

1. Company details

Name of entity:	Kip McGrath Education Centres Limited
ABN:	73 003 415 889
Reporting period:	For the year ended 30 June 2022
Previous period:	For the year ended 30 June 2021

2. Results for announcement to the market

				\$'000
Revenues from ordinary activities	up	27.9%	to	24,648
Earnings Before Interest, Tax, Depreciation and Amortisation ('EBITDA')	up	21.4%	to	6,200
Profit from ordinary activities after tax attributable to the owners of Kip McGrath Education Centres Limited	up	8.4%	to	1,878
Profit for the year attributable to the owners of Kip McGrath Education Centres Limited	up	8.4%	to	1,878

Dividends

An interim dividend for the year ended 30 June 2022 of 1.0 cents per ordinary share, 100% fully franked, was paid on 24 March 2022. The total distribution was \$565,000.

On 23 August 2022, a final dividend for the year ended 30 June 2022 of 1.0 cents per ordinary share, 100% fully franked, was determined to be paid on 22 September 2022 to those shareholders on the register at 7p.m. on 8 September 2022. The total distribution will be \$565,000.

Comments

The profit for the consolidated entity after providing for income tax amounted to \$1,878,000 (30 June 2021: \$1,733,000).

The first part of the financial year was impacted by continuing COVID-10 lockdowns, however appetite for face to face lessons returned steadily throughout the year especially in the UK. This was boosted by the increased usage of the online tutoring options available on our software platform.

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

The earnings before interest, tax, depreciation and amortisation ('EBITDA') amounted to \$6,200,000 (2021: \$5,106,000). EBITDA is a financial measure which is not prescribed by the Australian Accounting Standards ('AAS') and represents the profit under AAS adjusted for specific items. The directors consider EBITDA to be one of the core earnings measures of the consolidated entity.

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

	Consolidated	
	2022 \$'000	2021 \$'000
Revenue	24,636	19,265
EBITDA	6,200	5,106
Less: Depreciation and amortisation	(3,522)	(2,707)
Less: Interest expense	(122)	(116)
Add: Interest income	12	13
Profit before Income tax expense	2,568	2,296
Income tax expense	(690)	(563)
Profit after income tax expense	<u>1,878</u>	<u>1,733</u>

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>(0.66)</u>	<u>4.48</u>

Right-of-use assets have not been treated as intangible assets for the purposes of the net tangible asset calculation.

4. Control gained over entities

Refer to note 30 to the financial statements for further details.

5. Loss of control over entities

Not applicable.

6. Dividend reinvestment plans

The following dividend or distribution plans are in operation:

The Board approved a Dividend Reinvestment Plan ('DRP') for eligible shareholders commencing with this dividend declared on 23 August 2022 and, unless the Board determines otherwise, will continue for any subsequent dividends. Under the DRP shareholders may elect to have dividends on some or all of their ordinary shares automatically reinvested in additional Kip McGrath shares.

The election date for participation in the DRP is 9 September 2022. The DRP booklet is available on <https://www.kipmcgrath.com/global/shareholder-information>

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 unmodified opinion has been issued.

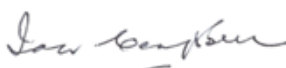
10. Attachments

Details of attachments (if any):

The Annual Report of Kip McGrath Education Centres Limited for the year ended 30 June 2022 is attached.

11. Signed

As authorised by the Board of Directors

Signed  _____

Date: 23 August 2022

Ian Campbell
Chairman
Newcastle

Kip McGrath Education Centres Limited

ABN 73 003 415 889

Annual Report - 30 June 2022

Directors	Ian Campbell (Chairman) Storm McGrath Trevor Folsom Diane Pass
Company secretary	Brett Edwards
Notice of annual general meeting	The details of the annual general meeting of Kip McGrath Education Centres Limited are: Level 25, Tower 3, 300 Barangaroo Avenue Sydney NSW 2000 Tuesday 22 November 2022 at 11:00 a.m. (AEST)
Registered office	7 Bond 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
Corporate Governance Statement	The directors and management are committed to conducting the business of Kip McGrath Education Centres Limited in an ethical manner and in accordance with the highest standards of corporate governance. Kip McGrath Education Centres Limited has adopted and has substantially complied with the ASX Corporate Governance Principles and Recommendations (Fourth Edition) ('Recommendations') to the extent appropriate to the size and nature of its operations. The consolidated entity's Corporate Governance Statement, which sets out the corporate governance practices that were in operation during the financial year and identifies and explains any Recommendations that have not been followed and the ASX Appendix 4G are released to the ASX on the same day the Annual Report is released. The Corporate Governance Statement and Corporate Governance Compliance Manual can be found on the Group's website at https://www.kipmcgrath.com/global/shareholder-information

Dear Shareholders,

We have witnessed solid performance in FY22 with the company achieving 27.9% year-on-year revenue growth to \$24.6M, despite the overhanging impacts of COVID-19. The solid result was supported by government contract wins in Australia, the United States and the Middle East.

We emerged from challenging market conditions with a strong financial performance with EBITDA at \$6.2M up 21.4% and NPAT of \$1.9M up 8.4% on FY21.

Throughout the year, Kip McGrath remained focused on delivering on its growth strategy, aiming for online tutoring to account for 35% of revenues. Encouragingly the blended learning mix of online and face-to-face tutoring has resulted in an increase to our customer retention rate, with online students highlighting the benefits of being able to choose tutoring at physical locations when needed.

We continue to be focused on our commitment to consistently grow and are investing in our online learning management systems to ensure our technology capabilities are delivering a leading service to our customer base with increased analytics to drive greater insights.

The TutorFly strategic acquisition expanded our geographic footprint into the United States, the largest tutoring market in the world. The marketplace business that matches tutors and students is globally scalable and we can look to leverage this in new geographies. As the company grows, we see TutorFly as a key area for growth for the business and have recently appointed a Chief Academic Officer to drive growth in the US, with a focus on penetrating a greater number of schools over the coming year. We believe the improvements we are making to TutorFly combined with the support of government funding to help American students who are struggling after COVID-19, will propel further growth for Kip McGrath.

The growth achieved over the financial year would not have been achieved without the dedication of Kip McGrath's staff and management who have worked consistently to deliver tailored tutoring to our students and drive value for our shareholders. I would like to thank the broader team for their efforts.

Today, the Board declared a final dividend of 1 cent per share to be paid on 22 September 2022 for those shareholders on the register at 7pm on 8 September 2022, resulting in totally franked dividends for the year of 2 cents per share. The Board also approved a Dividend Reinvestment Plan (DRP) for eligible shareholders commencing with this dividend and, unless the Board determines otherwise, will continue for any subsequent dividends. The DRP booklet is available on <https://www.kipmcgrath.com/global/shareholder-information>

As we look to the future, we continue to be focused on delivering top line growth while improving operational efficiencies in our platform to generate greater margin expansion. We will focus on all regions of our business to further increase our market share.

Delivering shareholder value remains imperative to our purpose and we appreciate your continued support. We look forward to updating you throughout FY23.



Ian Campbell
Chairman

23 August 2022

Sydney

The business has remained steadfast in our pursuit of growth and offshore expansion, and I am delighted to report on the growth in our revenue, profit, and global reach over the last year as our business returns to normal operations post the challenges of COVID-19. We exceeded revenue guidance for the financial year delivering \$24.6M, a significant increase of 27.9% on FY21, with strong contributions from our UK business and Corporate Centres. Pleasingly EBITDA grew 21.4% and NPAT by 8.4% to \$6.2M and \$1.9M respectively.

We continued to be focused on growing the business and added to our global footprint with the acquisition of United States based TutorFly.

During the year we have seen the global impact on children due to COVID-19 impact with significant learning loss. Most of the governments in the regions where we trade are investing money to address this loss. In Australia we are one of four organisations to win a NSW government tender. In the UK many of our franchisees are doing work for the local school they have relationships with to provide tuition under the funding available from the UK government. In the Middle East our master franchisee has secured tutoring for five schools. In the USA the Biden administration, alongside state governments has pledged billions ensuring efforts are made to bridge their substantial learning disparities. Tutorfly was able to deliver tutoring into schools in Phoenix Arizona which showed considerable growth in their educational performance. States like Arizona are allocating every student eligible for public school up to \$6,500 for private-school tuition, online curriculums, or tutors. Government funding creates considerable opportunity for growth for our business globally.

Overview of our major initiatives

Master Franchise and Area Developer acquisitions

The company was able to finalise the purchase of the Scotland Area Developer and South Africa Master Franchisee. We are now directly managing nearly every franchisee in the world from our two main offices, one in Newcastle NSW and the other in Gloucester, Gloucestershire UK.

Corporate Centres and corporate online direct

Corporate centres achieved a 115% increase in lesson revenue aided by the opening of 9 new or purchased locations. This area of the business now has 2,333 students. Our expectation is that it can deliver 25% growth in FY23, while providing operational efficiencies for our platform, software, and management systems. The corporate centres have provided a sound base to launch and test programs that can then be rolled out to our franchisees. Physical locations have proven to be a strong advantage for us, as many parents and students want the option of a blended offering, face to face or online tutoring.

Technology development

We are persistently working towards deeper integrations and developments to our technology stack to ensure stronger learning capabilities and greater analytics. In July 2022 we rolled out our advanced learning management software, with 800 students already using the system. The upgraded system is faster and has improved teaching tools, uniform reporting, curriculum enhancements and is easier to use for both administrators and students. Implementation has seen small group tutoring take place via an interactive whiteboard, whilst students have highlighted the ease of use and personal feedback as areas which have encouraged their individual growth. The platform will also allow blended learning seamlessly, which is the preferred model for our customers.

TutorFly

Improving the TutorFly offering is a key focus as we move into FY23. The establishment of a Chief Academic Officer highlights our commitment to secure an additional six schools over the coming year. The benefits of our tutoring have been seen throughout the year with only 5% of participating students who were tested prior to the academic year displaying skills at grade level. Following Kip McGrath tutoring this increased to approximately 45% of students testing at grade level. Additionally, we continue to see synergies with the acquisition and the sharing of Kip McGrath's technology particularly the newly deployed learning management system.

Government Initiatives

Increasingly governments are committing funds to bridge learning gaps exacerbated by the pandemic. Over the course of the year Kip McGrath won an additional four government contracts including new regions such as the Middle East. The Middle East contract delivers Kip McGrath's tutoring to over 4,000 students within local schools. Our ability to continue to win these contracts across a range of countries highlights our deep commitment to learning and our motto "every child can learn, they just have to be taught well", reinforcing the reputation we have built in education over the last 45 years of operation.

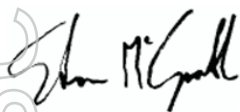
Gold Partner Franchisees

Our Gold Partner Franchisees continue to operate globally with 102 in Australia, 9 in New Zealand and 185 in the United Kingdom. The UK Gold Partners delivered strong growth for the year with a 19% uplift delivering \$7.6M of revenue. A key focus for FY23 will be transitioning many of our Silver Partners to Gold Partnerships to deliver greater growth and stronger margin performance.

Outlook

As we move into FY23, our focus remains on growing all areas of the business with specific attention to the corporate centres and TutorFly. We have defined our roadmap for the first half of FY23 clearly determined to finalise our latest software rollouts to deliver operational efficiencies and drive margin expansion.

The growth we continue to achieve wouldn't be possible without the support and commitment of our teachers, children, and franchisees. I would like to thank you all for your dedication to improving learning globally.



Storm McGrath

Managing Director & Chief Executive Officer

23 August 2022

Sydney

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 2022.

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:

Ian Campbell (Chairman)
 Storm McGrath
 Trevor Folsom
 Diane Pass

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 company is also increasing the number of tutoring centres that are corporately owned. 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	
	2022	2021
	\$'000	\$'000
Final dividend for the year ended 30 June 2021 of 1.0 cents (2020: 2.0 cents) per ordinary share	522	1,036
Interim dividend for the year ended 30 June 2022 of 1.0 cents (2021: 1.0 cents) per ordinary share	565	522
	<u>1,087</u>	<u>1,558</u>

On 23 August 2022, a final dividend for the year ended 30 June 2022 of 1.0 cents per ordinary share, 100% fully franked, was determined to be paid on 22 September 2022 to those shareholders on the register at 7p.m. on 8 September 2022. The total distribution will be \$565,000.

Review of operations

The profit for the consolidated entity after providing for income tax amounted to \$1,878,000 (30 June 2021: \$1,733,000).

Revenue has grown by 28.0% to \$24,636,000, with significant growth in student lesson fees from corporate centres offsetting a slight fall in direct sales. Student lesson fees were up 115.3% to \$7,883,000 with new corporate centres acquired in Brisbane, Sydney Newcastle and Tasmania along with new growth from the US operations. Franchise fees increased 12.5% to \$12,960,000 with the impact of COVID-19 beginning to show signs of recovery in most key markets. Refer to note 5 for additional information.

In spite of the first part of the year being impacted by lockdowns in several markets, scheduled lessons numbers increased by 13% to 1,894,000 while lesson attendance increased to 87% from 85% compared to the prior year. The appetite for face-to-face lessons has also returned in some geographies, especially the UK, where in-person scheduled lessons have increased by 77%, offset by a 32% contraction in online lessons.

Global Corporate Centre lessons scheduled have increased significantly from 68,000 in the prior year to 119,000 in the current year, reflecting a 75% jump. Markets in Australasia grew by 5% from 648,000 scheduled lessons in FY21 to 678,000 in FY22, with the UK market increasing by 15%. Tutorfly in the US contributed a total of 71,000 lessons for the period since acquisition, representing 3.7% of total scheduled lessons.

There are now 24 Corporate Centres operational, including centres in Brisbane (7), Newcastle (3), Sydney (5), Bathurst (1), Canberra (1), Melbourne (2), Perth (2), Launceston (1), England (1) and New Zealand (1). Gold Partner numbers in Australia have reduced to 102, partly due to Corporate Centre consolidation. Total centres in Australia remains at 140 (down from 144 in the prior year). Similarly in the New Zealand market centre numbers have decreased slightly to 45 active centres, with 10 Gold Partners.

In the UK the number of Gold Partners have been growing, now at 185 centres compared to 180 in the prior year. Overall there are 258 active UK centres, up from 255 in the prior year.

UK operations revenue saw a 13% increase to \$10,026,000 compared to \$8,838,000 in the prior year. Revenue for US (Tutorfly) was \$1,617,000. The South African business has transitioned well to the franchisor with revenues increasing by 61% to \$574,000 despite being impacted by shutdowns earlier in the year. There are currently 56 operational centres in South Africa.

The earnings before interest, tax, depreciation and amortisation ('EBITDA') amounted to \$6,200,000 (2021: \$5,106,000).

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

	Consolidated	
	2022	2021
	\$'000	\$'000
Revenue	24,636	19,265
EBITDA	6,200	5,106
Less: Depreciation and amortisation	(3,522)	(2,707)
Less: Interest expense	(122)	(116)
Add: Interest income	12	13
Profit before Income tax expense	2,568	2,296
Income tax expense	(690)	(563)
Profit after income tax expense	<u>1,878</u>	<u>1,733</u>

The directors consider EBITDA to reflect the core earnings of the consolidated entity. EBITDA is a financial measure not prescribed by Australian Accounting Standards ('AAS') and represents the profit under AAS adjusted for depreciation, amortisation and interest expense. This financial measure has not been subject to specific audit or review procedures by the company's auditor, but has been extracted from the accompanying financial statements.

Significant changes in the state of affairs

On 12 July 2021, the company executed an agreement for the South African master franchisee to hand back the South African territory, which includes approximately 50 operating centres. The total payment for the hand back amounted to South African Rand 5,100,000 (approximately A\$460,000). These centres are now fully serviced by the UK Head Office in Gloucester.

On 16 August 2021, the company purchased back the Scotland Area Developer for a capital payment of £250,000 (approximately A\$470,000) payable over a 12-month period commencing October 2021. The territory has 32 active centres and is now fully serviced by the UK Head Office in Gloucester.

On 1 September 2021, the company purchased a 70% stake in the US based business Tutorfly.com. ('Tutorfly') for an initial payment of US\$500,000 via its newly incorporated subsidiary, Tutorfly Holdings Inc. The company made a further payment of US\$500,000 in December 2021 when Tutorfly achieved US\$20,000 per month net revenue targets. The company agreed a final settlement of US\$2,000,000 in February 2022 to purchase the remaining 30% stake in the business as it had achieved the US\$50,000 per month net revenue target prior to 31 December 2021. This settlement included 2,000,000 ordinary shares in the company issued on 21 February 2022 as well as a cash payment of US\$525,000.

In January 2022, the company purchased another 5 Corporate Centres, including 4 in Southern Queensland and 1 in Tasmania for \$770,000.

Matters subsequent to the end of the financial year

Apart from the dividend declared as discussed above, no other matter or circumstance has arisen since 30 June 2022 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.

Business risks

The following is a summary of material business risks that could adversely affect the consolidated entity's ('KMEC') financial performance and growth potential in future years.

Information technology systems

KMEC's business is dependent upon the development and maintenance of infrastructure to support the Information Technology (IT) systems, which along with the internet, has experienced and is expected to continue to experience significant growth and development. There can be no assurance that the IT systems or the internet's infrastructure will continue to be able to support the demands placed upon it by the community or that the performance or reliability of the IT systems or internet will not diminish. In particular, the reliability and performance of IT systems and the internet may be affected by computer viruses and/or other deliberate acts of terrorism and sabotage. The introduction of new technologies for delivering services, changes in perceptions of the industry, cultural shifts and changes in the demographic, all have the capability to adversely impact the operating conditions of KMEC.

Competition

KMEC operates in a competitive market with competitors who may have greater resources, superior products and/or a lower cost of capital and the ability to borrow money at lower rates than those at which KMEC can borrow money. There is no assurance that competitors will not succeed in developing and offering services that are more effective, economically or otherwise, or more attractive to the market than those being developed by KMEC, or which would render KMEC's services obsolete and/or otherwise uncompetitive. In addition, KMEC may not be able to compete successfully against current or future competitors where aggressive pricing policies are employed to capture market share, which could materially and adversely affect KMEC's future business, operating results and financial position.

Acts of terrorism, pandemics or outbreak of international hostilities

An act of terrorism, significant pandemic or an outbreak of international hostilities could adversely affect consumer confidence, customer spending and investment performance, which in turn could have an adverse impact on KMEC's operating, financial and share value performance.

Reliance on key personnel

KMEC's performance is significantly dependent on the talents and efforts of skilled individuals able to manage the business. KMEC's continued ability to operate effectively depends on its ability to retain and motivate existing employees as well as to attract new employees. KMEC's financial performance may be adversely affected if it is unable to recruit, retain and motivate quality employees.

Funding risks

Depending on KMEC's ability to generate revenue from operations, KMEC may require further financing to support its activities. Any additional equity financing could dilute share holdings, and debt financing, if available, may involve restrictions on financing and operating activities. The unavailability of such funding, or the unavailability of such funding on commercially favourable terms, may limit the extent and size of activity undertaken by KMEC, and adversely affect the financial performance of KMEC as a consequence. In addition, debt funding will expose KMEC to the risk of movements in interest rates.

Dependence on third party service providers

KMEC depends on a number of key arrangements (both contractual and non-contractual) with its business partners, that, should they be lost or significantly compromised, could potentially adversely affect KMEC's financial and operational viability. In particular, KMEC is currently reliant on an ongoing key supplier relationship with Amazon, Microsoft and Google and is likely to be reliant on these for some time. As a consequence of this reliance, there will be little scope to mitigate the adverse effects on KMEC from either a poor performance of either one of these or a change in the relationship.

Foreign exchange risk

KMEC's business currently sells services and purchases product in several currencies including [USD (United States of America), GBP (United Kingdom), NZD (New Zealand) and ZAR (South Africa)]. Accordingly, KMEC is exposed to foreign currency exchange risk. KMEC does not have an active hedging policy in place, instead relying on natural hedges, and accordingly movements in exchange rates may impact KMEC's profitability.

Litigation and dispute risk

There are currently no outstanding claims involving KMEC. However KMEC is potentially exposed to the general risk of disputes and litigation, which may arise from time to time in the course of KMEC's business activities. There is a risk that material or costly disputes or litigation could adversely affect financial performance. KMEC takes out insurance to cover certain risks where it appears appropriate to do so. To the extent that any such claims are not covered by insurance, the costs of responding to the claim and any adverse outcome from any claim may materially adversely affect KMEC financial position.

Changes in legislation and government regulation

Regulatory changes, including changes to the laws impacting KMEC's operations, the taxation system or associated government policy, may affect future earnings and the relative attractiveness of investing in KMEC.

Potential acquisitions

As part of its business strategy, KMEC may make acquisitions of, or significant investments in, complementary companies, services, products or technologies, although no such acquisitions or investments are assured. Any such future transactions would be accompanied by the risks commonly encountered in making acquisitions of companies, products and technologies. No assurance can be made that any such investments would be profitable.

Intellectual property rights and brand names

KMEC regards brand names, trademarks, domain names, trade secrets and similar intellectual property as important to its success. Should KMEC or any of its brand names be damaged in any way or lose market appeal, KMEC's business could be adversely impacted. KMEC relies on copyright law, trade secret protection and duties of confidence and licence agreements with its employees, customers, contractors and others to protect its intellectual property rights. Whilst KMEC will use all reasonable endeavours to protect these rights, unauthorised use or disclosure of its proprietary technology and intellectual property may have an adverse effect on the operating, marketing and financial performance of KMEC. KMEC could also be exposed if it breached any third party intellectual property rights.

Environmental regulation

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

Information on directors

Name:	Ian Campbell
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 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

Name: Storm McGrath
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: 4,484,333 ordinary shares

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 Investible, 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: 600,000 ordinary shares

Name: Diane Pass
Title: Non-Executive Director
Qualifications: MAICD
Experience and expertise: Diane is the Founder and Director of the human resources consultancy firm 360HR. She has more than 27 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: 156,179 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 32 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 2022, and the number of meetings attended by each director were:

	Full Board		Remuneration Committee		Audit Committee	
	Attended	Held	Attended	Held	Attended	Held
Ian Campbell	10	10	2	2	4	4
Storm McGrath	10	10	-	-	-	-
Trevor Folsom	10	10	2	2	4	4
Diane Pass	10	10	2	2	4	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

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 RC 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 Board.

Long-term incentives ('LTI') include share options and long service leave. The objective of the employee share option plan 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. Refer to the section 'Additional information' below for details of the earnings and total shareholders return for the last five years.

Use of remuneration consultants

The consolidated entity did not engage the use of a remuneration consultant during the financial year ended 30 June 2022.

Voting and comments made at the company's 2021 Annual General Meeting ('AGM')

At the 2021 AGM, 99% of the shareholders voted to adopt the remuneration report for the year ended 30 June 2021. 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:

- Brett Edwards - Company Secretary and Chief Financial Officer
- Jackie Burrows - Chief Executive Officer UK Business
- Daniel Pludek - Chief Technology Officer
- Scott Hillard - Chief Commercial Officer
- Abby Clifford - Chief Product Officer

	Short-term benefits	Short-term benefits	Post- employment benefits	Long-term benefits	Share- based payments	Share- based payments	
	Cash salary and fees	Bonus	Non- monetary	Super- annuation	Leave benefits	Equity- settled shares	Equity-settl ed options
2022	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>							
Ian Campbell (Chairman)	113,122	-	-	11,878	-	-	-
Trevor Folsom	68,493	-	-	6,849	-	-	-
Diane Pass	75,001	-	-	7,499	-	-	-
<i>Executive Directors:</i>							
Storm McGrath	414,511	23,000	-	41,451	-	-	-
<i>Other KMP:</i>							
Brett Edwards	273,972	22,500	-	27,397	-	-	-
Jackie Burrows	256,641	25,664	-	34,678	-	-	-
Daniel Pludek	225,000	12,375	-	22,500	-	-	-
Scott Hillard	200,000	11,000	-	20,000	-	-	-
Abby Clifford	200,000	-	-	20,000	-	-	-
	1,826,740	94,539	-	192,252	-	-	-
							2,113,531

	Short-term benefits	Short-term benefits		Post- employment benefits	Long-term benefits	Share- based payments	Share- based payments	
	Cash salary and fees	Bonus	Non- monetary	Super- annuation	Leave benefits	Equity- settled shares	Equity-settl ed options	Total
2021	\$	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>								
Ian Campbell (Chairman)	127,326	-	-	11,712	-	-	-	139,038
Trevor Folsom	71,127	-	-	6,757	-	-	-	77,884
Diane Pass	84,831	-	-	8,059	-	-	-	92,890
<i>Executive Directors:</i>								
Storm McGrath	467,346	-	-	46,773	-	-	-	514,119
<i>Other KMP:</i>								
Brett Edwards	282,613	-	-	27,798	-	-	-	310,411
Jackie Burrows	246,394	-	-	31,813	-	-	-	278,207
Scott Hillard	88,462	-	-	8,404	-	-	-	96,866
Daniel Pludek	186,059	-	-	17,676	-	-	-	203,735
Abby Clifford	76,077	-	-	6,942	-	-	-	83,019
	1,630,235	-	-	165,934	-	-	-	1,796,169

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

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2022	2021	2022	2021	2022	2021
<i>Non-Executive Directors:</i>						
Ian Campbell	100%	100%	-	-	-	-
Trevor Folsom	100%	100%	-	-	-	-
Diane Pass	100%	100%	-	-	-	-
<i>Executive Directors:</i>						
Storm McGrath	95%	100%	5%	-	-	-
<i>Other KMP:</i>						
Brett Edwards	93%	100%	7%	-	-	-
Jackie Burrows	92%	100%	8%	-	-	-
Daniel Pludek	95%	100%	5%	-	-	-
Scott Hillard	95%	100%	5%	-	-	-
Abby Clifford	100%	100%	-	-	-	-

The proportion of the cash bonus paid and forfeited is as follows:

Name	Cash bonus paid/payable		Cash bonus forfeited	
	2022	2021	2022	2021
Executive Directors:				
Storm McGrath	22%	-	78%	100%
Other KMP:				
Brett Edwards	33%	-	67%	100%
Jackie Burrows	40%	-	60%	100%
Daniel Pludek	22%	-	78%	100%
Scott Hillard	22%	-	78%	100%
Abby Clifford	-	-	100%	100%

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.

The KMP have short term performance incentives of up to 25% of base salary plus an additional incentive for over budget performance as well as long term performance incentives in the form of options up to 15% of base salary.

Share-based compensation

Issue of shares

There were no shares issued to directors and other KMP as part of compensation during the year ended 30 June 2022.

Issue of options

There were no options over ordinary shares issued to directors and other KMP as part of compensation that were outstanding as at 30 June 2022.

Additional information

The earnings of the consolidated entity for the five years to 30 June 2022 are summarised below:

	2022 \$'000	2021 \$'000	2020 \$'000	2019 \$'000	2018 \$'000
Sales revenue	24,636	19,265	17,123	16,263	13,060
EBITDA	6,200	5,106	5,208	5,207	4,079
Profit after income tax	1,878	1,733	1,573	2,652	2,263

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

	2022	2021	2020	2019	2018
Share price at financial year end (\$)	1.000	1.200	1.025	0.995	0.580
Basic earnings per share (cents per share)	3.472	3.329	3.455	5.888	5.025
Diluted earnings per share (cents per share)	3.472	3.188	3.276	5.536	4.752

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/other	Balance at the end of the year
Ordinary shares					
Ian Campbell	500,000	-	-	-	500,000
Storm McGrath	2,884,333	1,500,000	100,000	-	4,484,333
Trevor Folsom	165,000	-	435,000	-	600,000
Diane Pass	105,473	-	50,706	-	156,179
Brett Edwards	150,000	400,000	-	(118,000)	432,000
Jackie Burrows	200,000	200,000	-	-	400,000
	<u>4,004,806</u>	<u>2,100,000</u>	<u>585,706</u>	<u>(118,000)</u>	<u>6,572,512</u>

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)	-	-	-
Brett Edwards	400,000	-	(400,000)	-	-	-
Jackie Burrows	200,000	-	(200,000)	-	-	-
	<u>2,100,000</u>	<u>-</u>	<u>(2,100,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

Loans to KMP are as follows:

	%	Balance at start of the year	Drawn down	Repayments	Interest	Balance at the end of the year
Storm McGrath	2.59%	-	535,000	-	6,820	541,820
Brett Edwards	2.59%	-	257,605	(125,080)	1,809	134,334
Jackie Burrows	2.59%	-	67,000	-	854	67,854
		<u>-</u>	<u>859,605</u>	<u>(125,080)</u>	<u>9,483</u>	<u>744,008</u>

The loans were granted for the conversion of options during a trading black out period. The loans have a market interest rate with five year repayment terms with security over the underlying shares held by the relevant employees.

There are no other loans to KMP or their related parties

Other transactions with KMP and their related parties

A family member of Storm McGrath's is employed by the company and received a wage of \$9,818 during the year (2021: Nil). There are no other transactions with KMP and their related parties.

This concludes the remuneration report, which has been audited.

Shares under option

There were no unissued ordinary shares of Kip McGrath Education Centres Limited under option at the date of this report.

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 2022 and up to the date of this report on the exercise of options granted:

Date options granted	Exercise price	Number of shares issued
20/08/2014	\$0.350	150,000
21/11/2014	\$0.350	1,000,000
19/08/2016	\$0.300	300,000
09/10/2017	\$0.370	400,000
27/10/2017	\$0.370	450,000
		<u>2,300,000</u>

Coronavirus (COVID-19) pandemic

The consequences of the Coronavirus (COVID-19) pandemic are continuing to be felt around the world, and its impact on the consolidated entity, if any, has been reflected in the results to date. Whilst it would appear that control measures and related government policies, including the roll out of the vaccine and boosters, have started to mitigate the risks caused by COVID-19, it is not possible at this time to state that the pandemic will not subsequently impact the consolidated entity's operations going forward. The directors and management continue to monitor the situation both locally and internationally.

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.

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 25 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 25 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 (including Independence Standards) 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 and Sydney

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

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.

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
Chairman

23 August 2022
Sydney

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 2022, 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



MARTIN MATTHEWS
PARTNER

23 AUGUST 2022
NEWCASTLE, NSW

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

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under Professional Standards Legislation

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PKF (NS) Audit & Assurance Limited Partnership is a member firm of the PKF International Limited family of separately owned firms and does not accept any responsibility or liability for the actions or inactions of any individual member or correspondent firm or firms.

For our office locations visit www.pkf.com.au

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Kip McGrath Education Centres Limited
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2022



	Note	Consolidated 2022 \$'000	2021 \$'000
Revenue	5	24,636	19,265
Government grants		-	513
Interest revenue calculated using the effective interest method		12	13
Expenses			
Royalties, commissions and other direct expenses		(260)	(1,282)
Employee expenses	6	(11,177)	(7,160)
Marketing expenses		(3,543)	(3,489)
Administration expenses		(2,825)	(1,938)
Merchandising expenses		(639)	(719)
Depreciation and amortisation expense	6	(3,522)	(2,707)
(Impairment)/recovery of receivables	9	(204)	2
Loss on sale of assets		-	(5)
Net foreign exchange gain/(loss)		212	(81)
Finance costs	6	(122)	(116)
Profit before income tax expense		2,568	2,296
Income tax expense	7	(690)	(563)
Profit after income tax expense for the year attributable to the owners of Kip McGrath Education Centres Limited		1,878	1,733
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		(187)	49
Other comprehensive income for the year, net of tax		(187)	49
Total comprehensive income for the year attributable to the owners of Kip McGrath Education Centres Limited		1,691	1,782
		Cents	Cents
Basic earnings per share	34	3.472	3.329
Diluted earnings per share	34	3.472	3.188

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

	Note	Consolidated 2022 \$'000	2021 \$'000
Assets			
Current assets			
Cash and cash equivalents	8	7,625	10,571
Trade and other receivables	9	3,012	727
Income tax refund due		-	257
Prepayments		648	484
Total current assets		11,285	12,039
Non-current assets			
Plant and equipment		481	323
Right-of-use assets	10	1,630	1,600
Intangibles	11	22,296	16,117
Deferred tax	12	686	649
Total non-current assets		25,093	18,689
Total assets		36,378	30,728
Liabilities			
Current liabilities			
Trade and other payables	13	7,482	6,855
Contract liabilities	14	416	476
Borrowings	15	1,300	425
Lease liabilities	16	618	524
Income tax		459	-
Employee benefits	17	1,107	895
Total current liabilities		11,382	9,175
Non-current liabilities			
Lease liabilities	16	1,231	1,258
Deferred tax	18	1,841	1,836
Total non-current liabilities		3,072	3,094
Total liabilities		14,454	12,269
Net assets		21,924	18,459
Equity			
Issued capital	19	17,702	14,841
Reserves	20	613	800
Retained profits		3,609	2,818
Total equity		21,924	18,459

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

Consolidated	Issued capital \$'000	Reserves \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2020	14,457	751	2,643	17,851
Profit after income tax expense for the year	-	-	1,733	1,733
Other comprehensive income for the year, net of tax	-	49	-	49
Total comprehensive income for the year	-	49	1,733	1,782
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 19)	317	-	-	317
Conversion of options	67	-	-	67
Dividends paid (note 21)	-	-	(1,558)	(1,558)
Balance at 30 June 2021	14,841	800	2,818	18,459
Consolidated	Issued capital \$'000	Reserves \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2021	14,841	800	2,818	18,459
Profit after income tax expense for the year	-	-	1,878	1,878
Other comprehensive income for the year, net of tax	-	(187)	-	(187)
Total comprehensive income for the year	-	(187)	1,878	1,691
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 19)	2,861	-	-	2,861
Dividends paid (note 21)	-	-	(1,087)	(1,087)
Balance at 30 June 2022	17,702	613	3,609	21,924

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

		Consolidated	
	Note	2022 \$'000	2021 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		23,724	20,100
Payments to suppliers and employees (inclusive of GST)		(18,087)	(13,577)
		5,637	6,523
Interest received		12	13
Government grants received		-	513
Interest and other finance costs paid		(122)	(116)
Income taxes paid		(473)	(770)
Net cash from operating activities	32	5,054	6,163
Cash flows from investing activities			
Payment for purchase of business, net of cash acquired	30	(2,178)	-
Payments for property, plant and equipment		(398)	(158)
Payments for intangibles	11	(4,379)	(4,634)
Net cash used in investing activities		(6,955)	(4,792)
Cash flows from financing activities			
Proceeds from issue of shares	19	-	67
Proceeds from borrowings		1,300	-
Dividends paid	21	(1,087)	(1,558)
Repayment of borrowings		(425)	(651)
Repayment of lease liabilities		(833)	(487)
Net cash used in financing activities		(1,045)	(2,629)
Net decrease in cash and cash equivalents		(2,946)	(1,258)
Cash and cash equivalents at the beginning of the financial year		10,571	11,829
Cash and cash equivalents at the end of the financial year	8	7,625	10,571

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

Note 1. 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:

7 Bond 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 2022. The directors have the power to amend and reissue the financial statements.

Note 2. 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.

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.

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 3.

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 29.

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 2022 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.

Note 2. Significant accounting policies (continued)

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 the company's functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at 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.

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.

Note 2. Significant accounting policies (continued)

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 tutoring 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.

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.

Government grants

Grants from the government are recognised at their fair value when there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

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.

Note 2. Significant accounting policies (continued)

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.

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.

Note 2. Significant accounting policies (continued)

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.

Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the consolidated entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The consolidated entity has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

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.

Goodwill

Goodwill from acquisition primarily consists of the goodwill arising from the acquisition of operating franchises to be converted to corporately managed centres. These costs are not subsequently amortised where they are deemed to have an indefinite useful life and are subject to annual impairment reviews based on assessment of centre profitability.

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.

Note 2. Significant accounting policies (continued)

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

Trade and other payables 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.

Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of-use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

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.

Note 2. Significant accounting policies (continued)

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. 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.

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.

Note 2. Significant accounting policies (continued)

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.

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 additional shares that would have been outstanding assuming conversion of all 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.

Note 2. Significant accounting policies (continued)

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 2022. 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.

Amending accounting standards issued are not considered to have a significant impact on the financial statements of the consolidated entity as their amendments provide either clarification of existing accounting treatment or editorial amendments.

AASB 2020-1 Classification of liabilities as current or non-current

AASB 2020-1 was issued in March 2020 and is applicable to annual periods beginning on or after 1 January 2023, as extended by AASB 2020-6. Early adoption is permitted. This standard amends AASB 101 'Presentation of Financial Statements' to clarify requirements for the presentation of liabilities in the statement of financial position as current or noncurrent. The amendments clarify that a liability is classified as non-current if an entity has the right at the end of the reporting period to defer settlement of the liability for at least 12 months after the reporting period. If the deferral right is conditional, the right only exists if, at the end of the reporting period, those conditions have been complied with. Classification of a liability as non-current is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability for at least 12 months after the reporting date or even if the entity settles the liability prior to issue of the financial statements. The meaning of settlement of a liability is also clarified.

Note 3. 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.

COVID-19

Judgement has been exercised in considering the impacts that COVID-19 has had, or may have, on the consolidated entity based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the consolidated entity operates. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the consolidated entity unfavourably as at the reporting date or subsequently as a result of COVID-19.

Intangible assets with indefinite life

Goodwill, 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 generate. Such assets are subject to annual impairment reviews in accordance with the accounting policy stated in note 2. 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 3. 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 for services transferred over time

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.

Allowance for expected credit losses

The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group. These assumptions include recent sales experience, historical collection rates, the impact of COVID-19 and forward-looking information that is available. The allowance for expected credit losses, as disclosed in note 9, is calculated based on the information available at the time of preparation. The actual credit losses in future years may be higher or lower.

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 2, 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.

Lease make good provision

A provision has been made for the present value of anticipated costs for future restoration of leased premises. The provision includes future cost estimates associated with closure of the premises. The calculation of this provision requires assumptions such as application of closure dates and cost estimates. The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for sites are recognised in the statement of financial position by adjusting the asset and the provision. Reductions in the provision that exceed the carrying amount of the asset will be recognised in profit or loss.

Note 3. Critical accounting judgements, estimates and assumptions (continued)

Business combinations

As discussed in note 2, business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the consolidated entity taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

Lease term

The lease term is a significant component in the measurement of both the right-of-use asset and lease liability. Judgement is exercised in determining whether there is reasonable certainty that an option to extend the lease or purchase the underlying asset will be exercised, or an option to terminate the lease will not be exercised, when ascertaining the periods to be included in the lease term. In determining the lease term, all facts and circumstances that create an economical incentive to exercise an extension option, or not to exercise a termination option, are considered at the lease commencement date. Factors considered may include the importance of the asset to the consolidated entity's operations; comparison of terms and conditions to prevailing market rates; incurrence of significant penalties; existence of significant leasehold improvements; and the costs and disruption to replace the asset. The consolidated entity reassesses whether it is reasonably certain to exercise an extension option, or not exercise a termination option, if there is a significant event or significant change in circumstances.

Incremental borrowing rate

Where the interest rate implicit in a lease cannot be readily determined, an incremental borrowing rate is estimated to discount future lease payments to measure the present value of the lease liability at the lease commencement date. Such a rate is based on what the consolidated entity estimates it would have to pay a third party to borrow the funds necessary to obtain an asset of a similar value to the right-of-use asset, with similar terms, security and economic environment.

Management assumptions for lease extensions

There are specific estimates and judgements that were used as part of the calculation of right-of-use assets and lease liabilities. These estimates include the lease terms, lease make good provisions and lease increases based on consumer price index. Management used the best available estimate of these inputs in the calculations. In particular, management has relied on the assumption that an option to extend the lease terms of 2 leased properties in Newcastle will be exercised, thereby increasing the future lease payments and corresponding right of use asset by up to 3 years.

Management assumptions for non-lease components

Management have elected not to apply the available expedient to not separately account for non-lease components. As such, the consolidated entity has separated any non-lease components from future lease payments and will continue to account for these components as an expense over time as the non-lease components are provided. As such, there are no future assets or obligations recognised in respect of non-lease components. For some leases, the identification of amounts related to non-lease components must be estimated due to contracts not including an explicit break-up. In these cases, management estimates the value of the non-lease component by reference to available market data. Where the estimate is significant, management includes a note to detail the judgements made to arrive at the estimate.

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.

Note 4. Operating segments (continued)

Geographical information

	Sales to external customers		Geographical non-current assets	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Australasia	12,164	9,883	19,201	17,264
United States and North America	1,617	-	4,316	-
United Kingdom and Europe	10,026	8,838	890	776
Overseas other	825	521	-	-
	<u>24,632</u>	<u>19,242</u>	<u>24,407</u>	<u>18,040</u>

Note 5. Revenue

	Consolidated	
	2022 \$'000	2021 \$'000
<i>Revenue from contract with customers</i>		
Franchise fees	12,960	11,524
Sale of master territories and franchisee centres	428	481
National advertising contributions ('NAC')	1,867	1,825
Direct sales	1,494	1,751
Student lessons	7,883	3,661
	<u>24,632</u>	<u>19,242</u>
<i>Other revenue</i>		
Other revenue	4	23
Revenue	<u>24,636</u>	<u>19,265</u>

Disaggregation of revenue

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

	Consolidated	
	2022 \$'000	2021 \$'000
<i>Timing of revenue recognition</i>		
Services and goods transferred at a point in time	24,437	19,017
Services transferred over time	195	225
	<u>24,632</u>	<u>19,242</u>

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.

Note 6. Expenses

	Consolidated	
	2022	2021
	\$'000	\$'000
Profit before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Plant and equipment	240	196
Land and buildings right-of-use assets	841	525
Total depreciation	1,081	721
<i>Amortisation</i>		
Product and overseas development costs	1,969	1,469
Franchise and development territories	10	-
Other intangibles	462	517
Total amortisation	2,441	1,986
Total depreciation and amortisation	3,522	2,707
<i>Employee benefits</i>		
Employee benefits expense excluding superannuation	10,261	6,423
Defined contribution superannuation expense	916	735
Share-based payment expense	-	2
Total employee benefits	11,177	7,160
<i>Finance costs</i>		
Interest and finance charges paid/payable on borrowings from financial institutions	45	35
Interest and finance charges paid/payable on lease liabilities	77	81
Finance costs expensed	122	116
<i>Leases</i>		
Variable lease payments - COVID-19 related rent concessions income	-	(85)

	Consolidated 2022 \$'000	2021 \$'000
<i>Income tax expense</i>		
Current tax	722	223
Deferred tax - origination and reversal of temporary differences	(32)	340
Aggregate income tax expense	690	563
Deferred tax included in income tax expense comprises:		
Decrease/(increase) in deferred tax assets (note 12)	(37)	87
Increase in deferred tax liabilities (note 18)	5	253
Deferred tax - origination and reversal of temporary differences	(32)	340
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Profit before income tax expense	2,568	2,296
Tax at the statutory tax rate of 25% (2021: 26%)	642	597
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Other non-deductible expenses	(10)	(2)
Sundry items	58	(32)
Income tax expense	690	563
	Consolidated 2022 \$'000	2021 \$'000
<i>Tax losses not recognised</i>		
Unused tax losses for which no deferred tax asset has been recognised	1,269	1,269
Potential tax benefit @ 25%	317	317

The corporate tax rate applicable to base rate entities reduces from 26% to 25% for the 2021-22 income year. The company qualifies as a base rate entity as it has a turnover of less than \$50 million and less than 80% of its assessable income is derived from base rate entity passive income. The company has remeasured its deferred tax balances, and any unrecognised potential tax benefits arising from carried forward tax losses, based on the effective tax rate that is expected to apply in the year the temporary differences are expected to reverse or benefits from tax losses realised. The impact of the change in tax rate on deferred tax balances has been recognised as tax expense in profit or loss or as an adjustment to equity to the extent to which the deferred tax relates to items previously recognised outside profit or loss.

Note 8. Cash and cash equivalents

	Consolidated	
	2022 \$'000	2021 \$'000
<i>Current assets</i>		
Cash at bank	1,847	5,038
Restricted cash	5,778	5,533
	<u>7,625</u>	<u>10,571</u>

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 (note 13).

Note 9. Trade and other receivables

	Consolidated	
	2022 \$'000	2021 \$'000
<i>Current assets</i>		
Trade receivables	2,286	853
Less: Allowance for expected credit losses	(244)	(126)
	<u>2,042</u>	<u>727</u>
Loan to director (note 19 and 28)	542	-
Loan to employees (note 19 and 28) *	378	-
Other receivables	50	-
	<u>970</u>	<u>-</u>
	<u>3,012</u>	<u>727</u>

* Loans to employees of \$378,000 include loans of \$202,000 to key management personnel (see note 28)

Allowance for expected credit losses

The consolidated entity has recognised a loss of \$204,000 (2021: recovery of \$2,000) in profit or loss in respect of expected credit losses for the year ended 30 June 2022. 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:

Consolidated	Expected credit loss rate		Carrying amount		Allowance for expected credit losses	
	2022 %	2021 %	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Not overdue	2%	1%	930	686	19	8
0 to 3 months overdue	2%	16%	1,121	49	23	8
Over 3 months overdue	86%	93%	235	118	202	110
			<u>2,286</u>	<u>853</u>	<u>244</u>	<u>126</u>

The consolidated entity has increased its monitoring of debt recovery as there are being fluctuations with franchisees and customers delaying payment. As a result, the calculation of the expected credit losses have been varied to accommodate these changes.

Note 9. Trade and other receivables (continued)

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

	Consolidated 2022 \$'000	2021 \$'000
Opening balance	126	169
Additional provisions recognised	209	6
Amounts recovered during the year	-	(40)
Receivables written off during the year as uncollectable	(91)	(9)
Closing balance	244	126

Note 10. Right-of-use assets

	Consolidated 2022 \$'000	2021 \$'000
<i>Non-current assets</i>		
Land and buildings - right-of-use	3,068	2,601
Less: Accumulated depreciation	(1,438)	(1,001)
	1,630	1,600

The consolidated entity leases buildings for its offices and retail outlets under agreements of between 3 and 5 years, with options to extend in some cases. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

Reconciliations

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

Consolidated	Land and buildings \$'000
Balance at 1 July 2020	1,694
Additions	863
Disposals	(438)
Exchange differences	6
Depreciation expense	(525)
Balance at 30 June 2021	1,600
Additions	900
Write off of assets	(29)
Depreciation expense	(841)
Balance at 30 June 2022	1,630

For other lease related disclosures refer to the following:

- note 6 for details of depreciation on right-of-use assets, interest on lease liabilities and other lease payments;
- note 16 for lease liabilities at 30 June 2022;
- note 22 for undiscounted future lease commitments; and
- consolidated statement of cash flow for repayment of lease liabilities.

Note 11. Intangibles

	Consolidated 2022 \$'000	2021 \$'000
<i>Non-current assets</i>		
Goodwill - at cost (note 30)	4,241	-
Intellectual property - at cost	4,012	4,012
Product and overseas development costs	16,347	14,003
Less: Accumulated amortisation	(8,950)	(6,988)
	7,397	7,015
Franchise and development territories	6,114	3,674
Less: Accumulated amortisation	(79)	-
	6,035	3,674
Other intangible assets - at cost	3,231	3,574
Less: Accumulated amortisation	(2,620)	(2,158)
	611	1,416
	<u>22,296</u>	<u>16,117</u>

Reconciliations

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

	Goodwill \$'000	Intellectual property \$'000	Product and overseas development costs \$'000	Franchise and development territories \$'000	Other intangibles \$'000	Total \$'000
Consolidated						
Balance at 1 July 2020	-	4,012	5,682	1,855	1,933	13,482
Additions	-	-	2,802	1,832	-	4,634
Exchange differences	-	-	-	(13)	-	(13)
Amortisation expense	-	-	(1,469)	-	(517)	(1,986)
Balance at 30 June 2021	-	4,012	7,015	3,674	1,416	16,117
Additions	-	-	2,351	2,028	-	4,379
Additions through business combinations (note 30)	4,241	-	-	-	-	4,241
Transfers in/(out)	-	-	-	343	(343)	-
Amortisation expense	-	-	(1,969)	(10)	(462)	(2,441)
Balance at 30 June 2022	<u>4,241</u>	<u>4,012</u>	<u>7,397</u>	<u>6,035</u>	<u>611</u>	<u>22,296</u>

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, New Zealand and South Africa. As there is no foreseeable limit to the cash flows these assets generate, 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 the consolidated entity 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').

Note 11. Intangibles (continued)

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 2.5% (2021: 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:

- Pre-tax discount rate 15.2% (2021: 14.5%). 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.
- Student lesson revenue growth rate of 15% (2021: 12%) over the five year projection period, which reflects additional corporate centres, 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.
- Foreign exchange rates consistent with current market conditions.

Based on the above, there was no impairment required for the year ended 30 June 2022 (2021: \$nil).

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 student lesson revenue would need to grow by less than 3% (2021: fall by 7%) 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. Deferred tax

Non-current assets

Deferred tax asset comprises temporary differences attributable to:

Amounts recognised in profit or loss:

	Consolidated 2022 \$'000	2021 \$'000
Allowance for expected credit losses	50	42
Unrealised foreign exchange movements	53	60
Contract liabilities	104	123
Employee benefits	331	232
Leases	46	44
Accrued expenses	20	66
QAX licence	82	94
Other items	-	(12)

Deferred tax asset

686 649

Movements:

Opening balance	649	736
Credited/(charged) to profit or loss (note 7)	37	(87)

Closing balance

686 649

Note 13. Trade and other payables

	Consolidated	
	2022	2021
	\$'000	\$'000
<i>Current liabilities</i>		
Trade payables	742	397
Amounts held on behalf of franchisees	5,679	5,492
GST and other similar payables	236	160
Other payables and accruals	825	806
	<u>7,482</u>	<u>6,855</u>

Refer to note 22 for further information on financial instruments.

Note 14. Contract liabilities

	Consolidated	
	2022	2021
	\$'000	\$'000
<i>Current liabilities</i>		
Contract liabilities on franchise sales	<u>416</u>	<u>476</u>

Reconciliation

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

Opening balance	476	576
Payments received in advance	66	123
Transfer to revenue - included in the opening balance	<u>(126)</u>	<u>(223)</u>
Closing balance	<u>416</u>	<u>476</u>

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 \$416,000 as at 30 June 2022 (\$476,000 as at 30 June 2021) and is expected to be recognised as revenue in future periods as follows:

	Consolidated	
	2022	2021
	\$'000	\$'000
Within 6 months	81	94
6 to 12 months	72	86
12 to 18 months	77	64
18 to 24 months	52	55
24 to 30 months	37	60
30 to 36 months	31	36
beyond 36 months	<u>66</u>	<u>81</u>
	<u>416</u>	<u>476</u>

Note 15. Borrowings

	Consolidated	
	2022 \$'000	2021 \$'000
<i>Current liabilities</i>		
Bank loans	1,300	425

Refer to note 22 for further information on financial instruments.

Funds from GBP denominated borrowings were used to acquire area developer territories in the UK. These were fully repaid during the year ended 30 June 2022. In June 2022 a new USD denominated borrowing facility of USD1,525,000 (AUD \$2,213,000) was completed with the HSBC. This facility has a 3 year term with quarterly repayments of USD76,250. The facility was fully drawn down in July 2022 and the overdraft repaid at that time.

Total secured liabilities

The total secured liabilities are as follows:

	Consolidated	
	2022 \$'000	2021 \$'000
Bank loans	1,300	425

Assets pledged as security

The bank overdraft and loans are secured by a security interest over all property of the consolidated entity to HSBC Bank.

Financing arrangements

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

	Consolidated	
	2022 \$'000	2021 \$'000
Total facilities		
Bank loans - AUD	1,750	1,750
Bank loans - GBP	-	425
Bank loans - USD	2,213	-
	3,963	2,175
Used at the reporting date		
Bank loans - AUD	1,300	-
Bank loans - GBP	-	425
Bank loans - USD	-	-
	1,300	425
Unused at the reporting date		
Bank loans - AUD	450	1,750
Bank loans - GBP	-	-
Bank loans - USD	2,213	-
	2,663	1,750

Note 16. Lease liabilities

	Consolidated	
	2022	2021
	\$'000	\$'000
<i>Current liabilities</i>		
Lease liability	618	524
<i>Non-current liabilities</i>		
Lease liability	1,231	1,258

Refer to note 22 for information on the maturity analysis of lease liabilities.

Note 17. Employee benefits

	Consolidated	
	2022	2021
	\$'000	\$'000
<i>Current liabilities</i>		
Annual leave	677	501
Long service leave	430	394
	1,107	895

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	
	2022	2021
	\$'000	\$'000
Employee benefits	659	533

Note 18. Deferred tax

	Consolidated 2022 \$'000	2021 \$'000
<i>Non-current liabilities</i>		
Deferred tax liability comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Research and development costs	1,841	1,836
Deferred tax liability	<u>1,841</u>	<u>1,836</u>
<i>Movements:</i>		
Opening balance	1,836	1,583
Charged to profit or loss (note 7)	5	253
Closing balance	<u>1,841</u>	<u>1,836</u>

Note 19. Issued capital

	2022 Shares	Consolidated 2021 Shares	2022 \$'000	2021 \$'000
Ordinary shares - fully paid	<u>56,519,331</u>	<u>52,219,331</u>	<u>17,702</u>	<u>14,841</u>

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$'000
Balance	1 July 2020	51,819,331		14,457
Conversion of options	11 September 2020	100,000	\$0.300	30
Conversion of options	11 September 2020	100,000	\$0.370	37
Issue of shares *	17 February 2021	<u>200,000</u>	<u>\$1.600</u>	<u>317</u>
Balance	30 June 2021	52,219,331		14,841
Conversion of options **	29 December 2021	300,000	\$0.300	90
Conversion of options **	29 December 2021	850,000	\$0.370	315
Conversion of options **	29 December 2021	1,150,000	\$0.350	402
Issue of shares ***	21 February 2022	<u>2,000,000</u>	<u>\$1.031</u>	<u>2,063</u>
Transaction costs				<u>(9)</u>
Balance	30 June 2022	<u>56,519,331</u>		<u>17,702</u>

* Issue of shares relates to consideration for the buy-back of a key franchise operation in Bossley Park, Sydney.

** Due to share trading restrictions the conversion of options on 29 December 2021 was facilitated through the granting of loans at commercial rates and terms to the directors and relevant employees (note 9).

*** Issue of shares relates to consideration for the buying out the minority interest in Tutorfly Inc. (note 30).

Ordinary shares

Ordinary shares entitle the holder to participate in any dividends declared and any proceeds attributable to shareholders should the company be wound up, in proportions that consider both the number of shares held and the extent to which those shares are paid up. 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.

Note 19. Issued capital (continued)

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.

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 2021 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 20. Reserves

	Consolidated	
	2022	2021
	\$'000	\$'000
Foreign currency reserve	(386)	(199)
Share-based payments reserve	245	245
Other reserves	754	754
	<u>613</u>	<u>800</u>

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.

Note 20. Reserves (continued)

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 2020	(248)	245	754	751
Foreign currency translation	49	-	-	49
Balance at 30 June 2021	(199)	245	754	800
Foreign currency translation	(187)	-	-	(187)
Balance at 30 June 2022	(386)	245	754	613

Note 21. Dividends

Dividends paid during the financial year were as follows:

	Consolidated 2022 \$'000	2021 \$'000
Final dividend for the year ended 30 June 2021 of 1.0 cents (2020: 2.0 cents) per ordinary share	522	1,036
Interim dividend for the year ended 30 June 2022 of 1.0 cents (2021: 1.0 cents) per ordinary share	565	522
	1,087	1,558

On 23 August 2022, a final dividend for the year ended 30 June 2022 of 1.0 cents per ordinary share, 100% fully franked, was determined to be paid on 22 September 2022 to those shareholders on the register at 7p.m. on 8 September 2022. The total distribution will be \$565,000.

Note 22. 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 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, US Dollar, South African Rand and New Zealand Dollar.

Note 22. Financial instruments (continued)

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, focusing on matching income and expenditure by currency where possible to reduce risk.

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		Liabilities	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
US dollars	1,231	130	28	-
Euros	15	12	-	-
Pound Sterling	5,246	6,794	4,574	3,964
New Zealand dollars	565	1,336	263	172
Singapore dollars	12	4	-	-
South African Rand	233	18	-	-
	<u>7,302</u>	<u>8,294</u>	<u>4,865</u>	<u>4,136</u>

The consolidated entity had net assets denominated in foreign currencies of \$2,437,000 as at 30 June 2022 (assets \$7,302,000 less liabilities \$4,865,000) (2021: \$4,158,000 (assets \$8,294,000 less liabilities \$4,136,000)). Based on this net position, a 10% strengthening in the Australian dollar from 30 June 2022 levels may expose the consolidated entity to a \$244,000 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	2022		2021	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
Bank loans - GBP	-	-	2.58%	425
Bank loans - AUD	2.96%	1,300	-	-
Net exposure to cash flow interest rate risk		<u>1,300</u>		<u>425</u>

The consolidated entity has net bank loans and borrowings outstanding, totalling \$1,300,000 (2021: \$425,000), which are principal and interest payment loans. Quarterly cash outlays of approximately \$111,000 (2021: \$130,000 per quarter) are required to service the debt as of July 2022. An official increase/decrease in interest rates of 100 (2021: 100) basis points would have an adverse/favourable effect on profit before tax of \$13,000 (2021: \$4,300) per annum. The percentage change is based on the expected volatility of interest rates using market data and analysis.

Note 22. 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. As disclosed in note 9, due to COVID-19, the calculation of expected credit losses has been revised and rates have increased in each category up to 3 months overdue.

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	
	2022	2021
	\$'000	\$'000
Bank loans - AUD	450	1,750
Bank loans - USD	2,213	-
	<u>2,663</u>	<u>1,750</u>

A GBP denominated loan facility with the HSBC Bank was established to fund the acquisition of two area developer territories in England in September 2019. This was repaid during the year ended 30 June 2022.

In June 2022 a new USD denominated borrowing facility of USD1,525,000 (AUD \$2,213,000) was completed with the HSBC. This facility has a 3 year term with quarterly repayments of USD76,250. The facility was fully drawn down in July 2022 and the overdraft repaid at that time.

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, Kip McGrath Education Global Pty Ltd, Kip McGrath Education New Zealand Limited and Tutorfly Holdings Inc. in relation to the HSBC banking facilities.

The bank loan covenants are specific annual reporting requirements. In June 2017 the consolidated entity entered into a new finance facility with HSBC Bank Australia Ltd.

Note 22. 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 - 2022	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						
<i>Non-interest bearing</i>						
Trade payables	-	742	-	-	-	742
Other payables	-	6,740	-	-	-	6,740
<i>Interest-bearing - variable</i>						
Bank loans - AUD	2.96%	1,300	-	-	-	1,300
Lease liability	3.80%	618	556	675	-	1,849
Total non-derivatives		9,400	556	675	-	10,631
Consolidated - 2021						
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	-	397	-	-	-	397
Other payables	-	6,458	-	-	-	6,458
<i>Interest-bearing - variable</i>						
Bank loans	2.58%	425	-	-	-	425
Lease liability	3.80%	524	476	781	-	1,781
Total non-derivatives		7,804	476	781	-	9,061

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

Note 23. 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 \$1,186,000 (2021: \$1,183,000) by discounting the remaining contractual maturities at current market interest rates for similar financial instruments.

Note 24. Key management personnel disclosures

Compensation

The aggregate compensation made to directors and other members of KMP of the consolidated entity is set out below:

	Consolidated 2022 \$	2021 \$
Short-term employee benefits	1,921,323	1,630,235
Post-employment benefits	192,208	165,934
	<u>2,113,531</u>	<u>1,796,169</u>

Note 25. Remuneration of auditors

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

	Consolidated 2022 \$	2021 \$
<i>Audit services - PKF Newcastle and Sydney</i>		
Audit or review of the financial statements	105,650	105,000
<i>Other services - PKF Newcastle and Sydney</i>		
Preparation of the tax return and other tax services	3,000	21,890
	<u>108,650</u>	<u>126,890</u>
<i>Audit services - network firms</i>		
Audit or review of the financial statements	17,264	-
<i>Other services - network firms</i>		
Preparation of the tax return (NZ)	2,485	2,500
	<u>19,749</u>	<u>2,500</u>

Note 26. Contingent liabilities

There were no contingent liabilities at 30 June 2022 and 30 June 2021.

The consolidated entity has entered into arrangements to provide a guarantee to the lessor of the head office premises amounting to \$22,000 (2021: \$58,000), and premises in Kotara of \$51,000 (2021: \$51,000) and in Kellyville of \$21,000 (2021: \$21,000).

Note 27. Commitments

	Consolidated 2022 \$'000	2021 \$'000
<i>Capital commitments</i>		
Committed at the reporting date but not recognised as liability, payable:		
Property, plant and equipment	-	35

Note 28. Related party transactions

Parent entity

Kip McGrath Education Centres Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 31.

Key management personnel

Disclosures relating to key management personnel are set out in note 24 and the remuneration report included in the directors' report.

Transactions with related parties

A family member of Storm McGrath's is employed by the company and received a wage of \$9,818 during the year (2021: Nil). There are no other transactions with KMP and their related parties.

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, except for the following loans to certain KMP.

Loans	Applicable interest rate	Balance at the start of the year	Drawn down	Repayments	Interest	Balance at the end of the year
Storm McGrath	2.59%	-	525,000	-	6,820	531,820
Brett Edwards	2.59%	-	257,605	(125,080)	1,809	134,334
Jackie Burrows	2.59%	-	67,000	-	854	67,854
		-	849,605	(125,080)	9,483	734,008

The loans were granted for the conversion of options during a trading black out period. The loans have a market interest rate with five year repayment terms with security over the underlying shares held by the relevant employees.

There are no other loans to KMP or their related parties.

Note 29. Parent entity information

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

Statement of profit or loss and other comprehensive income

	Parent	
	2022 \$'000	2021 \$'000
Profit after income tax	2,357	9,329
Total comprehensive income	2,357	9,329

Note 29. Parent entity information (continued)

Statement of financial position

	Parent	
	2022 \$'000	2021 \$'000
Total current assets	3,975	4,811
Total assets	27,260	21,410
Total current liabilities	5,364	3,486
Total liabilities	7,278	5,506
Equity		
Issued capital	17,702	14,841
Foreign currency reserve	(11)	42
Share-based payments reserve	245	245
Retained profits	2,046	776
Total equity	19,982	15,904

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 2022 and 30 June 2021, except as disclosed in note 26.

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2022 and 30 June 2021.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 2, 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.

Note 30. Business combinations

On 1 September 2021, the company purchased a 70% stake in the US based business Tutorfly.com. ('Tutorfly') for an initial payment of US\$500,000 via its newly incorporated subsidiary, Tutorfly Holdings Inc. The company made a further payment of US\$500,000 in December 2021 when Tutorfly achieved US\$20,000 per month net revenue targets.

The company agreed a final settlement of US\$2,000,000 in February 2022 to purchase the remaining 30% stake in the business as it had achieved the US\$50,000 per month net revenue target prior to 31 December 2021. This settlement included 2,000,000 ordinary shares in the company issued on 21 February 2022 as well as a cash payment of US\$525,000.

The acquisition included the Tutorfly brand, the marketplace software, and the existing customer and tutor databases. The total purchase price for the acquisition was \$4,241,000. Tutorfly contributed nine months of revenue to the consolidated entity after acquisition, amounting to \$1,617,000 (5%) and net profit of \$41,000 (2%). The values identified in relation to the acquisition of Tutorfly are provisional as at 30 June 2022.

Note 30. Business combinations (continued)

Details of the acquisition are as follows:

	Fair value \$'000
Goodwill	4,241
Acquisition-date fair value of the total consideration transferred	4,241
Representing:	
Cash paid or payable to vendor	2,178
Kip McGrath Education Centres Limited shares issued to vendor (note 19)	2,063
	4,241
Cash used to acquire business, net of cash acquired:	
Acquisition-date fair value of the total consideration transferred	4,241
Less: shares issued by company as part of consideration	(2,063)
Net cash used	2,178

Note 31. 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 2:

Name	Principal place of business / Country of incorporation	Ownership interest	
		2022 %	2021 %
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%
Tutorfly Holdings Inc.	United States of America	100%	-

Note 32. Reconciliation of profit after income tax to net cash from operating activities

	Consolidated 2022 \$'000	2021 \$'000
Profit after income tax expense for the year	1,878	1,733
Adjustments for:		
Depreciation and amortisation	3,522	2,707
Foreign exchange differences	(187)	54
Write off of plant and equipment	29	-
Change in operating assets and liabilities:		
Increase in trade and other receivables	(2,285)	(115)
Decrease/(increase) in income tax refund due	257	(257)
Decrease/(increase) in deferred tax assets	(37)	87
Increase in prepayments	(164)	(126)
Increase in trade and other payables	1,892	1,905
Decrease in contract liabilities	(60)	(100)
Decrease in provision for income tax	(8)	(290)
Increase in deferred tax liabilities	5	253
Increase in employee benefits	212	312
Net cash from operating activities	<u>5,054</u>	<u>6,163</u>

Note 33. Changes in liabilities arising from financing activities

Consolidated	Bank loans \$'000	Lease liability \$'000	Total \$'000
Balance at 1 July 2020	1,076	1,844	2,920
Net cash used in financing activities	(651)	(487)	(1,138)
Acquisition of plant and equipment by means of leases	-	863	863
Lease handback	-	(438)	(438)
Balance at 30 June 2021	425	1,782	2,207
Net cash from/(used in) financing activities	875	(833)	42
Acquisition of plant and equipment by means of leases	-	900	900
Balance at 30 June 2022	<u>1,300</u>	<u>1,849</u>	<u>3,149</u>

Note 34. Earnings per share

	Consolidated 2022 \$'000	2021 \$'000
Profit after income tax attributable to the owners of Kip McGrath Education Centres Limited	1,878	1,733
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	54,091,113	52,053,303
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares	-	2,300,000
Weighted average number of ordinary shares used in calculating diluted earnings per share	54,091,113	54,353,303
	Cents	Cents
Basic earnings per share	3.472	3.329
Diluted earnings per share	3.472	3.188

Note 35. 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 KMP. 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:

2022

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
20/08/2014	31/12/2021	\$0.350	150,000	-	(150,000)	-	-
21/11/2014	31/12/2021	\$0.350	1,000,000	-	(1,000,000)	-	-
02/09/2016	31/12/2021	\$0.300	300,000	-	(300,000)	-	-
09/10/2017	31/12/2021	\$0.370	400,000	-	(400,000)	-	-
27/10/2017	31/12/2021	\$0.370	450,000	-	(450,000)	-	-
			2,300,000	-	(2,300,000)	-	-

2021

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
20/08/2014	31/12/2021	\$0.350	150,000	-	-	-	150,000
21/11/2014	31/12/2021	\$0.350	1,000,000	-	-	-	1,000,000
02/09/2016	31/12/2021	\$0.300	400,000	-	(100,000)	-	300,000
09/10/2017	31/12/2021	\$0.370	450,000	-	(50,000)	-	400,000
27/10/2017	31/12/2021	\$0.370	500,000	-	(50,000)	-	450,000
			2,500,000	-	(200,000)	-	2,300,000

Note 35. Share-based payments (continued)

The weighted average share price was \$0.343 (2021: \$0.343).

The weighted average remaining contractual life of options outstanding at the end of the financial year was nil years (2021: 0.5 years).

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were \$nil (2021: \$1,922).

Note 36. Events after the reporting period

Apart from the dividend declared as disclosed in note 21, no other matter or circumstance has arisen since 30 June 2022 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.

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 2 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 2022 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 2022
Sydney

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 2022, 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 2022 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report 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 auditor independence requirements of 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

As disclosed in note 11, the Company and its subsidiaries has intangible assets of \$16.117m as at 30 June 2022.

An annual impairment test for indefinite useful life intangible assets is required under Australian Accounting Standard (AASB) 136 Impairment of Assets.

Management's testing has been performed using a discounted cash flow model (Impairment model) to estimate the value-in-use of the Cash Generating Unit (CGU) to which the intangible assets have been allocated.

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.

How our audit addressed the 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:
 - the assumption of one cash generating unit being appropriate;
 - the reasonableness of the FY23 budget approved by the Board by comparing the budget to FY22 actuals;
 - the key assumptions for the future growth rate used in the model by comparing the average historical growth rates and other industry forecasts; and
 - 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.

Key Audit Matters (cont'd)

2. Acquisition of Tutorfly Holdings Inc

Why significant

During the financial year, the parent entity acquired the shares of TutorFly Holdings Inc as detailed in Note 30.

The total consideration paid by the parent entity was \$4.2m and was a combination of cash and equity that was paid in three instalments throughout the financial year.

As part of the transaction, goodwill of \$4.2m was provisionally recognised as at 30 June 2022 in accordance with AASB 3 Business Combinations.

The accounting for the acquisition includes a number of significant judgments as required by AASB 3 Business Combinations. In particular the valuation of the consideration, and the allocation of goodwill.

How our audit addressed the key audit matter

Our work included, but was not limited to, the following procedures:

- Obtained an understanding of the acquired business;
- Reviewed key documentation including the sale contract;
- Reviewed management's provisional assessment of the acquisition to ensure compliance with the AASB : Business Combinations;
- Assessed the fair value of the consideration paid to supporting documentation including bank statements and share issuances and considered the effect of foreign exchange on the total consideration paid;
- In addition, we assessed the appropriateness of the disclosures in relation to the intangible assets and the business combination as included in Note 11 and Note 30.

Other Information

Those charged with governance are responsible for the other information. The other information comprises the information included in the consolidated entity's annual report for the year ended 30 June 2022, but does not include the financial report and our auditor's report thereon.

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 and, in doing so, 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.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 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 the 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 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 an 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. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. 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.
- Obtain an understanding of internal control relevant to the audit 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 consolidated entity's internal control.
 - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
 - 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.
 - 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.
 - 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 group financial report. We are responsible for the direction, supervision and performance of the group 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.

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, actions taken to eliminate threats or safeguards applied.

Auditor's Responsibilities for the Audit of the Financial Report (cont'd)

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 the 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.

Report on the Remuneration Report

Opinion

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2022. In our opinion, the Remuneration Report of Kip McGrath Education Centres Limited for the year ended 30 June 2022, 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



MARTIN MATTHEWS
PARTNER

23 AUGUST 2022
NEWCASTLE, NSW

The shareholder information set out below was applicable as at 25 July 2022.

Distribution of equitable securities

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

	Ordinary shares		Options over ordinary shares	
	Number of holders	% of total shares issued	Number of holders	% of total shares issued
1 to 1,000	466	0.53	-	-
1,001 to 5,000	898	4.42	-	-
5,001 to 10,000	273	3.68	-	-
10,001 to 100,000	255	11.88	-	-
100,001 and over	38	79.49	-	-
	<u>1,930</u>	<u>100.00</u>	<u>-</u>	<u>-</u>
Holding less than a marketable parcel	<u>122</u>	<u>-</u>	<u>-</u>	<u>-</u>

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	11,173,041	19.77
CS Third Nominees Pty Limited (Hsbc Cust Nom AU Ltd 13 A/C)	6,006,470	10.63
Mr Kip McGrath	5,675,764	10.04
Mr Storm Kip McGrath	2,433,466	4.31
Storm Superannuation Fund Pty Ltd (Storm Super Fund A/C)	2,050,867	3.63
GoSchoolBox Inc	2,000,000	3.54
KMEC Superannuation Pty Ltd (KMEC Superannuation Fund A/C)	1,641,480	2.90
J P Morgan Nominees Australia Pty Limited	1,589,088	2.81
Sandhurst Trustees Ltd (Cyan C3G Fund A/C)	1,203,022	2.13
Kip McGrath Investments Pty Ltd (McGrath Family A/C)	1,000,000	1.77
BNP Paribas Nominees Pty Ltd (IB AU Noms RetailClient DRP)	912,668	1.61
BNP Paribas Nominees Pty Ltd Hub24 Custodial Serv Ltd (DRP A/C)	878,182	1.55
Rendina Pty Ltd (Rendina Super Fund A/C)	700,000	1.24
Moslof Services Pty Ltd (Moslof S/F A/C)	600,000	1.06
Mr Matthew Charles Peek	580,000	1.03
Emerald Shares Pty Limited (Emerald Unit A/C)	525,000	0.93
DMX Capital Partners Limited	519,334	0.92
Hetale Pty Limited (Eagles Nest Retire Fund A/C)	500,000	0.88
Brett Edwards	432,000	0.76
Ms Snezana Bowden	400,000	0.71
	<u>40,820,382</u>	<u>72.22</u>

Unquoted equity securities

There are no unquoted equity securities, except the options as disclosed in Note 29.

Substantial holders

Substantial holders in the company are set out below:

	Ordinary shares	
	Number held	% of total shares issued
National Nominees Limited	11,173,041	19.77
Mr Kip McGrath	5,675,764	10.04
CS Third Nominees Pty Limited (HSBC Cust Nom AU Ltd 13 A/C)	5,258,541	9.30
KMEC Superannuation Pty Ltd (KMEC Superannuation Fund A/C)	1,641,480	2.90

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.