchisees of the PORSE early childcare network. |
| **Registered Office** | 31 Napier Road<br>HAVELOCK NORTH |
| **Directors** | Jennifer L Yule<br>Dan Druzianic<br>Alwyn J Burr<br>Amanda J Fleming<br>Andrew IG Harwood |
| **Solicitors** | Sainsbury, Logan & Williams<br>HASTINGS |
| **Bankers** | ANZ Bank of NZ Limited<br>NAPIER |
| **Business Location** | 31 Napier Road<br>HAVELOCK NORTH |

| **Shareholders & Shareholding** | | SHARES | |
|---|---|---|---|
| | | **Voting** | **Non Voting** |
| | Jennifer L Yule | 100,000 | |
| | Rugosa Trust | | 400,000 |
| | | 100,000 | 400,000 |

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** | **2,615,886** | **1,889,032** |

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 | 1,445,789 | 1,575,630 |
| 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<br>12 mths<br>$ | 31/12/12<br>12 mths<br>$ |
|---|---|---|---|
| **Gross Revenue** | 2 | | |
| Royalties Received | | 1,183,564 | 1,266,038 |
| Sundry Income | | - | 75,247 |
| Interest Received | | 45,057 | 12,556 |
| **Total Revenue** | | **1,228,621** | **1,353,841** |
| **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** | | 96,430 | 160,401 |
| **Surplus before Directors Remuneration & Depreciation** | | **1,132,191** | **1,193,440** |
| Management Fees to Group Companies | | 70,000 | 312,000 |
| | | 70,000 | 312,000 |
| **Surplus before Taxation** | | **1,062,191** | **881,440** |
| Taxation | 4.1 | 304,087 | 247,363 |
| **Surplus after Taxation** | | **758,104** | **634,077** |

### 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** | | **1,775,928** | **1,467,823** |

# PORSE FRANCHISING (NZ) LIMITED

## Statement of Financial Position as at 31 December 2013

| | Notes | 31/12/13 | 31/12/12 |
|---|---|---|---|
| **Assets** | 5 | $ | $ |
| **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** | | **2,950,002** | **2,328,077** |
| **Non - Current Assets** | 6 | | |
| Fixed Assets | 6.1 | | |
| Motor Vehicles | | - | - |
| Trade Marks | | 1,285 | 1,285 |
| **Total of Non - Current Assets** | | 1,285 | 1,285 |
| **Total Assets** | | **2,951,287** | **2,329,362** |
| **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** | | **1,093,007** | **779,186** |
| **Non - Current Liabilities** | 9 | | |
| Shareholders Loan Accounts | 9.1 | 82,353 | 82,353 |
| **Total of Non - Current Liabilities** | | **82,353** | **82,353** |
| **Total Liabilities** | | **1,175,359** | **861,539** |
| **Net Assets** | | **1,775,928** | **1,467,824** |
| **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** | | **1,775,928** | **1,467,824** |

The foregoing Financial Statements have not been audited

Director — Director

30 April 2014 Date — 30 April 2014 Date

The accompanying Notes form part of these Financial Statements

# PORSE FRANCHISING (NZ) LIMITED

## Statement of Cash Flows
## for the Year ended 31 December 2013

| | 31/12/13<br>12 mths<br>$ | 31/12/12<br>12 mths<br>$ |
|---|---|---|
| **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 |
| | 1,358,755 | 1,129,649 |
| 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) |
| | (511,778) | (466,581) |
| **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 |
| | - | 8,261 |
| **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 | - |
| | 1,046,504 | 499,800 |
| 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) |
| | (1,551,279) | (1,386,991) |
| **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** |

The accompanying Notes form part of these Financial Statements

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.

(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.

**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.

| | | 31/12/2013 | 31/12/2012 |
|---|---|---|---|
| 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 |
| | | $ 1,086,025 | $ 883,440 |
| | 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 |
| | | 320,244 | 227,170 |
| | Taxation due as in 4.1 | (304,087) | (247,363) |
| | Balance owing as per Statement of Financial Position | $ 16,157 | $ (20,193) |
| 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 | (175,000) | (422,143) |
| | **Closing Balance of available credits** | $ 372,301 | $ 257,444 |
| 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 | 242,252 | 467,965 |
| | | $ 242,252 | $ 467,965 |
| | **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 | |
| | $ 134,228 | $ 149,401 |
| 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 |
| | $ 757,606 | $ 338,856 |

## 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.

| 9 TERM LIABILITIES | 31/12/2013 | 31/12/2012 |
|---|---|---|
| 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 |
| | $ 82,353 | $ 82,353 |

| | 31/12/2013 | 31/12/2012 |
|---|---|---|
| **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** | $ 1,214,465 | $ 906,361 |
| **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 Aprl 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 |
| | | $ 1,285 | $ 1,285 | $ - | | | | $ - | $ - | $ 1,285 |
| Less Sold | | - | - | | | | | | | |
| **Net Book Value** | | $ 1,285 | $ 1,285 | | | | | | | |

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 | - |
| | | 31,520 | 4,615 | (4,615) | | | | - | 26,905 | - |
| Less Sold | | 31,520 | 4,615 | | | | | | | |
| | | - | - | | | | | | | |
| **Trade Marks** | | | | | | | | | | - |
| United Kingdom | | 1,285 | 1,285 | | | | | | | 1,285 |
| | | $ 1,285 | $ 1,285 | $ - | | | | $ - | $ - | $ 1,285 |

# PORSE EDUCATION & TRAINING (NZ) LIMITED

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

Index


| | |
|---|---|
| 1 | Company Directory |
| 2 - 3 | Annual Report |
| 4 | Statement of Financial Performance |
| 5 | Statement of Movement in Equity |
| 6 | Statement of Financial Position |
| 7 | Statement of Cash Flows |
| 8 - 11 | Notes to Financial Statements |
| 12 | Depreciation Schedule |
| 13 - 14 | Auditors Report |


Examined for Audit
Gardiner Knobloch

# PORSE EDUCATION & TRAINING (NZ) LIMITED

## COMPANY DIRECTORY AS AT 31 DECEMBER 2013

| | |
|---|---|
| **Nature of Business** | Providers of Early Childhood Education and Training |
| **Registered Office** | 31 Napier Road<br>Havelock North |
| **Directors** | Jennifer L Yule<br>Dan Druzianic<br>Alwyn J Burr<br>Andrew IG Harwood<br>Amanda J Fleming |
| **Auditors** | Gardiner Knobloch<br>Napier |
| **Solicitors** | Sainsbury Logan & Williams<br>Napier |
| **Bankers** | ANZ Bank of NZ Limited<br>Napier |
| **Business Location** | 31 Napier Road<br>Havelock North |

**Shareholders & Shareholding**

| | *Shares* | | |
|---|---|---|---|
| | *A* | *B* | *Total* |
| Jennifer L Yule | 100,000 | | 100,000 |
| Rugosa Trust | | 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 -

| | 31/12/13 Forecast | 31/12/13 Actual | 31/12/12 Actual |
|---|---|---|---|
| Surplus before Depreciation and Tax | 612,847 | 350,814 | 411,371 |
| Depreciation | (8,792) | (17,513) | (15,246) |
| Surplus before Taxation | 604,055 | 333,301 | 396,125 |
| Taxation | (169,415) | (88,499) | (117,549) |
| **Surplus after Taxation** | **$ 434,640** | **$ 244,801** | **$ 278,576** |

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.

**2.2 Financial Position -**

The Financial position is summarised below -

| | | | |
|---|---|---|---|
| **Assets -** | | | |
| Current Assets | 2,266,422 | 2,273,664 | 2,114,724 |
| Non - Current Assets | 36,508 | 35,786 | 35,299 |
| **Total Assets** | **$ 2,302,930** | **$ 2,309,450** | **$ 2,150,023** |
| **Liabilities -** | | | |
| Current Liabilities | 624,569 | 920,927 | 756,302 |
| Non - Current Liabilities | 82,353 | 82,353 | 82,353 |
| **Total Liabilities** | **$ 706,922** | **$ 1,003,280** | **$ 838,655** |
| **Shareholders Equity** | **$ 1,596,008** | **$ 1,306,170** | **$ 1,311,368** |
| % to Total Assets | 69.30% | 56.56% | 60.99% |
| % Shareholders Equity, Current Accounts and Loans to Total Assets | 91.07% | 88.34% | 84.31% |

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 apointed 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

| | 31/12/13 | 31/12/12 |
|---|---|---|
| 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** |

Examined for Audi
Gardiner Knobloch

| | 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 _____ Director _____

Date 26 March 14 Date 26 March 14

**Examined for Audit**
**Gardiner Knobloch**

# 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) |
| | | (8,792) | (17,513) | (15,246) |
| **Net Surplus before Taxation** | | $ 604,055 | $ 333,301 | $ 396,126 |
| Taxation | (3.1) | 169,415 | 88,499 | 117,549 |
| **Net Surplus after Taxation** | | $ 434,640 | $ 244,801 | $ 278,576 |

**Examined for Audi**
**Gardiner Knobloch**

The accompanying Notes form part of these Financial Statements

## 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 | | 434,640 | 244,801 | 776,576 |
| Dividends declared | | (150,000) | (250,000) | (365,000) |
| Movement in Equity for the Period | | 284,640 | (5,199) | 411,576 |
| Equity at beginning of Year | | 1,311,368 | 1,311,368 | 899,792 |
| **Equity at end of Year** | | **$ 1,596,008** | **$ 1,306,169** | **$ 1,311,368** |

**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

Date 26 March 14

Director

Date 26 March 14

The accompanying Notes form part of these Financial Statements

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 |
| | 1,534,652 | 1,434,868 | 1,412,174 |
| 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) |
| | (1,172,449) | (1,247,674) | (1,007,012) |
| **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) |
| | (10,000) | (1,019,334) | (18,300) |
| **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 |
| | 100,000 | 568,920 | 693,000 |
| 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) |
| | (150,000) | (17,361) | (513,643) |
| **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.

**Examined for Audit**
**Gardiner Knobloch**

| | | 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 |
| | | $ 316,069 | $ 419,818 |
| 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 |
| | | **$ 751,220** | **$ 1,320,140** |
| 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 |
| | | $ 63,589 | $ 152,105 |
| **6.2 Group Companies** | | **$ 190,062** | **$ 177,034** |
| PORSE In-Home Childcare (NZ) Ltd | | 188,906 | 177,034 |
| PORSE Equine Education Ltd | | 1,156 | - |
| | | $ 190,062 | $ 177,034 |
| **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** |

**Examined for Audit**
**Gardiner Knobloch**

## 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 -

| | 31/12/13 | 31/12/12 |
|---|---|---|
| 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

| | 31/12/13 Forecast | 31/12/13 Actual | 31/12/12 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** |

**Examined for Audit**
**Gardiner Knobloch**

| | 31/12/13 Actual | 31/12/12 Actual |
|---|---|---|
| **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 | 706,220 | 1,125,140 |
| Accounts Payable | 188,906 | 177,034 |
| **Net Amount Receivable** | $ 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 | - | 170,000 |
| **Net Amount Receivable** | $ - | $ 170,000 |
| **13.2 PORSE Equine Education Limited** | | |
| Transactions involve advance for development of Equine Education programme | | |
| Balance at 31 December was - | | |
| Accounts Receivable | 45,000 | 25,000 |
| Account Payable | 1,156 | |
| **Net Amount Receivable** | $ 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**

| | 31/12/13 Forecast | 31/12/13 Actual |
|---|---|---|
| The results differed from the Forecast for the following reasons - | | |
| **16.1 Total Income** | $ 1,541,131 | $ 1,454,781 |
| The Total Income was lower than Forecast due mainly to a reduction in Student Fees and Star Gateway Programme Revenue. | | |
| **16.2 Direct Operational Expenses** | $ 639,984 | $ 686,243 |
| There was an overall increase in these Expenses due mainly to higher salary expenses. | | |
| **16.3 Overhead Expenses & Depreciation** | $ 297,092 | $ 435,237 |
| There was a variation in a range of Expenses with the main variations being increases in Consultancy Fees and Advertising. | | |
| **16.4 Surplus before Taxation** | $ 604,055 | $ 333,301 |
| Lower than Forecast because of the above variations. | | |
| **16.5 Statement of Cash Flows** | $ 989,097 | $ 406,313 |
| Increase in funds at Balance Date were below forecast because of the lower cash surplus and amount invested into term deposits at balance date. | | |

Examined for Audit
Gardiner Knobloch

PORSE EDUCATION & TRAINING (NZ) LIMITED

Depreciation Schedule for the year ended 31 December 2013

| | Cost | Bk Value 31/12/12 | Additions | Depreciation Amount | Depreciation 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 | Depreciation 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 |

Examined for Audit
Gardiner Knobloch

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
.....
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

**Index**


| | |
|---|---|
| 1 | Company Directory |
| 2 - 3 | Annual Report |
| 4 | Statement of Financial Performance |
| 5 | Statement of Movement in Equity |
| 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 |
| | 20,000 | 80,000 | 100,000 |

## 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 -

| | 31/12/13 Actual | 31/12/12 Actual |
|---|---|---|
| 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** |

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 | 134,688 | 138,774 |
| Non - Current Assets | 2,105 | 4,209 |
| **Total Assets** | **$ 136,793** | **$ 142,983** |
| **Liabilities -** | | |
| 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% |

The overall Financial Position is sound.

**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 Flemng 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

| | 31/12/13 | 31/12/12 |
|---|---|---|
| (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 | | |
| Accounts Payable | - | 31,000 |
| | **$ -** | **$ (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 | | Director | |
| Date | 26 March 14 | 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 Actual $ | 31/12/12 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** | | **$ 41,469** | **$ 47,325** |

## 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 | - |
| | 144,688 | 223,646 |
| 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 |
| | (174,354) | (112,988) |
| **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) |
| | - | (6,040) |
| **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 | - |
| | | $ (5,616) | $ 65,729 |
| | Tax at 28c in $ | - | 18,404 |
| | **Total as per Statement of Financial Performance** | **$ -** | **$ 18,404** |
| **3.2** | **Inland Revenue Dept.- Tax Refund (Tax Payable)** | **$ 15,000** | **$ (18,404)** |
| | Total Tax payable as in (3.1) | - | 18,404 |
| | RWT deducted at source | - | - |
| | Provisional Tax paid | 15,000 | - |
| | **(Balance due) Refund** | **$ 15,000** | **$ (18,404)** |
| | The taxable loss of $5,616 will be offset aagainst future Taxable Income. | | |
| **3.3** | **Imputation Credit Account** | | |
| | Opening Balance of available credits | - | - |
| | Plus - | | |
| | Taxes paid during the year available for credits | 33,404 | - |
| | **Closing Balance of available credits** | **$ 33,404** | **$ -** |
| **4** | **CURRENT ASSETS** | | |
| **4.1** | Sundry - | - | - |
| **4.2** | **Group Companies -** | **$ 44,735** | **$ 34,155** |
| | Owing by PORSE In-Home Childcare (NZ) Limited | 44,735 | 34,155 |
| | | **$ 44,735** | **$ 34,155** |
| | Amounts owing for Course fees | | |
| **5** | **NON - CURRENT ASSETS** | | |
| | As per Schedule | **$ 2,105** | **$ 4,209** |
| **6** | **CURRENT LIABILITIES** | | |
| **6.1** | **Group Companies** | **$ 32,762** | **$ 13,569** |
| | 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. | **$ 61,000** | **$ 61,000** |
| **7** | **NON - CURRENT LIABILITIES** | | |
| **7.1** | **Shareholders Current Accounts and Loan Accounts** | **$ -** | **$ -** |
| | **Closing Balance** | **$ -** | **$ -** |
| **8** | **RETAINED EARNINGS** | | |
| | Opening Balance | 47,325 | - |
| | Net Surplus (Deficit) for Year | (5,856) | 47,325 |
| | Dividend declared | - | - |
| | **Closing Balance** | **$ 41,469** | **$ 47,325** |

| | 31/12/12 | 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 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

| | 31/12/13 Actual | 31/12/12 Actual |
|---|---|---|
| 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** |

| | 31/12/13 Actual | 31/12/12 Actual |
|---|---|---|

## 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** |