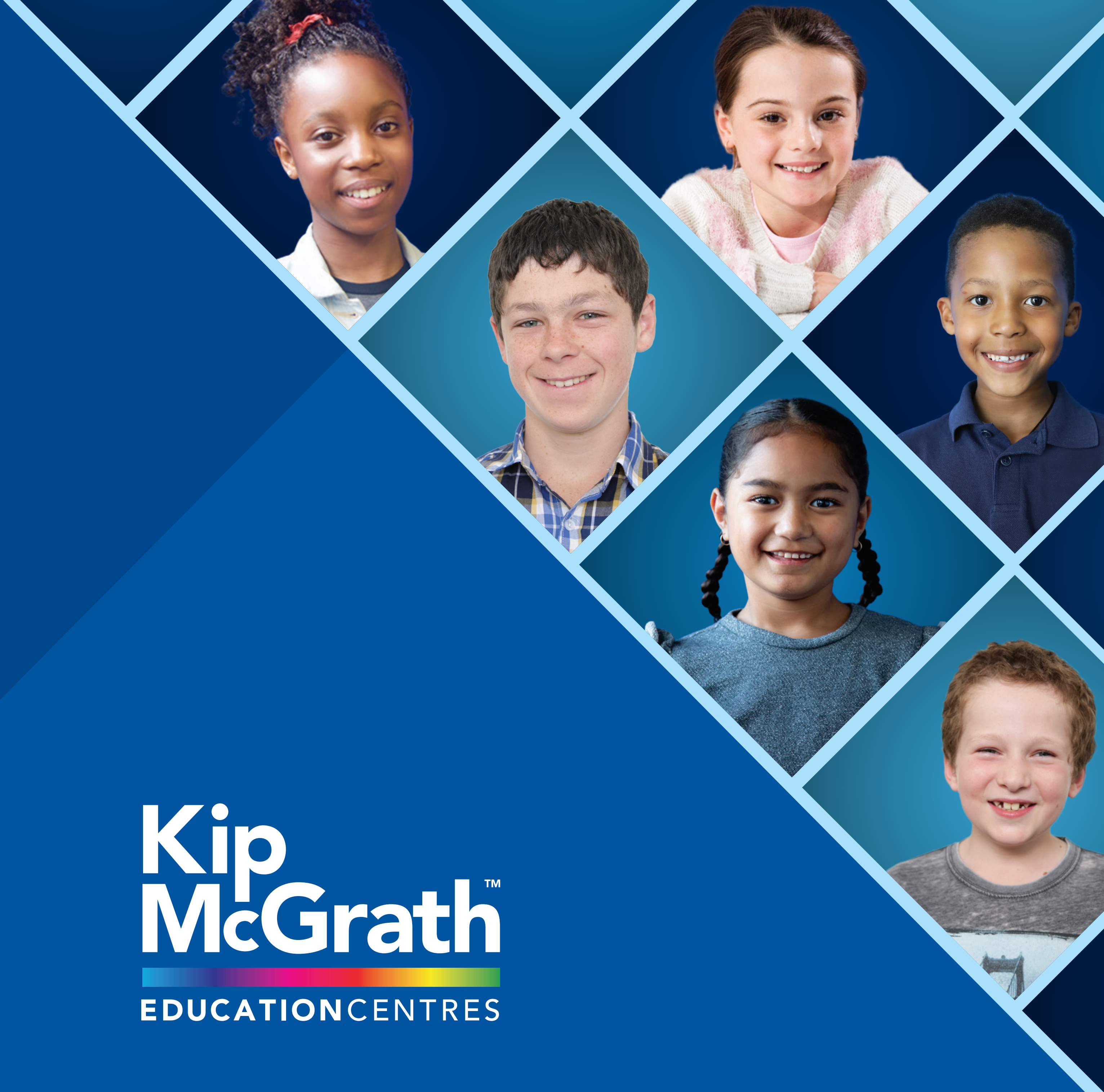

Kip McGrath™
EDUCATION CENTRES

2019 ANNUAL REPORT

Kip McGrath Education Centres Ltd • ABN 73 003 415 889

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Kip McGrath Education Centres Limited
Appendix 4E
Preliminary final report

1. Company details

Name of entity:	Kip McGrath Education Centres Limited
ABN:	73 003 415 889
Reporting period:	For the year ended 30 June 2019
Previous period:	For the year ended 30 June 2018

2. Results for announcement to the market

The consolidated entity has adopted Accounting Standards AASB 9 'Financial Instruments' and AASB 15 'Revenue from Contracts with Customers' for the ended 30 June 2019. The Accounting Standards have been applied retrospectively and comparatives have been restated, where applicable.

				$'000
Revenues from ordinary activities	up	24.5%	to	16,263
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	up	27.6%	to	5,207
Profit from ordinary activities after tax attributable to the owners of Kip McGrath Education Centres Limited	up	17.2%	to	2,652
Profit for the year attributable to the owners of Kip McGrath Education Centres Limited	up	17.2%	to	2,652

Dividends
A final dividend for the year ended 30 June 2018 of 2.0 cents per ordinary share, 100% fully franked, was paid on 21 September 2018. The total distribution was $900,686.

On 22 February 2019, the directors declared a fully franked interim dividend of 1.5 cents per ordinary share for the year ending 30 June 2019 and was paid on 21 March 2019 to those shareholders on the register at 7p.m. on 7 March 2019. The total distribution was $675,515.

On 23 August 2019, a final dividend for the year ended 30 June 2019 of 2.5 cents per ordinary share, 100% fully franked, was declared and will be paid on 17 September 2019 to those shareholders on the register at 7p.m. on 3 September 2019. The total distribution will be $1,130,858.

Comments
The profit for the consolidated entity after providing for income tax amounted to $2,652,000 (30 June 2018: $2,263,000).

Refer to Chairman's report and Chief Executive Officer's message for further commentary.

The following table summarises key reconciling items between statutory profit after tax attributable to the owners of Kip McGrath Education Centres and EBITDA.

Kip McGrath Education Centres Limited
Appendix 4E
Preliminary final report

	Consolidated 2019 $'000	Restated 2018 $'000
Revenue	16,263	13,060
EBITDA	5,207	4,079
Less: Depreciation and amortisation	(1,593)	(1,074)
Less: Interest expense	(55)	(58)
Add: Interest income	-	2
Profit before Income tax expense	3,559	2,949
Income tax expense	(907)	(686)
Profit after income tax expense	2,652	2,263

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	(1.30)	(3.63)

4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable.

6. Dividend reinvestment plans

Not applicable.

7. Details of associates and joint venture entities

Not applicable.

8. Foreign entities

Details of origin of accounting standards used in compiling the report:

Not applicable.

9. Audit qualification or review

Details of audit/review dispute or qualification (if any):

The financial statements have been audited and an unqualified opinion has been issued.

Kip McGrath Education Centres Limited
Appendix 4E
Preliminary final report

10. Attachments

Details of attachments (if any):

The Annual Report of Kip McGrath Education Centres Limited for the year ended 30 June 2019 is attached.

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11. Signed

Signed ___________________________ Date: 23 August 2019

Ian Campbell
Chairman
Newcastle

Kip McGrath Education Centres Limited

ABN 73 003 415 889

Annual Report - 30 June 2019

Kip McGrath Education Centres Limited
Corporate directory
30 June 2019

Directors	Ian Campbell - Chairman Kip McGrath (retired on 5 August 2019) Trevor Folsom Diane Pass Storm McGrath (appointed on 5 August 2019)
Company secretary	Brett Edwards
Notice of annual general meeting	The details of the annual general meeting of Kip McGrath Education Centres Limited are: Level 18, Grosvenor Place, 225 George Street, Sydney, 2000, Australia Friday 15 November 2019 at 11:00 a.m. (AEST)
Registered office	Level 3 6 Newcomen Street Newcastle, NSW 2300 Head office telephone: 02 4929 6711
Share register	Computershare Investor Services Pty Limited 117 Victoria Street, West End, QLD 4101 Shareholders enquiries: 1300 787 272
Auditor	PKF Newcastle 755 Hunter Street Newcastle West, NSW 2302
Bankers	HSBC Bank Australia Ltd Tower 1, International Towers Sydney Level 36 100 Barangaroo Avenue Sydney NSW 2000
Stock exchange listing	Kip McGrath Education Centres Limited shares are listed on the Australian Securities Exchange (ASX code: KME)
Website	www.kipmcgrath.com

Kip McGrath Education Centres Limited
Chairman's letter
30 June 2019

Dear Shareholders,

On behalf of the Board of Directors it gives me great pleasure to report a record net profit after tax of $2.6M for the 2019 year which is an increase of 17.2% over the previous year. In addition, EBITDA of $5.2M increased by 27.6% with strong contributions from our major markets in the United Kingdom, Australia and New Zealand through growth in numbers of centres, Gold Partners, student face to face and online lessons. Cash flow remains strong.

We are fortunate to have a strong management team with a wealth of experience. Led by CEO Storm McGrath the team is well aligned with the Board's key strategic direction on growth and improving shareholder return. I thank them for their commitment and achievement this past year.

The company has been able to demonstrate over the long term its ability to adapt to changes demanded by parents and students in a fast-moving world and in so doing remain a leading global player in the education sector. In recent years we have invested wisely in strengthening communication and education to our franchise network through continued technology advancements in back office support, online tutoring and online booking systems. In addition, our national advertising programs have resonated well in all markets giving us an edge in lead generation.

As announced on 30 May and in line with our global policy to centralise franchise servicing, we purchased the Area Developer's business for the UK's North East and Yorkshire territories. This is expected to have a positive impact on EBITDA of $280,000 for the 2020 year and $370,000 in the 2021 financial year.

Future growth will continue to come from our core business in franchisee owned centres and increasing online revenue, with marketing efforts focused on building lesson numbers in both these areas. At the same time, we have recently introduced a new initiative - establishing corporate owned centres in selective thriving shopping centre locations which is expected to produce additional profit in the medium to long term.

As announced on 5 August, Kip McGrath founder and largest shareholder retired from the Board and made himself available for ongoing consultancy as and when required. Kip's contribution over 43 years in building a business which now provides over 1.3 million lessons a year to students in 14 countries worldwide has been a remarkable effort and provides the solid platform which enables the Company to continue its growth curve with confidence.

Today, the Board declared a fully franked final dividend of 2.5 cents per share payable on 17 September 2019 to those shareholders on the register at 7pm on 3 September 2019. This takes the total dividends for the 2019 year to 4 cents (2018 – 3 cents), an increase of 33%.

On behalf of the entire Kip McGrath team, I would like to extend my appreciation for your continued support of the company. I encourage you to attend the 2019 Annual General Meeting which provides the opportunity to gain an informed insight into the operations and performance of your Company whilst also dealing with the statutory business of the day.
We look forward to continuing to share the Kip McGrath journey with you.

Ian Campbell
Chairman
23 August 2019

Kip McGrath Education Centres Limited
Chief Executive Officer's message
30 June 2019

Kip McGrath Education Centres Limited has continued to grow strongly with an EBITDA increase from $4.1M to $5.2M. Revenue increased from $13.1M to $16.2M due to increased student numbers, increase in gold partners and an overall increase in centre numbers. This is the 8th year in a row of continued profit growth.

We are seeing continued student increases through an expanded market, our consistency in service delivery over our 43-year history and recent successful national advertising programs.

Overview of our major initiatives:

1. *Gold Partner Franchisees*
   We have 311 Gold Partners which is an increase of 44 (16%) from last year. Gold Partner student numbers on average are higher than Silver Partners as the Franchisees can focus more on the teaching side of their business, due to the additional Corporate support they receive. Gold Partners now make up 83% of total franchise fees.

2. *Online Tutoring*
   Online tutoring is continuing to grow steadily with 2,500 lessons per month a pleasing 67% increase from 1500 last year. Parents are still uncertain about online tutoring and prefer face to face however this is changing as parents see the convenience and the excellent outcomes their children achieve. We are redeveloping the software after 4 years of knowledge and 50,000+ lessons. This new software will be trialled in early 2020.

3. *National Marketing*
   Campaigns in Australia, UK and New Zealand continue to be highly successful. Overall traffic to the website continues to grow strongly as we use a combination of TV, radio and digital advertising.

4. *Online Booking System*
   The online booking system has been live for 12 months in the UK, Australia and New Zealand. Enabling parents to self select a free assessment directly has delivered an increase in the quality of the lead. The booking system now accounts for nearly half of all assessments and reduces administration time for franchisees.

5. *Technology Development*
   We are currently rebuilding all our tutoring and franchise software due to the current systems being between 4 and 8 years old. We alpha trialled our new student learning software in-centre and continue to work towards beta testing in September. We have almost completed the integration of Xero for -Gold Partners to manage the accounting and payroll requirements of their business. Salesforce is being used for Corporate management of franchisees. We expect to upgrade our internal software and systems over the next 18 months.

6. *Purchase of Master Franchise territories and Area Developers.*
   The purchase of North East and Yorkshire territories in the UK is on track for the 1st of September. This purchase will add to EBITDA during the 2020 financial year.

New Developments

We have been operating an online tutoring centre from the Corporate Head Office for over 4 years. Due to the invaluable feedback and testing, we have decided to trial the operation of Corporate owned centres. We have purchased two existing centres and opened two new ones. Three of the centres are within a short drive of the Corporate Head Office in Newcastle. One is in Canberra and is a long-established successful centre. At the time of writing we have more than 600 lessons being delivered weekly by Corporate Centres. This represents a change in strategy which we take very seriously. The goal of Corporate owned centres is the same as any large franchise organisation where we open centres based on the best opportunity. Once the opportunity is identified we will decide the best operator – either an outstanding Franchisee or a Corporate Manager.

Corporate Centres are also providing an invaluable learning and development opportunity for Franchisees who wish to continue to grow and develop their business.

Kip McGrath Education Centres Limited
Chief Executive Officer's message
30 June 2019

Outlook

We expect revenue, profit and margins will continue to grow through a combination of the ongoing development and automation of the software as a service, our national advertising campaigns and the option for students to choose between face to face and online tuition.

I would like to thank the Master Franchisees, Area Developers, Franchisees and employees for their hard work and support throughout the year. I would also like to thank our dedicated and motivating teachers and the parents who continue to bring their children to Kip McGrath. We are committed to our motto **'every child can learn, they just have to be taught well'**, and we will continue to achieve this for our current 40,000 students and the thousands who will join Kip McGrath in the future.

Storm McGrath
Chief Executive Officer
23 August 2019

Kip McGrath Education Centres Limited
Directors' report
30 June 2019

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Kip McGrath Education Centres Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2019.

Directors
The following persons were directors of Kip McGrath Education Centres Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Kip McGrath (retired as Chairman and Director on 5 August 2019)
Ian Campbell (appointed as Chairman on 5 August 2019)
Trevor Folsom
Diane Pass
Storm McGrath (appointed as Executive Director on 5 August 2019)

Principal activities
The principal activities of the consolidated entity during the course of the financial year continued to be the sale of franchises and providing services to franchisees in the education field. The consolidated entity operates in Australia and overseas, principally in the United Kingdom and New Zealand.

Dividends
Dividends paid during the financial year were as follows:

	Consolidated 2019 $'000	Consolidated Restated 2018 $'000
Final dividend for the year ended 30 June 2018 of 2.0 cents (2017: 1.4 cents) per ordinary share	901	630
Interim dividend for the year ended 30 June 2019 of 1.5 cents (2018: 1.0 cents) per ordinary share	675	451
	1,576	1,081

On 23 August 2019, a final dividend for the year ended 30 June 2019 of 2.5 cents per ordinary share, 100% fully franked, was declared and will be paid on 17 September 2019 to those shareholders on the register at 7p.m. on 3 September 2019. The total distribution will be $1,130,858.

Review of operations
The profit for the consolidated entity after providing for income tax amounted to $2,652,000 (30 June 2018: $2,263,000).

Strong revenue growth continues to come from the United Kingdom (2019: $8,323,000 versus $6,458,000 in 2018, up 29%) where the government incentives for tutoring are driving both strong centre and lesson number growth.

In the Australasian market, performance was also strong (2019: $6,860,000 versus 2018: $5,661,000 up 21%) with solid franchise fee growth in the both Australian and New Zealand businesses. Revenue from other markets grew at 14% (2019: $1,080,000 versus 2018: $941,000) with good performances in the UAE and South African markets.

The number of Gold Partners grew to 124 in the Australian market (83% of total centres) and to 181 in the UK market (66% of total centres). Overall centre numbers globally grew to 565 (2018: 550) mainly coming out of the UK market.

Lesson numbers on the Insight system continued to grow, with total attended lesson numbers for the financial year reaching 1,367,000 – up 11% compared to the prior year figure of 1,233,000. Lessons in the United Kingdom are up 12% due to the factors noted above, while Australian lesson numbers grew by 8%. Other markets were more subdued growing an average of 3%.

The earnings before interest, tax, depreciation and amortisation ('EBITDA') amounted to $5,207,000 (2018: $4,079,000).

The following table summarises key reconciling items between statutory profit after tax attributable to the shareholders of Kip McGrath Education Centres and EBITDA.

Kip McGrath Education Centres Limited
Directors' report
30 June 2019

	Consolidated 2019 $'000	Consolidated Restated 2018 $'000
Revenue	16,263	13,060
EBITDA	5,207	4,079
Less: Depreciation and amortisation	(1,593)	(1,074)
Less: Interest expense	(55)	(58)
Add: Interest income	-	2
Profit before Income tax expense	3,559	2,949
Income tax expense	(907)	(686)
Profit after income tax expense	2,652	2,263

Significant changes in the state of affairs
There were no significant changes in the state of affairs of the consolidated entity during the financial year.

Matters subsequent to the end of the financial year
No matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Likely developments and expected results of operations
The company has commenced operating a number of Corporately owned Education Centres in the Australian market as part of a strategy to drive growth and greater franchisee engagement. More details are set out in the CEO’s Report. It is expected that future growth will continue to be in line with recent experience.

Environmental regulation
The consolidated entity is not subject to any significant environmental regulation under Australian Commonwealth or State law.

Information on directors

Name:	Kip McGrath (retired as Chairman and Director on 5 August 2019)
Title:	Non-Executive Director and Chairman
Experience and expertise:	As co-founder, Kip's primary responsibility is strategic planning and developing the "Train-the-Trainer" programs.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	None
Interests in shares:	16,078,474 ordinary shares (including 11,051,474 directly held)
Interests in options:	None

Kip McGrath Education Centres Limited
Directors' report
30 June 2019

Name:	Ian Campbell (appointed as Chairman on 5 August 2019)
Title:	Non-Executive Director and Chairman
Qualifications:	FCA, MAICD
Experience and expertise:	Ian joined the Board on 25 August 2009 after a 32 year career with the international accounting firm Ernst & Young principally working with entrepreneurial companies and the capital markets. Ian is a Fellow of Chartered Accountants Australia and New Zealand and a member of the Australian Institute of Company Directors. He is currently a non-executive director of CVC Limited, Redox Pty Ltd and Bigstone Capital Pty Ltd. His previous non-executive director roles included Gloria Jean's Coffees International Pty Limited, Green's Foods Holdings Pty Ltd and Young Achievement Australia Limited and he was a partner with the Board search practice of the Allegis Group (formerly Talent2).
Other current directorships:	CVC Ltd
Former directorships (last 3 years):	None
Special responsibilities:	Chairman of the Audit Committee and member of the Remuneration Committee
Interests in shares:	500,000 ordinary shares
Interests in options:	None

Name:	Trevor Folsom
Title:	Non-Executive Director
Experience and expertise:	Trevor has extensive background and experience and is acknowledged for his ability to engage, invest and advise growth companies, particularly in the technology sector. He is a successful entrepreneur in his own right, developing, from start up, Blueprint Management, which he sold in 2008. He is currently a Director of Elevation Capital, an early stage technology investment company.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Member of the Audit Committee and member of the Remuneration Committee
Interests in shares:	65,000 ordinary shares

Name:	Diane Pass
Title:	Non-Executive Director
Experience and expertise:	Diane is the Founder and Director of the human resources consultancy firm 360HR. She has more than 25 years local, national and international experience in the recruitment and consulting industry. She is accomplished in creating and delivering engaging professional development programs, public speaking and leading complex management consulting assignments. She currently sits on the Boards of Not for Profit organisations, Wheelchair Sports NSW and Jobsupport ('Employment for People with Intellectual Disability). From 2001 to 2018 she was Chair of the Advisory Council of Sydney Institute of TAFE NSW. Diane is also a member of the Australian Institute of Company Directors.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Chairman of the Remuneration Committee and member of the Audit Committee
Interests in shares:	55,000 ordinary shares

Kip McGrath Education Centres Limited
Directors' report
30 June 2019

Name:	Storm McGrath (appointed as Executive Director on 5 August 2019)
Title:	Executive Director, Chief Executive Officer and Investor Relations
Qualifications:	Master of Business Administration
Experience and expertise:	Storm is currently the CEO of Kip McGrath Education Centres Ltd. Storm first joined the board in 1997 to advise on technology and strategy. At the time he had been running two successful businesses of his own. He joined the executive team in 2000 and was employed to run the IT department and general operations and later went on to be responsible for global franchise sales. In 2005 he was appointed joint managing director and in 2007 he was appointed managing director. He is responsible for day to day operations and strategic direction of the company.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	None
Interests in shares:	1,102,731 ordinary shares
Interests in options:	1,500,000 options over ordinary shares

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships in all other types of entities, unless otherwise stated.

'Former directorships (in the last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships in all other types of entities, unless otherwise stated.

Company secretary
Brett Edwards is a Fellow of Chartered Accountants Australia and New Zealand and a member of the Australian Institute of Company Directors. He has 30 years of experience in accounting and reporting in a number of major Australian and international businesses, including 10 years with international accounting firm Ernst & Young. He was previously a director of GMAC Australia LLC, a US company operating in the finance segment in Australia.

Meetings of directors
The number of meetings of the company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2019, and the number of meetings attended by each director were:

	Full Board		Remuneration Committee		Audit Committee	
	Attended	Held	Attended	Held	Attended	Held
Kip McGrath	8	8	-	-	-	-
Ian Campbell	7	8	2	2	4	4
Trevor Folsom	8	8	2	2	4	4
Diane Pass	7	8	2	2	3	4

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee.

Remuneration report (audited)
The remuneration report, which has been audited, outlines the director and other key management personnel ('KMP') arrangements for the consolidated entity, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

KMP are defined as those who have the authority and responsibility for planning, directing and controlling the major activities of the consolidated entity.

The remuneration report is set out under the following main headings:
- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation
- Additional information
- Additional disclosures relating to KMP

Kip McGrath Education Centres Limited
Directors' report
30 June 2019

Principles used to determine the nature and amount of remuneration

The objective of the consolidated entity's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and it is considered to conform to market best practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness;
- acceptability to shareholders;
- performance linkage / alignment of KMP compensation; and
- transparency.

The Remuneration Committee ('RC') is responsible for determining and reviewing remuneration arrangements for its KMP. The performance of the consolidated entity depends on the quality of its KMP. The remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

The remuneration committee makes recommendations to the Board in relation to remuneration of non-executive directors, and establishes, reviews and approves remuneration terms and the performance of the chief executive officer. The committee also assists the chief executive officer in the remuneration review of senior executives and sets the remuneration package of the chief executive officer for approval by the Board.

In accordance with best practice corporate governance, the structure of non-executive director and executive director remuneration is separate.

Non-executive directors' remuneration

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the RC. The committee may take the advice of independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market. The fees for the chair of the Board are determined independently to the fees of other non-executive directors based on comparative roles in the external market. Non-executive directors do not receive share options or other incentives.

ASX listing rules requires that the aggregate non-executive directors' remuneration be determined periodically by a general meeting. The most recent determination was at the Annual General Meeting held on 20 November 2015, where the shareholders approved a maximum aggregate remuneration of $400,000.

Executive remuneration

The consolidated entity aims to reward KMP based on their position and responsibility, with a level and mix of remuneration, which has both fixed and variable components.

The KMP remuneration and reward framework has four components:

- base pay and non-monetary benefits;
- short-term performance incentives;
- share-based payments; and
- other remuneration, such as superannuation and long service leave.

The combination of these comprises the KMP's total remuneration.

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, are reviewed annually by the RC, based on individual and business unit performance, the overall performance of the consolidated entity and comparable market remuneration.

KMPs can receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the consolidated entity and adds additional value to the KMP.

The short-term incentives ('STI') program is designed to align the targets of the business units with the performance hurdles of executives. STI payments are granted to executives based on specific annual targets and key performance indicators ('KPI') being achieved. KPI’s for the chief executive officer are set by the RC and currently focus on the consolidated entity's financial performance measured by reference to annual after-tax profit. The KPI's of other executives are set by the chief executive officer and are reviewed in consultation with the chair of the Board.

Kip McGrath Education Centres Limited
Directors' report
30 June 2019

Long-term incentives ('LTI') include share options and long service leave. An employee share option plan was approved by shareholders in 2012, the objective of which is to assist in the recruitment, reward, retention and motivation of key employees and directors by facilitating the offering of options over ordinary shares, subject to performance and loyalty hurdles. The plan aims to give selected employees and directors the opportunity to share in the future growth and profitability of the company by better aligning their interests with those of shareholders and provides greater incentive for them to work towards achieving the longer term goals of the company.

Under the plan, the board has discretion to decide which full or part-time employees or directors of the company (or related body corporate) will be invited to acquire options, the number of options to be offered, any vesting conditions such as performance targets or minimum vesting periods, the applicable exercise price (which must be at least equal to the market value of shares at the time of the offer), and any other terms of issue.

Consolidated entity performance and link to remuneration
KMP remuneration is linked to the performance of the consolidated entity. Bonus and incentive payments are at the discretion of the Board.

Use of remuneration consultants
The consolidated entity did not engage the use of a remuneration consultant during the financial year ended 30 June 2019.

Voting and comments made at the company's 2018 Annual General Meeting ('AGM')
At the 2018 AGM, 94% of the shareholders voted to adopt the remuneration report for the year ended 30 June 2018. The company did not receive any specific feedback at the AGM regarding its remuneration practices.

Details of remuneration

Amounts of remuneration
Details of the remuneration of the directors and other KMP of Kip McGrath Education Centres Limited are set out in this section.

The Board has reviewed those members of staff identified as KMP and has updated disclosures accordingly. The KMP of the consolidated entity now consists of the directors of Kip McGrath Education Centres Limited and the following persons:
- Storm McGrath - Chief Executive Officer and Investor Relations
- Brett Edwards - Company Secretary and Chief Financial Officer
- Jackie Burrows - Chief Executive Officer UK Business
- Catherine Cook - Global Curriculum and Training Manager (resigned in April 2019)

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	Share-based payments	
2019	Cash salary and fees $	Bonus $	Non-monetary $	Super-annuation $	Leave benefits $	Equity-settled shares $	Equity-settled options $	Total $
Non-Executive Directors:								
Kip McGrath (Chairman)	107,446	-	3,611	9,476	-	-	-	120,533
Ian Campbell	77,098	-	3,611	7,324	-	-	-	88,033
Trevor Folsom	67,975	-	3,611	6,456	-	-	-	78,042
Diane Pass	67,975	-	3,611	6,457	-	-	-	78,043
Other Key Management Personnel:								
Storm McGrath	361,137	50,000	3,611	36,683	-	-	10,000	461,431
Brett Edwards	213,733	17,250	3,611	21,279	-	-	4,634	260,507
Jackie Burrows	163,636	13,636	3,611	-	-	-	3,654	184,537
Catherine Cook *	183,885	-	3,009	18,894	-	-	3,045	208,833
	1,242,885	80,886	28,286	106,569	-	-	21,333	1,479,959

Kip McGrath Education Centres Limited
Directors' report
30 June 2019

* Includes remuneration from the beginning of the year to the date of resignation in April 2019.

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	Share-based payments	
2018	Cash salary and fees $	Bonus $	Non-monetary $	Super-annuation $	Leave benefits $	Equity-settled shares $	Equity-settled options $	Total $
Non-Executive Directors:								
Kip McGrath (Chairman) *	132,192	-	2,146	7,808	-	-	-	142,146
Ian Campbell	63,927	-	2,146	6,073	-	-	-	72,146
Trevor Folsom	54,794	-	2,146	5,205	-	-	-	62,145
Diane Pass	54,794	-	2,146	5,205	-	-	-	62,145
Other Key Management Personnel:								
Storm McGrath	317,941	25,000	2,146	30,204	-	-	26,585	401,876
Brett Edwards	191,254	15,000	2,146	19,095	-	-	9,129	236,624
Jackie Burrows	142,857	16,071	2,146	-	-	-	2,694	163,768
Catherine Cook	145,768	15,000	2,146	14,560	-	-	2,283	179,757
Julie Russell **	127,503	15,000	2,146	12,730	-	-	2,283	159,662
Peter Hepp **	127,327	5,000	2,146	12,690	-	-	2,283	149,446
Brad Leach **	59,059	5,600	6,547	6,210	-	-	-	77,416
Chris Lee **	18,654	-	882	1,772	-	-	-	21,308
	1,436,070	96,671	28,889	121,552	-	-	45,257	1,728,439

* Kip McGrath received a $90,000 fee as Non-executive Chairman plus additional remuneration for agreed services.
** No longer included as members of KMP.

The proportion of remuneration linked to performance and the fixed proportion are as follows:

	Fixed remuneration		At risk - STI		At risk - LTI	
Name	2019	Restated 2018	2019	Restated 2018	2019	Restated 2018
Non-Executive Directors:						
Kip McGrath	100%	100%	-	-	-	-
Ian Campbell	100%	100%	-	-	-	-
Trevor Folsom	100%	100%	-	-	-	-
Diane Pass	100%	100%	-	-	-	-
Other Key Management Personnel:						
Storm McGrath	87%	87%	11%	6%	2%	7%
Brett Edwards	91%	90%	7%	6%	2%	4%
Jackie Burrows	91%	88%	7%	10%	2%	2%
Catherine Cook	92%	91%	7%	8%	1%	1%
Julie Russell	-	90%	-	9%	-	1%
Peter Hepp	-	95%	-	3%	-	2%
Brad Leach	-	93%	-	7%	-	-
Chris Lee	-	100%	-	-	-	-

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30 June 2019

Service agreements
KMP have standard contracts of employment that have no entitlement to termination payments in the event of removal for misconduct. Termination can be made by either the consolidated entity or the individual subject to one to six months' notice. Some KMP has entitlements to performance incentives as detailed below:

- Storm McGrath has entitlements to performance incentives of up to 17% of salary plus an additional incentive for over budget performance;
- Jackie Burrows has entitlements to performance incentives based on sales, and
- Other KMP have specific performance incentives of up to 7.5% of salary.

Share-based compensation

Issue of options
Details of options over ordinary shares granted to directors and other KMP as part of compensation during the year, or that otherwise has affected the remuneration of directors and other KMP for the year ended 30 June 2019, are set out below:

Name	Grant Date	No. of options granted	Exercise price	No. of options lapsed during year
Storm McGrath	21 Nov 2014	1,000,000	$0.350	-
	27 Oct 2017	500,000	$0.370	-
Brett Edwards	20 Aug 2014	150,000	$0.350	-
	19 Aug 2016	100,000	$0.300	-
	9 Oct 2017	150,000	$0.370	-
Jackie Burrows	19 Aug 2016	100,000	$0.300	-
	9 Oct 2017	100,000	$0.370	-

The terms and conditions of each grant of options over ordinary shares affecting remuneration of directors and other KMP in this financial year or future reporting years are as follows:

Grant date	No. granted	Vesting date	Exercise price	Fair value per option at grant date
20 Aug 2014	150,000	31 Dec 2019	$0.350	$0.172
21 Nov 2014	1,000,000	31 Dec 2019	$0.350	$0.172
19 Aug 2016	400,000	31 Dec 2021	$0.300	$0.113
9 Oct 2017	450,000	31 Dec 2021	$0.370	$0.104
27 Oct 2017	500,000	31 Dec 2021	$0.370	$0.104

Options granted carry no dividend or voting rights. There were no amounts paid or payable by recipients on the granting of options. Options can only be exercised once vested in the recipient and on or prior to expiry date. Options are not transferable except in special or approved circumstances and will not be listed on the ASX. Shares issued on exercise of options will rank equally with other ordinary shares and will be subject to an application for quotation on the ASX. Options will vest after all specified vesting conditions have been met unless determined otherwise by the board where special circumstances exist, such as in the event of a takeover. Unvested options will lapse immediately the holder ceases employment with the company or where performance targets have not been met prior to expiry. On cessation of employment, the holder has 60 business days to exercise any vested options, or 6 months if employment ceases due to death, disablement or retirement, unless otherwise determined by the board. On exercise, each option converts to one ordinary share in the company.

Vesting of options is subject to meeting a net profit before tax hurdle, meeting annual performance indicators set by the board which are linked to centre number growth, student number growth and on-line business growth.

Issue of shares
There were no shares issued to directors and other KMP as part of compensation during the year ended 30 June 2019 other than those converted from options during the year.

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Additional information

The earnings of the consolidated entity for the five years to 30 June 2019 are summarised below:

	2019 $'000	2018 $'000	2017 $'000	2016 $'000	2015 $'000
Sales revenue	16,263	13,060	13,507	14,569	14,893
EBITDA	5,207	4,079	2,635	2,107	2,025
Profit after income tax	2,652	2,263	1,436	1,203	1,079

The factors that are considered to affect total shareholders return ('TSR') are summarised below:

	2019	2018	2017	2016	2015
Share price at financial year end ($)	0.995	0.580	0.320	0.280	0.480
Basic earnings per share (cents per share)	5.888	5.025	3.199	2.723	2.442
Diluted earnings per share (cents per share)	5.536	4.752	3.069	2.574	2.333

Additional disclosures relating to KMP

Shareholding

The number of shares in the company held during the financial year by each director and other members of KMP of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	Received as part of remuneration	Additions	Sales	Balance at the end of the year
Ordinary shares					
Kip McGrath	16,227,499	-	-	(149,025)	16,078,474
Storm McGrath	1,160,488	-	-	(57,757)	1,102,731
Ian Campbell	500,000	-	-	-	500,000
Jackie Burrows	150,000	-	50,000	-	200,000
Diane Pass	30,000	-	25,000	-	55,000
Trevor Folsom	-	-	65,000	-	65,000
Brett Edwards	-	-	150,000	-	150,000
	18,067,987	-	290,000	(206,782)	18,151,205

Option holding

The number of options over ordinary shares in the company held during the financial year by each director and other members of KMP of the consolidated entity, including their personally related parties, is set out below. Options have not vested in the holder unless indicated otherwise.

	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year	Vested and exercisable
Options over ordinary shares						
Storm McGrath	1,500,000	-	-	-	1,500,000	1,000,000
Brett Edwards	550,000	-	(150,000)	-	400,000	150,000
Jackie Burrows	250,000	-	(50,000)	-	200,000	-
Peter Hepp *	200,000	-	-	(200,000)	-	-
Julie Russell *	200,000	-	-	(200,000)	-	-
Catherine Cook **	200,000	-	-	(200,000)	-	-
	2,900,000	-	(200,000)	(600,000)	2,100,000	1,150,000

* No longer considered KMP but still held their options.
** Options cancelled after resignation in April 2019

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Options do not entitle the holder to receive dividends or any distributions or to participate in any share issue of the company.

Loans to KMP and their related parties
There are no loans to KMP or their related parties.

Other transactions with KMP and their related parties
During the year, $3,650 (2018: $2,937) was paid to 360 HR Pty Ltd, a related party to Diane Pass, for the reimbursement of externally acquired training materials.

In June 2019, a contract was entered into with Catherine Cook (KMP) to provide curriculum resources to the company, and $8,580 has been paid in respect of this contract.

This concludes the remuneration report, which has been audited.

Shares under option
Unissued ordinary shares of Kip McGrath Education Centres Limited under option at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number under option
20 August 2014	31 December 2019	$0.350	150,000
21 November 2014	31 December 2019	$0.350	1,000,000
19 August 2016	31 December 2021	$0.300	400,000
9 October 2017	31 December 2021	$0.370	450,000
27 October 2017	31 December 2021	$0.370	500,000
			2,500,000

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the company or of any other body corporate.

Shares issued on the exercise of options
The following ordinary shares of Kip McGrath Education Centres Limited were issued during the year ended 30 June 2019 and up to the date of this report on the exercise of options granted:

Date options granted	Exercise price	Number of shares issued
28 February 2014	$0.190	200,000

Indemnity and insurance of officers
The company has indemnified the directors and executives of the company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the company paid a premium in respect of a contract to insure the directors and executives of the company against a liability to the extent permitted by the Corporations Act 2001. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

Indemnity and insurance of auditor
The company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

During the financial year, the company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

Proceedings on behalf of the company
No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

Kip McGrath Education Centres Limited
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Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 24 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 24 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

Officers of the company who are former partners of PKF Newcastle

There are no officers of the company who are former partners of PKF Newcastle.

Rounding of amounts

The company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

Auditor

PKF Newcastle continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors

Ian Campbell

____

Ian Campbell
Chairman

23 August 2019
Newcastle

PKF

Kip McGrath Education Centres Limited

ACN: 003 415 889

Auditor's Independence Declaration under section 307C of the *Corporations Act 2001*

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the audit of Kip McGrath Education Centres Limited for the year ended 30 June 2019, I declare that, to the best of my knowledge and belief, there have been:

(i) No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(ii) No contraventions of any applicable code of professional conduct in relation to the audit.

PKF
CHARTERED ACCOUNTANTS

CLAYTON HICKEY
PARTNER

23 AUGUST 2019
NEWCASTLE, NSW

PKF(NS) Audit & Assurance Limited Partnership
ABN 91 850 861 839

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Kip McGrath Education Centres Limited
Corporate Governance Statement
30 June 2019

This Corporate Governance Statement of Kip McGrath Education Centres Limited (the 'company') has been prepared in accordance with the 3rd Edition of the Australian Securities Exchange's ('ASX') Corporate Governance Principles and Recommendations of the ASX Corporate Governance Council ('ASX Principles and Recommendations') and is included in the company's Annual Report pursuant to ASX Listing Rule 4.10.3. This listing rule requires the company to disclose the extent to which it has followed the recommendations during the financial year, including reasons where the company has not followed a recommendation and any related alternative governance practice adopted.

Both this Corporate Governance Statement and the ASX Appendix 4G have been lodged with the ASX. This statement has been approved by the company's Board of Directors ('Board') and is current as at 23 August 2019.

The ASX Principles and Recommendations and the company's response as to how and whether it follows those recommendations are set out below.

Principle 1: Lay solid foundations for management and oversight

Recommendation 1.1 - A listed entity should disclose: (a) the respective roles and responsibilities of its board and management; and (b) those matters expressly reserved to the board and those delegated to management.

The Board is ultimately accountable for the performance of the company and provides leadership and sets the strategic objectives of the company. It appoints all senior executives and assesses their performance on at least an annual basis. It is responsible for overseeing all corporate reporting systems, remuneration frameworks, governance issues, and stakeholder communications. Decisions reserved for the Board relate to those that have a fundamental impact on the company, such as material acquisitions and takeovers, dividends and buy-backs, material profits upgrades and downgrades, and significant closures.

Management is responsible for implementing Board strategy, day-to-day operational aspects, and ensuring that all risks and performance issues are brought to the Boards attention. They must operate within the risk and authorisation parameters set by the Board.

Recommendation 1.2 - A listed entity should: (a) undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director; and (b) provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.

The company undertakes comprehensive reference checks prior to appointing a director, or putting that person forward as a candidate, to ensure that person is competent, experienced, and would not be impaired in any way from undertaking the duties of director. The company provides relevant information to shareholders for their consideration about the attributes of candidates together with whether the Board supports the appointment or re-election.

Recommendation 1.3 - A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.

The terms of the appointment of non-executive directors, executive directors and senior executives are agreed upon and set out in writing at the time of appointment.

Recommendation 1.4 - The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.

The Company Secretary reports directly to the Board through the Chairman on all matters to do with the proper functioning of the board and is accessible to all directors.

Recommendation 1.5 - A listed entity should (a) have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them; (b) disclose that policy or a summary of it; and (c) disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with the entity's diversity policy and its progress towards achieving them, and either: (1) the respective proportions of men and women on the Board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or (2) if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in and published under that Act.

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The company has a diversity policy approved by the Board, which includes requirements for the Board to set measurable objectives for achieving diversity, including gender, and to assess annually both the objectives and the entity's progress in achieving them.

The company is committed to providing an inclusive workplace and recognises the value individuals with diverse skills, values, backgrounds and experiences bring to the company. As a global provider of education services, the company is committed to equality and respect in all locations it operates.

Diversity is recognising and valuing the unique contribution people can make because of their individual background and different skills, experiences and perspectives. People differ not just on the basis of race and gender, but also other dimensions such as lifestyle, education, physical ability, age and family responsibility.

The Board's measurable objective about gender diversity is to progressively increase the portion of women in Board and Senior Executive roles and this objective is being continually reviewed. As at the date of this report the proportion of women to men was as follows:

	Proportion of women	Proportion of men
On the board	25%	75%
In senior executive positions	50%	50%
Across the whole organisation	61%	39%

For this purpose, the Board defines a senior executive as a person who makes, or participates in the making of, decisions that affect the whole or a substantial part of the business or has the capacity to affect significantly the company's financial standing. This therefore includes all senior management and senior executive designated positions as well as senior specialised professionals.

No entity within the consolidated entity is a 'relevant employer' for the purposes of the Workplace Gender Equality Act 2012 and therefore no Gender Equality Indicators to be disclosed.

Recommendation 1.6 - A listed entity should (a) have and disclose a process for periodically evaluating the performance of the Board, its committees and individual directors; and (b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.

The company does not currently have a formal process for evaluating the performance of the Board, its committees or individual directors. The Board conducts an introspective annual discussion of its performance on a collective basis to identify general aspects of its performance that could be improved upon, and such analysis includes the roles played by each Board member. Such reviews therefore encapsulate collective discussion around the performance of individual Board members, their roles on specific projects during the financial year, and where relevant, how their role could be modified or suggestions for individual development or performance improvement for the future.

Until such time as the company expands to justify an expansion of Board members, the Board is of the current opinion that such performance evaluation is suitable for the company.

Recommendation 1.7 - A listed entity should (a) have and disclose a process for periodically evaluating the performance of its senior executives; and (b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.

The Board conducts an annual performance assessment of the CEO against agreed performance measures determined at the start of the year. The CEO undertakes the same assessments of senior executives. In assessing the performance of the individual, the review includes consideration of the senior executive's function, individual targets, group targets, and the overall performance of the company. The most recent review was completed in July 2019.

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Principle 2: Structure the board to add value

Recommendation 2.1 - The board of a listed entity should (a) have a nomination committee which: (1) has at least three members, a majority of whom are independent directors; and (2) is chaired by an independent director, and disclose: (3) the charter of the committee; (4) the members of the committee; and (5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or (b) if it does not have a nomination committee, disclose that fact and the processes it employs to address Board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.

The Board does not maintain a Nomination Committee as it is considered that the current size of the Board does not warrant the formal establishment of a separate committee. The Board therefore performs the function of such a committee which includes the identification of skills and competencies required for the Board and related committees, as well as nomination, selection and performance evaluation of non-executive directors. The Board does not actively manage succession planning and instead relies upon the Board's extensive networking capabilities and/or executive recruitment firms to identify appropriate candidates when a Board vacancy occurs or when a vacancy is otherwise envisaged. Attributes of candidates put forward will be considered for 'best-fit' to the needs of the Board which are assessed at the time of the vacancy.

Recommendation 2.2 - A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.

The Board does not maintain a formal skills matrix that sets out the mix of skills and diversity that the Board aims to achieve in its membership. The current Board members represent individuals that have extensive industry experience as well as professionals that bring to the Board their specific skills in order for the company to achieve its strategic, operational and compliance objectives. Their suitability to the directorship has therefore been determined primarily on the basis of their ability to deliver outcomes in accordance with the company's short and longer term objectives and therefore deliver value to shareholders.

External consultants may be brought in with specialist knowledge to address areas where this is an attribute deficiency in the Board.

All Board members are expected to be able to demonstrate the following attributes:

Board member attributes	
Leadership	Represents the company positively amongst stakeholders and external parties; decisively acts ensuring that all pertinent facts are considered; leads others to action; proactive solution seeker.
Ethics and integrity	Awareness of social, professional and legal responsibilities at individual, company and community level; ability to identify independence conflicts; applies sound professional judgement; identifies when external counsel should be sought; upholds Board confidentiality; respectful in every situation.
Communication	Effective in working within defined corporate communications policies; makes constructive and precise contribution to the Board both verbally and in written form; an effective communicator with executives.
Negotiation	Negotiation skills which engender stakeholder support for implementing Board decisions.
Corporate governance	Experienced director that is familiar with the mechanisms, controls and channels to deliver effective governance and manage risks.

Recommendation 2.3 - A listed entity should disclose: (a) the names of the directors considered by the board to be independent directors; (b) if a director has an interest, position, association or relationship of the type described in Box 2.3 but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and (c) the length of service of each director.

Details of the Board of directors, their appointment date, length of service and independence status is as follows:

Kip McGrath Education Centres Limited
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Director's name	Appointment date	Length of service at reporting date	Independence status
Kip McGrath	9 March 1988	31 years	Non-Executive Chairman (retired on 5 August 2019)
Ian Campbell	25 August 2009	10 years	Independent Non-Executive – Chairman (appointed on 5 August 2019)
Trevor Folsom	22 September 2014	4 years	Independent Non-Executive
Diane Pass	1 February 2017	2 years	Independent Non-Executive
Storm McGrath	5 August 2019	-	Executive Director – Chief Executive Officer

The composition of the Board is structured to ensure that the Board has the appropriate mix of expertise and experience. Details of directors that the Board has declared as independent but which maintain an interest or relationship that could be perceived as impairing independence, and the reason as to the Board's determination are as follows:

Director's name	Details of interest or relationship	Board reasoning why director is independent
Ian Campbell	500,000 ordinary shares held indirectly in superfund	This holding aligns the interests of the director with those of the shareholders and is encouraged by the company.
Trevor Folsom	65,000 ordinary shares held indirectly	This holding aligns the interests of the director with those of the shareholders and is encouraged by the company.
Diane Pass	55,000 ordinary shares held directly	This holding aligns the interests of the director with those of the shareholders and is encouraged by the company.

Recommendation 2.4 - A majority of the board of a listed entity should be independent directors.

Having regard to the response to Recommendation 2.3 above, the majority of the Board at the reporting date were independent.

Recommendation 2.5 - The Chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.

Kip McGrath was Chair of the Board during the entire financial year and retired on 5 August 2019. Kip did not hold the position of CEO of the company. Whilst Kip McGrath was not an independent director the Board considers him the most suitable director for the role due to being a co-founder of the company. The CEO is Storm McGrath.

Ian Campbell is Chair of the Board from 5 August 2019 and does not hold the position of CEO of the company. The CEO is Storm McGrath

Recommendation 2.6 - A listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively.

New directors undertake an induction program coordinated by the Company Secretary that briefs and informs the director on all relevant aspects of the company's operations and background. A director development program is also available to ensure that directors can enhance their skills and remain abreast of important developments.

Principle 3: Act ethically and responsibly

Recommendation 3.1 - A listed entity should: (a) have a code of conduct for its directors, senior executives and employees; and (b) disclose that code or a summary of it.

The company maintains a code of conduct for its directors, senior executives and employees. In summary, the code requires that each person act honestly, in good faith and in the best interests of the company; exercise a duty of care; use the powers of office in the best interests of the company and not for personal gain; declare any conflict of interest; safeguard company's assets and information; and not undertake any action that may jeopardise the reputation of company.

Kip McGrath Education Centres Limited
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Principle 4: Safeguard integrity in corporate reporting

Recommendation 4.1 - The board of a listed entity should: (a) have an audit committee which: (1) has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and (2) is chaired by an independent director, who is not the chair of the board, and disclose: (3) the charter of the committee; (4) the relevant qualifications and experience of the members of the committee; and (5) in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or (b) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.

The Board has an Audit Committee, under a formal Charter, the members of which are:

Director's name	Executive status	Independence status
Ian Campbell – Chair	Non-Executive Director	Independent
Trevor Folsom	Non-Executive Director	Independent
Diane Pass	Non-Executive Director	Independent

During the year the Committee consisted entirely of non-executive directors, Ian Campbell, Diane Pass, and Trevor Folsom. The chairperson, Ian Campbell was not Board chair and is an independent director during the financial year ended 30 June 2019 as he was appointed Chairman on 5 August 2019.

The number of Committee meetings held and attended by each member is disclosed in the 'Meetings of directors' section of the Directors'

Details of the qualifications and experience of the members of the Committee is detailed in the 'Information of directors' section of the Directors' report.

Recommendation 4.2 - The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

For the financial year ended 30 June 2019 and the half-year ended 31 December 2018, the company's CEO and CFO provided the Board with the required declarations.

Recommendation 4.3 - A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.

The audit engagement partner attends the AGM and is available to answer shareholder questions relevant to the audit.

Principle 5: Make timely and balanced disclosure

Recommendation 5.1 - A listed entity should (a) have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and (b) disclose that policy or a summary of it.

The company maintains a written policy that outlines the responsibilities relating to the directors, officers and employees in complying with the company's disclosure obligations. Where any such person, is of any doubt, as to whether they possess information that could be classified as market sensitive, they are required to notify the Company Secretary immediately in the first instance. The Company Secretary is required to consult with the Chairman in relation to matters brought to his attention for potential announcement. Generally, the Chairman is ultimately responsible for decisions relating to the making of market announcements. The Board is required to authorise announcements of significance to the company. No member of the company shall disclose market sensitive information to any person unless they have received acknowledgement from the ASX that the information has been released to the market.

Kip McGrath Education Centres Limited
Corporate Governance Statement
30 June 2019

Principle 6: Respect the rights of security holders

Recommendation 6.1 - A listed entity should provide information about itself and its governance to investors via its website.

The company maintains information in relation to the board of directors, share registry, ASX announcements and contact details on the company's website.

Recommendations 6.2 and 6.3

A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors (6.2).

A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders (6.3).

The company does not have a formal investor relations program. The Board, CEO and Company Secretary engage with investors at the AGM and respond to shareholder enquiry on an ad hoc basis. Material communications are dispatched to investors either via email, surface mail, and/or via market announcement.

Recommendation 6.4 - A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.

The company engages its share registry to manage the majority of communications with shareholders. Shareholders are encouraged to receive correspondence from the company electronically, thereby facilitating a more effective, efficient and environmentally friendly communication mechanism with shareholders. Shareholders not already receiving information electronically can elect to do so through the share registry, Computershare www-au.computershare.com.

Principle 7: Recognise and manage risk

Recommendations 7.1 & 7.2

The board of a listed entity should: (a) have a committee or committees to oversee risk, each of which: (1) has at least three members, a majority of whom are independent directors; and (2) is chaired by an independent director, and disclose: (3) the charter of the committee; (4) the members of the committee; and (5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or (b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework (7.1).

The board or a committee of the board should: (a) review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and (b) disclose, in relation to each reporting period, whether such a review has taken place (7.2).

The company does not maintain a Risk Committee as it is considered that the current size of the Board does not warrant the formal establishment of a separate committee. The Board and Audit Committee therefore performs the function of such a committee which includes setting of corporate governance policy and exercising due care and skill in assessing risk, developing strategies to mitigate such risk, monitoring the risk and the company's effectiveness in managing it. The company maintains internal controls which assist in managing enterprise risk, and these are reviewed as part of the scope of the external audit, with the auditor providing the Board with commentary on their effectiveness and the need for any additional controls. The CEO and CFO are responsible for monitoring operational risk, ensuring all relevant insurances are in place, and ensuring that all regulatory and compliance obligations of the company are satisfied. The last review was completed in July 2019.

Recommendation 7.3 - A listed entity should disclose: (a) if it has an internal audit function, how the function is structured and what role it performs; or (b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.

The company does not have a dedicated internal audit function. The responsibility for risk management and internal controls lies with both the CEO and CFO who continually monitor the company's internal and external risk environment. Necessary action is taken to protect the integrity of the company's books and records through design and implementation of internal controls and operational efficiencies, mitigation of risks, and safeguard of the company assets.

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Recommendation 7.4 - A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.

As at the date of reporting the company does not consider it has any material exposures to economic, environmental or social sustainability risks. Refer to commentary at Recommendations 7.1 and 7.2 for information on the company's risk management framework.

Principle 8: Remunerate fairly and responsibly

Recommendation 8.1 - The board of a listed entity should: (a) have a remuneration committee which: (1) has at least three members, a majority of whom are independent directors; and (2) is chaired by an independent director, and disclose: (3) the charter of the committee; (4) the members of the committee; and (5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or (b) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.

The Board maintains a Remuneration Committee, whose members during the financial year, were as follows:

Director's Name	Executive Status	Independence Status
Diane Pass – Chair	Non-Executive Director	Independent
Ian Campbell	Non-Executive Chairman	Independent
Trevor Folsom	Non-Executive Director	Independent

The Committee consists entirely of non-executive directors, Ian Campbell, Diane Pass and Trevor Folsom. The chairperson, Diane Pass is not Board chair and is an independent director. The number of Committee meetings held and attended by each member is disclosed in the 'Meetings of directors' section of the Directors' report.

The Board has established the committee under formal Charter.

Recommendation 8.2 - A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.

The Committee reviews remuneration packages and policies applicable to the CEO and senior executives. This may include share schemes, incentive performance packages, superannuation entitlements, retirement and termination entitlements, fringe benefit policies and professional indemnity and liability insurance policies. External advice is sought as appropriate.

Further details of directors' and executives' remuneration, superannuation and retirement payments are set out in the remuneration report which forms part of the directors' report. The CEO is invited to committee meetings, as required, to discuss management performance and remuneration packages.

Non-executive directors do not receive incentive payments or retirement benefits (other than statutory superannuation). Equity-based remuneration is not a standard component of executive remuneration agreements. Any future equity issued to executives or non-executives as remuneration will be approved at the annual general meeting of shareholders.

No senior executive is involved directly in deciding their own remuneration.

Recommendation 8.3 - A listed entity which has an equity-based remuneration scheme should: (a) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and (b) disclose that policy or a summary of it

The use of derivatives or other hedging arrangements for unvested securities of the company or vested securities of the company which are subject to escrow arrangements is prohibited. Where a director or other senior executive uses derivatives or other hedging arrangements over vested securities of the company, this will be disclosed.

Kip McGrath Education Centres Limited
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General information

The financial statements cover Kip McGrath Education Centres Limited as a consolidated entity consisting of Kip McGrath Education Centres Limited and the entities it controlled at the end of, or during, the year. The financial statements are presented in Australian dollars, which is Kip McGrath Education Centres Limited's functional and presentation currency.

Kip McGrath Education Centres Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 3
6 Newcomen Street
Newcastle NSW 2300

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 23 August 2019. The directors have the power to amend and reissue the financial statements.

Kip McGrath Education Centres Limited
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2019

	Note	Consolidated 2019 $'000	Consolidated Restated 2018 $'000
Revenue	5	16,263	13,060
Other income	10	249	-
Interest revenue calculated using the effective interest method		-	2
Expenses			
Royalties, commissions and other direct expenses	6	(1,864)	(2,791)
Employee expenses	6	(3,630)	(3,097)
Marketing expenses		(2,959)	(999)
Administration expenses		(1,954)	(1,677)
Merchandising expenses		(809)	(437)
Depreciation and amortisation expense	6	(1,593)	(1,074)
(Impairment)/reversal of impairment of receivables		(76)	17
Net foreign exchange (losses)/gain		(13)	3
Finance costs	6	(55)	(58)
Profit before income tax expense		3,559	2,949
Income tax expense	7	(907)	(686)
Profit after income tax expense for the year attributable to the owners of Kip McGrath Education Centres Limited		2,652	2,263
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		(70)	(12)
Other comprehensive income for the year, net of tax		(70)	(12)
Total comprehensive income for the year attributable to the owners of Kip McGrath Education Centres Limited		2,582	2,251
		Cents	**Cents**
Basic earnings per share	31	5.888	5.025
Diluted earnings per share	31	5.536	4.752

Refer to note 3 for detailed information on Restatement of comparatives - adoption of AASB 9 'Financial Instruments' and AASB 15 'Revenue from Contracts with Customers'.

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Kip McGrath Education Centres Limited
Statement of financial position
As at 30 June 2019

	Note	Consolidated 2019 $'000	Restated 2018 $'000
Assets			
Current assets			
Cash and cash equivalents	8	7,053	5,916
Trade and other receivables	9	557	519
Prepayments		165	320
Total current assets		7,775	6,755
Non-current assets			
Trade receivables	10	199	-
Plant and equipment		377	71
Intangibles	11	12,356	12,252
Deferred tax	12	631	636
Total non-current assets		13,563	12,959
Total assets		21,338	19,714
Liabilities			
Current liabilities			
Trade and other payables	13	5,749	5,188
Contract liabilities	14	813	958
Borrowings	15	450	600
Income tax		572	490
Employee benefits	16	512	448
Total current liabilities		8,096	7,684
Non-current liabilities			
Deferred tax	17	1,475	1,412
Total non-current liabilities		1,475	1,412
Total liabilities		9,571	9,096
Net assets		11,767	10,618
Equity			
Issued capital	18	8,876	8,838
Reserves	19	690	655
Retained profits		2,201	1,125
Total equity		11,767	10,618

Refer to note 3 for detailed information on Restatement of comparatives - adoption of AASB 9 'Financial Instruments' and AASB 15 'Revenue from Contracts with Customers'.

The above statement of financial position should be read in conjunction with the accompanying notes

Kip McGrath Education Centres Limited
Statement of changes in equity
For the year ended 30 June 2019

Consolidated	Issued capital $'000	Reserves $'000	Retained profits $'000	Total equity $'000
Balance at 1 July 2017	8,838	598	813	10,249
Adjustment for change in accounting policy (note 3)	-	-	(870)	(870)
Balance at 1 July 2017 - restated	8,838	598	(57)	9,379
Profit after income tax expense for the year	-	-	2,263	2,263
Other comprehensive income for the year, net of tax	-	(12)	-	(12)
Total comprehensive income for the year	-	(12)	2,263	2,251
Transactions with owners in their capacity as owners:				
Share-based payments	-	69	-	69
Dividends paid (note 20)	-	-	(1,081)	(1,081)
Balance at 30 June 2018	8,838	655	1,125	10,618

Refer to note 3 for detailed information on Restatement of comparatives - adoption of AASB 9 'Financial Instruments' and AASB 15 'Revenue from Contracts with Customers'.

Consolidated	Issued capital $'000	Reserves $'000	Retained profits $'000	Total equity $'000
Balance at 1 July 2018	8,838	655	1,125	10,618
Profit after income tax expense for the year	-	-	2,652	2,652
Other comprehensive income for the year, net of tax	-	(70)	-	(70)
Total comprehensive income for the year	-	(70)	2,652	2,582
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs (note 18)	38	-	-	38
Share-based payments	-	105	-	105
Dividends paid (note 20)	-	-	(1,576)	(1,576)
Balance at 30 June 2019	8,876	690	2,201	11,767

The above statement of changes in equity should be read in conjunction with the accompanying notes

Kip McGrath Education Centres Limited
Statement of cash flows
For the year ended 30 June 2019

	Note	Consolidated 2019 $'000	Consolidated Restated 2018 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		16,850	15,568
Payments to suppliers and employees (inclusive of GST)		(11,647)	(10,220)
		5,203	5,348
Interest received		-	2
Interest and other finance costs paid		(55)	(58)
Income taxes paid		(333)	(123)
Net cash from operating activities	30	4,815	5,169
Cash flows from investing activities			
Payments for plant and equipment		(367)	(16)
Payments for intangibles	11	(1,623)	(2,938)
Net cash used in investing activities		(1,990)	(2,954)
Cash flows from financing activities			
Proceeds from issue of shares	18	38	-
Proceeds from borrowings		1,325	700
Dividends paid	20	(1,576)	(1,081)
Repayment of borrowings		(1,475)	(850)
Net cash used in financing activities		(1,688)	(1,231)
Net increase in cash and cash equivalents		1,137	984
Cash and cash equivalents at the beginning of the financial year		5,916	4,932
Cash and cash equivalents at the end of the financial year	8	7,053	5,916

The above statement of cash flows should be read in conjunction with the accompanying notes

Kip McGrath Education Centres Limited
Notes to the financial statements
30 June 2019

Note 1. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

AASB 9 Financial Instruments
The consolidated entity has adopted AASB 9 from 1 July 2018. The standard introduced new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest. A debt investment shall be measured at fair value through other comprehensive income if it is held within a business model whose objective is to both hold assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of its fair value. All other financial assets are classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading or contingent consideration recognised in a business combination) in other comprehensive income ('OCI'). Despite these requirements, a financial asset may be irrevocably designated as measured at fair value through profit or loss to reduce the effect of, or eliminate, an accounting mismatch. For financial liabilities designated at fair value through profit or loss, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment is measured using a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. For receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available.

AASB 15 Revenue from Contracts with Customers
The consolidated entity has adopted AASB 15 from 1 July 2017. The standard provides a single comprehensive model for revenue recognition. The core principle of the standard is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduced a new contract-based revenue recognition model with a measurement approach that is based on an allocation of the transaction price. This is described further in the accounting policies below. Credit risk is presented separately as an expense rather than adjusted against revenue. Contracts with customers are presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Customer acquisition costs and costs to fulfil a contract can, subject to certain criteria, be capitalised as an asset and amortised over the contract period.

The impact on the financial performance and position of the consolidated entity from the adoption of these Accounting Standards is detailed in note 3.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention
The financial statements have been prepared under the historical cost convention.

Kip McGrath Education Centres Limited
Notes to the financial statements
30 June 2019

Note 1. Significant accounting policies (continued)

Critical accounting estimates
The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

Parent entity information
In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 28.

Principles of consolidation
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Kip McGrath Education Centres Limited ('company' or 'parent entity') as at 30 June 2019 and the results of all subsidiaries for the year then ended. Kip McGrath Education Centres Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity 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 to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Operating segments
Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Foreign currency translation
The financial statements are presented in Australian dollars, which is Kip McGrath Education Centres Limited's functional and presentation currency.

Foreign currency transactions
Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign operations
The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

Note 1. Significant accounting policies (continued)

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

Revenue recognition

The consolidated entity recognises revenue as follows:

Revenue from contracts with customers
Revenue is recognised at an amount that reflects the consideration to which the consolidated entity is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the consolidated entity: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are initially recognised as deferred revenue in the form of a separate refund liability.

Franchise fees
Revenue from franchise fees derived from franchise operations are recognised on a weekly or monthly basis, depending on the underlying contract with the franchisee. The contractual obligations primarily include providing access to software and franchisee systems on an ongoing basis through the life of the franchise contract as well as marketing, development and administrative support services. The consideration is variable in nature depending on the contract with the franchisee and the volume of lessons being provided.

Sales of master territories and franchisee centres
Revenue from contracts for the sale of master franchise territories are recognised over time as services are provided to establish the master territory during the first term of the contract. Revenue from contracts for the sale of new centres are recognised over time as services are provided to establish the centre during the first term of the contract. Services to train new franchisees are recognised at the time of satisfactory completion of formal induction and training programmes. The contractual obligations over time primarily relate to the development, support and training required to assist a franchisee in the establishment of a new centre in a territory and are typically discharged within the first period of the franchise contract (over no more than five or six years depending on the country of operation). Typically the payment is received upfront and the services are delivered over the contract term therefore giving rise to the recognition of a contract liability.

National advertising contributions ('NAC')
Revenue from national advertising contributions from franchisees is recognised on a weekly or monthly basis, depending on the underlying contract with the franchisee and whether the marketing services and activities relating to the contribution have been provided. The contractual obligations are to provide marketing activities through various channels in support of the franchise network.

Direct sales
Direct sales revenue includes fees for the provision of payment gateway and ancillary franchise software services as well as the sale of educational materials and promotional products. Revenue from payment gateway and ancillary franchise software services is recognised on a weekly basis as the services are provided to franchises. Revenue from the sale of educational materials and promotional products is recognised at the time the control of the product passes to the customer. This control will pass when the customer orders the curriculum or other products are shipped.

Student lesson fees
Revenue from student lessons derived from franchise operations are recognised when the services are provided pursuant to a student's enrolment agreement, which is typically on a weekly basis during a set lesson time. These lessons are provided directly by the consolidated entity and not through any franchised contract.

Kip McGrath Education Centres Limited
Notes to the financial statements
30 June 2019

Note 1. Significant accounting policies (continued)

Other revenue
Other revenue is recognised when it is received or when the right to receive payment is established.

Interest
Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Income tax
The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:
- when the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- when the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Kip McGrath Education Centres Limited (the 'head entity') and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. The head entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated group. The tax funding arrangement ensures that the intercompany charge equals the current tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

Current and non-current classification
Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

Note 1. Significant accounting policies (continued)

A liability is classified as current when: it is either expected to be settled in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Cash and cash equivalents
Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Trade and other receivables
Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

The consolidated entity has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

Plant and equipment
Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of plant and equipment over their expected useful lives of between 3 and 20 years.

Leases
The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to the ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the consolidated entity will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

Kip McGrath Education Centres Limited
Notes to the financial statements
30 June 2019

Note 1. Significant accounting policies (continued)

Intangible assets
Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Intellectual property
Intellectual property primarily consists of the acquisition costs for the system of tuition developed by the founders, Kip and Dug McGrath. Costs in relation to intellectual property are capitalised as an asset. These costs are not subsequently amortised as they have an indefinite useful life.

Product and overseas development costs
Costs in relation to product and overseas development costs are capitalised as an asset. These costs are not subsequently amortised where they have an indefinite useful life. Definite life costs are written off over their finite useful life of up to ten years for curriculum items and up to five years for other items.

Franchise and development territories
Existing franchise and development territories that have been acquired by the consolidated entity are capitalised as an asset and are not amortised, but are subject to annual impairment reviews based on student numbers remaining at the acquisition level.

Other intangibles
Other intangibles are capitalised as an asset and amortised, being their finite useful life of five years.

Impairment of non-financial assets
Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Trade and other payables
These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Contract liabilities
Contract liabilities represent the consolidated entity's obligation to transfer goods or services to a customer and are recognised when a customer pays consideration, or when the consolidated entity recognises a receivable to reflect its unconditional right to consideration (whichever is earlier) before the consolidated entity has transferred the goods or services to the customer.

Borrowings
Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

Kip McGrath Education Centres Limited
Notes to the financial statements
30 June 2019

Note 1. Significant accounting policies (continued)

Finance costs
Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

Employee benefits

Short-term employee benefits
Liabilities for wages and salaries and other employee benefits expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits
Employee benefits not expected to be settled within 12 months of the reporting date are measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Defined contribution superannuation expense
Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

Share-based payments
Equity-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Market conditions are taken into consideration in determining fair value. Therefore, any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

Kip McGrath Education Centres Limited
Notes to the financial statements
30 June 2019

Note 1. Significant accounting policies (continued)

Fair value measurement
When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Issued capital
Ordinary shares are classified as equity.

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

Dividends
Dividends are recognised when declared during the financial year and no longer at the discretion of the company.

Business combinations
The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the consolidated entity remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer 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.

Kip McGrath Education Centres Limited
Notes to the financial statements
30 June 2019

Note 1. Significant accounting policies (continued)

Earnings per share

Basic earnings per share
Basic earnings per share is calculated by dividing the profit attributable to the owners of Kip McGrath Education Centres Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Goods and Services Tax ('GST') and other similar taxes
Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

Comparatives
Certain reclassifications have been made to the prior year to enhance comparability in the statement of financial position.

Rounding of amounts
The company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

New Accounting Standards and Interpretations not yet mandatory or early adopted
Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2019. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

Kip McGrath Education Centres Limited
Notes to the financial statements
30 June 2019

Note 1. Significant accounting policies (continued)

AASB 16 Leases
This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured as the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The standard takes effect in the 2020 financial year.

If AASB 16 was implemented by the consolidated entity as at 30 June 2019, the impact would be an increase in assets and corresponding increase in liabilities of $1,824,550. This represents the net present value of all estimated office and vehicle lease payments. Under the same lease assumptions, the consolidated entity expects a lease expense of $467,342 in the year ending 30 June 2020 (comparatively, an expense of $433,385 would be expected under the current accounting methodologies being applied).

New Conceptual Framework for Financial Reporting
A revised Conceptual Framework for Financial Reporting has been issued by the AASB and is applicable for annual reporting periods beginning on or after 1 January 2020. This release impacts for-profit private sector entities that have public accountability that are required by legislation to comply with Australian Accounting Standards and other for-profit entities that voluntarily elect to apply the Conceptual Framework. Phase 2 of the framework is yet to be released which will impact for-profit private sector entities. The application of new definition and recognition criteria as well as new guidance on measurement will result in amendments to several accounting standards. The issue of AASB 2019-1 Amendments to Australian Accounting Standards – References to the Conceptual Framework, also applicable from 1 January 2020, includes such amendments. Where the consolidated entity has relied on the conceptual framework in determining its accounting policies for transactions, events or conditions that are not otherwise dealt with under Australian Accounting Standards, the consolidated entity may need to revisit such policies.

Note 2. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Intangible assets with indefinite life
Intellectual property, franchise territories and certain product and overseas development costs are classified as having an indefinite useful life and not amortised as management considers that there is no foreseeable limit to the cash flows these assets are generating. Such assets are subject to annual impairment reviews in accordance with the accounting policy stated in note 1. The recoverable amounts of cash-generating units to which such assets relate have been determined based on value-in-use calculations which require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows. Estimates that management has made with respect to such calculations are disclosed in note 11.

Note 2. Critical accounting judgements, estimates and assumptions (continued)

Finite life intangible assets
The consolidated entity determines the estimated useful lives and related amortisation charges for its finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The amortisation charge will increase where the useful lives are less than previously estimated lives. The consolidated entity assesses impairment of such assets at each reporting date by evaluating conditions specific to the consolidated entity, the cash generating unit to which the asset belongs, and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves estimating the asset's fair value less costs of disposal or value-in-use calculations which incorporate a number of key estimates and assumptions. Estimates that management has made with respect to such calculations are disclosed in note 11.

Share-based payment transactions
The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Determination of variable consideration
Judgement is exercised in estimating variable consideration which is determined having regard to past experience with respect to the goods returned to the consolidated entity where the customer maintains a right of return pursuant to the customer contract or where services have a variable component. Revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised under the contract will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Income tax
The consolidated entity is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The consolidated entity recognises liabilities for anticipated tax audit issues based on the consolidated entity's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Recovery of deferred tax assets
Deferred tax assets are recognised for deductible temporary differences only if the consolidated entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses. The deferred tax assets are expected to be recovered through management's forecast taxable profits over the next three years.

Employee benefits provision
As discussed in note 1, the liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

Note 3. Restatement of comparatives - adoption of AASB 9 'Financial Instruments' and AASB 15 'Revenue from Contracts with Customers'

Adoption of AASB 9 'Financial Instruments'
The consolidated entity has adopted AASB 9 from 1 July 2018, using the full retrospective method of adoption and comparatives have been restated. Interest revenue calculated using the effective interest method is now required to be shown on the face of the statement of profit or loss. There was no material impact to the financial statements rather than presentation and classification, such as;

- interest income is now shown separate on the face of the Statement of profit or loss and other comprehensive income; and
- impairment of receivables is now shown on the face of the Statement of profit or loss and other comprehensive income;

Kip McGrath Education Centres Limited
Notes to the financial statements
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Note 3. Restatement of comparatives - adoption of AASB 9 'Financial Instruments' and AASB 15 'Revenue from Contracts with Customers' (continued)

Adoption of AASB 15 'Revenue from contracts with customers'
The consolidated entity has adopted AASB 15 from 1 July 2017 using the full retrospective method of adoption, resulting in the following restatement of comparatives to the Statement of financial position as at 30 June 2018:

- Contract liabilities of $1,200,000 were recognised at 1 July 2017 with a corresponding reduction in retained earnings at that date. This is a result of AASB 15 requiring that revenue in relation to access to materials arising from the sale of franchisees and master territories be deferred until the actual performance obligation is satisfied which occurs progressively as the contract term expires. Previously, the consolidated entity's accounting policy was to recognise this revenue upfront on the completion of training. The adjustment to retained earnings as at 1 July 2017 is also reflected in the Statement of changes in equity.
- A deferred tax asset was recognised amounting to $330,000 as at 1 July 2017 as a consequence of the recognition of the contract liability.
- Subsequent to recognition of the contract liability, revenue amounting to $242,000 was recognised as the performance obligations were satisfied resulting in the recognition of a contract liability balance of $958,000 as at 30 June 2018.
- As a consequence of the above, retained earnings as at 30 June 2018 was reduced by $958,000. This adjustment to retained earnings is also disclosed in the Statement of changes in equity for the current period.

Corresponding adjustments were also made to the 30 June 2018 comparative information in the Statement of profit or loss and other comprehensive income for the year ended 30 June 2018:

- As mentioned above, services revenue increased by $242,000 for the period as the performance obligations associated with previously deferred revenue were satisfied.
- In June 2018, student lesson fee revenue of $925,000 was recognised from contracts where Gold Partner franchisees provided services to the consolidated entity. Under AASB 15 this revenue must be disclosed net of expenses and accordingly the comparative figure for revenue from June 2018 has been reduced by $925,000.

Statement of profit or loss and other comprehensive income

		Consolidated	
Extract	**Restated 2018 $'000 Reported**	**$'000 Adjustment**	**Restated 2018 $'000 Restated**
Revenue	13,743	(683)	13,060
Expenses			
Royalties, commissions and other direct expenses	(3,716)	925	(2,791)
Administration expenses	(1,660)	(17)	(1,677)
(Impairment)/reversal of impairment of receivables	-	17	17
Profit before income tax expense	2,707	242	2,949
Income tax expense	(686)	-	(686)
Profit after income tax expense for the year attributable to the owners of Kip McGrath Education Centres Limited	2,021	242	2,263
Other comprehensive income for the year, net of tax	(12)	-	(12)
Total comprehensive income for the year attributable to the owners of Kip McGrath Education Centres Limited	2,009	242	2,251

Kip McGrath Education Centres Limited
Notes to the financial statements
30 June 2019

Note 3. Restatement of comparatives - adoption of AASB 9 'Financial Instruments' and AASB 15 'Revenue from Contracts with Customers' (continued)

	Cents Reported	Cents Adjustment	Cents Restated
Basic earnings per share	4.488	0.537	5.025
Diluted earnings per share	4.244	0.508	4.752

Statement of financial position at the beginning of the earliest comparative period
Retained profits as at 1 July 2017 were reduced by $870,000 as result of the recognition of contract liabilities as described above.

Statement of financial position at the end of the earliest comparative period

		Consolidated	
Extract	**Restated 2018 $'000 Reported**	**$'000 Adjustment**	**Restated 2018 $'000 Restated**
Assets			
Non-current assets			
Deferred tax	306	330	636
Total non-current assets	12,629	330	12,959
Total assets	19,384	330	19,714
Liabilities			
Current liabilities			
Contract liabilities	-	958	958
Total current liabilities	6,726	958	7,684
Total liabilities	8,138	958	9,096
Net assets	11,246	(628)	10,618
Equity			
Retained profits	1,753	(628)	1,125
Total equity	11,246	(628)	10,618

Note 4. Operating segments

Identification of reportable operating segments
The consolidated entity has only one operating segment based on the internal reports that are reviewed and used by the Chief Executive Officer and the Board of Directors (collectively referred to as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. The operating segment information is disclosed throughout these financial statements.

The information reported to the CODM is on at least a monthly basis.

Geographical information
The geographical information of non-current assets below is exclusive of financial instruments and deferred tax assets.

Kip McGrath Education Centres Limited
Notes to the financial statements
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Note 4. Operating segments (continued)

Geographical information

	Sales to external customers		Geographical non-current assets	
		Restated		Restated
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Australasia	6,860	5,661	11,974	11,577
United Kingdom and Europe	8,323	6,458	759	746
Overseas other	1,080	941	-	-
	16,263	13,060	12,733	12,323

Note 5. Revenue

	Consolidated	
		Restated
	2019	2018
	$'000	$'000
Revenue from contract with customers		
Franchise fees	12,336	10,532
Sale of master territories and franchisee centres	1,010	984
National advertising contributions (NAC)	1,782	756
Direct sales	798	634
Student lessons	302	103
	16,228	13,009
Other revenue		
Other revenue	35	51
Revenue	16,263	13,060

Disaggregation of revenue
The disaggregation of revenue from contracts with customers is as follows:

	Consolidated	
		Restated
	2019	2018
	$'000	$'000
Timing of revenue recognition		
Services and goods transferred at a point in time	15,829	12,567
Services transferred over time	399	442
	16,228	13,009

The disaggregation of revenue by major product lines is disclosed at the top of revenue note and the geographical regions is presented in note 4 - operating segments.

Kip McGrath Education Centres Limited
Notes to the financial statements
30 June 2019

Note 6. Expenses

	Consolidated	
		Restated
	2019	2018
	$'000	$'000
Profit before income tax includes the following specific expenses:		
Depreciation		
Plant and equipment	61	49
Amortisation		
Product and overseas development costs	1,226	833
Other intangibles	306	192
Total amortisation	1,532	1,025
Total depreciation and amortisation	1,593	1,074
Employee benefits		
Employee benefits expense excluding superannuation	3,244	2,755
Defined contribution superannuation expense	357	297
Share-based payment expense	29	45
Total employee benefits	3,630	3,097
Finance costs		
Interest and finance charges paid/payable	55	58
Rental minimum lease payments	319	268

Kip McGrath Education Centres Limited
Notes to the financial statements
30 June 2019

Note 7. Income tax expense

	Consolidated 2019 $'000	Consolidated Restated 2018 $'000
Income tax expense		
Current tax	839	576
Deferred tax - origination and reversal of temporary differences	68	110
Aggregate income tax expense	907	686
Deferred tax included in income tax expense comprises:		
Decrease in deferred tax assets (note 12)	5	220
Increase/(decrease) in deferred tax liabilities (note 17)	63	(110)
Deferred tax - origination and reversal of temporary differences	68	110
Numerical reconciliation of income tax expense and tax at the statutory rate		
Profit before income tax expense	3,559	2,949
Tax at the statutory tax rate of 27.5%	979	811
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Prior year foreign exchange items	-	(104)
Sundry items	(72)	46
	907	753
Adjustment from adoption of AASB 15 (note 3)	-	(67)
Income tax expense	907	686

	Consolidated 2019 $'000	Consolidated Restated 2018 $'000
Tax losses not recognised		
Unused tax losses for which no deferred tax asset has been recognised	1,269	1,269
Potential tax benefit @ 27.5%	349	349

The above potential tax benefit for tax losses has not been recognised in the statement of financial position. These tax losses are capital in nature and can only be utilised in the future to offset capital gains if the continuity of ownership test is passed, or failing that, the same business test is passed.

Kip McGrath Education Centres Limited
Notes to the financial statements
30 June 2019

Note 8. Current assets - cash and cash equivalents

	Consolidated 2019 $'000	Consolidated Restated 2018 $'000
Cash at bank	2,471	2,202
Restricted cash	4,582	3,714
	7,053	5,916

Restricted cash represents amounts held on behalf of franchisees and is not available for use by the consolidated entity. The corresponding liability is recognised in other payables and accruals at [note 13].

Note 9. Current assets - trade and other receivables

	Consolidated 2019 $'000	Consolidated Restated 2018 $'000
Trade receivables	653	447
Less: Allowance for expected credit losses	(110)	(68)
	543	379
Other receivables	14	140
	557	519

Allowance for expected credit losses
The consolidated entity has recognised a loss of $76,000 (2018: reversal of impairment of $17,000) in profit or loss in respect of expected credit losses for the year ended 30 June 2019. The allowance is considered reasonable as all revenue has already been received.

The ageing of the receivables and allowance for expected credit losses provided for above are as follows:

	Expected credit loss rate		Carrying amount		Allowance for expected credit losses	
		Restated		Restated		Restated
	2019	2018	2019	2018	2019	2018
Consolidated	%	%	$'000	$'000	$'000	$'000
Not overdue	1%	1%	448	317	4	3
0 to 3 months overdue	15%	20%	106	62	16	12
Over 3 months overdue	91%	78%	99	68	90	53
			653	447	110	68

Kip McGrath Education Centres Limited
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30 June 2019

Note 9. Current assets - trade and other receivables (continued)

Movements in the allowance for expected credit losses are as follows:

	Consolidated 2019 $'000	Consolidated Restated 2018 $'000
Opening balance	68	84
Additional provisions recognised	76	3
Amounts recovered during the year	(34)	(19)
Closing balance	110	68

Note 10. Non-current assets - trade receivables

	Consolidated 2019 $'000	Consolidated Restated 2018 $'000
Other receivables	199	-

Non-current receivables of $199,000 (current of $45,000) consist of the deferred payment component of a legal settlement of $249,000 included as other income which offset legal expenses incurred in this period that relates to an ex-UK franchisee.

Note 11. Non-current assets - intangibles

	Consolidated 2019 $'000	Consolidated Restated 2018 $'000
Intellectual property - at cost	4,012	4,012
Product and overseas development costs	9,373	8,184
Less: Accumulated amortisation	(4,008)	(2,782)
	5,365	5,402
Franchise and development territories	1,850	1,837
Other intangible assets - at cost	2,287	1,862
Less: Accumulated amortisation	(1,158)	(861)
	1,129	1,001
	12,356	12,252

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Notes to the financial statements
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Note 11. Non-current assets - intangibles (continued)

Reconciliations
Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Intellectual property $'000	Product and overseas development costs $'000	Franchise and development territories $'000	Other intangibles $'000	Total $'000
Balance at 1 July 2017	4,012	5,096	711	485	10,304
Additions	-	1,139	1,091	708	2,938
Exchange differences	-	-	35	-	35
Amortisation expense	-	(833)	-	(192)	(1,025)
Balance at 30 June 2018	4,012	5,402	1,837	1,001	12,252
Additions	-	1,189	-	434	1,623
Exchange differences	-	-	13	-	13
Amortisation expense	-	(1,226)	-	(306)	(1,532)
Balance at 30 June 2019	4,012	5,365	1,850	1,129	12,356

The intellectual property and product and overseas development costs are the primary elements of the consolidated entity's system of tutoring which has been developed and acquired over a period exceeding 30 years by the founders and the consolidated entity. The franchise territories asset consists of the buy-back of the right to operate the business in the United Kingdom and New Zealand. As there is no foreseeable limit to the cash flows these assets are generating, they are considered to have an indefinite useful life and not amortised. Instead they are subject to annual impairment reviews. Other intangibles include the contractual rights for certain territories where KMEC has terminated an area developers contract and the liability for these items are included in payables.

Impairment tests for indefinite life intangibles
Indefinite life intangibles are allocated to a single cash generating unit ('CGU').

The recoverable amount has been determined by a value-in-use calculation using a discounted cash flow model, based on a three-year projection period approved by management and extrapolated for a further two years using a growth rate of 2.4% (2018: 2.4%). There are no terminal values in the calculation.

Key assumptions are those to which the recoverable amount of an asset or cash-generating units is most sensitive.

The following key assumptions were used in the discounted cash flow model:

a. Pre-tax discount rate 15.8% (2018: 16.5%). The discount rate reflects management's estimate of the time value of money and the consolidated entity's weighted average cost of capital, the risk free rate and the volatility of the share price relative to market movements.

b. New centre growth rate of 3.5% (2018: 2.6%) over the three-year projection period, which reflects, a renewed sales push, an expected move towards larger centres and a continued movement towards percentage of revenue contracts, which management believe is reasonable given the current trading performance of the consolidated entity.

c. Foreign exchange rates consistent with current market conditions.

Based on the above, there was no impairment required for the year ended 30 June 2019 (2018: $nil).

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Note 11. Non-current assets - intangibles (continued)

Sensitivity
As disclosed in note 2, the directors have made judgements and estimates in respect of the impairment testing of indefinite life intangibles. Should these judgements and estimates not occur, the resulting indefinite life intangibles may vary in carrying amount.

The key sensitivity is that centre numbers would need to fall by 5% (2018: fall by 5%) before the CGU would be impaired, with all other assumptions remaining constant.

Management believes that other reasonable changes in the key assumptions on which the recoverable amount is based would not cause the cash generating unit's carrying amount to exceed its recoverable amount.

Note 12. Non-current assets - deferred tax

	Consolidated 2019 $'000	Consolidated Restated 2018 $'000
Deferred tax asset comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Tax losses	-	21
Allowance for expected credit losses	25	16
Unrealised foreign exchange movements	63	61
Contract liabilities	224	330
Employee benefits	140	126
Accrued expenses	40	(76)
QAX licence	139	158
Deferred tax asset	631	636
Movements:		
Opening balance	636	526
Charged to profit or loss (note 7)	(5)	(220)
Adjustment from adoption of AASB 15 (note 3)	-	330
Closing balance	631	636

Note 13. Current liabilities - trade and other payables

	Consolidated 2019 $'000	Consolidated Restated 2018 $'000
Trade payables	596	1,034
Amounts held on behalf of franchisees	4,410	3,732
GST and other similar payables	58	40
Other payables and accruals	685	382
	5,749	5,188

Refer to note 21 for further information on financial instruments.

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Note 14. Current liabilities - contract liabilities

	Consolidated 2019 $'000	Restated 2018 $'000
Contract liabilities	813	958

Reconciliation
Reconciliation of the written down values at the beginning and end of the current and previous financial year are set out below:

	2019 $'000	Restated 2018 $'000
Opening balance	958	1,200
Payments received in advance	253	201
Transfer to revenue - other balances	(398)	(443)
Closing balance	813	958

Unsatisfied performance obligations
The aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied at the end of the reporting period was $813,000 as at 30 June 2019 ($958,000 as at 30 June 2018) and is expected to be recognised as revenue in future periods as follows:

	Consolidated 2019 $'000	Restated 2018 $'000
Within 6 months	184	114
6 to 12 months	158	189
12 to 18 months	101	169
18 to 24 months	94	142
24 to 30 months	69	86
30 to 36 months	61	78
beyond 36 months	146	180
	813	958

Note 15. Current liabilities - borrowings

	Consolidated 2019 $'000	Restated 2018 $'000
Bank loans	450	600

Refer to note 21 for further information on financial instruments.

Total secured liabilities
The total secured current liabilities are as follows:

	Consolidated 2019 $'000	Restated 2018 $'000
Bank loans	450	600

Kip McGrath Education Centres Limited
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Note 15. Current liabilities - borrowings (continued)

Assets pledged as security
The bank loans are secured by fixed and floating charge over the assets of the consolidated entity.

Financing arrangements
Unrestricted access was available at the reporting date to the following lines of credit:

	Consolidated	
		Restated
	2019	2018
	$'000	$'000
Total facilities		
Bank overdraft	1,750	1,750
Bank loans	1,486	600
	3,236	2,350
Used at the reporting date		
Bank overdraft	-	-
Bank loans	450	600
	450	600
Unused at the reporting date		
Bank overdraft	1,750	1,750
Bank loans	1,036	-
	2,786	1,750

Unused bank loans of $1,036,000 are a GBP denominated loan facility with the HSBC Bank to fund the acquisition of two UK Area Developer Territories in September 2019. This loan is repayable over three years.

Note 16. Current liabilities - employee benefits

	Consolidated	
		Restated
	2019	2018
	$'000	$'000
Annual leave	236	210
Long service leave	276	238
	512	448

Amounts not expected to be settled within the next 12 months
The current provision for employee benefits includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since the consolidated entity does not have an unconditional right to defer settlement. However, based on past experience, the consolidated entity does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months.

The following amounts reflect leave that is not expected to be taken within the next 12 months:

	Consolidated	
		Restated
	2019	2018
	$'000	$'000
Employee benefits	314	275

Kip McGrath Education Centres Limited
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Note 17. Non-current liabilities - deferred tax

	Consolidated 2019 $'000	Consolidated Restated 2018 $'000
Deferred tax liability comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Research and development costs	1,475	1,366
Overseas development	-	46
Deferred tax liability	1,475	1,412
Movements:		
Opening balance	1,412	1,522
Charged/(credited) to profit or loss (note 7)	63	(110)
Closing balance	1,475	1,412

Note 18. Equity - issued capital

	Consolidated 2019 Shares	Consolidated Restated 2018 Shares	Consolidated 2019 $'000	Consolidated Restated 2018 $'000
Ordinary shares - fully paid	45,234,331	45,034,331	8,876	8,838

Movements in ordinary share capital

Details	Date	Shares	Issue price	$'000
Balance	1 July 2017	45,034,331		8,838
Balance	30 June 2018	45,034,331		8,838
Conversion of options	25 June 2019	200,000	$0.190	38
Balance	30 June 2019	45,234,331		8,876

Ordinary shares
Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Share buy-back
There is no current on-market share buy-back.

Capital risk management
The consolidated entity's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

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Note 18. Equity - issued capital (continued)

In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The capital risk management policy remains unchanged from the 30 June 2018 Annual Report.

The capital structure of the consolidated entity consists of net debt (borrowings offset by cash and bank balances) and equity of the consolidated entity (comprising issued capital, reserves and accumulated profits).

Note 19. Equity - reserves

	Consolidated	
		Restated
	2019 $'000	2018 $'000
Foreign currency reserve	(315)	(245)
Share-based payments reserve	251	146
Other reserves	754	754
	690	655

Foreign currency reserve
The reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to Australian dollars. It is also used to recognise profits and losses on hedges of the net investments in foreign operations.

Share-based payments reserve
The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

Other reserves
This reserve is used to recognise the increments and decrements on changes in equity of the parent on acquisition of non-controlling interests.

Movements in reserves
Movements in each class of reserve during the current and previous financial year are set out below:

Consolidated	Foreign currency $'000	Share-based payments $'000	Other $'000	Total $'000
Balance at 1 July 2017	(233)	77	754	598
Foreign currency translation	(12)	-	-	(12)
Share-based payments	-	69	-	69
Balance at 30 June 2018	(245)	146	754	655
Foreign currency translation	(70)	-	-	(70)
Share-based payments	-	105	-	105
Balance at 30 June 2019	(315)	251	754	690

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Note 20. Equity - dividends

Dividends paid during the financial year were as follows:

	Consolidated 2019 $'000	Restated 2018 $'000
Final dividend for the year ended 30 June 2018 of 2.0 cents (2017: 1.4 cents) per ordinary share	901	630
Interim dividend for the year ended 30 June 2019 of 1.5 cents (2018: 1.0 cents) per ordinary share	675	451
	1,576	1,081

On 23 August 2019, a final dividend for the year ended 30 June 2019 of 2.5 cents per ordinary share, 100% fully franked, was declared and will be paid on 17 September 2019 to those shareholders on the register at 7p.m. on 3 September 2019. The total distribution will be $1,130,858.

Note 21. Financial instruments

Financial risk management objectives

The consolidated entity's activities expose it to a variety of financial risks: market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity and to ensure that the consolidated entity is able to finance its business plans. The consolidated entity uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks and ageing analysis for credit risk.

Risk management is carried out by senior executives ('finance') under policies approved by the Board of Directors ('Board'). These policies include identification and analysis of the risk exposure of the consolidated entity and appropriate procedures, controls and risk limits. The consolidated entity does not enter into or trade in financial instruments, including derivative financial instruments, for speculative purposes. Finance reports to the Board are on a monthly basis.

Market risk

Foreign currency risk

The consolidated entity undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations. The consolidated entity operates internationally and is exposed to foreign exchange risk arising primarily from the Pound Sterling, Singapore dollar, South African Rand and New Zealand dollar.

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The consolidated entity presently does not hedge foreign exchange risks.

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Note 21. Financial instruments (continued)

The carrying amount of the consolidated entity's foreign currency denominated financial assets and financial liabilities at the reporting date were as follows:

Consolidated	Assets 2019 $'000	Assets Restated 2018 $'000	Liabilities 2019 $'000	Liabilities Restated 2018 $'000
US dollars	28	24	-	-
Euros	4	28	-	-
Pound Sterling	4,476	3,222	2,577	2,214
New Zealand dollars	724	777	245	855
Singapore dollars	56	90	-	19
South African Rand	92	28	-	-
Kenyan Shilling	3	5	-	-
Hong Kong Dollars	3	19	-	-
	5,386	4,193	2,822	3,088

The consolidated entity had net assets denominated in foreign currencies of $2,564,000 as at 30 June 2019 (assets $5,386,000 less liabilities $2,822,000)] (2018: $1,105,000 (assets $4,193,000 less liabilities $3,088,000)). Based on this net position, a 10% strengthening in the Australian dollar from 30 June 2019 levels may expose the consolidated entity to a $256,000 foreign currency loss.

Price risk
The consolidated entity is not exposed to any significant price risk.

Interest rate risk
The consolidated entity's main interest rate risk arises from short-term and long-term borrowings. Borrowings issued at variable rates expose the consolidated entity to interest rate risk. Borrowings issued at fixed rates expose the consolidated entity to fair value interest rate risk.

The consolidated entity's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, related party loans and financial leases.

As at the reporting date, the consolidated entity had the following variable rate borrowings.

Consolidated	2019 Weighted average interest rate %	2019 Balance $'000	Restated 2018 Weighted average interest rate %	Restated 2018 Balance $'000
Bank overdrafts and bank loans	3.73%	450	4.58%	600
Net exposure to cash flow interest rate risk		450		600

The consolidated entity has net bank loans and borrowings outstanding, totalling $450,000 (2018: $600,000), which are principal and interest payment loans. Annually cash outlays of approximately $38,000 (2018: $38,000 per quarter) are required to service the debt. An official increase/decrease in interest rates of 100 (2018: 100) basis points would have an adverse/favourable effect on profit before tax of $4,500 (2018: $6,000) per annum. The percentage change is based on the expected volatility of interest rates using market data and analysis.

Kip McGrath Education Centres Limited
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Note 21. Financial instruments (continued)

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has adopted a policy of dealing with only recognised, creditworthy third parties. All franchisees are subject to legal and credit checks prior to contracting with the consolidated entity. Policies have been put in place to ensure that receivable balances are monitored on an ongoing basis with the result that the consolidated entity's exposure to credit default is not significant. The consolidated entity does not hold any collateral. However, the consolidated entity's policy for non-payment of debt by contracted partners within the maximum 30-day terms is deactivation of access to student curriculum resources.

The consolidated entity has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the consolidated entity based on recent sales experience, historical collection rates and forward-looking information that is available.

Before accepting any new customers, the consolidated entity assesses the potential customer's credit quality.

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than 1 year.

In determining the recoverability of a trade receivable, the consolidated entity considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements.

Liquidity risk

Vigilant liquidity risk management requires the consolidated entity 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 consolidated entity 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
Unused borrowing facilities at the reporting date:

	Consolidated	
		Restated
	2019	2018
	$'000	$'000
Bank overdraft	1,750	1,750
Bank loans	1,036	-
	2,786	1,750

A GBP denominated loan facility with the HSBC Bank has been established to fund the acquisition of two area developer territories in England, early September 2019.

A letter of cross guarantee is in place between Kip McGrath Education Centres Ltd, Kip McGrath Education Australia Pty Ltd, Kip McGrath Direct Pty Ltd and Kip McGrath Education Global Pty Ltd in relation to the HSBC banking facilities.

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Note 21. Financial instruments (continued)

Remaining contractual maturities
The following tables detail the consolidated entity's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

Consolidated - 2019	Weighted average interest rate %	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Non-derivatives						
Non-interest bearing						
Trade payables	-	596	-	-	-	596
Other payables	-	5,153	-	-	-	5,153
Interest-bearing - fixed rate						
Bank loans	3.73%	450	-	-	-	450
Total non-derivatives		6,199	-	-	-	6,199

Consolidated - Restated 2018	Weighted average interest rate %	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Non-derivatives						
Non-interest bearing						
Trade payables	-	1,034	-	-	-	1,034
Other payables	-	4,154	-	-	-	4,154
Interest-bearing - variable						
Bank loans	4.58%	175	468	-	-	643
Total non-derivatives		5,363	468	-	-	5,831

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

Note 22. Fair value measurement

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value. The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature. The fair value of the consolidated entity's non-current financial liabilities has been estimated as $450,000 (2018 $643,000) by discounting the remaining contractual maturities at current market interest rates for similar financial instruments.

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Note 23. Key management personnel disclosures

Compensation
The aggregate compensation made to directors and other members of key management personnel of the consolidated entity is set out below:

	Consolidated 2019 $	Restated 2018 $
Short-term employee benefits	1,352,057	1,561,630
Post-employment benefits	106,569	121,552
Share-based payments	21,333	45,257
	1,479,959	1,728,439

The KMP total this year represents fewer KMP than last year because the Board has reviewed those identified as KMP and determined that some members of staff no longer satisfy the definition of KMP as per AASB 124 'Related Party Disclosures'.

Note 24. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by PKF Newcastle, the auditor of the company, its network firms and unrelated firms:

	Consolidated 2019 $	Restated 2018 $
Audit services - PKF Newcastle		
Audit or review of the financial statements	105,000	105,000
Other services - PKF Newcastle		
Preparation of the tax return and other tax services	14,285	21,139
	119,285	126,139
Other services - network firms		
Preparation of the tax return (NZ)	3,100	3,727
Audit services - unrelated firms		
Audit or review of the financial statements	10,878	10,778
Other services - unrelated firms		
Payroll and tax services	6,213	1,769
	17,091	12,547

Fees of $17,091 (2018: $12,547) were paid to Hazlewoods LLP, who are the auditors of the UK subsidiary Kip McGrath Education United Kingdom Limited.

Note 25. Contingent liabilities

There were no contingent liabilities at 30 June 2019.

The consolidated entity has entered into arrangements to provide a guarantee to the lessor of the head office premises amounting to $58,000 (2018: $58,000) and premises in Kotara of $51,000 (2018: $nil).

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Note 26. Commitments

	Consolidated 2019 $'000	Consolidated Restated 2018 $'000
Capital commitments		
Committed at the reporting date but not recognised as liability, payable:		
Property, plant and equipment	20	-
Intangible assets	1,296	-
PPE Lease commitments - operating		
Committed at the reporting date but not recognised as liability, payable:		
Within one year	487	223
One to five years	804	416
	1,291	639

Capital commitments include amounts for the purchase of two AD territories in the UK market and the acquisition of a franchised centre operating in Australia.

Operating lease commitments includes contracted amounts for offices and plant and equipment under non-cancellable operating leases expiring within one to five years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

Note 27. Related party transactions

Parent entity
Kip McGrath Education Centres Limited is the parent entity.

Subsidiaries
Interests in subsidiaries are set out in note 29.

Key management personnel
Disclosures relating to key management personnel are set out in note 23 and the remuneration report included in the directors' report.

Transactions with related parties
During the year, $3,650 (2018: $2,937) was paid to 360 HR Pty Ltd, a related party to Diane Pass, for the reimbursement of externally acquired training materials.

In June 2019, a contract was entered into with Catherine Cook (KMP) to provide curriculum resources to the company, and $8,580 has been paid in respect of this contract.

Receivable from and payable to related parties
There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

Loans to/from related parties
There were no loans to or from related parties at the current and previous reporting date.

Terms and conditions
All transactions were made on normal commercial terms and conditions and at market rates.

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Note 28. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

	Parent	
	2019 $'000	Restated 2018 $'000
Profit after income tax	769	3,346
Total comprehensive income	769	3,346

Statement of financial position

	Parent	
	2019 $'000	Restated 2018 $'000
Total current assets	1,947	2,330
Total assets	8,276	9,937
Total current liabilities	3,817	4,748
Total liabilities	5,225	6,234
Equity		
Issued capital	8,876	8,838
Foreign currency reserve	10	(2)
Share-based payments reserve	251	146
Accumulated losses	(6,086)	(5,279)
Total equity	3,051	3,703

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries
The parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2019 and 30 June 2018, except as disclosed in note 22.

Contingent liabilities
The parent entity had no contingent liabilities as at 30 June 2019 and 30 June 2018.

Financial support
The parent entity has issued a financial letter of support to Kip McGrath Education United Kingdom Limited. A letter of support was also issued in the prior year.

Significant accounting policies
The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 1, except for the following:
- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity.

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Note 29. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1:

Name	Principal place of business / Country of incorporation	Ownership interest 2019 %	Ownership interest Restated 2018 %
Kip McGrath Education Australia Pty Ltd	Australia	100%	100%
Kip McGrath Global Pty Limited	Australia	100%	100%
Kip McGrath Direct Pty Ltd	Australia	100%	100%
Kip McGrath Education United Kingdom Ltd	United Kingdom	100%	100%
Kip McGrath Education New Zealand Limited	New Zealand	100%	100%

Note 30. Reconciliation of profit after income tax to net cash from operating activities

	Consolidated 2019 $'000	Consolidated Restated 2018 $'000
Profit after income tax expense for the year	2,652	2,263
Adjustments for:		
Depreciation and amortisation	1,593	1,074
Share-based payments	105	69
Foreign exchange differences	(83)	(47)
Write off of plant and equipment	-	2
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	(237)	480
Decrease/(increase) in deferred tax assets	160	(110)
Decrease/(increase) in prepayments	155	(179)
Increase in trade and other payables	137	1,190
Decrease in contract liabilities	(145)	-
Increase in provision for income tax	491	453
Decrease in deferred tax liabilities	(77)	(110)
Increase in employee benefits	64	84
Net cash from operating activities	4,815	5,169

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Note 31. Earnings per share

	Consolidated 2019 $'000	Consolidated Restated 2018 $'000
Profit after income tax attributable to the owners of Kip McGrath Education Centres Limited	2,652	2,263

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	45,037,619	45,034,331
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares	2,862,740	2,587,671
Weighted average number of ordinary shares used in calculating diluted earnings per share	47,900,359	47,622,002

	Cents	Cents
Basic earnings per share	5.888	5.025
Diluted earnings per share	5.536	4.752

Note 32. Share-based payments

On 9 March 2012, shareholders approved the terms and conditions of the Kip McGrath Employee Share Option Plan ('the Plan'). The Plan is designed to provide long-term incentives for employees to deliver long-term shareholder returns. Under the Plan the consolidated entity may, at the discretion of the Remuneration Committee, grant options over ordinary shares in the parent entity to certain key management personnel. The options are issued for nil consideration and only vest if certain conditions are met.

Options granted under the plan carry no dividend or voting rights. Shares issued under exercised options will rank equally with ordinary shares.

On exercise each option converts to one share, except in certain circumstances such as rights issues or bonus issues.

Set out below are summaries of options granted under the plan:

2019

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other *	Balance at the end of the year
28/02/2014	28/02/2019	$0.190	200,000	-	(200,000)	-	-
20/08/2014	31/12/2019	$0.350	150,000	-	-	-	150,000
21/11/2014	31/12/2019	$0.350	1,000,000	-	-	-	1,000,000
02/09/2016	31/12/2021	$0.300	500,000	-	-	(100,000)	400,000
09/10/2017	31/12/2021	$0.370	550,000	-	-	(100,000)	450,000
27/10/2017	31/12/2021	$0.370	500,000	-	-	-	500,000
			2,900,000	-	(200,000)	(200,000)	2,500,000

* Other represents options that lapsed on resignation of an employee.

Note 32. Share-based payments (continued)

2018

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
28/02/2014	28/02/2019	$0.190	250,000	-	-	-	250,000
20/08/2014	31/12/2019	$0.350	100,000	-	-	-	100,000
21/11/2014	31/12/2019	$0.350	1,000,000	-	-	-	1,000,000
02/09/2016	31/12/2021	$0.300	500,000	-	-	-	500,000
09/10/2017	31/12/2021	$0.370	-	550,000	-	-	550,000
27/10/2017	31/12/2021	$0.370	-	500,000	-	-	500,000
			1,850,000	1,050,000	-	-	2,900,000

The options issued in the current financial year have the following vesting conditions:
- Meeting annual performance indicators set by the Board; and
- The employee remains in employment until date of vesting.

The weighted average share price was $0.364 (2018: $0.320).

The weighted average remaining contractual life of options outstanding at the end of the financial year was 1.59 years (2018: 2.86 years).

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were $29,000 (2018: $45,000).

Note 33. Events after the reporting period

Apart from the dividend declared as disclosed in note 20, no other matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Kip McGrath Education Centres Limited
Directors' declaration
30 June 2019

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 30 June 2019 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors

Ian Campbell
Chairman

23 August 2019
Newcastle

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF KIP MCGRATH EDUCATION CENTRES LIMITED

Report on the Financial Report

Opinion

We have audited the accompanying financial report of Kip McGrath Education Centres Limited (the company), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company and the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

In our opinion, the financial report of Kip McGrath Education Centres Limited is in accordance with the *Corporations Act 2001*, including:

a) Giving a true and fair view of the consolidated entity's financial position as at 30 June 2019 and of its performance for the year ended on that date; and

b) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement. Our responsibilities under those standards are further described in the Auditor's Responsibility section of our report.

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

Independence

We are independent of the consolidated entity in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

1. Impairment testing of intangible assets

Why significant	How our audit addressed the key audit matter

As disclosed in note 11, the Company and its subsidiaries has intangible assets of $12.356m as at 30 June 2019.
 	
An annual impairment test for indefinite useful life intangible assets is required under Australian Accounting Standard (AASB) 136 Impairment of Assets.
 	
The evaluation of the recoverable amount requires the group to exercise judgment in determining key assumptions, which include:
 	
• Preparation of a 5-year cash flow forecast;
• Determination of a terminal growth factor; and
• Determination of a discount rate.
 	
The outcome of the impairment assessment could vary if different assumptions were applied. As a result, the evaluation of the recoverable amount of intangible assets including goodwill is a key audit matter.
	The Company has reviewed the disposition of how cash flows are generated and determined there is one CGU, being the Company and its subsidiaries. Our audit procedures included but were not limited to:
	
	• Assessing and challenging:
	  o the assumption of one cash generating unit being appropriate;
	  o the accuracy of the FY20 budget approved by the Board by comparing the budget to FY19 actuals;
	  o the key assumptions for the future growth rate used in the model by comparing the average historical growth rates from FY18 to FY19 and other industry forecasts; and
	  o the discount rate applied by comparing the weighted average cost of capital to industry benchmarks.
	• testing, on a sample basis, the mathematical accuracy of the cash flow models;
	• testing, on a sample basis, the validity and accuracy of intangibles capitalised during the financial year;
	• considering management's assessment of those with definite and indefinite useful lives;
	• testing, on a sample basis, the validity and accuracy of amortisation expense and accumulated amortisation where appropriate;
	• agreeing inputs in the cash flow models to relevant data including approved budgets and latest forecasts;
	• reviewing management's sensitivity analysis in relation to key assumptions including discount rate, growth rate and terminal value; and
	• assessing appropriateness of financial statement disclosures including sensitivities to assumptions used, included in Note 11.
	
	Based on those procedures performed, we were satisfied with the material accuracy of the intangibles and relevant disclosures.

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2. Revenue recognition

Why significant	How our audit addressed the key audit matter
The Company has adopted AASB 15 *Revenue from Contracts with Customers* from 1 July 2018. The Company's sales revenue noted in Note 5 Revenue amounted to $16.23m during the year. Note 1 describes the accounting policies applicable to distinct revenue streams noting that revenue from: • franchise fees are recognised on a weekly or monthly basis as support services are rendered; and • the development, support, use of intellectual property and training for new master franchisees and franchisee owners is delivered over the contract term. Therefore, the initial upfront payment received from franchisees gives rise to the recognition of a Contract liability recognised on the Statement of Financial Position and in Note 14. Restatement of comparative amounts to reflect retrospective application of this Standard has also occurred as shown in Note 3 and 5. Due to the different revenue streams and separate performance obligations of the Company, the timing of revenue recognition is varied under AASB 15. As a result, revenue recognition is considered a key audit matter.	Our procedures included, but were not limited to, the following: • for a sample of contracts across each of the revenue streams, assessing Management's identification of the Company's disaggregated revenue streams across: • Customer contracts; • Franchise fees; • Sales of master territories and franchise centres; • National advertising contributions; • Direct sales; • Student lesson fees; • evaluating the contracts and agreeing revenue amounts to the records accumulated as inputs to the financial statements, including supporting billing systems and bank records; • assessing the values recorded and the timing of revenue recognition in accordance with the timeframe of product delivery or period of service by either recognising revenue at a point in time or over the contract term; • assessing the accuracy of revenue cut off and completeness of deferred revenue as of year end; and • assessing the consistency of the Company's accounting policies in respect of revenue recognition with the criteria prescribed by AASB 15. Based on those procedures performed, we are satisfied with the material accuracy of the adoption of AASB 15 and the relevant disclosures in the financial report.

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Other Information

Other information is financial and non-financial information in the annual report of the company which is provided in addition to the Financial Report and the Auditor's Report. The directors are responsible for Other Information in the annual report.

The Other Information we obtained prior to the date of this Auditor's Report was the Director's Report. The remaining Other Information is expected to be made available to us after the date of the Auditor's Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, the auditor does not and will not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information in the Financial Report and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Directors' Responsibilities for the Financial Report

The Directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the Directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the financial report complies with International Financial Reporting Standards.

In preparing the financial report, the Directors are responsible for assessing the consolidated entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using a going concern basis of accounting unless the Directors either intend to liquidate the consolidated entity or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our responsibility is to express an opinion on the financial report based on our audit. Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue and auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individual or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report.

The procedures selected depend on the auditor's judgement, including assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

We conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the consolidated entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the consolidated entity to cease to continue as a going concern.

We evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the consolidated entity to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements. We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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Report on the Remuneration Report

Opinion

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2019. In our opinion, the Remuneration Report of Kip McGrath Education Centres Limited for the year ended 30 June 2019, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

PKF
CHARTERED ACCOUNTANTS

CLAYTON HICKEY
PARTNER

23 AUGUST 2019
NEWCASTLE, NSW

Kip McGrath Education Centres Limited
Shareholder information
30 June 2019

The shareholder information set out below was applicable as at 1 August 2019.

Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

	Number of holders of ordinary shares	Number of holders of options over ordinary shares
1 to 1,000	111	-
1,001 to 5,000	438	-
5,001 to 10,000	209	-
10,001 to 100,000	212	-
100,001 and over	38	5
	1,008	5
Holding less than a marketable parcel	38	-

Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest security holders of quoted equity securities are listed below:

	Ordinary shares	
	Number held	% of total shares issued
National Nominees Limited	10,197,606	22.54
Mr Kip McGrath	11,036,991	24.40
KMEC Superannuation Pty Ltd (KMEC Superannuation Fund A/C)	4,000,000	8.84
Mr Storm Kip McGrath	1,102,731	2.44
Kip McGrath Investments Pty Ltd (McGrath Family A/C)	1,000,000	2.21
BNP Paribas Nominees Pty Ltd (IB AU NOMS Retailclient DRP)	751,661	1.66
Rendina Pty Ltd (Rendina Super Fund A/C)	750,052	1.66
Emerald Shares Pty Limited (Emerald Unit A/C)	600,000	1.33
Mr Matthew Charles Peek	580,000	1.28
Ensi Street Superannuation Pty Ltd (Ensi Street Retirement A/C)	533,881	1.18
Hetale Pty Limited (Eagles Nest Retire Fund A/C)	500,000	1.11
Ms Snezana Bowden	400,000	0.88
Mrs Stacey-Lee Segal	400,000	0.88
Mr Brian Stephan Sleigh	688,000	1.52
DMX Capital Partners Limited	379,425	0.84
Indweco Pty Limited	343,261	0.76
HSBC Custody Nominees (Australia) Limited	322,873	0.71
Good Hope Management Pty Ltd (The Good Hope Unit A/C)	269,300	0.60
Liberty Consolidated Holdings Pty Ltd	250,000	0.55
Mr Steven John McCarthy	250,000	0.55
	34,355,781	75.94

Kip McGrath Education Centres Limited
Shareholder information
30 June 2019

Unquoted equity securities

	Number on issue	Number of holders
Options over ordinary shares issued	2,500,000	5

Substantial holders
Substantial holders in the company are set out below:

	Ordinary shares	
	Number held	% of total shares issued
National Nominees Limited	10,197,606	22.54
Mr Kip McGrath	11,036,991	24.40
KMEC Superannuation Pty Ltd (KMEC Superannuation Fund A/C)	4,000,000	8.84

Voting rights
The voting rights attached to ordinary shares are set out below:

Ordinary shares
On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

There are no other classes of equity securities.

Kip McGrath™

EDUCATION CENTRES