

**Evolve Education Group Limited**  
**Financial Statements**  
**for the period ended 31 August 2014**

# Evolve Education Group Limited

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# Evolve Education Group Limited

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## Business Profile as at 31 August 2014

**Business Address** Suite 2702, Level 27, PwC Tower  
188 Quay Street  
Auckland

**Postal Address** PO Box 106623  
Auckland 1143

**Share Capital** 1,200 Ordinary Shares

<b>Shareholders</b>	<b>Ordinary</b>
Kern Group NZ Limited	400
Trustees of the S.B. James Superannuation Fund	400
Wraith Capital Group NZ Limited	400
<b>Total Shares</b>	<b>1200</b>

**Directors** Russell Daly  
Gregory Kern

**Registered Office** c/- Minter Ellison Rudd Watts  
Level 20, Lumley Centre  
88 Shortland Street  
Auckland 1010

**Date of Incorporation** 20 May 2014

**Auditors** PricewaterhouseCoopers  
Chartered Accountants  
Level 22, PwC Tower  
188 Quay Street  
Auckland 1142

**Bankers** National Australia Bank Limited  
ASB Bank Limited

**Solicitors** Minter Ellison Rudd Watts  
Level 20, Lumley Centre  
88 Shortland Street  
Auckland 1010

**Accountants** Hayes Knight North Limited  
5 William Laurie Place, Albany  
Auckland



## ***Independent Auditor's Report*** to the shareholders of Evolve Education Group Limited

### ***Report on the Financial Statements***

We have audited the financial statements of Evolve Education Group Limited ("the Company") on pages 5 to 26, which comprise the statements of financial position as at 31 August 2014, the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the period then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both the Company and the Group. The Group comprises the Company and the entities it controlled at 31 August 2014 or from time to time during the financial year.

### ***Directors' Responsibility for the Financial Statements***

The Directors are responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

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

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

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

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



## ***Independent Auditor's Report*** Evolve Education Group Limited

### ***Opinion***

In our opinion, the financial statements on pages 5 to 26:

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

### ***Emphasis of Matter***

Without modifying our opinion, we draw attention to Note 2(b) to the financial statements, which indicates that a key consideration in respect of the application of the going concern basis for the Company and Group is the expectation that the Company will successfully complete an Initial Public Offering of shares and list on the New Zealand Stock Exchange and Australian Stock Exchange in December 2014. This condition, along with other matters as set forth in Note 2(b), indicate the existence of a material uncertainty that may cast significant doubt about the Company and the Group's ability to continue as a going concern.

### ***Report on Other Legal and Regulatory Requirements***

In relation to our audit of the financial statements for the period ended 31 August 2014:

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

### ***Restriction on Use of our Report***

This report is made solely to the Company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

A handwritten signature in blue ink, appearing to read 'PricewaterhouseCoopers', is written over a faint, larger version of the same signature.

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		-	-
<b>Operating Loss</b>		<u>(2,238)</u>	<u>(2,238)</u>
Finance costs	6	(595)	(595)
<b>Loss before Income Tax</b>		<u>(2,833)</u>	<u>(2,833)</u>
Income tax benefit	9	-	-
<b>Loss for the Period</b>		<u><u>(2,833)</u></u>	<u><u>(2,833)</u></u>
<b>Other Comprehensive Income</b>		-	-
<b>Total Comprehensive Loss for the Period</b>		<u><u>(2,833)</u></u>	<u><u>(2,833)</u></u>
<b>Earnings per share</b>		Cents	
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
<b>Current Assets</b>			
Cash and cash equivalents		35	35
Trade and other receivables	14	673	673
Other current assets	13	2,092	2,092
<b>Total Current Assets</b>		<b>2,800</b>	<b>2,800</b>
<b>Non-Current Assets</b>			
Investments in subsidiaries	8	-	-
Intangible assets	11	13	13
<b>Total Non-Current Assets</b>		<b>13</b>	<b>13</b>
<b>Total Assets</b>		<b>2,813</b>	<b>2,813</b>
<b>Equity and Liabilities</b>			
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Trade and other payables	15	3,969	3,969
Borrowings	16	1,677	1,677
<b>Total Current Liabilities</b>		<b>5,646</b>	<b>5,646</b>
<b>Total Liabilities</b>		<b>5,646</b>	<b>5,646</b>
<b>Equity attributable to owners of the parent</b>			
Share capital	10	-	-
Accumulated losses		(2,833)	(2,833)
<b>Total Equity</b>		<b>(2,833)</b>	<b>(2,833)</b>
<b>Total Equity and Liabilities</b>		<b>2,813</b>	<b>2,813</b>

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**

<b>Group</b>	<b>Share Capital</b>	<b>Accumulated Losses</b>	<b>Total</b>
	\$'000	\$'000	\$'000
<b>Balance at 20 May 2014</b>	-	-	-
Loss for the period	-	(2,833)	(2,833)
Other comprehensive income	-	-	-
<b>Total Comprehensive Loss for the Period</b>	<u>-</u>	<u>(2,833)</u>	<u>(2,833)</u>
<b>Balance at 31 August 2014</b>	<u>-</u>	<u>(2,833)</u>	<u>(2,833)</u>

<b>Parent</b>	<b>Share Capital</b>	<b>Accumulated Losses</b>	<b>Total</b>
	\$'000	\$'000	\$'000
<b>Balance at 20 May 2014</b>	-	-	-
Loss for the period	-	(2,833)	(2,833)
Other comprehensive income	-	-	-
<b>Total Comprehensive Loss for the Period</b>	<u>-</u>	<u>(2,833)</u>	<u>(2,833)</u>
<b>Balance at 31 August 2014</b>	<u>-</u>	<u>(2,833)</u>	<u>(2,833)</u>



**Statements of Cash Flows**  
for the period ended 31 August 2014

	Group	Parent
Note	Aug 14 \$'000	Aug 14 \$'000
<b>Cash Flows from Operating Activities</b>		
Payments to suppliers and employees	(15)	(15)
<b>Net Cash Flows used in Operating Activities</b>	<b>18</b> <u>(15)</u>	<u>(15)</u>
<b>Cash Flows from Financing Activities</b>		
Advances received from related parties	50	50
<b>Net Cash Flows from Financing Activities</b>	<u>50</u>	<u>50</u>
Net increase in cash and cash equivalents	35	35
Cash and cash equivalents at beginning of period	-	-
<b>Cash and Cash Equivalents at End of Period</b>	<u><u>35</u></u>	<u><u>35</u></u>

## Notes to and forming part of the Financial Statements for the period ended 31 August 2014

### 1. General Information

These financial statements are for Evolve Education Group Limited ("the Company") and its subsidiaries. Evolve Education Group Limited is the holding company, all of the Company's subsidiaries are currently dormant and have been incorporated to become providers of Early Childhood Education through a network of education centres ("the Group").

Evolve Education Group Limited is a limited liability company incorporated and domiciled in New Zealand. The address of the Company and Group's registered office is c/- Minter Ellison Rudd Watts Level 20, Lumley Centre 88 Shortland Street Auckland 1010. Its principal place of business is Suite 2702, Level 27, PwC Tower 188 Quay Street Auckland.

The Company was incorporated on 20 May 2014 and therefore these financial statements of the Company and Group are for the period ended 31 August 2014.

### 2. Summary of Significant Accounting Policies

#### (a) Basis of Preparation - Statement of Compliance

The financial statements of Evolve Education Group Limited have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ("NZ GAAP"). They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The consolidated financial statements also comply with International Financial Reporting Standards ("IFRS") and IFRIC interpretations.

*XRB A1 Accounting Standards Framework (For-profit Entities Update)*. XRB A1 establishes a for-profit tier structure and outlines which suite of accounting standards entities in different tiers must follow. The Group is a Tier 1 reporting entity.

#### (b) Going Concern

The Group has recognised a net loss after tax of \$2,833,000 for the period ended 31 August 2014 and, as at that date, the Company has negative equity with current liabilities exceeding current assets by \$2,846,000. These financial statements have been prepared on a going concern basis.

A key consideration in adopting the going concern principles as a basis for the preparation of these financial statements is the expectation that the Company will list on the NZX and ASX in December 2014. The Directors expect an Underwriting Agreement to be signed on 14 November 2014 between Goldman Sachs New Zealand Limited, Forsyth Barr Limited and Evolve Education Group Limited ("the Underwriting Agreement") in respect of the intended listing. The Directors consider that the execution of this Underwriting Agreement supports the intention to list the Company in December 2014. Assuming a successful IPO, and based on current and forecast transactions, sufficient profits and cash flows are expected to enable the Company to continue operations for the foreseeable future. Whilst the Directors believe the intention to list and the expected signing of the Underwriting Agreement provides a basis to prepare the financial statements on a going concern basis it is important to note that there are a number of conditions within the Underwriting Agreement that at the date of signing these

### Notes to and forming part of the Financial Statements for the period ended 31 August 2014

financial statements are not yet satisfied. The Directors acknowledge that there remains a material uncertainty surrounding the Company's ability to raise additional capital should the IPO not proceed. As such, whilst this uncertainty exists, alternative options are being considered including other private equity capital raising options.

#### **(c) Statutory base**

Evolve Education Group Limited is a company registered under the New Zealand Companies Act 1993. The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 2013 and the Companies Act 1993.

The financial statements for the period ended 31 August 2014 were approved and authorised for issue by the Board of Directors on 12 November 2014.

The Directors do not have the power to amend these financial statements once issued.

#### **(d) Historical cost convention**

These financial statements have been prepared under the historical cost convention.

#### **(e) New accounting standards and interpretations**

New or revised standards and interpretations that have been approved but are not yet effective have not been adopted by the Group for the period ended 31 August 2014. The adoption of these standards and interpretations is not expected to have a material recognition or measurement impact on the Group's financial statements unless otherwise stated below. These will be applied when they become mandatory. The significant items are:

##### *NZ IFRS 9 Financial Instruments*

NZ IFRS 9, 'Financial instruments', was issued in September 2014 as a complete version of the standard. NZ IFRS 9 replaces the parts of NZ IAS 39 that relate to the classification and measurement of financial instruments, hedge accounting and impairment. NZ IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the NZ IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The new hedge accounting model more closely aligns hedge accounting with risk management activities undertaken by companies when hedging their financial and non-financial risks. NZ IFRS 9 introduces a new expected credit loss model for calculating the impairment of financial assets. This standard is effective for reporting periods beginning on or after 1 January 2018. The Group is yet to assess NZ IFRS 9's full impact.

**Notes to and forming part of the Financial Statements  
for the period ended 31 August 2014**

*NZ IFRS 15: Revenue from contracts with customers*

NZ IFRS 15 addresses recognition of revenue from contracts with customers. It replaces the current revenue recognition guidance in NZ IAS 18 Revenue and NZ IAS 11 Construction Contracts and is applicable to all entities with revenue. It sets out a five step model for revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. This standard is effective for periods beginning on or after 1 January 2017. The Group is yet to assess NZ IFRS 15's full impact.

**3. Significant Accounting Policies**

The significant accounting policies that have been used in the preparation of these financial statements are summarised below.

**(a) Basis of Consolidation**

The consolidated financial statements include the holding company Evolve Education Group Limited and its subsidiaries.

**Subsidiaries**

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

**(b) Segment Reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors.

Given the current business structure there is only one segment thus no segment reporting has been prepared.

**(c) Foreign Currency Translation**

**Functional and Presentation Currency**

The financial statements are presented in New Zealand dollars (NZD), which is the Company's functional currency.

**Notes to and forming part of the Financial Statements  
for the period ended 31 August 2014**

**Foreign Currency Transactions and Balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of comprehensive income within "finance costs". All other foreign exchange gains and losses are presented in the statement of comprehensive income.

**(d) Intangible Assets**

**Trademark**

Separately acquired trademarks are shown at historical cost. Trademarks have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks over their estimated useful lives of 15 years.

**(e) Financial Assets**

**Recognition and Measurement**

Financial assets are recognised when the Group becomes party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

All financial assets are classified as loans and receivables.

All financial assets are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognised at fair value subsequently carried at amortised cost using the effective interest method less any impairment. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables" and "cash and cash equivalents" in the statement of financial position (note 12).

**Notes to and forming part of the Financial Statements  
for the period ended 31 August 2014**

**(f) Impairment**

*Impairment of non-financial assets*

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units).

*Impairment of financial assets*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. For trade and other receivables category, the amount of any impairment loss would be measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of comprehensive income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in the statement of comprehensive income.

**(g) Cash and Cash Equivalents**

In the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. In the consolidated statement of financial position, bank overdrafts are shown within borrowings in current liabilities.

**(h) Share Capital**

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new share capital are shown in equity as a deduction, net of tax, from the proceeds.

**(i) Trade and Other Payables**

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

**Notes to and forming part of the Financial Statements  
for the period ended 31 August 2014**

**(j) Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

**(k) Offer Costs**

Certain costs have been incurred in relation to the proposed listing of the Group. These costs are directly attributable to the cost of the Group issuing equity instruments and include amounts paid to legal, accounting and other professional advisers. Upon successful listing of the Group these costs will be accounted for as a deduction from equity at this time. Should a listing not proceed these costs will be recognised as an expense in the statement of comprehensive income. Items identified as offer costs are currently recognised as other receivables within the statement of financial position (note 13).

Incremental costs not directly attributable to the proposed listing of the Group are recognised immediately in the statement of comprehensive income.

**(l) Current and Deferred Income Tax**

Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Company and its subsidiaries operate and generate taxable income.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

**(m) Leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

**Notes to and forming part of the Financial Statements  
for the period ended 31 August 2014**

**(n) Finance Costs**

Finance costs are recognised in the statement of comprehensive income using the effective interest method on the return amount due to S.B. James Superannuation Fund. Accrued finance costs are currently recognised within borrowings in the statement of financial position (note 16).

**(o) Goods and Services Tax (GST)**

Expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the IRD. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis except for the GST components of investing and financing activities which are disclosed as operating cash flows.

**(p) Rounding of Amounts**

Amounts in the financial statements have been rounded off to the nearest \$1,000, or in certain cases, the nearest dollar.

**4. Financial Risk Management**

The Group's activities expose it to a variety of financial risks: market risk (including currency risk), credit risk and liquidity risk. The Group's overall risk management programme seeks to minimise potential adverse effects on the Group's financial performance.

**(a) Market Risk**

*Foreign Exchange Risk*

Foreign exchange risks arise from the AUD denominated loan from S.B. James Superannuation Fund, funds held in Australian dollars and creditors denominated in foreign currency.

The Group closely monitors AUD foreign currency exchange rates and funds are transferred to NZD currency accounts to pay NZD creditors when rates are favourable.

The Group holds cash funds in AUD currency, via cash held by a related party ERA Education Management Pty Limited, acting as a natural hedge against AUD denominated financial liabilities including the S.B. James Superannuation Fund loan. Over time the effectiveness of the natural hedge will be reduced as the AUD cash reserves are depleted.

The proposed ASX listing will reduce foreign exchange risk for the Group for AUD denominated financial liabilities including the S.B. James Superannuation Fund loan and success fees payable in AUD currency to related parties and professional service providers. If the proposed listing does not take place the foreign exchange risk on the loan is eliminated as repayment will be waived (note 16(a)).



**Notes to and forming part of the Financial Statements  
for the period ended 31 August 2014**

The following sensitivity is based on the foreign currency risk exposures in existence at the reporting date. Had the New Zealand dollar moved against the Australian dollar, as illustrated in the table below, with all other variables held constant, post tax profit and other comprehensive income would have been affected as follows:

	<b>Group Aug 14 \$'000</b>	<b>Parent Aug 14 \$'000</b>
<b>Increase in value of NZ dollar of 5%</b>		
Impact on loss before taxation	(56)	(56)
Impact on equity before taxation	(56)	(56)
<b>Decrease in value of NZ dollar of 5%</b>		
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.

**Notes to and forming part of the Financial Statements  
for the period ended 31 August 2014**

**(c) Liquidity Risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as and when they become due and payable. The Group's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they become due and payable, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Groups' reputation.

All of the Group's liabilities are payable within 12 months except for the loan to S.B. James Superannuation Fund, the repayment terms of which are disclosed in note 16(a).

**5. Critical Accounting Estimates and Judgements in Applying Accounting Policies**

When preparing the financial statements, management undertakes a number of judgements, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses.

**Significant Management Judgement**

The following are significant management judgements in applying the accounting policies of the Group that have the most significant effect on the financial statements.

*Recognition of deferred tax assets*

No deferred tax asset has been recognised as currently it is not probable that future taxable profit will be available to utilise the deferred tax asset at 31 August 2014. Refer note 9.

*Recognition and measurement of offer costs, accrued success fees and borrowings*

The Group has recognised and measured offer costs (disclosed in note 13), accrued success fees (disclosed in note 15) and the funds advanced for working capital from the S.B. James Superannuation Fund and the related Return Amount (disclosed in note 16(a)) on the basis that the intended listing of Evolve Education Group Limited on the NZX and ASX in December 2014 will be successful.

*Going concern*

Refer to note 2(b) for the directors judgment and uncertainty in respect of going concern.

Notes to and forming part of the Financial Statements  
for the period ended 31 August 2014

6. Finance Costs

	Note	Group Aug 14 \$'000	Parent Aug 14 \$'000
Finance costs	16	545	545
Net foreign exchange losses on financing activities		50	50
<b>Total Finance Costs</b>		<b>595</b>	<b>595</b>

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
<b>Total Administrative Expenses</b>	<b>2,238</b>	<b>2,238</b>

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.

Notes to and forming part of the Financial Statements  
for the period ended 31 August 2014

9. Income Tax

	<b>Group Aug 14 \$'000</b>	<b>Parent Aug 14 \$'000</b>
<b>Profit Reconciliation</b>		
Operating loss before income tax	(2,833)	(2,833)
Prima facie taxation at 28%	(793)	(793)
<i>Adjust for tax effect of:</i>		
Expenses not deductible for tax purposes	491	491
Tax losses not recognised	301	301
Temporary differences not recognised	1	1
<b>Taxation Charge</b>	<b>-</b>	<b>-</b>
	<b>Group Aug 14 \$'000</b>	<b>Parent Aug 14 \$'000</b>
<b>Unrecognised Deferred Tax Asset</b>		
Temporary differences arising from normal operations	2	2
Unused tax losses	1,077	1,077
<b>Unrecognised deferred tax balances</b>	<b>1,079</b>	<b>1,079</b>
<b>Unrecognised deferred tax balances @ 28%</b>	<b>302</b>	<b>302</b>

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

	<b>Group Aug 14 \$'000</b>	<b>Parent Aug 14 \$'000</b>
1,200 ordinary shares	-	-
	<b>-</b>	<b>-</b>

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.

Notes to and forming part of the Financial Statements  
for the period ended 31 August 2014

11. Intangible Assets

	Group Aug 14 \$'000	Parent Aug 14 \$'000
	Trademarks	Trademarks
<b>Cost</b>		
Opening balance	-	-
Additions	13	13
As at 31 August 2014	<u>13</u>	<u>13</u>
<b>Accumulated Amortisation and Impairment</b>		
Opening balance	-	-
Amortisation charge	-	-
As at 31 August 2014	<u>-</u>	<u>-</u>
<b>Net Book Value</b>		
Cost	13	13
Accumulated amortisation and impairment	-	-
As at 31 August 2014	<u>13</u>	<u>13</u>

12. Financial Instruments

(a) Financial Instruments by Category

	Group Aug 14 \$'000	Parent Aug 14 \$'000
	Loans and receivables	Loans and receivables
<i>Assets as per statement of financial position</i>		
Trade and other receivables excluding GST	567	567
Cash and cash equivalents	35	35
Total	<u>602</u>	<u>602</u>
	Held at amortised cost	Held at amortised cost
<i>Liabilities as per statement of financial position</i>		
Borrowings	1,677	1,677
Trade and other payables	3,969	3,969
Total	<u>5,646</u>	<u>5,646</u>

(b) Fair Value

The fair values of the financial instruments are considered to be materially the same as the carrying values.

# Evolve Education Group Limited

## Notes to and forming part of the Financial Statements for the period ended 31 August 2014

### 13. Other Current Assets

	Group Aug 14 \$'000	Parent Aug 14 \$'000
Offer costs	2,092	2,092
<b>Total Other Current Assets</b>	<b>2,092</b>	<b>2,092</b>

### 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
<b>Total Trade and Other Receivables</b>	<b>673</b>	<b>673</b>

### 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
<b>Total Trade and Other Payables</b>	<b>3,969</b>	<b>3,969</b>

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
<b>Current</b>		
Loan from related party	1,116	1,116
Accrued finance costs	561	561
	<u>1,677</u>	<u>1,677</u>
<b>Total Borrowings</b>	<b>1,677</b>	<b>1,677</b>

### Notes to and forming part of the Financial Statements for the period ended 31 August 2014

#### (a) Loan from Related Party

The Trustees of the S.B. James Superannuation Fund ("the Fund") are shareholders in Evolve Education Group Limited. The Fund has advanced AUD\$1,000,000 of working capital towards costs associated with the potential listing of the Group on the NZX and ASX. The loan is unsecured.

Repayment of the loan is required in full upon the occurrence of either a successful listing of the Group on the NZX or a sale to a third party ("a successful event") by 31 March 2015. The loan principal is repayable within 2 days of listing plus a Return Amount. The Return Amount of an additional AUD\$1,000,000 is payable either in cash or through the issue and allotment of an equivalent amount of Evolve Education Group Limited shares at the IPO price. Evolve Education Group Limited has sole discretion to nominate the method of payment.

The Fund will waive repayment of the loan if no listing and/or no third party sale occurs before 31 March 2015.

As at 31 August 2014 AUD\$503,000 (NZ\$561,000) of the return amount was recognised as accrued finance costs within borrowings in the statement of financial position. For the period ended 31 August 2014 AUD\$503,000 (NZ\$545,000) was recognised as finance costs in the statement of comprehensive income.

#### 17. Related Parties

The following transactions were carried out with related parties:

##### **ERA Education Management Pty Limited**

ERA Education Management Pty Limited ("ERA") is related to the Group due to common directorship and shareholding. During the period ERA received AUD\$1,000,000, representing the working capital advance in notes 14 and 16, from S.B James Superannuation Fund. The funds are held on behalf of the Group in an AUD bank account by ERA, and are being used for the payment of the Group's creditors.

During the period, AUD\$463,000 were paid to creditors by ERA on the Group's behalf, for expenses recognised in the statement of comprehensive income. In addition, AUD\$48,000 was transferred by ERA into the Group's NZD bank account.

As at 31 August 2014 AUD\$489,000 remained in the Australian bank account of ERA and has been included in trade and other receivables in the statement of financial position (refer note 14).

### Notes to and forming part of the Financial Statements for the period ended 31 August 2014

#### **The Kern Group (Paddington) Pty Limited**

The Kern Group (Paddington) Pty Limited is related to Evolve Education Group Limited as Gregory Kern is a Director of both companies. The Kern Group (Paddington) Pty Limited invoices the Company for reimbursements in relation to travel and communication costs incurred. The amounts invoiced during the period were \$40,000. As at 31 August 2014 \$13,000 was outstanding and has been included in trade and other payables on the statement of financial position.

On the occurrence of a successful event, The Kern Group (Paddington) Pty Limited will be due a success fee in relation to services provided for project managing the listing of Evolve Education Group Limited on the NZX and ASX. The fee of AUD\$1,000,000 is payable in Australian dollars on or before the day of listing. \$614,000 has been recognised as an expense and other payable in the financial statements as at and for the period ended 31 August 2014.

#### **Wraith Capital Group NZ Limited**

Wraith Capital Group NZ Limited is a shareholder of Evolve Education Group Limited. Wraith Capital Group NZ Limited invoices the Company for reimbursements in relation to travel and communication costs incurred. The amounts invoiced during the period were \$89,000. As at 31 August 2014 \$34,000 has been accrued for costs incurred prior to balance date and has been included in trade and other payables in the statement of financial position.

On the occurrence of a successful event, Wraith Capital Group NZ Limited will be due a success fee for providing consultancy services in relation to the listing of Evolve Education Group Limited on the NZX and ASX. The fee of AUD\$300,000 is payable in Australian dollars within five days of achievement of a successful event. \$234,000 has been recognised as an expense and other payable in the financial statements as at and for the period ended 31 August 2014.

#### **S.B. James Superannuation Fund**

S.B. James Superannuation Fund, a shareholder in Evolve Education Group Limited advanced funds to the Group as disclosed in note 16(a).

The funds were advanced to an AUD bank account in the name of ERA Education Management Pty Limited ("ERA"). ERA is related to the Group due to common directorship and shareholding. The funds are being used for the payment of the Group's creditors, the balance of the advance is held in the AUD bank account by ERA.

There are no other known material related party transactions as at 31 August 2014.



Notes to and forming part of the Financial Statements  
for the period ended 31 August 2014

18. Reconciliation of Cash Flows from Operating Activities

	Group Aug 14 \$'000	Parent Aug 14 \$'000
<b>Cash Flows from Operating Activities</b>		
Loss before income tax	(2,833)	(2,833)
<i>Adjustments for:</i>		
Non cash items		
Supplier payments paid for by related party	473	473
Foreign exchange differences	34	34
Net changes in working capital:		
Change in trade and other receivables	(127)	(127)
Change in other current assets	(2,092)	(2,092)
Change in trade and other payables	3,969	3,969
Change in accrued finance costs	561	561
<b>Net Cash from Operating Activities</b>	<b>(15)</b>	<b>(15)</b>

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.

**Notes to and forming part of the Financial Statements  
for the period ended 31 August 2014**

**Operating Lease Commitments**

The Group leases office space under a non-cancellable operating lease agreement. The lease term is for 6 months.

	<b>Group Aug 14 \$'000</b>	<b>Parent Aug 14 \$'000</b>
No later than one year	16	16
Later than one year and no later than five years	-	-
later than 5 years	-	-
<b>Total Operating Lease Commitments</b>	<b>16</b>	<b>16</b>

**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.

## Notes to and forming part of the Financial Statements for the period ended 31 August 2014

### *PORSE Acquisition Agreement*

On 22 September 2014, Evolve Home Day Care Limited, a subsidiary of Evolve Education Group Limited entered into a "Share sale agreement relating to shares in PORSE In-Home Childcare (NZ) Limited; PORSE Franchising (NZ) Limited; PORSE Education & Training (NZ) Limited; and FOR Life Education & Training (NZ) Limited" with the shareholders of PORSE In-Home Childcare (NZ) Limited, PORSE Franchising (NZ) Limited, PORSE Education & Training (NZ) Limited, and FOR Life Education & Training (NZ) Limited (as vendors).

Pursuant to this agreement, Evolve Education Group Limited agreed to purchase all of the shares in PORSE In-Home Childcare (NZ) Limited, PORSE Franchising (NZ) Limited, PORSE Education & Training (NZ) Limited, and FOR Life Education & Training (NZ) Limited, subject to the satisfaction of certain conditions precedent.

### **Further Working Capital Advances**

During October and November 2014 all shareholders proportionately agreed to inject an additional AUD\$600,000 of seed capital into the Company under the same terms as the original amount received from the S.B. James Superannuation Fund as disclosed in note 16(a).

### **Settlement of Employment Dispute**

Evolve Education Group Limited received a claim against the Company in relation to an employment dispute which arose during the period and remained unresolved at 31 August 2014. The settlement of the claim has been subsequently agreed in principle by all parties and the expected final settlement amount has been recognised within trade and other payables in the statement of financial position and included within other expenses in the statement of comprehensive income.

### **Share Split and Issue of Additional Shares**

On 31 October 2014 the 1,200 shares on issue were split and for every one existing share the shareholders received 4,167 new shares. Immediately following the share split an additional 1,250,000 new ordinary shares were issued for nominal consideration. Following the share split and the issue of the additional shares the total number of shares on issue for the Company was 6,250,400.