

## 1. Company details

Name of entity:	Kip McGrath Education Centres Limited
ABN:	73 003 415 889
Reporting period:	For the year ended 30 June 2023
Previous period:	For the year ended 30 June 2022

## 2. Results for announcement to the market

					\$'000
Revenues from ordinary activities	up	8.7%	to		26,797
Earnings Before Interest, Tax, Depreciation and Amortisation ('EBITDA')	up	8.1%	to		6,705
Profit from ordinary activities after tax attributable to the owners of Kip McGrath Education Centres Limited	up	2.4%	to		1,924
Profit for the year attributable to the owners of Kip McGrath Education Centres Limited	up	2.4%	to		1,924

### Dividends

An interim dividend for the year ended 30 June 2023 of 1.0 cents per ordinary share, 0% franked, was paid on 23 March 2023. The total distribution was \$566,000.

On 22 August 2023, a final dividend for the year ended 30 June 2023 of 1.5 cents per ordinary share, 0% franked, was determined to be paid on 21 September 2023 to those shareholders on the register at 7pm on 7 September 2023. The total distribution will be \$849,000.

### Comments

The profit for the consolidated entity after providing for income tax amounted to \$1,924,000 (30 June 2022: \$1,878,000).

This financial year we continued to drive growth through strategic investments in technology, corporate centres and enhancing our global reach. In the post-COVID-19 landscape, where cost-of-living challenges are the new normal, we have remained agile in our response to an ever increasing demand for high-quality, small group tutoring throughout the UK, US, and Australasia.

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 \$6,705,000 (2022: \$6,200,000). 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	
	2023 \$'000	2022 \$'000
Revenue	26,713	24,636
EBITDA	6,705	6,200
Less: Depreciation and amortisation	(4,137)	(3,522)
Less: Interest expense	(223)	(122)
Add: Interest income	84	12
	2,429	2,568
Profit before Income tax expense	2,429	2,568
Income tax expense	(505)	(690)
	1,924	1,878
Profit after income tax expense		

### 3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	0.77	(0.66)

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 has approved a Dividend Reinvestment Plan ('DRP') for eligible shareholders 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 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.

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## 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.

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## 10. Attachments

*Details of attachments (if any):*

The Annual Report of Kip McGrath Education Centres Limited for the year ended 30 June 2023 is attached.

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## 11. Signed

As authorised by the Board of Directors

Signed \_\_\_\_\_



Date: 22 August 2023

Ian Campbell  
Chairman  
Newcastle

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# **Kip McGrath Education Centres Limited**

**ABN 73 003 415 889**

**Annual Report - 30 June 2023**

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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: Second Floor 131 Macquarie Street Sydney NSW 2000 Tuesday 21 November 2023 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	<a href="http://www.kipmcgrath.com">www.kipmcgrath.com</a>
Corporate Governance Statement	<p>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.</p> <p>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 <a href="https://www.kipmcgrath.com/global/shareholder-information">https://www.kipmcgrath.com/global/shareholder-information</a></p>

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Dear Shareholders,

FY23 marked sturdy growth through strategic investments in line with our corporate plan. Cashflow was very strong at \$6.4M as we concentrated on software rollout and corporate profitability. Whilst the board was disappointed in the performance of Tutorfly in the USA, we remain confident it is strategically sound. This is justified with \$2.6M of work already contracted for FY24. We continue to focus on our four-lever strategy, to provide world-wide high-quality tutoring, and bringing strong results in the short to medium term.

Despite the challenges posed by the post-COVID-19 landscape, our commitment to excellence and targeted innovation has fueled our consistent progress, demonstrating our business's resilience and adaptability. FY23 continued to deliver growth in revenue, EBITDA, NPAT and distributions to shareholders.

Our achievement in delivering a record two million lessons in FY23 stands as a testament to the outcomes driven by our technology investments, particularly our Kip Learn product. Leading indicators such as bookings, confirm acceptance of this new innovative method of engaging students in the purchase of lessons. By the close of FY23, 15% of our franchise centres had adopted these advancements, with an increase in lesson numbers attributed to year-round learning, with blended and independent learning solutions.

Outside Australasia and the United Kingdom, our global business continues to build. With government support to improve poor educational outcomes, the UAE business remains strong and Tutorfly's US focused foundation-building phase, supported by leveraging KMEC technology and enhanced sales capabilities, saw strategic investment in direct-to-school solutions. This comprehensive product range, spanning tutoring, administration reporting tools, and faculty development, is now provided to seven states.

This year's achievements were made possible by the dedication of the Kip McGrath team. Their commitment to delivering personalized, small group tutoring and enhancing shareholder value is commendable and I extend my sincere gratitude to our staff and management for their exceptional efforts.

Today, the Board has declared a final dividend of 1.5 cents per share to be paid on 21 September 2023 for those shareholders on the register at 7pm on 7 September 2023, taking the total dividends for the financial year to 2.5 cents per share. We remind shareholders the Dividend Reinvestment Plan (DRP) is available on <https://www.kipmcgrath.com/global/shareholder-information>

Delivering shareholder value remains central to our purpose, and we deeply appreciate your continued support. We are dedicated to fostering growth across all channels and service offerings, strengthening our market position, while we continue to optimise operational efficiencies for margin expansion.

We look forward to updating you on our progress throughout FY24.



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Ian Campbell

Chairman

22 August 2023

Sydney

Throughout the year we remained committed to strategic investments, driving growth in response to the rising demand for high-quality tutoring on a global scale. Our focus on corporate centres and offshore expansion has yielded consistent growth, supported by strong demand for small-group tutoring in the UK, US, and Australasia, even in the post-COVID-19 era.

Notably, we achieved solid results in FY23, with revenue of \$26.8 million, an 8.7% increase from FY22. EBITDA grew by 8.1%, and NPAT by 2.4% to \$6.7 million and \$1.9 million, respectively.

We have seen a strong rise in franchise operations, with total revenue from franchising up 6.3% to \$17.8 million. The implementation of advanced KipLearn technology, coupled with a concentrated effort on centre placement to optimise revenue potential among our franchisees, has been the driving force behind our growth.

Another key driver of our growth has been our corporate centres, which have increased to 29 centres worldwide in just four years. Revenue from Corporate Centres has grown 22.5% to \$7.7 million. We are particularly proud of our achievement in securing positive cash flows for this business unit, laying the foundation for further expansion and market penetration.

Tutorfly is emerging as a pivotal contributor to our global growth. In FY23 we invested heavily in both technology and building a sales pipeline to drive growth in the US market. Despite experiencing a \$0.9 million loss in FY23 on revenue of \$1.2 million, we are poised to capitalise on these enhancements and ongoing US government focus on post-COVID funding, with contracted works already secured for \$2.6 million in FY24.

The demand for our services remains strong, driven by the growing recognition of the benefits of high-quality, small-group tutoring among parents and education professionals.

Despite cost-of-living pressures and other economic challenges, parents continue to prioritise tutoring, underscoring the value they see in our offerings, especially around our blended learning options, combining in-person and online tutoring.

- Governments worldwide have shown robust support for our approach, providing opportunities for fully funded tutoring services. In NSW and New Zealand state schools we are proud to be listed as an approved provider for Indigenous students.
- In the UK many of our franchisees are working with their local schools to provide tuition under the funding available from the UK government.
- In the Middle East, our master franchisee has secured tutoring for five schools, benefiting over 5,000 students.
- The Biden administration and state governments in the USA have been actively supporting students' recovery from the pandemic, allowing Tutorfly to expand relationships with preferred supplier status in seven states and eleven School Districts.

Government initiatives remain a driving force behind our global growth opportunities.

## Driving growth via our four strategic levers.

### Lever 1: Increase Students per Centre

Our commitment to high-quality, small group tutoring and blended learning options has resonated strongly with parents and students, driving the success of our lesson growth. We are proud to report that over two million lessons were delivered this year, highlighting the strong demand for our services.

We have achieved an 11% increase in average student numbers for corporate centres, now reaching an average 80 students per centre. This achievement is a testament to the value our centres bring to the education journey of our students.

To enhance our reach and impact, we have commenced rollout of our revolutionary KipLearn tutoring platform. With adoption already by 15% of franchise centres, this will offer substantial growth potential throughout FY24. KipLearn offers an engaging and interactive learning experience, combining in-person and online tutoring. The flexibility is driving all-year-round learning and empowering our tutors to dedicate more time to assessing and teaching – ultimately building more profitable businesses for both franchisees and the franchisor.

The positive impact of KipLearn is evident in the financial performance of our adopting franchisees. In Australia, we have seen average revenue growth of 15.6% for franchisees in Q4 FY23 compared to Q4 FY22. Similarly, in New Zealand, the rollout of KipLearn has resulted in a 30.2% increase in lesson volume for franchisees who have converted from a silver contract to a gold contract.

## **Lever 2: Increase Number of Centres in Existing Markets**

Our centre growth pipeline remains solid, with our focus on underpenetrated major and large secondary cities in Australia and the UK. Kip franchises are increasingly seen as an attractive option for teachers transitioning from the school system. With a consolidated centre base totalling 505, our concentration is on expansion into locations with significant revenue potential.

Further, our strategic Corporate Centre buyback approach is securing ownership of franchisees in high-potential locations, ensuring consistency of revenue potential. Negotiations are underway for a number of additional centres at this time, with a targeted goal of securing up to 15 strategic locations annually going forward.

To support this expansion, our management team is streamlining operations and building development pathways to ensure a strong pipeline of capable centre managers to realise continued growth.

## **Lever 3: Increase Global Market Footprint**

With strong bases in the Australian, New Zealand and United Kingdom markets, we are now looking to the US and Asian markets to tap considerable potential centre growth. We are active in the Singapore market, where we previously had 30 centres, with the intention to grow from this base into other key markets in South East Asia. We are also actively exploring greenfield and acquisition pathways in the southern states in the US, with a view to commencing Centre operations shortly.

## **Lever 4: Increase Lifetime Value of Customer**

With a technology investment of over \$2.9M during the financial year, we have continued to expand our offerings, benefiting our direct-to-consumer market with year-round learning solutions and enhanced reporting through our do-it-yourself learning solution and Parent Portal.

These strategic initiatives have seen an improvement in the lifetime value of our customers by 6% to \$3.550. Our lighthouse approach of working with influential franchisees is assisting to accelerate adoption of new services and drive network-wide return on investment.

### **Tutorfly**

We have made significant progress in expanding Tutorfly's reach and services during FY23. Leveraging KMEC's technology base, we now offer a comprehensive school program, including drop-in, high dosage, independent learning, custom curriculum, in-person/virtual tutoring, and faculty professional development. This expansion has allowed us to respond more effectively to Government and State-based requests for proposals.

Tutorfly is now active in seven states: Texas, Alabama, Arizona, New Mexico, Ohio, Kansas, and Mississippi, with working partnerships established in 11 School districts. As a preferred supplier, we have secured contracted works worth approximately \$2.6M for FY24. Moreover, we are extending our reach to over two million school students through state programs in Ohio (Ace Program) and Kansas (Keep Program) - focusing on remedial and supplemental learning.

Building on the strong foundations laid in FY23, we are actively expanding our sales pipeline and driving scalability. Our continued investment in Tutorfly allows us to conduct real-time research and market testing, enabling faster market entry for new solutions.

The ongoing government support for students post-COVID-19 in the US provides a favourable environment for Tutorfly's growth. With a focus on capitalising on enhancements and opportunities in Tutorfly, we are committed to accelerating our growth in the US market.

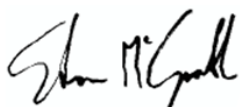


## In summary

In summary, the growing recognition of our offerings and commitment from governments have created significant opportunities for global expansion. As we look ahead, we remain dedicated to growing all areas of our business, with an emphasis on expanding the franchise network, corporate centres and Tutorfly. Advanced technology drives franchise network growth, while strategic centre placement optimises revenue potential.

Our ongoing commitment to our four strategic levers remains central to increasing revenue and driving margin expansion.

The outlook for Kip McGrath Education Centres is bright, and we are poised for continued success in FY24 and beyond. We extend our heartfelt appreciation to our teachers, children, parents and franchisees for their unwavering commitment to improving learning worldwide.



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Storm McGrath

Managing Director & Chief Executive Officer

22 August 2023

Sydney

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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 2023.

### 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	
	2023 \$'000	2022 \$'000
Final dividend for the year ended 30 June 2022 of 1.0 cents (2021: 1.0 cents) per ordinary share	565	522
Interim dividend for the year ended 30 June 2023 of 1.0 cents (2022: 1.0 cents) per ordinary share	566	565
	<u>1,131</u>	<u>1,087</u>

On 22 August 2023, a final dividend for the year ended 30 June 2023 of 1.5 cents per ordinary share, 0% franked, was determined to be paid on 21 September 2023 to those shareholders on the register at 7pm on 7 September 2023. The total distribution is estimated to be \$849,000.

### Review of operations

The profit for the consolidated entity after providing for income tax amounted to \$1,924,000 (30 June 2022: \$1,878,000).

### *Franchise operations*

Franchise operations saw overall revenue growth up 6.3% to \$17.8 million, including revenue from franchisee fees, advertising contributions, direct fees and sales of master territories.

Franchise fees continue to make up the majority of the company's revenue, with a healthy 12.3% year-on-year increase. Franchise fees of \$14.553m (or 54% of total revenue) were recorded in FY23 compared to \$12.960m in FY22 (or 53% of total revenue). The increase in franchise fees was offset by a drop in direct sales to \$1.090m in FY23 from \$1.494m in FY22 which is primarily due to a reduction in online fees (as parents pivot back to in-Centre lessons) and payment gateway fees (as the transition from Silver Partner to Gold Partner contracts continues, as payment gateway is included as part of the Gold package).

UK franchise fees increased 11% to \$8.203m (FY22: \$7.365m) and now represent 56% of total franchise revenues. In APAC franchise fees saw modest growth of 4% to \$4.929m (FY22: \$4.736m) representing 34% of total franchise fee revenue (FY22: 37%). The balance is made up of MENA and South Africa with \$1.421m of revenue, a 66% increase compared to \$0.859m in the prior year reflecting good tailwinds from government school work in the Abu Dhabi market.

We are now active in 476 franchise locations worldwide with eight new Centres opened in APAC and five in the UK offset by the closure of several Centres, particularly in South Africa where the economic outlook continues to worsen. There were also 4 Centres acquired as Corporate Centres from existing franchisees during the year. The increase in franchise fees reflects a steady improvement in the average earnings per franchise Centre, rising from \$25.7k per franchise Centre in FY22 to \$30.6k in FY23.

While the overall number of scheduled lesson numbers grew by 7% to 2.1 million in FY23, the proportion of online lessons decreased to 16% of total scheduled lesson numbers.

The franchise network has 317 Gold partners globally, an increase from 296 in FY22 with Silver partners contracting from 205 last year to 159 in FY23 following the closure of a number of unviable Centres across all markets, particularly New Zealand and South Africa.

### *Corporate Centres*

FY23 saw an increase in revenue and profitability for the corporate Centre amidst new technology implementation, improving the call Centre experience, and completing the integration of the corporate Centres purchased in the prior year whilst acquiring new Centres in Australia and the UK.

Corporate Centre revenues contributed \$7.719m or 29% to the consolidated group (FY22: \$6.302m or 26%). Australia saw a 23% rise in revenues to \$5.715m (FY22: \$4.631m), while the single Centre in New Zealand contributed a strong \$1.433m of revenue (FY22: \$1.235m), a 16% increase. The acquisition of a second Centre in the UK in May assisted increasing revenues by 31% to \$0.571m (FY22: \$0.435m). The contribution mix changed slightly year-on year with the UK now contributing 7% of total corporate Centre revenues.

We are currently operating 29 corporate Centres across APAC and UK, with five additional Centres opened this year (four in Australia and one in the UK). Lesson numbers have increased by 12% from 119,000 in FY22 to 134,000 in the current year.

Importantly the revenue and margin focus help to significantly improve the profitability of Corporate Centres, with the division moving back into profitability following the acquisitions during the COVID-19 period.

### *Tutorfly*

During FY23 we made significant inroads in expanding Tutorfly's service offering and geographical reach across the US territories. In addition to the traditional revenue streams, investment in pioneering KMEC technologies made it possible for us to expand our offering to a number of high-margin generating activities such as drop-in tutoring, high-dosage, independent learning, custom curriculum, in-person/virtual tutoring, and faculty professional development. Additionally, investment in sales capabilities saw Tutorfly expand into seven new US states and 11 School districts. Despite the fact that this investment has not immediately translated into revenues for FY23, Tutorfly is well placed to grow its pipeline and drive growth in FY24, with contracted work of approximately \$2.6m already secured by the US management team.

Tutorfly's revenues accounted for 4% of total revenue numbers, a slight decline from 6% in the prior year. Revenue for FY23 was \$1.169m, 28% lower compared to the prior year (FY22: \$1.620m), however of note is that 51% of revenue was derived from new territories (New Mexico), reflecting the focus on diversification of locations as part of working with the US government school support programs.

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

	<b>Consolidated</b>	
	<b>2023</b>	<b>2022</b>
	<b>\$'000</b>	<b>\$'000</b>
Revenue	26,713	24,636
EBITDA	6,705	6,200
Less: Depreciation and amortisation	(4,137)	(3,522)
Less: Interest expense	(223)	(122)
Add: Interest income	84	12
	<hr/>	<hr/>
Profit before Income tax expense	2,429	2,568
Income tax expense	(505)	(690)
	<hr/>	<hr/>
Profit after income tax expense	<u>1,924</u>	<u>1,878</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

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

#### Matters subsequent to the end of the financial year

Apart from the dividend declared as disclosed in the 'Review of operations' above, no other matter or circumstance has arisen since 30 June 2023 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 continues to operate 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 against 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 and 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 Limited and non-executive Chairman of Redox Ltd  
**Former directorships (last 3 years):** None  
**Special responsibilities:** Chairman of the Audit Committee and member of the Remuneration Committee  
**Interests in shares:** 600,000 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:** 4,789,903 ordinary shares  
**Interests in options:** 800,000 options over ordinary shares

**Name:** Trevor Folsom  
**Title:** Non-Executive Director  
**Qualifications:** MAICD  
**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

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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: 206,179 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 each Board committee held during the year ended 30 June 2023, and the number of meetings attended by each director were:

	Full Board		Remuneration Committee		Audit Committee	
	Attended	Held	Attended	Held	Attended	Held
Ian Campbell	12	12	2	2	4	4
Storm McGrath	12	12	-	-	-	-
Trevor Folsom	12	12	2	2	4	4
Diane Pass	12	12	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

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### ***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 22 November 2022, where the shareholders approved a maximum aggregate remuneration of \$600,000.

### ***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;
- long-term incentives; 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-based payments in the form of share options. 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.

During the financial year ended 30 June 2023, the consolidated entity, through the Remuneration Committee, engaged Ernst & Young, remuneration consultants, to review its existing remuneration policies and provide recommendations on how to improve the LTI program. Ernst & Young were paid \$63,300 for these services.

#### *Voting and comments made at the company's 2022 Annual General Meeting ('AGM')*

At the 2022 AGM, 98% of the shareholders voted to adopt the remuneration report for the year ended 30 June 2022. 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 (no longer identified as KMP from 1 July 2022)
- Scott Hillard - Chief Commercial Officer (no longer identified as KMP from 1 July 2022)
- Abby Clifton - Chief Product Officer (no longer identified as KMP from 1 July 2022)

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	Short-term benefits	Short-term benefits		Post-employment benefits	Long-term benefits	Share-based payments	Share-based payments	Total
	Cash salary and fees	Bonus	Non-monetary	Super-annuation	Leave benefits	Equity-settled shares	Equity-settled options	
2023	\$	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>								
Ian Campbell (Chairman)	143,731	-	-	15,092	-	-	-	158,823
Trevor Folsom	81,199	-	-	8,526	-	-	-	89,725
Diane Pass	96,552	-	-	10,138	-	-	-	106,690
<i>Executive Directors:</i>								
Storm McGrath	435,693	-	-	45,747	-	-	9,960	491,400
<i>Other KMP:</i>								
Brett Edwards	284,854	-	-	29,910	-	-	4,980	319,744
Jackie Burrows	275,245	-	-	29,929	-	-	4,980	310,154
	1,317,274	-	-	139,342	-	-	19,920	1,476,536
<hr/>								
	Short-term benefits	Short-term benefits		Post-employment benefits	Long-term benefits	Share-based payments	Share-based payments	Total
	Cash salary and fees	Bonus	Non-monetary	Super-annuation	Leave benefits	Equity-settled shares	Equity-settled options	
2022	\$	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>								
Ian Campbell (Chairman)	113,122	-	-	11,878	-	-	-	125,000
Trevor Folsom	68,493	-	-	6,849	-	-	-	75,342
Diane Pass	75,001	-	-	7,499	-	-	-	82,500
<i>Executive Directors:</i>								
Storm McGrath	414,511	23,000	-	41,451	-	-	-	478,962
<i>Other KMP:</i>								
Brett Edwards	273,972	22,500	-	27,397	-	-	-	323,869
Jackie Burrows	256,641	25,664	-	34,678	-	-	-	316,983
Scott Hillard	200,000	11,000	-	20,000	-	-	-	231,000
Daniel Pludek	225,000	12,375	-	22,500	-	-	-	259,875
Abby Clifton	200,000	-	-	20,000	-	-	-	220,000
	1,826,740	94,539	-	192,252	-	-	-	2,113,531

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

Name	Fixed remuneration		At-risk - STI		At-risk - LTI	
	2023	2022	2023	2022	2023	2022
<i>Non-Executive Directors:</i>						
Ian Campbell	100%	100%	-	-	-	-
Trevor Folsom	100%	100%	-	-	-	-
Diane Pass	100%	100%	-	-	-	-
<i>Executive Directors:</i>						
Storm McGrath	98%	95%	-	5%	2%	-
<i>Other KMP:</i>						
Brett Edwards	98%	93%	-	7%	2%	-
Jackie Burrows	98%	92%	-	8%	2%	-
Daniel Pludek	-	95%	-	5%	-	-
Scott Hillard	-	95%	-	5%	-	-
Abby Clifton	-	100%	-	-	-	-

Cash bonuses are dependent on meeting defined performance measures. The amount of the bonus is determined having regard to the satisfaction of performance measures and weightings as described above in the section 'Consolidated entity performance and link to remuneration'. The maximum bonus values are established at the start of each financial year and amounts payable are determined in the final month of the financial year by the Remuneration Committee.

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

Name	Cash bonus paid/payable		Cash bonus forfeited	
	2023	2022	2023	2022
<i>Executive Directors:</i>				
Storm McGrath	-	22%	100%	78%
<i>Other KMP:</i>				
Brett Edwards	-	33%	100%	67%
Jackie Burrows	-	40%	100%	60%
Daniel Pludek	-	22%	-	78%
Scott Hillard	-	22%	-	78%
Abby Clifton	-	-	-	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 2023.

*Issue of options*

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

Grant date	No. granted	Vesting date	Exercise price	Fair value per option at grant date
13 December 2022	1,600,000	30 June 2025	\$1.150	\$0.000

**Additional information**

The earnings of the consolidated entity for the five years to 30 June 2023 are summarised below:

	2023 \$'000	2022 \$'000	2021 \$'000	2020 \$'000	2019 \$'000
Sales revenue	26,713	24,636	19,265	17,123	16,263
EBITDA	6,705	6,200	5,106	5,208	5,207
Profit after income tax	1,924	1,878	1,733	1,573	2,652

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

	2023	2022	2021	2020	2019
Share price at financial year end (\$)	0.480	1.000	1.200	1.025	0.995
Basic earnings per share (cents per share)	3.401	3.472	3.329	3.455	5.888
Diluted earnings per share (cents per share)	3.250	3.472	3.188	3.276	5.536

**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
<i>Ordinary shares</i>					
Ian Campbell	500,000	-	100,000	-	600,000
Storm McGrath	4,484,333	-	305,570	-	4,789,903
Trevor Folsom	600,000	-	-	-	600,000
Diane Pass	156,179	-	50,000	-	206,179
Brett Edwards	432,000	-	-	-	432,000
Jackie Burrows	400,000	-	-	-	400,000
Daniel Pludek *	33,914	-	-	(33,914)	-
	<u>6,606,426</u>	<u>-</u>	<u>455,570</u>	<u>(33,914)</u>	<u>7,028,082</u>

\* sales/other represents shares held at the date an employee is no longer identified as KMP and may not be a physical disposal/sale of shares.

\*\* includes shares acquired through the dividend reinvestment plan.

*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
<i>Options over ordinary shares</i>					
Storm McGrath	-	800,000	-	-	800,000
Brett Edwards	-	400,000	-	-	400,000
Jackie Burrows	-	400,000	-	-	400,000
	-	1,600,000	-	-	1,600,000

*Loans to KMP and their related parties*

Loans to KMP are as follows:

	Applicable interest rate	Balance at the start of the year	Drawn down	Repayments	Interest	Balance at the end of the year
Storm McGrath	7.56%	541,820	-	-	36,785	578,605
Brett Edwards	7.56%	134,334	-	-	9,062	143,396
Jackie Burrows	7.56%	67,854	-	(18,815)	3,479	52,518
		744,008	-	(18,815)	49,326	774,519

The loans were granted for the conversion of options. 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 \$25,661 during the year (2022: \$9,818). There are no other transactions with KMP and their related parties.

***This concludes the remuneration report, which has been audited.***

**Shares under option**

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

Grant date	Expiry date	Exercise price	Number under option
13 December 2022	28 October 2026	\$1.150	2,615,000

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

**Shares issued on the exercise of options**

There were no ordinary shares of Kip McGrath Education Centres Limited issued on the exercise of options during the year ended 30 June 2023 and up to the date of this report.

**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.

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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**

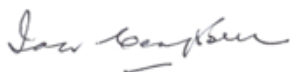
The company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that instrument to the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

22 August 2023  
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 2023, 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

22 AUGUST 2023  
NEWCASTLE, NSW

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Kip McGrath Education Centres Limited  
Statement of profit or loss and other comprehensive income  
For the year ended 30 June 2023



	Note	Consolidated 2023 \$'000	2022 \$'000
<b>Revenue</b>	5	26,713	24,636
Interest revenue calculated using the effective interest method		84	12
<b>Expenses</b>			
Royalties, commissions and other direct expenses		(240)	(260)
Employee expenses	6	(12,092)	(11,177)
Marketing expenses		(2,967)	(3,543)
Administration expenses		(2,912)	(2,825)
Franchise support costs		(1,696)	(639)
Depreciation and amortisation expense	6	(4,137)	(3,522)
Impairment of receivables	9	(95)	(204)
Net foreign exchange (loss)/gain		(6)	212
Finance costs	6	(223)	(122)
<b>Profit before income tax expense</b>		2,429	2,568
Income tax expense	7	(505)	(690)
<b>Profit after income tax expense for the year attributable to the owners of Kip McGrath Education Centres Limited</b>		1,924	1,878
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		251	(187)
Other comprehensive income for the year, net of tax		251	(187)
<b>Total comprehensive income for the year attributable to the owners of Kip McGrath Education Centres Limited</b>		2,175	1,691
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	34	3.401	3.472
Diluted earnings per share	34	3.250	3.472

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

	Note	Consolidated	
		2023 \$'000	2022 \$'000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	8	9,149	7,625
Trade and other receivables	9	1,966	3,012
Prepayments		594	648
Total current assets		<u>11,709</u>	<u>11,285</u>
<b>Non-current assets</b>			
Plant and equipment		381	481
Right-of-use assets	10	1,596	1,630
Intangibles	11	22,644	22,296
Deferred tax	12	784	686
Total non-current assets		<u>25,405</u>	<u>25,093</u>
<b>Total assets</b>		<u>37,114</u>	<u>36,378</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	13	6,472	7,482
Contract liabilities	14	345	416
Borrowings	15	1,840	1,300
Lease liabilities	16	718	618
Income tax		559	459
Employee benefits	17	1,143	1,107
Total current liabilities		<u>11,077</u>	<u>11,382</u>
<b>Non-current liabilities</b>			
Lease liabilities	16	1,067	1,231
Deferred tax	18	1,888	1,841
Total non-current liabilities		<u>2,955</u>	<u>3,072</u>
<b>Total liabilities</b>		<u>14,032</u>	<u>14,454</u>
<b>Net assets</b>		<u>23,082</u>	<u>21,924</u>
<b>Equity</b>			
Issued capital	19	17,784	17,702
Reserves	20	896	613
Retained profits		4,402	3,609
<b>Total equity</b>		<u>23,082</u>	<u>21,924</u>

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 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	<u>17,702</u>	<u>613</u>	<u>3,609</u>	<u>21,924</u>

Consolidated	Issued capital \$'000	Reserves \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2022	17,702	613	3,609	21,924
Profit after income tax expense for the year	-	-	1,924	1,924
Other comprehensive income for the year, net of tax	-	251	-	251
Total comprehensive income for the year	-	251	1,924	2,175
<i>Transactions with owners in their capacity as owners:</i>				
Share-based payments (note 20)	-	32	-	32
Dividend reinvestment plan (note 19)	82	-	-	82
Dividends paid (note 21)	-	-	(1,131)	(1,131)
Balance at 30 June 2023	<u>17,784</u>	<u>896</u>	<u>4,402</u>	<u>23,082</u>

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

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	Note	Consolidated 2023 \$'000	2022 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST)		29,024	23,724
Payments to suppliers and employees (inclusive of GST)		<u>(22,057)</u>	<u>(18,087)</u>
		6,967	5,637
Interest received		84	12
Interest and other finance costs paid		(223)	(122)
Income taxes paid		<u>(456)</u>	<u>(473)</u>
Net cash from operating activities	31	<u>6,372</u>	<u>5,054</u>
<b>Cash flows from investing activities</b>			
Payment for purchase of business, net of cash acquired	29	-	(2,178)
Payments for property, plant and equipment		(367)	(398)
Payments for intangibles	11	<u>(3,200)</u>	<u>(4,379)</u>
Net cash used in investing activities		<u>(3,567)</u>	<u>(6,955)</u>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		2,266	1,300
Dividends paid	21	(1,049)	(1,087)
Repayment of borrowings		(1,726)	(425)
Repayment of lease liabilities		<u>(772)</u>	<u>(833)</u>
Net cash used in financing activities		<u>(1,281)</u>	<u>(1,045)</u>
Net increase/(decrease) in cash and cash equivalents		1,524	(2,946)
Cash and cash equivalents at the beginning of the financial year		<u>7,625</u>	<u>10,571</u>
Cash and cash equivalents at the end of the financial year	8	<u><u>9,149</u></u>	<u><u>7,625</u></u>

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 22 August 2023. 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 during the financial year.

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

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

#### *AASB 2020-3 Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments*

AASB 2020-3 was issued in June 2020 and is applicable to annual periods beginning on or after 1 January 2022. Early adoption is permitted.

- AASB 1 'First-time Adoption of Australian Accounting Standards' to simplify the application of AASB 1 by a subsidiary that becomes a first-time adopter after its parent in relation to the measurement of cumulative translation differences;
- AASB 3 'Business Combinations' to update a reference to the Conceptual Framework (see below) without changing the accounting requirements for business combinations;
- AASB 9 'Financial Instruments' to clarify the fees an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability;
- AASB 116 'Property, Plant and Equipment' to require an entity to recognise the sales proceeds from selling items produced while preparing property, plant and equipment for its intended use and the related cost in profit or loss, instead of deducting the amounts received from the cost of the asset; and
- AASB 137 'Provisions, Contingent Liabilities and Contingent Assets' to specify the costs that an entity includes when assessing whether a contract will be loss-making.

### 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.

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## Note 2. Significant accounting policies (continued)

### *Critical accounting estimates*

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 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 28.

### **Principles of consolidation**

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Kip McGrath Education Centres Limited ('company' or 'parent entity') as at 30 June 2023 and the results of all subsidiaries for the year then ended. Kip McGrath Education Centres Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

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

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

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

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

### **Operating segments**

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

### **Foreign currency translation**

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

### *Foreign currency transactions*

Foreign currency transactions are translated into 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.

## Note 2. Significant accounting policies (continued)

### Revenue recognition

The consolidated entity recognises revenue as follows:

#### *Revenue from contracts with customers*

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

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

#### *Franchise fees*

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

#### *Sales of master territories and franchisee centres*

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

#### *National advertising contributions ('NAC')*

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

#### *Direct sales*

Direct sales revenue includes fees for the provision of payment gateway and ancillary franchise software services as well as the sale of educational materials and promotional products. Revenue from payment gateway and ancillary franchise software services is recognised on a weekly basis as the services are provided to franchisees. 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.

## Note 2. Significant accounting policies (continued)

### *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.

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.



## Note 2. Significant accounting policies (continued)

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.

### 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.

## Note 2. Significant accounting policies (continued)

### Intangible assets

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

#### *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.

#### *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.

## Note 2. Significant accounting policies (continued)

### 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.

#### *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.

## Note 2. Significant accounting policies (continued)

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.

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.

## Note 2. Significant accounting policies (continued)

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.

### 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 2023. 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 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-Current and AASB 2022-6 Amendments to Australian Accounting Standards - Non-current Liabilities with Covenants*

AASB 2020-1 was issued in March 2020 and is applicable to annual periods beginning on or after 1 January 2024, as extended by AASB 2020-6. Early adoption is permitted. AASB 2022-6 was issued in December 2022 and is applicable to annual periods beginning on or after 1 January 2023. Early adoption is permitted where AASB 2020-1 is also early adopted.

## Note 2. Significant accounting policies (continued)

These standards amend AASB 101 'Presentation of Financial Statements' to clarify requirements for the presentation of liabilities in the statement of financial position as current or non-current. 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 subject to the entity complying with covenants in the loan arrangement based on information up to and including reporting date, the deferral right will exist where the entity is able to comply with the covenant on or before the end of the reporting date even if compliance is assessed after the reporting date. The deferral right will be deemed to exist at reporting date if the entity is required to comply with the covenant only after the reporting date based on post-reporting date information. Additional disclosure is required about loan arrangements classified as non-current liabilities in such circumstances which enables users of financial statements to understand the risk that the liabilities could become repayable within twelve months after the reporting period. 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.

### *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.

### *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.

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

#### *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, 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.

#### *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.

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

#### *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 to apply the available expedient to 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.

#### *Major customers*

The consolidated entity does not have any major customers that contribute more than 10% of revenue (2022: none).

#### *Geographical information*

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

#### *Geographical information*

	Sales to external customers		Geographical non-current assets	
	2023 \$'000	2022 \$'000	2023 \$'000	2022 \$'000
Australasia	13,309	12,164	18,987	19,201
United States and North America	1,169	1,617	4,469	4,316
United Kingdom and Europe	10,374	10,026	1,165	890
Overseas other	1,794	825	-	-
	<u>26,646</u>	<u>24,632</u>	<u>24,621</u>	<u>24,407</u>



**Note 5. Revenue**

	<b>Consolidated</b>	
	<b>2023</b>	<b>2022</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Revenue from contract with customers</i>		
Franchise fees	14,553	12,960
Student lessons	8,847	7,883
Sale of master territories and franchisee centres	284	428
National advertising contributions ('NAC')	1,872	1,867
Direct sales	1,090	1,494
	<u>26,646</u>	<u>24,632</u>
<i>Other revenue</i>		
Other revenue	67	4
	<u>26,713</u>	<u>24,636</u>

*Disaggregation of revenue*

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

	<b>Consolidated</b>	
	<b>2023</b>	<b>2022</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Timing of revenue recognition</i>		
Services and goods transferred at a point in time	26,516	24,437
Services transferred over time	130	195
	<u>26,646</u>	<u>24,632</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'.

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**Note 6. Expenses**

	<b>Consolidated</b>	
	<b>2023</b>	<b>2022</b>
	<b>\$'000</b>	<b>\$'000</b>
Profit before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Plant and equipment	468	240
Land and buildings right-of-use assets	746	841
Total depreciation	<u>1,214</u>	<u>1,081</u>
<i>Amortisation</i>		
Product and overseas development costs	2,474	1,969
Franchise and development territories	93	10
Other intangibles	356	462
Total amortisation	<u>2,923</u>	<u>2,441</u>
Total depreciation and amortisation	<u>4,137</u>	<u>3,522</u>
<i>Employee benefits</i>		
Employee benefits expense excluding superannuation	11,106	10,261
Defined contribution superannuation expense	954	916
Share-based payment expense	32	-
Total employee benefits	<u>12,092</u>	<u>11,177</u>
<i>Finance costs</i>		
Interest and finance charges paid/payable on borrowings from financial institutions	140	45
Interest and finance charges paid/payable on lease liabilities	83	77
Finance costs expensed	<u>223</u>	<u>122</u>

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### Note 8. Cash and cash equivalents

	Consolidated	
	2023 \$'000	2022 \$'000
<i>Current assets</i>		
Cash at bank	3,855	1,847
Restricted cash	5,294	5,778
	9,149	7,625

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	
	2023 \$'000	2022 \$'000
<i>Current assets</i>		
Trade receivables	1,126	2,286
Less: Allowance for expected credit losses	(270)	(244)
	856	2,042
Loan to director (note 19 and 27)	579	542
Loan to employees (note 19 and 27) *	382	378
Other receivables	149	50
	1,110	970
	1,966	3,012

\* Loans to employees of \$382,000 (2022: \$378,000) include loans of \$210,000 (2022: \$202,000) to key management personnel (see note 27).

#### *Allowance for expected credit losses*

The consolidated entity has recognised a loss of \$95,000 (2022: loss of \$204,000) in profit or loss in respect of expected credit losses for the year ended 30 June 2023. 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	
	2023 %	2022 %	2023 \$'000	2022 \$'000	2023 \$'000	2022 \$'000
Not overdue	-	2%	108	930	-	19
0 to 3 months overdue	8%	2%	688	1,121	58	23
Over 3 months overdue	67%	86%	316	235	212	202
			1,112	2,286	270	244

The consolidated entity has increased its monitoring of debt recovery as there has been 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:

	<b>Consolidated</b>	
	<b>2023</b>	<b>2022</b>
	<b>\$'000</b>	<b>\$'000</b>
Opening balance	244	126
Additional provisions recognised	95	209
Receivables written off during the year as uncollectable	(69)	(91)
	<u>270</u>	<u>244</u>

**Note 10. Right-of-use assets**

	<b>Consolidated</b>	
	<b>2023</b>	<b>2022</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Non-current assets</i>		
Land and buildings - right-of-use	3,784	3,068
Less: Accumulated depreciation	(2,188)	(1,438)
	<u>1,596</u>	<u>1,630</u>

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:

<b>Consolidated</b>	<b>Land and buildings \$'000</b>
Balance at 1 July 2021	1,600
Additions	900
Write off of assets	(29)
Depreciation expense	<u>(841)</u>
Balance at 30 June 2022	1,630
Additions	677
Revaluation increments	31
Exchange differences	4
Depreciation expense	<u>(746)</u>
Balance at 30 June 2023	<u>1,596</u>

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 2023;
- note 22 for undiscounted future lease commitments; and
- consolidated statement of cash flow for repayment of lease liabilities.

## Note 11. Intangibles

	Consolidated	
	2023 \$'000	2022 \$'000
<i>Non-current assets</i>		
Goodwill - at cost (note 29)	4,241	4,241
Intellectual property - at cost	4,012	4,012
Product and overseas development costs	19,280	16,347
Less: Accumulated amortisation	(11,424)	(8,950)
	<u>7,856</u>	<u>7,397</u>
Franchise and development territories	6,452	6,114
Less: Accumulated amortisation	(172)	(79)
	<u>6,280</u>	<u>6,035</u>
Other intangible assets - at cost	3,231	3,231
Less: Accumulated amortisation	(2,976)	(2,620)
	<u>255</u>	<u>611</u>
	<u><u>22,644</u></u>	<u><u>22,296</u></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
<b>Consolidated</b>						
Balance at 1 July 2021	-	4,012	7,015	3,674	1,416	16,117
Additions	-	-	2,351	2,028	-	4,379
Additions through business combinations (note 29)	4,241	-	-	-	-	4,241
Transfers in/(out)	-	-	-	343	(343)	-
Amortisation expense	-	-	(1,969)	(10)	(462)	(2,441)
	<u>4,241</u>	<u>4,012</u>	<u>7,397</u>	<u>6,035</u>	<u>611</u>	<u>22,296</u>
Balance at 30 June 2022	4,241	4,012	7,397	6,035	611	22,296
Additions	-	-	2,932	268	-	3,200
Exchange differences	-	-	1	70	-	71
Amortisation expense	-	-	(2,474)	(93)	(356)	(2,923)
	<u>4,241</u>	<u>4,012</u>	<u>7,856</u>	<u>6,280</u>	<u>255</u>	<u>22,644</u>
Balance at 30 June 2023	<u><u>4,241</u></u>	<u><u>4,012</u></u>	<u><u>7,856</u></u>	<u><u>6,280</u></u>	<u><u>255</u></u>	<u><u>22,644</u></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 is included in payables.

### Impairment tests for indefinite life intangibles and goodwill

Indefinite life intangibles and goodwill 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 2.4% (2022: 2.5%). 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 17.1% (2022: 15.2%). 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% (2022: 15%) 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 2023 (2022: \$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% (2022: grow by less than 3%) 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

	<b>Consolidated</b>	
	<b>2023</b>	<b>2022</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Non-current assets</i>		
Deferred tax asset comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Tax losses on foreign operations	203	-
Allowance for expected credit losses	40	50
Unrealised foreign exchange movements	51	53
Contract liabilities	86	104
Employee benefits	297	331
Leases	42	46
Accrued expenses	1	20
QAX licence	64	82
	<hr/>	<hr/>
Deferred tax asset	<b>784</b>	<b>686</b>
<i>Movements:</i>		
Opening balance	686	649
Credited to profit or loss (note 7)	98	37
	<hr/>	<hr/>
Closing balance	<b>784</b>	<b>686</b>

**Note 13. Trade and other payables**

	<b>Consolidated</b>	
	<b>2023</b>	<b>2022</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Current liabilities</i>		
Trade payables	629	742
Amounts held on behalf of franchisees	4,900	5,679
GST and other similar payables	279	236
Other payables and accruals	664	825
	<u>6,472</u>	<u>7,482</u>

Refer to note 22 for further information on financial instruments.

**Note 14. Contract liabilities**

	<b>Consolidated</b>	
	<b>2023</b>	<b>2022</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Current liabilities</i>		
Contract liabilities on franchise sales	<u>345</u>	<u>416</u>
<i>Reconciliation</i>		
Reconciliation of the written down values at the beginning and end of the current and previous financial year are set out below:		
Opening balance	416	476
Payments received in advance	89	66
Transfer to revenue	<u>(160)</u>	<u>(126)</u>
Closing balance	<u>345</u>	<u>416</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 \$345,000 as at 30 June 2023 (\$416,000 as at 30 June 2022) and is expected to be recognised as revenue in future periods as follows:

	<b>Consolidated</b>	
	<b>2023</b>	<b>2022</b>
	<b>\$'000</b>	<b>\$'000</b>
Within 6 months	87	81
6 to 12 months	61	72
12 to 18 months	46	77
18 to 24 months	40	52
24 to 30 months	33	37
30 to 36 months	29	31
beyond 36 months	<u>49</u>	<u>66</u>
	<u>345</u>	<u>416</u>

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**Note 15. Borrowings**

	<b>Consolidated</b>	
	<b>2023</b>	<b>2022</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Current liabilities</i>		
Bank loans	1,840	1,300

Refer to note 22 for further information on financial instruments.

In June 2022 a new USD denominated borrowing facility of USD 1,525,000 (AUD \$2,213,000) was completed with the HSBC. This facility has a 3 year term with quarterly repayments of USD 76,250.

*Total secured liabilities*

The total secured liabilities are as follows:

	<b>Consolidated</b>	
	<b>2023</b>	<b>2022</b>
	<b>\$'000</b>	<b>\$'000</b>
Bank loans	1,840	1,300

*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:

	<b>Consolidated</b>	
	<b>2023</b>	<b>2022</b>
	<b>\$'000</b>	<b>\$'000</b>
Total facilities		
Bank loans - AUD	1,750	1,750
Bank loans - USD	1,840	2,213
	<u>3,590</u>	<u>3,963</u>
Used at the reporting date		
Bank loans - AUD	-	1,300
Bank loans - USD	1,840	-
	<u>1,840</u>	<u>1,300</u>
Unused at the reporting date		
Bank loans - AUD	1,750	450
Bank loans - USD	-	2,213
	<u>1,750</u>	<u>2,663</u>

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**Note 16. Lease liabilities**

	<b>Consolidated</b>	
	<b>2023</b>	<b>2022</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Current liabilities</i>		
Lease liability	718	618
	<u>718</u>	<u>618</u>
<i>Non-current liabilities</i>		
Lease liability	1,067	1,231
	<u>1,067</u>	<u>1,231</u>

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

**Note 17. Employee benefits**

	<b>Consolidated</b>	
	<b>2023</b>	<b>2022</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Current liabilities</i>		
Annual leave	746	677
Long service leave	397	430
	<u>1,143</u>	<u>1,107</u>

*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:

	<b>Consolidated</b>	
	<b>2023</b>	<b>2022</b>
	<b>\$'000</b>	<b>\$'000</b>
Employee benefits	680	659
	<u>680</u>	<u>659</u>

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## Note 18. Deferred tax

	Consolidated 2023 \$'000	2022 \$'000
<i>Non-current liabilities</i>		
Deferred tax liability comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Research and development costs	1,888	1,841
Deferred tax liability	<u>1,888</u>	<u>1,841</u>
<i>Movements:</i>		
Opening balance	1,841	1,836
Charged to profit or loss (note 7)	47	5
Closing balance	<u>1,888</u>	<u>1,841</u>

## Note 19. Issued capital

	2023 Shares	Consolidated 2022 Shares	2023 \$'000	2022 \$'000
Ordinary shares - fully paid	<u>56,664,150</u>	<u>56,519,331</u>	<u>17,784</u>	<u>17,702</u>

### Movements in ordinary share capital

Details	Date	Shares	Issue price	\$'000
Balance	1 July 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	2,000,000	\$1.031	2,063
Transaction costs		-	\$0.000	(9)
Balance	30 June 2022	56,519,331		17,702
Dividend reinvestment plan	23 September 2022	35,949	\$0.910	33
Dividend reinvestment plan	24 March 2023	108,870	\$0.450	49
Balance	30 June 2023	<u>56,664,150</u>		<u>17,784</u>

\* 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 a director and relevant employees (note 9).

\*\* Issue of shares relates to consideration for the buying out the minority interest in Tutorfly Inc. (note 29).

### 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 2022 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

	<b>Consolidated</b>	
	<b>2023</b>	<b>2022</b>
	<b>\$'000</b>	<b>\$'000</b>
Foreign currency reserve	(135)	(386)
Share-based payments reserve	277	245
Other reserves	754	754
	896	613
	896	613

#### 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.

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## Note 20. Reserves (continued)

### Movements in reserves

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

<b>Consolidated</b>	Foreign currency \$'000	Share-based payments \$'000	Other \$'000	Total \$'000
Balance at 1 July 2021	(199)	245	754	800
Foreign currency translation	(187)	-	-	(187)
Balance at 30 June 2022	(386)	245	754	613
Foreign currency translation	251	-	-	251
Share-based payments	-	32	-	32
Balance at 30 June 2023	<u>(135)</u>	<u>277</u>	<u>754</u>	<u>896</u>

## Note 21. Dividends

Dividends paid during the financial year were as follows:

	<b>Consolidated</b>	
	<b>2023</b>	<b>2022</b>
	<b>\$'000</b>	<b>\$'000</b>
Final dividend for the year ended 30 June 2022 of 1.0 cents (2021: 1.0 cents) per ordinary share	565	522
Interim dividend for the year ended 30 June 2023 of 1.0 cents (2022: 1.0 cents) per ordinary share	566	565
	<u>1,131</u>	<u>1,087</u>

On 22 August 2023, a final dividend for the year ended 30 June 2023 of 1.5 cents per ordinary share, 0% franked, was determined to be paid on 21 September 2023 to those shareholders on the register at 7pm on 7 September 2023. The total distribution is estimated to be \$849,000.

## 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	
	2023 \$'000	2022 \$'000	2023 \$'000	2022 \$'000
US dollars	1,256	1,231	1,840	28
Euros	12	15	-	-
Pound Sterling	5,912	5,246	4,268	4,574
New Zealand dollars	1,102	565	369	263
Singapore dollars	12	12	-	-
South African Rand	136	233	-	-
Kenyan Shilling	1	-	-	-
	<u>8,431</u>	<u>7,302</u>	<u>6,477</u>	<u>4,865</u>

The consolidated entity had net assets denominated in a number of foreign currencies of \$1,954,000 as at 30 June 2023 (assets \$8,431,000 less liabilities \$6,477,000) (2022: \$2,437,000 (assets \$7,302,000 less liabilities \$4,865,000)). Based on this net position, a 10% strengthening in the Australian dollar from 30 June 2023 levels may expose the consolidated entity to a \$195,000 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	2023		2022	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
Bank loans - AUD	-	-	2.96%	1,300
Bank loans - USD	7.56%	<u>1,840</u>	-	<u>-</u>
Net exposure to cash flow interest rate risk		<u>1,840</u>		<u>1,300</u>

The consolidated entity has net bank loans and borrowings outstanding, totalling \$1,840,000 (2022: \$1,300,000), which are principal and interest payment loans. Quarterly cash outlays of approximately \$113,000 (2022: \$111,000 per quarter) are required to service the debt as of July 2023. An official increase/decrease in interest rates of 100 (2022: 100) basis points would have an adverse/favourable effect on profit before tax of \$18,000 (2022: \$13,000) 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.

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:

	<b>Consolidated</b>	
	<b>2023</b>	<b>2022</b>
	<b>\$'000</b>	<b>\$'000</b>
Bank loans - AUD	1,750	450
Bank loans - USD	-	2,213
	1,750	2,663

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 USD 76,250. The facility was fully drawn down in July 2022 and the AUD 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.

## 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 - 2023	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
<b>Non-derivatives</b>						
<i>Non-interest bearing</i>						
Trade payables	-	629	-	-	-	629
Other payables	-	5,843	-	-	-	5,843
<i>Interest-bearing - variable</i>						
Bank loans - USD	7.56%	1,840	-	-	-	1,840
Lease liability	4.62%	718	445	622	-	1,785
Total non-derivatives		9,030	445	622	-	10,097

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
<b>Non-derivatives</b>						
<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

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 \$1,351,000 (2022: \$1,186,000) 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	
	2023	2022
	\$	\$
Short-term employee benefits	1,317,274	1,921,323
Post-employment benefits	139,342	192,208
Share-based payments	19,920	-
	<u>1,476,536</u>	<u>2,113,531</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	
	2023	2022
	\$	\$
<i>Audit services - PKF Newcastle and Sydney</i>		
Audit or review of the financial statements	127,000	105,650
<i>Other services - PKF Newcastle and Sydney</i>		
Preparation of the tax return and other tax services	4,200	3,000
	<u>131,200</u>	<u>108,650</u>
<i>Audit services - network firms</i>		
Audit or review of the financial statements	19,594	17,264
<i>Other services - network firms</i>		
Preparation of the tax return (NZ)	2,185	2,485
	<u>21,779</u>	<u>19,749</u>

## Note 26. Contingent liabilities

The consolidated entity has provided bank guarantees totalling \$153,000 (2022: \$94,000) on multiple leases for office premises.

## Note 27. Related party transactions

### Parent entity

Kip McGrath Education Centres Limited is the parent entity.

### Subsidiaries

Interests in subsidiaries are set out in note 30.

### Key management personnel

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

## Note 27. Related party transactions (continued)

### Transactions with related parties

A family member of Storm McGrath's is employed by the company and received a wage of \$25,661 during the year (2022: \$9,818). 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	7.56%	541,820	-	-	36,785	578,605
Brett Edwards	7.56%	134,334	-	-	9,062	143,396
Jackie Burrows	7.56%	67,854	-	(18,815)	3,479	52,518
		<u>744,008</u>	<u>-</u>	<u>(18,815)</u>	<u>49,326</u>	<u>774,519</u>

The loans were granted for the conversion of options. 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 28. Parent entity information

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

### Statement of profit or loss and other comprehensive income

	Parent	
	2023 \$'000	2022 \$'000
Profit after income tax	<u>4,627</u>	<u>2,357</u>
Total comprehensive income	<u>4,627</u>	<u>2,357</u>

**Note 28. Parent entity information (continued)**

*Statement of financial position*

	Parent	
	2023 \$'000	2022 \$'000
Total current assets	4,184	3,975
Total assets	30,696	27,260
Total current liabilities	5,104	5,364
Total liabilities	7,033	7,278
Equity		
Issued capital	17,784	17,702
Foreign currency reserve	60	(11)
Share-based payments reserve	277	245
Retained profits	5,542	2,046
Total equity	<u>23,663</u>	<u>19,982</u>

*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 2023 and 30 June 2022, except as disclosed in note 26.

*Contingent liabilities*

The parent entity had no contingent liabilities as at 30 June 2023 and 30 June 2022.

*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 29. Business combinations**

In the prior financial year, 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 the prior financial year 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.

### Note 29. 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	<u>4,241</u>
Representing:	
Cash paid or payable to vendor	2,178
Kip McGrath Education Centres Limited shares issued to vendor (note 19)	<u>2,063</u>
	<u>4,241</u>
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	<u>(2,063)</u>
Net cash used	<u>2,178</u>

### Note 30. 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	
		2023 %	2022 %
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%	100%

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**Note 31. Reconciliation of profit after income tax to net cash from operating activities**

	<b>Consolidated</b>	
	<b>2023</b>	<b>2022</b>
	<b>\$'000</b>	<b>\$'000</b>
Profit after income tax expense for the year	1,924	1,878
Adjustments for:		
Depreciation and amortisation	4,137	3,522
Share-based payments	32	-
Foreign exchange differences	175	(187)
Write off of plant and equipment	-	29
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	1,046	(2,285)
Decrease in income tax refund due	-	257
Decrease/(increase) in deferred tax assets	27	(37)
Decrease/(increase) in prepayments	54	(164)
Increase/(decrease) in trade and other payables	(1,010)	1,892
Decrease in contract liabilities	(71)	(60)
Decrease in provision for income tax	(25)	(8)
Increase in deferred tax liabilities	47	5
Increase in employee benefits	36	212
Net cash from operating activities	<u>6,372</u>	<u>5,054</u>

**Note 32. Non-cash investing and financing activities**

	<b>Consolidated</b>	
	<b>2023</b>	<b>2022</b>
	<b>\$'000</b>	<b>\$'000</b>
Additions to the right-of-use assets	677	900
Shares issued under dividend reinvestment plan	82	-
	<u>759</u>	<u>900</u>

**Note 33. Changes in liabilities arising from financing activities**

<b>Consolidated</b>	<b>Bank loans \$'000</b>	<b>Lease liability \$'000</b>	<b>Total \$'000</b>
Balance at 1 July 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	1,300	1,849	3,149
Net cash from/(used in) financing activities	540	(772)	(232)
Acquisition of plant and equipment by means of leases	-	677	677
Revaluation increments	-	31	31
Balance at 30 June 2023	<u>1,840</u>	<u>1,785</u>	<u>3,625</u>

#### Note 34. Earnings per share

	Consolidated	
	2023 \$'000	2022 \$'000
Profit after income tax attributable to the owners of Kip McGrath Education Centres Limited	1,924	1,878
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	56,576,536	54,091,113
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares (note 35)	2,615,000	-
Weighted average number of ordinary shares used in calculating diluted earnings per share	59,191,536	54,091,113
	<b>Cents</b>	<b>Cents</b>
Basic earnings per share	3.401	3.472
Diluted earnings per share	3.250	3.472

#### Note 35. Share-based payments

In 2022, the Board approved the terms and conditions of the current 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. Further information is set out on the Notice of Meeting to the 2022 Annual General Meeting. 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 performance and/or service-related conditions as determined by the Board 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:

#### 2023

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
13/12/2022	28/10/2026	\$1.151	-	2,615,000	-	-	2,615,000
			-	2,615,000	-	-	2,615,000

#### 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)	-	-

The weighted average share price was \$0.805 (2022: \$0.343).

**Note 35. Share-based payments (continued)**

The weighted average remaining contractual life of options outstanding at the end of the financial year was 3.3 years (2022: nil years).

For the options granted during the current financial year, the Black-Scholes option pricing model inputs used to determine the fair value at the grant date, are as follows:

Grant date	Expiry date	Option price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
31/12/2022	28/10/2026	\$0.000	\$1.151	-	2.08%	2.60%	\$0.073

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were \$32,000 (2022: \$nil).

**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 2023 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.

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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 2023 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



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Ian Campbell  
Chairman

22 August 2023  
Sydney

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## 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) and its controlled entities (collectively the consolidated entity) which comprises the consolidated statement of financial position as at 30 June 2023, 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 2023 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.

## Key Audit Matters

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

### 1. Impairment testing of intangible assets

Why significant	How our audit addressed the key audit matter
<p>As disclosed in note 11, the Company and its subsidiaries has intangible assets of \$22.64m as at 30 June 2023.</p> <p>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.</p> <p>The evaluation of the recoverable amount requires the group to exercise judgment in determining key assumptions, which include:</p> <ul style="list-style-type: none"> <li>• Preparation of a 5-year cash flow forecast;</li> <li>• Determination of a terminal growth factor; and</li> <li>• Determination of a discount rate.</li> </ul> <p>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.</p>	<p>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:</p> <ul style="list-style-type: none"> <li>• Assessing and challenging: <ul style="list-style-type: none"> <li>○ the assumption of one cash generating unit being appropriate;</li> <li>○ the reasonableness of the FY24 budget approved by the Board by comparing the budget to FY23 actuals;</li> <li>○ the key assumptions for the future growth rate used in the model by comparing the average historical growth rates and other industry forecasts; and</li> <li>○ the discount rate applied by comparing the weighted average cost of capital to industry benchmarks.</li> </ul> </li> <li>• testing, on a sample basis, the mathematical accuracy of the cash flow models;</li> <li>• testing, on a sample basis, the validity and accuracy of intangibles capitalised during the financial year;</li> <li>• considering management's assessment of those with definite and indefinite useful lives;</li> <li>• testing, on a sample basis, the validity and accuracy of amortisation expense and accumulated amortisation where appropriate;</li> <li>• agreeing inputs in the cash flow models to relevant data including approved budgets and latest forecasts;</li> <li>• reviewing management's sensitivity analysis in relation to key assumptions including discount rate, growth rate and terminal value; and</li> <li>• assessing appropriateness of financial statement disclosures including sensitivities to assumptions used, included in Note 11.</li> </ul>

## 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 2023, 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.

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## Other Information (cont'd)

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.

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

- 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.

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 2023. In our opinion, the Remuneration Report of Kip McGrath Education Centres Limited for the year ended 30 June 2023, 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

22 AUGUST 2023  
NEWCASTLE, NSW

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The shareholder information set out below was applicable as at 26 July 2023.

### 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	417	0.45	-	-
1,001 to 5,000	786	3.78	-	-
5,001 to 10,000	242	3.20	-	-
10,001 to 100,000	256	12.89	-	-
100,001 and over	38	79.68	8	0.05
	<b>1,739</b>	<b>100.00</b>	<b>8</b>	<b>0.05</b>
Holding less than a marketable parcel	<b>323</b>	<b>-</b>	<b>-</b>	<b>-</b>

### 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	% of total shares issued
	Number held	
National Nominees Limited	11,477,789	20.26
Mr Kip McGrath	5,675,764	10.02
HSBC Custody Nominees (Australia) Limited	4,306,950	7.60
Citicorp Nominees Pty Limited	2,502,314	4.42
Mr Storm Kip McGrath	2,193,487	3.87
Storm Superannuation Fund Pty Ltd (Storm Super Fund A/C)	2,075,024	3.66
BNP Paribas Noms Pty Ltd (DRP)	1,759,179	3.10
J P Morgan Nominees Australia Pty Limited	1,694,986	2.99
KMEC Superannuation Pty Ltd (KMEC Superannuation Fund A/C)	1,472,750	2.60
BNP Paribas Nominees Pty Ltd (Hub24 Custodial Serv Ltd DRP A/C)	1,466,185	2.59
Kip McGrath Investments Pty Ltd (McGrath Family A/C)	1,000,000	1.76
DMX Capital Partners Limited	941,010	1.66
BNP Paribas Nominees Pty Ltd (IB AU Noms RetailClient DRP)	930,115	1.64
Vanward Investments Limited	843,045	1.49
Rendina Pty Ltd (Rendina Super Fund A/C)	675,000	1.19
Moslof Services Pty Ltd (Moslof S/F A/C)	600,000	1.06
Mr Matthew Charles Peek	580,000	1.02
Emerald Shares Pty Limited (Emerald Unit A/C)	525,000	0.93
Ms Snezana Bowden	460,000	0.81
Brett Edwards	432,000	0.76
	<b>41,610,598</b>	<b>73.43</b>

*Unquoted equity securities*

	Number on issue	Number of holders
Options over ordinary shares issued	2,600,000	8

### Substantial holders

Substantial holders in the company are set out below:

	Ordinary shares	
	Number held	% of total shares issued
National Nominees Limited	11,477,789	20.26
Mr Kip McGrath	5,675,764	10.02
HSBC Custody Nominees (Australia) Limited	4,306,950	7.60
Citicorp Nominees Pty Limited	2,502,314	4.42
Mr Storm Kip McGrath	2,193,487	3.87
Storm Superannuation Fund Pty Ltd (Storm Super Fund A/C)	2,075,024	3.66

### 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.

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