Embark Education Group Limited

previously Embark Education Limited

previously Evolve Education Group Limited

Consolidated Financial Statements

For the Year Ended 31 December 2022

The Directors present the Consolidated Financial Statements of Embark Education Group Limited, for the year ended 31 December 2022.

The Consolidated Financial Statements presented are signed for and on behalf of the Board and were authorised for issue on 28 February 2023.

Hamish Stevens
Chair
28 February 2023

Adrian Fonseca
Chair of the Audit and Risk Committee
28 February 2023

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	YEAR 31 DECEMBER 2022 $'000	YEAR 31 DECEMBER 2021 (RESTATED) $'000
Continuing operations			
Childcare fees		19,807	15,569
Government funding		39,713	28,445
Total revenue	5	**59,520**	**44,014**
Expenses			
Employee benefits expenses	6	(37,144)	(28,956)
Building occupancy expenses		(935)	(528)
Direct expenses of providing services		(7,090)	(5,236)
Acquisition expenses		-	(1,020)
Depreciation		(3,446)	(2,639)
Amortisation	14	-	(64)
Other expenses	6	(3,834)	(2,498)
Operating expenses		**(52,449)**	**(40,941)**
Profit/(loss) before net finance costs and income tax		**7,071**	**3,073**
Finance income	6	368	230
Finance costs	6, 18c	(9,309)	(7,827)
Net finance costs		**(8,941)**	**(7,597)**
Profit/(loss) before income tax		**(1,870)**	**(4,524)**
Income tax benefit/(expense)	7	(716)	(838)
Profit/(loss) after income tax from continuing operations		**(2,586)**	**(5,362)**
Discontinued operations			
Profit (loss) from discontinued operation, net of tax	11a	(41,410)	**6,103**
Profit (loss) after income tax attributable to the shareholders of the Company		**(43,996)**	741
Other comprehensive income			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		158	(401)
Total comprehensive income (loss) attributable to the shareholders of the Company		**(43,838)**	**340**
Earnings per share		**Cents**	**Cents**
Basic and diluted earnings per share attributable to the shareholders of the Company	23	(27.58)	0.48
Basic and diluted earnings per share attributable to the shareholders of the Company from continuing operations	23	(1.62)	(3.48)

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

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2022

		ISSUED SHARE CAPITAL	FOREIGN CURRENCY TRANSLATION RESERVE	RETAINED DEFICIT	TOTAL
	Note	$'000	$'000	$'000	$'000
As at 1 January 2021		**237,976**	**(16)**	**(128,454)**	**109,506**
Profit /(loss) after income tax		-	-	741	**741**
Other comprehensive income		-	(401)	-	**(401)**
Total comprehensive income (loss)		**-**	**(401)**	**741**	**340**
Issue of ordinary shares for cash, net of transaction costs	20	22,038	-	-	**22,038**
As at 31 December 2021		**260,014**	**(417)**	**(127,713)**	**131,884**
	Note	$'000	$'000	$'000	$'000
As at 1 January 2022		**260,014**	**(417)**	**(127,713)**	**131,884**
Profit/(loss) after income tax		-	-	(43,996)	**(43,996)**
Other comprehensive income		-	158	-	**158**
Total comprehensive income (loss)		**-**	**158**	**(43,996)**	**(43,838)**
Dividends declared	22	-	-	(6,319)	**(6,319)**
As at 31 December 2022		**260,014**	**(259)**	**(178,028)**	**81,727**

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

Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2022

	Note	AS AT 31 DECEMBER 2022 $'000	AS AT 31 DECEMBER 2021 $'000
ASSETS			
Current assets			
Cash and cash equivalents	8, 25	17,299	47,579
Funding receivable	17	614	-
Current tax assets		196	-
Trade and other receivables	9	3,018	3,121
Total current assets		**21,127**	**50,700**
Assets classified as held for sale	11	-	2,976
Non-current assets			
Intangible assets	14,15	65,062	160,493
Property, plant and equipment	10	1,698	7,604
Right-of-use assets	18a	66,930	184,082
Term deposits		9,153	5,101
Deferred tax assets	7	3,593	14,061
Total non-current assets		**146,436**	**371,341**
Total assets		**167,563**	**425,017**
LIABILITIES			
Current liabilities			
Trade and other payables	16	3,836	11,526
Funding received in advance	17	-	7,743
Current tax liabilities		-	1,787
Lease liabilities	18b	6,548	7,702
Employee entitlements	19	5,199	9,087
Total current liabilities		**15,583**	**37,845**
Liabilities classified as held for sale	11	-	4,446
Non-current liabilities			
Borrowings	25	-	36,216
Lease liabilities	18b	70,253	214,626
Total non-current liabilities		**70,253**	**250,842**
Total liabilities		**85,836**	**293,133**
Net assets		**81,727**	**131,884**
EQUITY			
Issued share capital	20	260,014	260,014
Foreign currency translation reserve		(259)	(417)
Retained deficit		(178,028)	(127,713)
Total equity		**81,727**	**131,884**

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

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	YEAR 31 DECEMBER 2022 $'000	YEAR 31 DECEMBER 2021 (RESTATED) $'000
Cash flows from operating activities			
Receipts from childcare fees		48,637	51,754
Receipts from government funding		85,035	109,606
Government grants received (Wage subsidy & JobKeeper)		816	276
Payments to suppliers and employees		(109,815)	(118,384)
Income taxes paid		(4,520)	(2,611)
Interest received		371	230
Net cash flows (to)/from operating activities	26	**20,524**	**40,871**
Cash flows from investing activities			
Payments for purchase of businesses		(5,356)	(37,882)
Proceeds from sale of businesses		31,182	-
Proceeds from sale of property, plant and equipment		-	75
Payments for software, property, plant and equipment		(3,971)	(3,270)
Term deposit		(4,052)	(1,035)
Acquisition costs		-	(1,981)
Net cash flows (to)/from investing activities		**17,803**	**(44,093)**
Cash flows from financing activities			
Proceeds from issues of shares	20	-	23,521
Share issue costs	20	-	(1,483)
Dividends paid	22	(6,319)	-
Note issue costs	25	-	(216)
Interest paid on borrowings		(2,854)	(2,787)
Repayment of borrowings		(36,454)	-
Lease interest payments	6, 25	(15,553)	(17,417)
Lease principal repayments		(7,449)	(8,066)
Net cash flows (to)/from financing activities		**(68,629)**	**(6,448)**
Net (decrease)/increase in cash and cash equivalents	25	**(30,302)**	**(9,670)**
Cash and cash equivalents at the beginning of the year	8, 25	47,579	59,139
Foreign currency translation adjustment		22	(1,890)
Cash and cash equivalents at the end of the year	8, 25	**17,299**	**47,579**

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2022

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Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2022

1. Reporting Entity

Embark Education Group Limited (the "Company") is a company incorporated in New Zealand ("NZ"), registered under the Companies Act 1993 and listed on the New Zealand Exchange ("NZX") and the Australian Stock Exchange ("ASX"). The Company is a FMC Reporting Entity in terms of Part 7 of the Financial Markets Conduct Act 2013 ("the Act"). The registered office is located at Level 10, 21 Queen Street, Auckland 1010, New Zealand.

The Company changed its name from "Evolve Education Group Limited" to "Embark Education Limited" on 18 October 2022 following the sale of its New Zealand business (see Note 11(a) - Discontinued Operations and Non-current Assets Held for Sale). On the 10 February 2023 the company changed its name from "Embark Education Limited" to "Embark Education Group Limited" (see Note 30 - Events After the Reporting Period). The NZX and ASX ticker remains as EVO.

The principal activities of the Company and its subsidiaries (the "Group") are to invest in the provision and management of high-quality early childhood education centres (see Note 4 - Segment Information). Further information on the Group's structure is provided in Note 12 - Group Information.

2. Basis of Preparation

Statement of Compliance

The consolidated financial statements (the "Group financial statements") have been prepared in accordance with the requirements of the NZX and ASX listing rules. The Group financial statements comprise the Company and its subsidiaries. In accordance with the Act, separate financial statements for the Company are not required to be prepared.

These Group financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). The Group is a Tier 1 reporting entity. The Group financial statements comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards, as appropriate for "for-profit" entities. These financial statements also comply with International Financial Reporting Standards ("IFRS") and IFRS Interpretations Committee interpretations.

The financial statements for the year ended 31 December 2022 were approved and authorised for issue by the Board of Directors on 28 February 2023.

Going Concern

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

The Board has considered the impact of Covid-19 on the financial position of the Group. Centre operations in Australia were not adversely affected by Covid-19 during the year and the Board is of the view that it is not unreasonable to expect the same for the foreseeable future.

The unprofitable New Zealand operations were sold at the end of September 2022. The Group recognised a profit before net finance costs and income tax of $4.9 million for the year from continuing operations (2021: $3.1 million). The Australian segment was profitable in the year ended 31 December 2022 (refer Note 4 – Segment Information) and is forecast to remain profitable for the foreseeable future.

Borrowings were repaid in full during the year (Borrowings at 31 December 2021: $36.2 million), reducing future finance costs (refer Note 24 – Financial Assets and Liabilities). The Group's finance costs for the year amounted to $9.3 million.

The full redemption of the A$35m senior secured notes during the year also means that there is no risk of breaching any financial covenant.

The Group had net cashflows from operating activities of $20.5 million for the year and had a net cash position of $17.3 million as at 31 December 2022. Net current assets exceeded net current liabilities by $3.4 million as at 31 December 2022. Forecasts indicate that the Group will have sufficient cash to discharge its liabilities as they fall due.

Having regard to the above, the Board has concluded that it is appropriate that these financial statements are prepared on a going concern basis.

Basis of Measurement

The Group financial statements are prepared on the basis of historical cost with the exception of certain items for which specific accounting policies are identified, as noted below.

2. Basis of Preparation (continued)

Functional and Presentation Currency

Items included in the Group financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in New Zealand Dollars ($), which is the Company's functional currency and Group's presentation currency. New Zealand, which is the substantially larger segment, formed part of the consolidated group for first 9 months of the year. Hence the functional currency of the group is New Zealand dollars. Unless otherwise stated, financial information has been rounded to the nearest thousand dollars ($'000).

Estimates and Judgements

The preparation of Group financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements required in the application of accounting policies are described below.

(a) Covid-19

Covid-19 and flow-on effects have had a significant impact on global economies and financial markets and asset prices have fluctuated and, in some cases, materially changed.

Unlike the previous two years, there have been no national or regional closures of centres arising from government - mandated lockdowns. However, requirements for teachers to isolate if they contract Covid-19 or become a household contact along with higher levels of non-covid sickness, especially influenza, resulted in numerous short-term closures of centres in New Zealand during the year. All Australian centres remained open throughout Covid-19 lockdowns.

There remains uncertainty about the longer-term impact of Covid-19.

(b) Discontinued operations

On the 30 September 2022, the New Zealand business operations were sold. This sale of this segment component of the Group's business, the operations, and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major geographic area of operations meets the classification of a discontinued operation in the current year. The comparative statement of comprehensive income and related notes is re-presented as if the operation had been discontinued from the start of the comparative year.

(c) Identification of Cash Generating Units

In order to complete the impairment assessments referred to above, the Group must identify individual cash generating units ("CGUs") that best represent the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Identifying CGUs requires judgement and must be at the lowest level to minimise the possibility that impairments of one asset or group will be masked by a high-performing asset. The Group has adopted the following:

Individual Early Childhood Education centres ("ECEs") are identified as CGUs. These CGUs have been tested for impairment where an indicator exists. Indefinite useful life intangible assets have not been allocated to individual ECEs and therefore the impairment assessment is performed for the New Zealand and Australian group of CGUs which is the same as the New Zealand and Australian operating segment. Refer to Note 15 - Impairment for further information. New Zealand was sold (refer Note 11 (a) – Discontinued Operations) therefore no impairment assessment has been performed on the NZ segment in the current year.

2. Basis of Preparation (continued)

Estimates and Judgements (continued)

(d) Deferred tax assets

Deferred tax assets are recognised for deductible temporary differences. Forecasts prepared for the purpose of impairment testing (refer Notes 2(c) - Impairment Assessments and 15 - Impairment) indicate future taxable amounts will be available to utilise these temporary differences. The deferred tax assets are therefore considered to be recoverable.

(e) Right-of-use assets and lease liabilities

The lease term is the non-cancellable period of a lease, together with periods covered by an option (available to the lessee only) to extend or terminate the lease if the lessee is reasonably certain to exercise/not to exercise that option. In determining the lease term, the Group considers all facts and circumstances that create an economic incentive to exercise/not exercise an option. This may include the profitability of a centre, existence of large penalties for early termination, the incurrence of significant maintenance costs in meeting early return obligations or consideration as to whether leasehold improvements still carry significant value. Such assessment is reviewed if a significant event or change in circumstances occurs which affects this assessment and is within the control of the Group. Refer to Notes 3(j) - Leases and 18- Right-of-use Assets and Lease Liabilities.

(f) Business combinations

As discussed in Note 3(a) - Basis of Consolidation, business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the Group taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

(g) Identification and valuation of intangible assets acquired

As part of the accounting for business combinations, the Group reviews each acquisition on a case-by-case basis to determine the nature and value of any intangible assets acquired. Different factors are considered including market presence of the acquired entity, the existence of any specialised or developed assets (e.g. software and training materials), and the nature and longevity of the acquired entity's customer-base. Following this assessment, the Group determines if the value of the intangible assets acquired can or should be allocated between fixed life or indefinite life intangible assets and goodwill.

(h) Functional Currency

The functional currency is the currency in which the Company records and measures its transactions for the period. It is determined by the primary economic environment in which that entity operates. The Entity has continued to maintain its accounting records, with the major proportion of transactions and cash flows during the period, including the sale of Lollipops Educare Centres Limited, in New Zealand Dollars ($). It therefore maintains the Company's functional currency in New Zealand Dollars ($).

New and Amended Standards Adopted by the Group

There are no new standards, amendments or interpretations that have been adopted or are not yet effective that have a material impact on the Group.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently in these consolidated financial statements and have been applied consistently by all Group entities.

(a) Discontinued Operation

On 30 September 2022 the Group sold its New Zealand subsidiary Lollipops Educare Centres Limited. This has resulted in the New Zealand business (ECE Centres cash generating unit/geographical segment) being classified as 'discontinued operations'. This transaction is discussed further in Note 11 - Discontinued Operations and Non-current Assets Held for Sale.

(b) Basis of Consolidation

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 the Group. 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.

The Group measures goodwill at the acquisition date as the difference between:

- the fair value of the consideration transferred; less
- the net recognised amount of the identifiable assets acquired, the liabilities assumed, measured at fair value, and any non-controlling interest in the acquiree.

When the excess is negative, a bargain purchase gain is recognised immediately in the Consolidated Statement of Comprehensive Income.

Consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts generally are recognised in Consolidated Statement of Comprehensive Income.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Business combinations are initially accounted for on a provisional basis if the related initial accounting is incomplete by the end of the reporting period. The Group retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

Subsidiaries

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

3. Significant Accounting Policies (continued)

(b) Basis of Consolidation (continued)

Assets held for sale

Non-current assets, or disposal groups (ECE centres) comprising assets and liabilities that are expected to be recovered primarily through sale within one year, rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are re-measured in accordance with the Group's accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Once classified as held for sale, intangible assets and property, plant and equipment are no longer amortised or depreciated.

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.

(c) 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 measurement and/or disclosure purposes based on the following method. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Intangible assets

The fair values of intangible assets acquired in a business combination are based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

(d) Revenue

Revenues are recognised when the Group satisfies its performance obligations by providing early childhood education services to customers.

Childcare reserves

The Group provides early childhood education services for children's various learning and care needs. Revenue from childcare fees are recognised as and when a child attends, or was scheduled to attend, a childcare facility. The performance obligations are satisfied over time as the child simultaneously receives and consumes the benefits.

3. Significant Accounting Policies (continued)

(d) Revenue (continued)

Ministry of Education New Zealand ("MOE NZ") funding

Childcare reserves from MOE NZ funding relates to funding provided under the Education Act 1989 to eligible early childhood services subject to certain conditions so that they may provide early childhood education. It is recognised initially as funding received in advance and is then recognised in the Statement of Comprehensive Income over the period childcare services are provided and the relevant conditions are satisfied. With the sale of the NZ operations, this funding from the MOE NZ is presented as part of the related costs of providing services in discontinued operations. Income receivable from the MOE NZ by way of a reconciliation payment is recognised as an asset, and is netted off against the income received in advance. There are no unfulfilled conditions or contingencies attached to the funding.

Australian Government funding

Childcare reserves from Australian Government funding relates to fees paid under the Child Care Subsidy and are recognised over time when there is reasonable assurance that the funding will be received. Australian Government funding is received in arrears.

(e) Taxation

Tax expense

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in the Consolidated 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

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.

Deferred tax

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,
- taxable temporary differences arising on the initial recognition of goodwill; and
- temporary differences related to investments in subsidiaries 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, the Group takes into account the impact of uncertain tax positions, if any, and whether additional taxes and interest may be due. The Group 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.

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.

3. Significant Accounting Policies (continued)

(f) Foreign Currency Translation

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates, are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses are presented in the statement of comprehensive income, on a net basis, within other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

Group companies

The results and financial position of foreign operations that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate on the reporting date
- income and expenses are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(g) Dividends

The Group recognises a liability to make cash distributions to equity holders of the parent when the distribution is authorised and the distribution is no longer at the discretion of the Company. Under Company Law in New Zealand, a distribution is authorised when it is approved by the Directors. A corresponding amount is recognised directly in equity.

(h) 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 Consolidated Statement of Comprehensive Income.

3. Significant Accounting Policies (continued)

(h) Property, Plant and Equipment (continued)

Depreciation

Depreciation is charged based on the cost of an asset less its residual value. Depreciation is charged to the Consolidated Statement of Comprehensive Income on a straight line basis over the estimated useful lives of each item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Useful lives as at balance date were:

Plant and equipment	4 to 10 years
Office furniture & fittings	4 years
Leasehold improvements	4 to 10 years
Motor vehicles	5 years

The depreciation methods, useful lives and residual values are reviewed at the reporting date and adjusted if appropriate. Work in progress is not depreciated until the asset is available for use.

(i) Intangible Assets

Goodwill

Goodwill initially 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.

Goodwill is subsequently measured at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units, or groups of cash-generating units, and is not amortised, but is reviewed at each balance date to determine whether there is any objective evidence of impairment (refer to Note 3(n) - Impairment).

Other intangible assets

Other intangible assets that are acquired by the Group and have finite and indefinite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses, as appropriate. Other intangible assets have been amortised on a straight-line basis over their estimated useful lives:

Customer lists	4 years
Management contracts	4 years
Software	4 years
Brands	Indefinite life

Subsequent expenditure

Subsequent expenditure, including expenditure on internally generated goodwill and brands, is recognised in the Consolidated Statement of Comprehensive Income as incurred.

(j) Leases

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. The recognised right-of-use assets are depreciated on a straight-line basis over the shorter of useful life and the lease term.

Impairment of right-of-use assets

Right-of-use assets are reviewed at each reporting date to determine whether there is any indication of impairment. The assessment is conducted as described in Note 3(n)- Impairment.

3. Significant Accounting Policies (continued)

(j) Leases (continued)

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable and variable lease payments that depend on an index or a rate. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date as the interest rate implicit in the lease is not readily determinable. The weighted average incremental borrowing rate applied to the lease liabilities is 10.7% (2021: 8.49%). After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short term leases of properties (i.e. those leases that have a lease term of 12 months or less from the date of inception).

The Group applies the low-value assets recognition exemption to leases of office equipment that are considered of low value ($10,000 or less). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Determining the lease term of contracts with renewal options

The Group determines the lease term as being the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, less any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases, to lease the assets for additional terms. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. It considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew. Assuming the exercise of a right of renewal results in an increase in both the lease liability and right-of-use asset.

(k) Financial Instruments

Non-derivative financial assets

The Group initially recognises financial assets on trade date, being the date on which the Group commits to purchasing or selling the asset. It classifies financial assets based on its business model for managing such financial assets and the contractual terms of cash flows. The Group determines all financial assets during the reporting periods presented are measured at amortised cost.

Financial assets and liabilities are offset and the net amount presented in the Consolidated Statement of Financial Position when, and only when, the Group 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.

3. Significant Accounting Policies (continued)

(k) Financial Instruments (continued)

Financial assets at amortised cost

Assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, financial assets are measured at amortised cost using the effective interest method, less any impairment losses. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period which are classified as non-current assets.

Financial assets at amortised cost comprise cash and cash equivalents, term deposits and trade and other receivables, included in other current assets.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks and bank overdrafts.

Non-derivative financial liabilities

The Group initially recognises financial liabilities on the date that they are originated. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial liabilities are recognised initially at fair value plus any directly attributed transaction costs and subsequently measured at amortised cost using the effective interest method.

Financial liabilities comprise borrowings, lease liabilities and 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.

(l) Share Capital

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.

(m) Reserves

Foreign Currency Translation Reserves

Exchange differences arising on translation of the foreign controlled entities are recognised in other comprehensive income and accumulated in a separate reserve within equity. The cumulative amount is reclassified to the consolidated statement of comprehensive income when the net investment is disposed of.

(n) Impairment

Non-derivative financial assets

The Group has adopted the simplified approach and uses a lifetime expected loss allowance for all trade and other receivables. To measure the expected credit losses, it is estimated based on the degree of aging of the receivable beyond the date it was due to be paid and any negative change in the customers' ability to pay. The expected loss rates are based on the payment profiles of revenue and the corresponding historical credit losses experienced within the period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customer to settle the receivable. The amount of the expected credit loss is recognised in the Consolidated Statement of Comprehensive Income.

3. Significant Accounting Policies (continued)

(n) Impairment (continued)

Non-financial assets

The carrying amounts of the Group'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-life intangible assets are further 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 (refer Note 15 - Impairment).

The recoverable amount of an asset or CGU is the greater of its value-in-use and its fair value less costs of disposal. 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 grouped so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal management purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

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.

(o) Employee Benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits and annual leave are recognised in respect of services provided by employees up to the reporting date and measured based on expected date of settlement.

Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

The liabilities for wages and salaries and annual leave expected to be settled within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Defined contribution plan

The Group contributes to Kiwisaver in New Zealand and superannuation funds in Australia for employees. These are defined contribution plans. A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

(p) Expenses

Direct costs of providing services

These are costs incurred in the provision of services by the Group's early childhood education centres, other than employee and property costs. The major components are classroom teaching materials, cleaning, food supplies and building operating costs. These costs are recognised in the Statement of Comprehensive Income as incurred.

Finance costs

Finance costs comprise interest expense on borrowings and establishment fees, as well as the interest calculated on lease liabilities. All borrowing costs are recognised in the Consolidated Statement of Comprehensive Income using the effective interest method.

3. Significant Accounting Policies (continued)

(p) Expenses (continued)

Government grants and subsidies

Government grants and subsidies which compensate the Group for expenses incurred are recognised in the Statement of Comprehensive Income on a straight-line basis over the period in which the related costs are recognised. Grants and subsidies are reported on a net basis in the same line as the related expense.

(q) Consolidated Statement of Cash Flows

The following are the definitions of the terms used in the Consolidated Statement of Cash Flows:

- Cash includes cash on hand, bank current accounts and any bank overdrafts.
- Operating activities include all transactions and other events that are not investing or financing activities.
- Investing activities are those activities relating to the acquisition, holding and disposal of businesses, property, plant and equipment and of investments.
- Financing activities are those activities that result in changes in the size and composition of the equity structure of the Group. This includes both equity and debt not falling within the definition of cash. Dividends paid and financing costs are included in financing activities. Lease payments are included as a financing activity.

(r) Segment Reporting

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 Group, has been identified as the Managing Director ("Group MD").

(s) Earnings Per Share

Basic and diluted earnings per share

Basic and diluted earnings per share is calculated by dividing the profit attributable to the owners of the Company by the weighted average number of ordinary shares outstanding during the financial period.

(t) Goods and Services Tax

All amounts are shown exclusive of Goods and Services Tax (GST) including items disclosed in the Consolidated Statement of Cash Flows, except for trade receivables, included within other current assets, and trade payables that are stated inclusive of GST in the Consolidated Statement of Financial Position.

(u) Comparative balances

The prior year comparative amounts in the Consolidated Statement of Comprehensive Income and their related notes have been restated to present the results of discontinued operations as a single amount. Further analysis of discontinued operations are presented in Note 11 - Discontinued Operations and Non-current Assets Held for Sale. Comparative balances within Note 4 -Segment Information, have also been reclassified to conform with changes in presentation and classification of operating segments adopted in the current year.

4. Segment Information

The Group reports operating segments by geographical location, namely New Zealand and Australia.

The Group acquired one childcare centre in Australia (2021: 13), bringing the total number of Australian centres to twenty-four (refer Note 13 - Business Combinations) and disposed of the majority of the NZ operating segment (refer Note 11 - Discontinued Operations and Non-current Assets Held for Sale).

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

The Group accounting policies are applied consistently to each reporting segment.

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

Operating expenses and underlying EBITDA excludes the effects of NZ IFRS 16: Leases, gains and losses on the sale or closure of businesses, acquisition and integration costs, impairment losses (or reversals of impairment losses), restructuring costs and non-operational items.

The above items can be driven by factors other than those that impact the underlying performance of the business. Operating expenses and underlying EBITDA excludes the impact of these items to allow the Group MD to measure the financial performance trends of the underlying businesses from period to period and enable necessary decision-making.

4. Segment Information (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022	Note	New Zealand (Discontinued) $'000	Australia $'000	Total $'000
Childcare fees		28,875	19,807	48,682
Government funding		55,376	39,712	95,088
Total revenue		**84,251**	**59,519**	**143,770**
Operating expenses		(84,319)	(43,519)	(127,838)
Underlying Education Centre EBITDA		**(68)**	**16,000**	**15,932**
Support office expenses		**(5,727)**	**(1,620)**	(7,347)
Underlying EBITDA		**(5,795)**	**14,380**	**8,585**
NZ IFRS 16 rental expense adjustment		15,513	6,198	21,711
NZ IFRS 16 remeasurement gains		795	-	795
Adjusted for:				
Loss on early settlement of bonds		-	(1,674)	(1,674)
Foreign currency loss		1	(334)	(333)
EBITDA		**10,514**	**18,570**	**29,084**
Depreciation		(8,859)	(3,399)	(12,258)
Amortisation		(26)	-	(26)
Earnings before interest and income tax		**1,629**	**15,171**	**16,800**
Net finance costs		(9,116)	(8,941)	(18,057)
Reportable segment profit/(loss) before income tax		**(7,487)**	**6,230**	**(1,257)**

Reconciliation of segment profit/(loss) before tax to profit before tax from continuing operation			
Reportable segment profit/(loss) before income tax	(7,487)	6,230	(1,257)
plus: profit before income tax from discontinued operations	1,761	-	1,761
Reportable segment results from continuing operations	**(5,726)**	**6,230**	**504**
Corporate office expenses			(2,374)
Profit/(Loss) before income tax from continuing operations			**(1,870)**

Total assets	**4,466**	**163,097**	**167,563**
Total liabilities	**(1,721)**	**(84,115)**	**(85,836)**

The Group's support costs include finance and accounting, information technology and human resources and are performed in New Zealand and are allocated to each geographic segment. The Group's corporate and management costs include certain financing income and expenditure and taxation that are managed on a Group basis and cannot be separately identified or allocated between geographic segments. However, because the New Zealand operations were sold during the period, corporate costs are identified separately at the consolidated Group level.

4. Segment Information (continued)

FOR THE YEAR ENDED 31 DECEMBER 2021	Note	New Zealand (Discontinued) (restated) $'000	Australia (restated) $'000	Total $'000
Childcare fees		36,185	15,569	51,754
Government funding		77,760	28,445	106,205
Total revenue		**113,945**	**44,014**	**157,959**
Operating expenses		(104,096)	(31,920)	(136,016)
Underlying Education Centre EBITDA		**9,849**	**12,094**	**21,943**
Support office expenses		(6,916)	(1,227)	(8,143)
Underlying EBITDA		**2,933**	**10,867**	**13,800**
NZ IFRS 16 rental expense adjustment		20,872	4,562	25,434
NZ IFRS 16 remeasurement gains		986	-	986
Adjusted for:				
Loss on sale or closure of businesses		(914)	-	(914)
Acquisition costs		-	(1,020)	(1,020)
Bond costs		-	(216)	(216)
Foreign currency loss		(158)	-	(158)
Termination benefit		(259)	-	(259)
EBITDA		**23,460**	**14,193**	**37,653**
Depreciation		(12,129)	(2,568)	(14,697)
Amortisation		(64)	-	(64)
Earnings before interest and income tax		**11,267**	**11,625**	**22,892**
Net finance costs		(12,216)	(8,000)	(20,216)
Reportable segment profit/(loss) before income tax		**(949)**	**3,625**	**2,676**

Reconciliation of segment profit/(loss) before tax to profit before tax from continuing operation			
Reportable segment profit/(loss) before income tax	(949)	3,625	2,676
Less: loss before income tax from discontinued operations	**(5,967)**	**-**	**(5,967)**
Reportable segment results from continuing operations	**(6,916)**	**3,625**	**(3,291)**
Corporate office expenses			**(1,233)**
Profit/(Loss) before income tax from continuing operations			**(4,524)**

Total assets	**265,331**	**159,686**	**425,017**
Total liabilities	**(175,342)**	**(117,791)**	**(293,133)**

4. Segment Information (continued)

The totals presented for the Group's operating segments reconcile to the key financial figures as presented in its consolidated financial statements as follows:

Reconciliation of group total and segment operating expenses

	YEAR 31 DECEMBER 2022	YEAR 31 DECEMBER 2021
	$'000	**$'000**
Total expenses per Statement of Comprehensive Income	52,449	40,941
Corporate office costs	(2,374)	(1,233)
Less:		
Depreciation	(12,258)	(14,697)
Amortisation	(26)	(64)
NZ IFRS 16 rental expense adjustment	21,711	25,434
NZ IFRS 16 remeasurement gains	795	986
Adjusted for:		
Support office costs	(7,347)	(8,143)
Loss on sale or closure of businesses	-	(914)
Acquisition costs	-	(1,020)
Bond costs	-	(216)
Foreign currency loss	(333)	(158)
Termination Benefit	-	(259)
Discontinued operations excluded from total expenses	75,222	95,359
Total reportable segment operating expenses	**127,838**	**136,016**

5. Revenue

Revenue from continuing operations:

	YEAR 31 DECEMBER 2022	YEAR 31 DECEMBER 2021 (RESTATED)
	$'000	**$'000**
Revenue from continuing operations recognised over time:		
Childcare fees	19,807	15,569
Australian Child Care Subsidy	39,713	28,445
Total revenue from continuing operations	**59,520**	**44,014**

6. Disclosure of Items in the Consolidated Statement of Comprehensive Income

Other expenses from continuing operations

	Note	YEAR 31 DECEMBER 2022 $'000	YEAR 31 DECEMBER 2021 (RESTATED) $'000
Included in other expenses are:			
Audit fees	29	224	182
Directors' fees	28	462	475
NZ IFRS 16 remeasurement adjustments		(795)	(986)
Fair value movement on contingent consideration		(551)	(961)
Loss on early settlement of borrowings		1,674	-
Loss/(profit) on disposal of property plant and equipment		1,092	(13)
Other items		1,728	3,801
Total other expenses		**3,834**	**2,498**

Other items includes corporate and support office costs not already disclosed separately.

Employee benefits expense from continuing operations

	Note	YEAR 31 DECEMBER 2022 $'000	YEAR 31 DECEMBER 2021 (RESTATED) $'000
Wages and salaries		32,929	25,651
Kiwisaver contributions		114	132
Superannuation fund contributions		2,873	1,949
Payments to agency contractors		742	475
Australian JobKeeper payment		(362)	(276)
Other employee benefits expense		848	1,025
Total employee benefits expense		**37,144**	**28,956**

Termination benefit

Timothy Wong resigned as Chief Executive Officer of the New Zealand operations of the Group on 30 March 2021. At the time of his resignation under the terms of his contract, he received 1.25 million share options exercisable at A$1.20 per share, expiring 31 December 2023. The fair value of the share options is included in employee benefits expense and employee entitlements within liabilities. No share options have been exercised as at 31 December 2022.

6. Disclosure of Items in the Consolidated Statement of Comprehensive Income (continued)

Net finance costs from continuing operations

	Note	YEAR 31 DECEMBER 2022 $'000	YEAR 31 DECEMBER 2021 (RESTATED) $'000
Interest received			
Bank deposits		368	230
Total finance income		**368**	**230**
Interest expense			
Interest on borrowings		(2,854)	(3,029)
Interest on lease liabilities	18c	(6,455)	(4,798)
Total finance costs		**(9,309)**	**(7,827)**
Net finance costs		**(8,941)**	**(7,597)**

7. Taxation

Income tax expense from continuing operations

The major components of income tax expense for the year are:

	YEAR 31 DECEMBER 2022	YEAR 31 DECEMBER 2021 (RESTATED) $'000
Current income tax:		
Current income tax expense	2,425	1,891
Prior year adjustments	385	-
	2,810	1,891
Deferred tax:		
Relating to origination and reversal of temporary differences	(2,496)	(1,053)
Prior year adjustments	401	-
	(2,094)	(1,053)
Total income tax expense	**716**	**838**

7. Taxation (continued)

Reconciliation of tax expense

Tax expense is reconciled to accounting profit as follows:

	YEAR 31 DECEMBER 2022	YEAR 31 DECEMBER 2021 (RESTATED)
		$'000
Profit before income tax from continuing operations	(1,870)	(4,524)
At the statutory income tax rate of 28%	**(524)**	**(1,267)**
Non-assessable income and non-deductible expenses for tax purposes:		
Difference in overseas tax rate	108	72
Non-deductible expenses/(non-assessable income)	1,132	2,033
Total income tax expense	**716**	**838**

Deferred tax

Deferred tax relates to the following:

	31 DECEMBER 2022		31 DECEMBER 2021	
	Consolidated Statement of Comprehensive Income	Consolidated Statement of Financial Position	Consolidated Statement of Comprehensive Income (Restated)	Consolidated Statement of Financial Position
	$'000	**$'000**	**$'000**	**$'000**
Property, plant and equipment	(60)	-	49	1,639
Intangible assets	20	-	9	(875)
Right-of-use assets	453	(20,054)	(4,860)	(52,843)
Lease liabilities	(1,400)	22,953	5,754	63,682
Employee entitlement provisions	(191)	919	509	1,780
Other temporary differences	166	(225)	(205)	274
Tax losses carried forward	(449)	-	404	404
Deferred tax benefit	**(1,461)**		**1,660**	
Net deferred tax assets		**3,593**		**14,061**

Deferred tax assets, which included recognition of tax losses, were attributed to New Zealand operations and have now been derecognised following the sale of those discontinued operations.

Deferred tax assets, which are attributable to Australian operations, are expected to be utilised by the reversal of taxable temporary differences as well as the generation of taxable profits.

No deferred tax assets (2021: $0.6 million) have been classified as held for sale at 31 December.

7. Taxation (continued)

Imputation credits

Imputation credits are held at consolidated group tax level and are available for use in subsequent reporting periods are $10.5 million (2021: $12.0 million), including imputation credits that will arise from the payment of the amount of the provision for income tax. No dividends are provided for or receivable that would affect the available imputation credits at 31 December 2022. There are AUD$6.4 Australian franking credits available (2021: AUD$ 1.7 million).

8. Cash and Cash Equivalents

	AS AT 31 DECEMBER 2022	AS AT 31 DECEMBER 2021
	$'000	$'000
Cash at banks and on hand	14,706	6,948
Short-term deposits	2,593	40,631
Total cash and cash equivalents	**17,299**	**47,579**

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the relevant short-term deposit rates.

9. Trade and Other Receivables

	AS AT 31 DECEMBER 2022	AS AT 31 DECEMBER 2021
	$'000	$'000
Trade receivables	1,993	1,687
Prepayments and sundry receivables	1,025	1,434
Total trade and other receivables	**3,018**	**3,121**

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2022

10. Property, Plant and Equipment

31 DECEMBER 2022	Note	Plant and Equipment $'000	Office Furniture and Fittings $'000	Leasehold Improvements $'000	Motor Vehicles $'000	Work in Progress $'000	Total $'000
Cost							
Opening balance		2,211	8,171	10,211	62	320	20,975
Additions/Transfers		467	1,138	2,347	19	-	3,971
Acquisition of businesses		-	22	-	-	-	22
Disposal - discontinued operations		(1,813)	(7,673)	(10,514)	(56)	3	(20,053)
Disposals		(137)	(1,123)	(916)	(18)	(321)	(2,515)
Classified out from held for sale	11	44	337	180	-	1	562
Closing balance		**772**	**872**	**1,308**	**7**	**3**	**2,962**
Depreciation and impairment							
Opening balance		(1,218)	(6,122)	(6,017)	(21)	-	(13,378)
Depreciation for the year		(522)	(406)	(1,159)	(10)	-	(2,097)
Disposal - discontinued operations		1,114	6,022	6,060	12	-	13,208
Disposals		101	672	631	18	-	1,422
Classified as held for sale	11	(24)	(300)	(104)	-	-	(428)
Closing balance		**(549)**	**(134)**	**(589)**	**(1)**	**-**	**(1,273)**
Foreign exchange movements		4	-	5	-	-	9
Net book value		**227**	**738**	**724**	**6**	**3**	**1,698**

31 DECEMBER 2021	Note	Plant and Equipment $'000	Office Furniture and Fittings $'000	Leasehold Improvements $'000	Motor Vehicles $'000	Work in Progress $'000	Total $'000
Cost							
Opening balance		1,431	7,925	8,711	115	291	18,473
Additions/Transfers		877	780	1,810	37	3,153	6,657
Disposals/Transfers		(53)	(197)	(130)	(90)	(3,123)	(3,593)
Classified as held for sale	11	(44)	(337)	(180)	-	(1)	(562)
Closing balance		**2,211**	**8,171**	**10,211**	**62**	**320**	**20,975**
Depreciation and impairment							
Opening balance		(794)	(5,978)	(4,546)	(71)	-	(11,389)
Depreciation for the year		(484)	(625)	(1,664)	(3)	-	(2,776)
Disposals		36	181	89	53	-	359
Classified as held for sale	11	24	300	104	-	-	428
Closing balance		**(1,218)**	**(6,122)**	**(6,017)**	**(21)**	**-**	**(13,378)**
Foreign exchange movements		1	2	4	-	-	7
Net book value		**994**	**2,051**	**4,198**	**41**	**320**	**7,604**

Disposals arise either when individual assets are no longer required or become obsolete, or when a centre has been closed or sold.

11. Discontinued Operations and Non-current Assets Held for Sale

(a) Discontinued operations

On 30 August 2022, the Group publicly announced it had entered a conditional sale agreement for the sale of 100% of its shares in Lollipops Educare Centres Limited (LECL). At that time, LECL held all of Embark's ECE operating centres in New Zealand. The New Zealand ECE operating segment meets the definition of a discontinued operation under NZ IFRS 5: Non-current Assets Held for Sale and Discontinued Operations.

On 30 September 2022 the sale agreement for the New Zealand business and assets of LECL became unconditional and was therefore de-recognised as at this date, with consideration received on 3 October 2022.

The New Zealand ECE operating segment was not previously classified as held-for-sale or as a discontinued operation. The comparative consolidated statement of comprehensive income has been restated to show the discontinued operation separately from continuing operations.

This disposal represents 105 of the 107 total centres of the New Zealand ECE operating segment, enabling the Group to now concentrate on its core business of centre-based early childhood education in Australia. Of the 2 centres retained, one of the centres' lease expired on 3 December 2022. The other is dormant, with its lease expiring in February 2024.

The business of LECL was primarily the Group's New Zealand operating segment until 30 September 2022.

The profit/(loss) for the year from the discontinued operation is analysed as follows:

		YEAR 31 DECEMBER 2022	YEAR 31 DECEMBER 2021
	Note	**$'000**	**$'000**
Revenue		84,262	113,945
Depreciation		(8,859)	(12,129)
Amortisation		-	(64)
Other (expenses)/income		(723)	10,849
Operating expenses		(72,919)	(104,125)
Profit/(loss) before income tax		**1,761**	**8,476**
Income tax (expense)/benefit		(493)	(2,373)
Profit /(loss) after income tax		**1,268**	**6,103**
Gain/(loss) on sale of the discontinued operation after income tax		(42,678)	-
Profit/(loss) after income tax from the discontinued operation		**(41,410)**	**6,103**

The cash flow for the year from the discontinued operation is analysed as follows:

		YEAR 31 DECEMBER 2022	YEAR 31 DECEMBER 2021
	Note	**$'000**	**$'000**
Net cashflows from operating activities		**23,227**	**23,930**
Net cashflows from investing activities		**2,875**	**(3,153)**
Net cashflows from financing activities		**(20,594)**	**(20,920)**
Net increase/(decrease) in cash generated by the discontinued operations		**5,508**	**(143)**

11. Discontinued Operations and Non-current Assets Held for Sale (continued)

(a) Discontinued operations (continued)

The gain/(loss) on disposal of the discontinued operations is analysed as follows:

	Note	YEAR 31 DECEMBER 2022 $'000
Cash consideration received		39,775
Carrying value of net assets sold		(79,055)
Costs of disposals		(3,398)
Gain /(loss) on sale before income tax		(42,678)
Income tax expense		-
Gain /(loss) on sale after income tax		(42,678)
Net gain /(loss) on disposal of the discontinued operation		**(42,678)**

The carrying amounts of assets and liabilities of LECL at the date of sale were:

	Note	30 September 2022 $'000
Cash and cash equivalents		8,593
Other current assets		732
Property, plant and equipment		6,920
Deferred tax assets		12,413
Funding receivable		1,922
Right-of-use assets		117,539
Goodwill		95,227
Intangible assets		3,168
Total Assets		**246,514**
Trade and other payables		(1,833)
Lease liabilities		(151,402)
Other current liabilities		(8,038)
Employee entitlements		(6,186)
Total Liabilities		**(167,459)**
Carrying value of net assets		**79,055**

11. Discontinued Operations and Non-current Assets Held for Sale (continued)

(b) Assets and liabilities held for sale - 2022

During 2022 the Group did not classify any centres as held for sale. All six centres classified as held for sale in the prior period were sold in the current period and have been included as part of the discontinued operations.

2021 (comparative information)

During September 2021 the Group classified six centres as held for sale. Several conditional offers were received however no centres were sold prior to 31 December 2021 therefore the assets and liabilities held for sale at 31 December 2021 relate to all six centres. Those operations did not meet the definition of a discontinued operation.

	AS AT 31 DECEMBER 2021
	$'000
Prepayments	9
Property, plant and equipment	134
Deferred tax assets	617
Right of use asset	2,216
Assets classified as held for sale	**2,976**
Funding received in advance	(296)
Lease liabilities	(4,150)
Liabilities classified as held for sale	**(4,446)**

12. Group Information

Name changes

Evolve Education Group Limited sold its 100% stake in its New Zealand ECE centre owner business, Lollipops Educare Centres Limited, on 30 September 2022. The following name changes for the parent company and its New Zealand subsidiaries remaining after the sale took effect from 18 October 2022:

- the name of Evolve Education Group Limited changed to "Embark Education Limited" (and subsequently changed to "Embark Education Group Limited" on 10 February 2023);
- the name of Lollipops Educare Holdings Limited changed to "Embark NZ Holdings Limited"; and
- the name of Evolve Management Group Limited changed to "Embark NZ Management Group Limited".

Information about subsidiaries

The consolidated financial statements of the Group include:

Name	Principal Activities	Country of Incorporation	Balance Date	2022 Equity Interest	2021 Equity Interest
Embark NZ Management Group Limited	Holding company	NZ	31 December	100%	100%
Embark NZ Holdings Limited	Holding company	NZ	31 December	100%	100%
Lollipops Educare Centres Limited*	ECE centre owner	NZ	31 December	0%	100%
Evolve Early Education Pty Limited	ECE centre owner	Australia	31 December	100%	100%

* Embark sold its 100% holding in Lollipops Educare Centres Limited on 30 September 2022.

13. Business Combinations

Australian Centre Acquisitions

During the year ended 31 December 2022, the Group acquired one (2021:13) ECE centre in Australia, for a total consideration of $2.63 million (2021: $42.1 million). Total net liabilities acquired were $0.03 million (2021: $0.8 million) resulting in goodwill on acquisition of $2.66 million (2021: $42.9 million). No cash was acquired.

Each of the business combinations were immaterial on an individual centre basis. There have been no material adjustments to the provisional values of these acquisitions. A summary of the net liabilities acquired is included in the following table.

	AS AT 31 DECEMBER 2022	AS AT 31 DECEMBER 2021
Assets and liabilities acquired and consideration paid	**$'000**	**$'000**
Assets		
Property, plant and equipment	22	276
Right-of-use assets	3,650	27,458
	3,672	**27,734**
Liabilities		
Employee entitlements	(42)	(757)
Other current liabilities	(12)	(300)
Lease liabilities	(3,650)	(27,458)
	(3,704)	(28,515)
Total identifiable net assets (liabilities) at fair value	**(32)**	**(781)**
Goodwill arising on acquisition	2,655	42,854
Purchase consideration transferred	**2,623**	**42,073**
Purchase consideration		
Cash paid	2,623	34,959
Contingent consideration	-	7,167
Retentions	-	(53)
Total consideration	**2,623**	**42,073**

The goodwill of $2.6 million (2021: $42.9 million) predominantly comprises the future earnings potential of bringing together a group of ECE centres under one centrally managed group.

Assessment of the businesses acquired did not identify any separable intangible assets other than goodwill.

As at 31 December 2022, the centres acquired at various points during the year have contributed revenue of $1.5 million (2021:$19.7 million) and a net profit before tax of $0.4 million (2021: $6.0 million) to the Group's results before allowing for acquisition expenses of $0.01 million (2021:$1.0 million).

13. Business Combinations (continued)

Australian Centre Acquisitions (continued)

Contingent Consideration

As part of the purchase agreements with previous owners, a portion of the consideration was determined to be contingent, based on the performance of the acquired businesses.

The following table outlines the additional amounts payable to the previous owners if the specified performance conditions are met.

		Total potential contingent consideration payable	Carrying value
31 December 2022	**Conditions**	**$'000**	**$'000**
Acquisition of 1 centre	Performance hurdles based on EBITDA	n/a	n/a

		Total potential contingent consideration payable	Carrying value
31 December 2021	**Conditions**	**$'000**	**$'000**
Acquisition of 6 centres	Performance hurdles based on EBITDA	4,463	3,283

The potential contingent consideration payable in cash is based on a probability assessment determining the likelihood of payout at year end and recognised in the carrying value.

Movement in Contingent Consideration

A reconciliation of the fair value of the contingent consideration liability is provided below.

	YEAR 31 DECEMBER 2022
	$'000
Financial liability for contingent consideration as at 1 January 2022	3,283
Contingent consideration recognised during the year	-
Contingent consideration paid	(2,733)
Fair value adjustments	(551)
Total contingent consideration payable as at 31 December 2022	**-**

	YEAR 31 DECEMBER 2021
	$'000
Financial liability for contingent consideration as at 1 January 2021	-
Contingent consideration recognised during the year	7,167
Contingent consideration paid	(2,923)
Fair value adjustments	(961)
Total contingent consideration payable as at 31 December 2021	**3,283**

14. Intangible Assets

31 DECEMBER 2022		Software	Brands	Goodwill	Other	Total
	Note	$'000	$'000	$'000	$'000	$'000
Cost						
Opening balance		851	3,104	268,806	513	273,274
Acquisition of businesses		-	-	2,655	-	2,655
Disposal - discontinued operations	11a	(851)	(3,066)	(202,646)	(513)	(207,076)
Closing balance		**-**	**38**	**68,815**	**-**	**68,853**
Amortisation and impairment						
Opening balance		(747)	-	(112,087)	(513)	(113,347)
Disposal - discontinued operations	11a	747	-	107,936	513	109,196
Closing balance		**-**	**-**	**(4,151)**	**-**	**(4,151)**
Foreign exchange movement		-	-	360	-	360
Net book value		**-**	**38**	**65,024**	**-**	**65,062**

31 DECEMBER 2021	Software	Brands	Goodwill	Other	Total
	$'000	$'000	$'000	$'000	$'000
Cost					
Opening balance	767	3,104	225,952	513	230,336
Additions	84	-	-	-	84
Acquisitions of businesses	-	-	42,854	-	42,854
Closing balance	**851**	**3,104**	**268,806**	**513**	**273,274**
Amortisation and impairment					
Opening balance	(683)	-	(112,087)	(513)	(113,283)
Amortisation expense	(64)	-	-	-	(64)
Disposals	-	-	-	-	-
Closing balance	**(747)**	**-**	**(112,087)**	**(513)**	**(113,347)**
Foreign exchange movement	-	-	566	-	566
Net book value	**104**	**3,104**	**157,285**	**-**	**160,493**

15. Impairment

Impairment assessment of CGUs excluding indefinite useful life intangible assets

The impairment assessment of CGUs was performed as at 31 December 2022 on Australian ECE Centres. New Zealand ECE Centres were sold during the year (refer Note 11 - Discontinued Operations), therefore no impairment assessment has been performed on the New Zealand ECE Centres in the current year. The various CGUs were tested by calculating the recoverable amount. As with the previous year, the recoverable amount of each CGU exceeded their carrying value therefore no impairment expense has been recognised in the current year. The discount rate used to perform the assessment was a pre-tax rate of 12.9% (2021: 12.5%). There is no impairment expense or reversals for the current year (2021: nil).

Impairment assessment of indefinite useful life intangible assets

The Australian goodwill balances of $65.1 million (2021: $62.0 million), has been tested for impairment as at 31 December 2022. Impairment of goodwill cannot be reversed in subsequent years.

The recoverable amount of the group of Australian CGUs, to which indefinite useful life intangible assets have been allocated, was determined using a value-in-use discounted cash flow methodology using Board approved cash flow forecasts covering a five-year period. Forecasts reflect the uncertainty arising from the Covid-19 pandemic and its aftermath.

No impairment has been recognised in the year ended 31 December 2022.

	AS AT 31 DECEMBER 2022	AS AT 31 DECEMBER 2021
	$'000	**$'000**
Goodwill	65,024	157,285
Brands with indefinite useful lives	38	3,104
	65,062	**160,389**

Foreign exchange movement of $0.4 million (2021: $0.6 million) was recognised during the year.

15. Impairment (continued)

Australian ECE Centres – Goodwill

Key assumptions used in value-in-use calculations

The key "base" assumptions used in the calculation of value-in-use for Australian ECE Centres CGUs are:

- Revenue growth through the forecast period
- Wages growth through the forecast period
- Discount rates
- Growth rates used to extrapolate cash flows beyond the forecast period

The table below sets out the key assumptions for Australian ECE centres CGUs:

	31 DECEMBER 2022 Australia	31 DECEMBER 2021 Australia
Revenue growth attributable to price (% per annum on average)	3.0%	3.0%
Revenue growth attributable to increase in occupancy (% per annum on average)	0.0%	5.6%
Total revenue growth (% per annum on average)	3.0%	8.6%
Wages growth (% per annum on average)	3.0%	9.1%
Pre-tax discount rates (%)	12.9%	12.5%
Long-term growth rate (%)	1.5%	1.5%

Revenue: Revenue growth at an average of 3.0% per year from price increases assumed in the forecast. No growth in occupancy has been assumed as no centre acquisition has been assumed in the forecast.

Wages: Wages are assumed to increase at an average of 3.0% per year. It is assumed that any increase in wages above 3.0% per year will be at least covered by additional price increases.

Sensitivity to changes in key assumptions

The most sensitive assumption in the calculation of value-in-use is revenue growth, followed by wage costs. Revenue growth will be achieved through pricing, as occupancy is not assumed to grow, given the centres currently have good occupancy levels. The following summarises the amounts by which the key assumptions would need to change, with all other assumptions remaining constant, for the recoverable amount to equal the carrying amount:

	Headroom/ (Impairment) $'000
Base assumption	29,779
Revenue growth	-5.39%
Wages growth	9.75%
Pre-tax discount rate	3.00%
Long term growth rate	-3.56%

15. Impairment (continued)

Australian ECE Centres – Goodwill (continued)

Sensitivity to changes in key assumptions (continued)

The following summarises the impairment or headroom that would have resulted had the noted changes in the "base" assumptions been made, with all other assumptions remaining constant:

	Headroom/ (Impairment)
	$'000
Base assumption	29,779
Revenue growth +5.0% above base	57,441
Revenue growth -5.0% below base	2,117
Wages growth +5.0% above base	14,475
Wages growth -5.0% below base	45,082

The changes used are based on an assessment of reasonably likely variations in the assumptions.

NZ ECE Centres - Goodwill - 2021 (comparative information)

New Zealand ECE Centres were sold during the period (refer Note 11 - Discontinued Operations) therefore no impairment assessment has been performed on the New Zealand CGU in the 2021 year. All figures stated are for the year ended 31 December 2021.

Key assumptions used in value-in-use calculations

The key "base" assumptions used in the calculation of value-in-use for NZ ECE Centres are:

- Revenue growth through the forecast period
- Wages growth through the forecast period
- Discount rates
- Growth rates used to extrapolate cash flows beyond the forecast period

The table below sets out the key assumptions for ECE NZ Centres:

	31 DECEMBER 2021 New Zealand
Revenue growth attributable to parental fee pricing (% per annum on average)	3.0%
Revenue growth attributable to MOE funding rates (% per annum on average)	1.4%
Revenue growth attributable to increase in occupancy (% per annum on average)	1.7%
Total revenue growth (% per annum on average)	6.1%
Wages growth (% per annum on average)	4.6%
Pre-tax discount rates (%)	11.0%
Long-term growth rate (%)	1.5%

15. Impairment (continued)

NZ ECE Centres - Goodwill - 2021 (comparative information) (continued)

Key assumptions used in value-in-use calculations (continued)

Revenue - Price: Revenue is received from the NZ Ministry of Education and parents/caregivers. It is assumed the Ministry of Education NZ continues to support early childhood education to the value of approximately 66% of ECE revenue earned. If the NZ Government were to reduce its funding of the sector, this would lead to an increased requirement for parents and caregivers to make up the difference. If NZ Government funding were to decrease, the Group would need to initiate appropriate responses to maintain profitability. The assumptions reflect the impact of future increases in funding that have been announced by the NZ Government (3.8% from 1 January 2022), with subsequent annual increases in line with past experience (1.6% per year). Parental fees are assumed to increase by 5% from 1 March each year. As discussed in note 2b – Impairment assessments, no parental fees were charged during alert levels 4 or 3 in 2021. This has increased the revenue growth attributable to parental fee pricing over the forecast period.

Revenue - Occupancy: Occupancy refers to the number of full-time equivalent children attending centres. A number of initiatives are in place to increase occupancy, involving both attracting new children as well as retaining existing ones and optimising their attendance. There has been a focus on improving the quality of education provided, increased investment in the physical amenities of centres, targeted local advertising, and closure or sale of poor performing centres.

Wages: Wages are assumed to increase by 5% from 1 April 2022 then by 3% per year.

Pre-tax discount rates: The discount rates represent the current market assessment of the risks specific to the group of CGUs, taking into account the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the industry segment the Group is engaged in, and is derived from its weighted average cost of capital (WACC). The WACC takes into account both the cost of debt and equity. The cost of equity is derived from the expected return on investment by the Group’s investors using the capital asset pricing model. The cost of debt takes into account borrowing rates for both the Group and the market. The overall discount rate is independent of the Group's capital structure and the way the Group might finance the purchase of a business. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data. Adjustments to the discount rate are made to factor in the specific amount and timing of the future tax flows in order to reflect a pre-tax discount rate.

Long-term growth rate: This rate is based on current inflation rates in New Zealand and forecast or assumed increases in revenues from parents/caregivers and the Government.

Sensitivity to changes in key assumptions

The most sensitive assumption in the calculation of value-in-use for the NZ ECE Centres CGU is revenue growth, followed by wage costs. The following summarises the amounts by which the key assumptions would need to change, with all other assumptions remaining constant, for the recoverable amount to equal the carrying amount:

	Headroom/ (Impairment)
	$'000
Base assumption	39,349
Occupancy	-0.78%
Childcare fee growth	-2.16%
Ministry of Education funding growth	-1.25%
Wages growth	1.22%
Pre-tax discount rate	1.19%
Long-term growth rate	-2.04%

15. Impairment (continued)

NZ ECE Centres - Goodwill (continued) - 2021 (Comparative Information)

Sensitivity to changes in key assumptions (continued)

The following summarises the impairment or headroom that would have resulted had the noted changes in the "base" assumptions been made, with all other assumptions remaining constant:

	Headroom/ (Impairment)
	$'000
Base assumption	39,349
Occupancy at 70% at the end of the period	1,373
Occupancy at 65% at the end of the period	(25,373)
MOE funding rate growth +0.5% above base	55,835
MOE funding rate growth -0.5% below base	23,159
Childcare fees growth +1.0% above base	58,971
Childcare fees growth -1.0% below base	20,391
Wages growth +1.0% above base	9,383
Wages growth -1.0% below base	68,259

Occupancy is required to decrease to 69.7% at the end of the forecast period, with all other assumptions remaining constant, for the recoverable amount to equal the carrying amount.

16. Trade and Other Payables

	AS AT 31 DECEMBER 2022	AS AT 31 DECEMBER 2021
	$'000	**$'000**
Trade payables	895	1,048
Goods and services tax payable	64	3,776
Other payables	2,877	6,702
Total trade and other payables	**3,836**	**11,526**

Trade payables are unsecured and are usually paid within 30 days of recognition. The carrying amount of trade and other payables are considered to be the same as their fair value, due to their short-term nature.

17. Funding Received in Advance

Funding from NZ Ministry of Education – 2022

NZ Ministry of Education funding formed part of the working capital passed with the sale of Embark's New Zealand operations on 30 September 2022 (see Note 11 - Discontinued Operations). At 31 December 2022, funding had not been finalised in respect of the closure of Tauriko (Active Explorers) on 30 September 2022.

Funding from NZ Ministry of Education – 2021 (comparative information)

Represents NZ Ministry of Education funding received in advance net of amounts owing but not received. The amount is shown as a current liability consistent with the period the funding covers. Funding is received three times a year on 1 March, 1 July and 1 November. Each funding round includes 75% of the estimated funding for the four months ahead, as well as payment of the remaining 25% payable for the previous funding period, adjusted for any changes in occupancy and other criteria. Due to Covid-19, the Group instead received 90% of estimated funding on 1 November 2021. At 31 December 2021 funding received in advance relates to January and February 2022. Funding receivable relates to the remaining 10% of funding, adjusted for any changes in occupancy and other criteria, in respect of November and December 2021.

	AS AT 31 DECEMBER 2022	AS AT 31 DECEMBER 2021
	$'000	**$'000**
Funding received in advance	688	10,940
Funding receivable	(1,302)	(3,197)
Total funding (receivable)/received in advance	**(614)**	**7,743**

18. Right-of-use Assets and Lease Liabilities

(a) Right-of-use assets

31 DECEMBER 2022	Leased properties	Leased motor vehicles	Total
	$'000	$'000	$'000
Opening net book value	**183,667**	**415**	**184,082**
Additions	11,890	138	12,028
Disposals	(231)	-	(231)
Depreciation and impairment	(9,976)	(232)	(10,208)
Disposal - discontinued operation	(120,378)	(321)	(120,699)
Transfer out from HFS	2,216	-	2,216
Foreign exchange movements	(258)	-	(258)
Closing net book value	**66,930**	-	**66,930**
Cost	75,741	-	75,741
Accumulated depreciation	(7,090)	-	(7,090)
Accumulated Impairment	(1,721)	-	(1,721)
As at 31 December 2022	**66,930**	**-**	**66,930**

Included in accumulated depreciation is a reversal of $2.0 million for lease termination. This relates to the closure of 4 centres in New Zealand and 1 in Australia.

31 DECEMBER 2021	Leased properties	Leased motor vehicles	Total
	$'000	$'000	$'000
Opening net book value	**170,714**	**224**	**170,938**
Additions	29,961	413	30,374
Disposals	(151)	-	(151)
Depreciation and impairment	(11,700)	(222)	(11,922)
Lease remeasurements	(2,708)	-	(2,708)
Classified as held for sale	(2,216)	-	(2,216)
Foreign exchange movements	(233)	-	(233)
Closing net book value	**183,667**	**415**	**184,082**
Cost	218,897	638	219,535
Accumulated depreciation	(29,017)	(223)	(29,240)
Accumulated Impairment	(6,213)	-	(6,213)
As at 31 December 2021	**183,667**	**415**	**184,082**

Included in accumulated depreciation is a reversal of $0.8 million for lease termination.

18. Right-of-use Assets and Lease Liabilities (continued)

(b) Lease liabilities

	AS AT 31 DECEMBER 2022	AS AT 31 DECEMBER 2021
	$'000	$'000
Current lease liabilities	6,548	7,702
Non-current lease liabilities	70,253	214,626
Total lease liabilities	**76,801**	**222,328**

The Group leases childcare centres, motor vehicles and office equipment. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. As at 31 December 2022, the Group's leases had a weighted average remaining lease term of 22.9 years (2021: 19.4 years).

(c) Amounts recognised in the statement of comprehensive income

The statement of comprehensive income shows the following amounts relating to leases:

	YEAR 31 DECEMBER 2022	YEAR 31 DECEMBER 2021
	$'000	$'000
Depreciation charge of right-of-use assets		
Properties	3,158	11,700
Motor vehicles	-	222
Discontinued operations	7,050	-
	10,208	**11,922**
Interest expense (included in finance cost)	6,436	17,417
Interest Expense Discontinued operations	9,117	-
Expense relating to short-term leases (included in building occupancy expenses)	9	125
Expense relating to leases of low-value assets that are not shown above as short-term leases (included in direct expenses of providing services)	19	96

The total cash outflow for leases during the year was $15.5 million (2021: $25.5 million)

(d) Impairment testing of right-of-use assets

As detailed in Notes 3(i) - Leases and 3(m) - Impairment, non-financial assets including right-of-use assets are reviewed annually for indicators of impairment. Where there is an indicator of impairment, the carrying value of the asset is compared to its recoverable amount. Refer to Note 15 - Impairment.

19. Employee Entitlements

	AS AT 31 DECEMBER 2022	AS AT 31 DECEMBER 2021
	$'000	$'000
Employee leave provisions	2,501	5,381
Accrued wages and salaries	2,233	3,258
Termination benefit	401	259
Other employee entitlements	64	189
Total employee entitlements	**5,199**	**9,087**

20. Issued Capital

Authorised shares

	31 DECEMBER 2022		31 DECEMBER 2021	
	Number	$'000	Number	$'000
Ordinary shares authorised, issued and fully paid				
Opening balance	159,549,484	260,014	139,825,639	237,976
Issue of ordinary shares, net of transaction costs	-	-	19,723,845	22,038
Closing balance	**159,549,484**	**260,014**	**159,549,484**	**260,014**

The Group completed an institutional share placement in April 2021, issuing an additional 19,723,845 shares, with proceeds of $23.5 million being received. Directly attributable issue costs of $1.5 million were incurred and have been netted off against the proceeds of the capital raising.

21. Capital Management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence, and to sustain future development of the business. Capital consists of share capital, accumulated net earnings/deficits of the Group, as well as available cash and cash equivalents and borrowings. The Board of Directors monitors the return on capital as well as the level of cash and dividends to ordinary shareholders.

The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of any financial covenants. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

Dividend Policy

The current dividend policy of the Group is to pay dividends between 50% and 75% of pre-NZ IFRS 16 net profit after tax (excluding non-operational items) in respect of the preceding period subject to the discretion of the Board.

Financial Covenants

The Group's capital management policy, amongst other things, aims to ensure that it meets its financial covenants attached to any interest-bearing loans and borrowings that support capital structure requirements. The senior secured notes were all repaid during the period. The group was in compliance with all covenants up to this time.

22. Dividends

Dividends paid during the current year

	2022	2022
	Cents per share	**$'000**
Special dividend for the year ended 31 December 2022	3.5	6,319
	3.5	**6,319**

No dividend was paid during the year ended 31 December 2021.

Policies

Dividends are paid in cash in accordance with the dividend policy of the Group. A special dividend was paid on 8 December 2022. Dividends paid have been fully imputed.

Supplementary dividends

In 2022, supplementary dividends of $0.734 million (2021: Nil) were paid as part of the special dividend to shareholders who are not tax resident in New Zealand, for which the Company received a foreign investor tax credit entitlement.

Dividend reinvestment plan

Under the Company's dividend reinvestment plan, holders of ordinary shares may elect to reinvest the net proceeds of cash dividends payable or credited to acquire further fully paid ordinary shares in the Company. The company's dividend reinvestment plan did not operate for dividends paid in 2022.

23. Earnings Per Share (EPS)

Basic and diluted EPS amounts are calculated by dividing the profit or loss for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year. The following reflects the income and share data used in the basic and diluted EPS computations:

	YEAR 31 DECEMBER 2022	YEAR 31 DECEMBER 2021 (RESTATED)
Profit/(loss) after income tax from continuing operations ($'000s)	(2,586)	(5,362)
Profit/(loss) after income tax attributable to the shareholders of the Company ($'000s)	(43,996)	741
Weighted average number of ordinary shares for basic and diluted EPS	159,549,484	154,037,615
Basic (and diluted) EPS from continuing operations (cents per share)	(1.62)	(3.48)
Basic and diluted EPS attributable to the shareholders of the Company (cents per share)	(27.58)	0.48

24. Financial Assets and Liabilities

Financial risk management objectives

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Group's overall level of financial risk is not significant and risk management is carried out by senior finance executives and the Board of Directors.

Market risk

Foreign currency risk

The Group is exposed to foreign currency risk associated with the Australian dollar ("AUD"). Foreign currency risk arises from future commercial transactions and from recognised assets and liabilities denominated in a currency that is not the Company's functional currency.

The foreign currency risk associated with the Australia operations is managed through a natural hedge as the cash flows from the Australian operations are denominated in Australian dollars.

The carrying amount of the Group's financial assets and liabilities that are denominated in other foreign currencies are set out below.

	AS AT 31 DECEMBER 2022	AS AT 31 DECEMBER 2021
	AUD $'000	AUD $'000
Cash and cash equivalents	15,459	23,224
Term deposit	6,231	2,451
Other current assets	2,724	1,249
Trade and other payables	(2,347)	(4,376)
Borrowings	-	(34,119)
	22,067	**(11,571)**

24. Financial Assets and Liabilities (continued)

Market risk (continued)

Foreign currency risk (continued)

Sensitivity

As shown in the table above, as at 31 December 2022, the Group has financial assets and liabilities that are denominated in AUD. However, these AUD financial assets and liabilities are denominated in the functional currency of the foreign subsidiary. Any translation gains or losses arising from changes in NZD/AUD exchange rates are recognised in the foreign currency translation reserve within equity, and not profit or loss.

Price Risk

The Group is not currently exposed to any significant price risk.

Interest rate risk

The Group's main interest rate risk arises from borrowings, however as all notes were fully repaid during the period, the Group is not exposed to interest rate fluctuations.

Previously, the Group's objective was to maintain a balance between continuity of funding and flexibility through the use of cash and cash equivalents as well as the use of loans. Exposure to interest rate risk was reduced by investing surplus cash in on-call savings accounts or term deposits.

As notes have been repaid in full, interest rate risk is reduced to that of lease liabilities with fixed rates.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provision for impairment of those assets, as disclosed in the Consolidated Statement of Financial Position and Notes to the Consolidated Financial Statements. The Group has no significant credit risk exposure. The Standard & Poors credit ratings of the banks where the Group holds cash are all AA- (sources: www.rbnz.govt.nz and Standard & Poors).

Liquidity risk

Liquidity risk management requires the Group to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The Group manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Financing arrangements

The Group’s financing arrangements comprise the following facilities:

- **Senior secured notes ("notes")** – A$35 million five year notes issued on 4 December 2020 with a fixed interest rate of 7.50% per annum, payable quarterly in arrears. The notes were secured by way of a first ranking general security agreement over all present and future assets and undertakings of the Group, together with an all obligations cross guarantee and indemnity. The notes were fully redeemed during the period as they are no longer required due to the sale of the New Zealand business.
  - On 20 June 2022 Embark re-purchased A$14,324,000 of the notes
  - On 5 December 2022 A$20,676,000 notes remaining on issue were redeemed and fully repaid

  The repurchases were made from company cash reserves, and the notes have been cancelled.

- **Lease guarantee facility** - provided by NAB for A$2.4 million (2021: A$2.5 million) for guarantees required for certain leasehold properties in Australia. This facility is cash-backed by a term deposit held with NAB.

24. Financial Assets and Liabilities (continued)

Deed of Cross Guarantee

Embark Education Group Limited (the parent entity) has entered into a Deed of Cross Guarantee with the effect that the Company guarantees debts in respect of Evolve Early Education Pty Ltd, the Australian subsidiary.

Evolve Early Education Pty Ltd has been granted relief from the requirement to prepare a Financial Report and Directors' Report Under ASIC Legislative Instrument 2016/785 (As Amended) issued by the Australian Securities and Investments Commission. Evolve Early Education Pty Ltd is considered a member of the closed group.

Remaining contractual maturities

The contractual maturity for the Group's financial instrument liabilities (that is, trade payables) is disclosed in Note 16 - Trade and Other Payables. The principal amount (A$35 million) of the notes was repayable in December 2025 and interest payments are A$2.625 million per annum. The notes remaining on issue were redeemed and fully repaid on 5 December 2022. Future borrowings payments at 31 December 2022 were as follows:

	Within 1 year	1-5 years	After 5 years	Total
	$'000	$'000	$'000	$'000
31 DECEMBER 2022				
Repayment of bank borrowings	-	-	-	-
Finance charges	-	-	-	-
Net present values	**-**	**-**	**-**	**-**
31 DECEMBER 2021				
Repayment of bank borrowings	2,787	45,508	-	48,295
Finance charges	(3,040)	(9,039)	-	(12,079)
Net present values	**(253)**	**36,469**	**-**	**36,216**

As at year end, the Group has a lease liabilities balance of $76.8 million (2021: $222.3 million) (refer Note 18b - Right-of-use Assets and Lease Liabilities). Including renewal rights expected to be exercised, the maturities of these leases are spread over the period to December 2064. The lease liabilities are secured by the related underlying assets. Future lease payments at 31 December 2022 were as follows:

	Within 1 year	1-5 years	After 5 years	Total
	$'000	$'000	$'000	$'000
31 DECEMBER 2022				
Lease payments	6,148	23,659	137,793	167,600
Finance charges	(6,457)	(22,851)	(61,491)	(90,799)
Net present values	**(309)**	**808**	**76,302**	**76,801**
31 DECEMBER 2021				
Lease payments	25,634	100,292	356,818	482,744
Finance charges	(17,932)	(66,154)	(176,330)	(260,416)
Net present values	**7,702**	**34,138**	**180,488**	**222,328**

24. Financial Assets and Liabilities (continued)

Fair value of financial instruments

The carrying value of financial assets and financial liabilities presented represent a reasonable approximation of fair value.

25. Net Debt Reconciliation

Movements on net debt comprise:

31 DECEMBER 2022	Cash and cash equivalents	Borrowings	Lease liabilities	Total
	$'000	$'000	$'000	$'000
Net debt as at 1 January 2022	**47,579**	**(36,216)**	**(222,328)**	**(210,965)**
Borrowings and redemption premium repaid	-	39,070	-	39,070
Interest paid on borrowings	-	(2,854)	-	(2,854)
Additions	-	-	(14,138)	(14,138)
Interest on lease liabilities	-	-	(15,553)	(15,553)
Repayment of lease liabilities	-	-	23,002	23,002
Other movements on lease liabilities	-	-	1,056	1,056
Discontinued operations	-	-	151,402	151,402
Proceeds for sale of business	39,775	-	-	39,775
Post completion working capital funding by acquirer	(8,593)	-	-	(8,593)
Cash flows	(61,484)	-	-	(61,484)
Foreign exchange movements	22	-	(241)	(219)
Net debt as at 31 December 2022	**17,299**	**-**	**(76,801)**	**(59,502)**
Due within one year	**17,299**	**-**	**(6,548)**	**10,751**
Due in more than one year	**-**	**-**	**(70,253)**	**(70,253)**
	17,299	**-**	**(76,801)**	**(59,502)**

31 DECEMBER 2021	Cash and cash equivalents	Borrowings	Lease liabilities	Total
	$'000	$'000	$'000	$'000
Net debt as at 1 January 2021	**59,139**	**(36,137)**	**(208,224)**	**(185,222)**
Borrowings and interest repaid	-	2,787	-	2,787
Interest on borrowings	-	(3,020)	-	(3,020)
Additions	-	-	(27,871)	(27,871)
Interest on lease liabilities	-	-	(17,417)	(17,417)
Repayment of lease liabilities	-	-	25,483	25,483
Other movements on lease liabilities	-	-	1,372	1,372
Transferred to held for sale	-	-	4,150	4,150
Cash flows	(9,670)	-	-	(9,670)
Foreign exchange movements	(1,890)	154	179	(1,557)
Net debt as at 31 December 2021	**47,579**	**(36,216)**	**(222,328)**	**(210,965)**
Due within one year	**47,579**	**(253)**	**(7,702)**	**39,624**
Due in more than one year	**-**	**(35,963)**	**(214,626)**	**(250,589)**
	47,579	**(36,216)**	**(222,328)**	**(210,965)**

26. Reconciliation of Profit/(Loss) After Tax to Net Operating Cash Flows

	YEAR 31 DECEMBER 2022	YEAR 31 DECEMBER 2021
	$'000	$'000
Profit/(loss) after income tax	(43,996)	741
Adjustments for non cash items:		
Depreciation and amortisation	12,305	14,762
(Gain)/loss on disposal of property, plant and equipment	1,092	(13)
Remeasurement of lease liabilities	795	(987)
Loss on discontinued operations	39,280	-
Deferred tax	(1,328)	(1,660)
Foreign currency loss	(215)	158
Fair value remeasurement of earnouts	(585)	(961)
Share options granted	-	259
Adjustments for items classified as investing or financing activities:		
Finance costs	18,407	20,446
Loss on settlement of bonds	238	-
Working capital movements relating to operating activities:		
Increase/(decrease) in funding received in advance	(10,575)	3,401
(Increase)/decrease in other current assets	(620)	(624)
Increase/(decrease) in trade and other payables	5,453	6,382
Increase/(decrease) in current income tax payables	(1,983)	(226)
Increase/(decrease) in employee entitlements	2,256	2,260
Other items:		
Business combination earnouts classified as investing	-	(3,283)
Bond costs classified as investing	-	216
Net cash flows from operating activities	20,524	40,871

Working capital movements are adjusted to reflect the disposal of discontinued operations and to include any assets held for sale.

27. Commitments and Contingencies

Operating lease commitments – Group as lessee

Future minimum rentals of office equipment recorded as a leased asset at 31 December 2022 are:

	AS AT 31 DECEMBER 2022	AS AT 31 DECEMBER 2021
	$'000	$'000
Within one year	69	612
After one year but not more than five years	168	2,150
Total	**237**	**2,762**

27. Commitments and Contingencies (continued)

Capital commitments

There were no estimated capital commitments for centre upgrade projects not yet completed at 31 December 2022 and not provided for (2021: $0.3 million).

Guarantees

For the Australian operation, a total of A$2.4million (2021: A$2.5 million) of bank lease guarantees has been utilised. These funds are held in a term deposit.

Contingencies

There are no material contingent liabilities not already disclosed as at 31 December 2022.

28. Related Party Transactions

Identity of related parties

Related parties of the Group are:

- The Board of Directors comprising Hamish Stevens, Adrian Fonseca, Chris Scott, Chris Sacre (resigned 31 October 2022), and Kim Campbell.
- J 47 Pty Limited, a company of which Chris Scott is the sole director and shareholder.
- Upton124 Pty Limited, a company of which Chris Sacre is a director.
- Sovana Child Care Pty Limited, a company of which Adrian Fonseca is the sole director and shareholder, and is a trustee of Sovana Child Care Trust.
- Vasona Pty Limited, a company of which Adrian Fonseca is a director and sole shareholder.

Related party relationships that have ceased during the current year or in the prior year are:

- Chris Sacre resigned as Non-Independent Director on 31 October 2022.
- Timothy Wong resigned as Chief Executive Officer of the New Zealand operations of the Group on 30 March 2021.

Related party transactions arising during the year:

Transactions between the Company and its Directors, members of its key management and certain employees can be summarised as follows:

- **Directors' remuneration** - The Directors' fees pool is currently $500,000 per annum (plus GST, if any), with the amount of fees paid during the period disclosed in the table below. 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 the Group's business.

28. Related Party Transactions (continued)

Related party transactions arising during the year: (continued)

	YEAR 31 DECEMBER 2022	YEAR 31 DECEMBER 2021
	$'000	$'000
Hamish Stevens	135	135
Chris Scott	80	80
Chris Sacre (resigned 31 October 2022)	67	80
Kim Campbell	90	90
Adrian Fonseca	90	90
Total Directors' Remuneration	**462**	**475**

- **Directors' indemnity and insurance** – the Company 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 the Company, in each case to the extent permitted by the Companies Act 1993.
- **Compensation of key management personnel of the Group:**

		YEAR 31 DECEMBER 2022	YEAR 31 DECEMBER 2021
	Note	$'000	$'000
Short-term employee benefits		618	662
Termination benefit	6	-	259
Total compensation paid to key management personnel		**618**	**921**

The amounts disclosed in the table are the amounts recognised as an expense during the reporting period related to key management personnel.

Shareholding interests of Directors and key management of the Company:

	AS AT 31 DECEMBER 2022	AS AT 31 DECEMBER 2021
Units of shares		
Chris Scott	26,227,514	26,227,514
Chris Sacre (resigned 31 October 2022)	-	8,128,332
Adrian Fonseca	2,156,250	2,156,250
Kim Campbell	3,750	3,750
	28,387,514	**36,515,846**

29. Auditor's Remuneration

During the year the following fees were paid or payable for services provided by the Group's auditor, Grant Thornton New Zealand:

	YEAR 31 DECEMBER 2022	YEAR 31 DECEMBER 2021
	$'000	$'000
Assurance services:		
Audit and review of the consolidated financial statements:	189	180
Other assurance engagements	35	2
Total assurance services	**224**	**182**

30. Events After the Reporting Period

Change of Name

On 10 February 2023 Embark changed its name from "Embark Education Limited" to "Embark Education Group Limited". The name change is for administrative purposes only in order to allow the Company to meet Australian corporate registration requirements.

New Director

Renita Garard (AM, OLY, FCA) was be appointed as Independent Director of the Company with effect from 1 January 2023.

Directors' Declaration

In the Directors' opinion:

a) the financial statements and notes set out on pages 2 to 52 are in accordance with NZ IFRS and give a true and fair view, in all material respects, of the consolidated entity's financial position as at 31 December 2022 and of its performance for the financial year ended on that date; and
b) at the date of this declaration, there are reasonable grounds to believe that the members of the closed Group will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in Note 24 - Financial Assets and Liabilities.

Note 2 - Basis of Preparation, confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of the Directors.

Hamish Stevens
Chair
28 February 2023

Adrian Fonseca
Chair of the Audit and Risk Committee
28 February 2023