

## 1. Company details

Name of entity:	Kip McGrath Education Centres Limited
ABN:	73 003 415 889
Reporting period:	For the year ended 30 June 2020
Previous period:	For the year ended 30 June 2019

## 2. Results for announcement to the market

The consolidated entity has adopted Accounting Standard AASB 16 'Leases' for the year ended 30 June 2020 using the modified retrospective approach and as such the comparatives have not been restated.

\$'000

Revenues from ordinary activities	up	5.3% to	17,123
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	up	- to	5,208
Profit from ordinary activities after tax attributable to the owners of Kip McGrath Education Centres Limited	down	40.7% to	1,573
Profit for the year attributable to the owners of Kip McGrath Education Centres Limited	down	40.7% to	1,573

### Dividends

A final dividend for the year ended 30 June 2019 of 2.5 cents per ordinary share, 100% fully franked, was paid on 17 September 2019. The total distribution was \$1,130,858.

On 25 February 2020, the directors declared a fully franked interim dividend of 1.5 cents per ordinary share for the year ending 30 June 2020 to be paid on 26 March 2020 to those shareholders on the register at 7pm on 12 March 2020. The total dividends estimated was \$678,515. The dividend was deferred and then cancelled on 1 June 2020.

On 25 August 2020, a final dividend for the year ended 30 June 2020 of 2.0 cents per ordinary share, 100% fully franked, was determined to be paid on 17 September 2020 to those shareholders on the register at 7p.m. on 3 September 2020. The total distribution will be \$1,036,385.

### Comments

The profit for the consolidated entity after providing for income tax amounted to \$1,573,000 (30 June 2019: \$2,652,000).

With the lockdowns in all significant markets due to the COVID-19 pandemic, there has been a material fall in revenue from traditional face to face lessons. This has been offset by increased usage of the online tutoring options available on our software platform. Overall it is estimated COVID-19 has impacted revenue by \$2,400,000 and reduced net profit for the year by \$1,400,000 before taking into account government grants.

AASB 16 'Leases' had no significant impact on the current period. The current profit before income tax expense was reduced by \$32,000. This included an increased depreciation and amortisation expense of \$478,000 and increased finance costs of \$77,000, offset by a reduction in other expenses (reclassification of lease expenses) of \$523,000. As at 30 June 2020, net current assets were reduced by \$532,000 (attributable to current lease liabilities) and net assets were reduced by \$150,000 (attributable to right-of-use assets, less lease liabilities).

The consolidated entity has increased its monitoring of debt recovery as there is an increased probability of franchisees and customers delaying payment or being unable to pay in the current environment. As a result, we have increased our allowance of expected credit losses as at 30 June 2020.

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 \$5,208,000 (2019: \$5,207,000).

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

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Revenue	17,123	16,263
EBITDA	5,208	5,207
Less: Depreciation and amortisation	(2,660)	(1,593)
Less: Interest expense	(141)	(55)
Profit before Income tax expense	2,407	3,559
Income tax expense	(834)	(907)
Profit after income tax expense	<u>1,573</u>	<u>2,652</u>

### 3. Net tangible assets

	<b>Reporting period Cents</b>	<b>Previous period Cents</b>
Net tangible assets per ordinary security	<u>8.43</u>	<u>(1.30)</u>

### 4. Control gained over entities

Not applicable.

### 5. Loss of control over entities

Not applicable.

### 6. Dividend reinvestment plans

Not applicable.

### 7. Details of associates and joint venture entities

Not applicable.

### 8. Foreign entities

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

Not applicable.

### 9. Audit qualification or review

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

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

## 10. Attachments

*Details of attachments (if any):*

The Annual Report of Kip McGrath Education Centres Limited for the year ended 30 June 2020 is attached.

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## 11. Signed

As authorised by the Board of Directors



Signed \_\_\_\_\_

Date: 25 August 2020

Ian Campbell  
Chairman  
Newcastle

**Kip McGrath Education Centres Limited**

**ABN 73 003 415 889**

**Annual Report - 30 June 2020**



Directors	Ian Campbell - Chairman Storm McGrath Trevor Folsom Diane Pass
Company secretary	Brett Edwards
Notice of annual general meeting	The details of the annual general meeting of Kip McGrath Education Centres Limited are: Level 5, 60 Martin Place Sydney NSW 2000 Tuesday 17 November 2020 at 11:00 a.m. (AEST)
Registered office	Level 3 6 Newcomen Street Newcastle, NSW 2300 Head office telephone: 02 4929 6711
Share register	Computershare Investor Services Pty Limited 117 Victoria Street, West End, QLD 4101 Shareholders enquiries: 1300 787 272
Auditor	PKF Newcastle 755 Hunter Street Newcastle West, NSW 2302
Bankers	HSBC Bank Australia Ltd Tower 1, International Towers Sydney Level 36 100 Barangaroo Avenue Sydney NSW 2000
Stock exchange listing	Kip McGrath Education Centres Limited shares are listed on the Australian Securities Exchange (ASX code: KME)
Website	<a href="http://www.kipmcgrath.com">www.kipmcgrath.com</a>

Dear Shareholders,

I am pleased to report the company's revenue for the year increased 5.3% to \$17.1M due to the successful response to the impact of COVID-19, with EBITDA holding steady at \$5.2M.

Online tuition was a major contributor to this result, thanks to it being a long-term feature of our strategic plan. Whilst the pre COVID-19 take-up to online had previously been slower than expected, online lessons moved quickly during the outbreak from 550 lessons per week to over 20,000 lessons per week. The beauty of online is margins are higher, and students are more likely to stay in the system, with travel eliminated and the flexibility to fit in lessons with their daily routines.

The corporate centres and corporate direct strategy contributed \$1.4M in revenue for its first full year and was break even. Corporate centres adjusted quickly from face to face to online, however there was still an initial weekly reduction in student numbers from 600 to 400. The corporate centres now have over 770 students a week and growing at 15 students per week, supported by a staff of 50 and annual wage expense of \$1M.

Profit after tax reduced by 41% to \$1.6M, principally due to increases in depreciation and amortisation, as a result of the acquisitions of Master Franchise territories, accelerating head office staffing costs for online development, offset by Government subsidies received.

The online software now replicates the face to face experience for the student. The tutors have learnt how to manage small groups of students remotely, using a very different experience to incentre. Now we have a global online and face to face business with flexibility to choose what is the safest and easiest option for the student and the tutor. This is a very different business to six months ago.

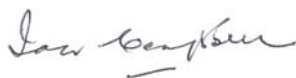
The successful institutional placement in June of \$5.9M was oversubscribed. These funds will support the accelerated growth of our online platform and corporate centre strategies. We will be able to drive online revenue faster for franchisees and corporate centres, with part of these funds being used to complete the latest iteration of our online software which is compatible with touch screens, tablets and iPads. We are currently testing the software and believe it will be ready for global release early in 2021.

During the year we completed the purchase of the Belconnen centre in Canberra and the purchase of the Yorkshire and the Humber Area Developer territories in the United Kingdom. These acquisitions totalled \$1.3M and were part financed through borrowings.

The company continues to be a profitable, cash generative tutoring business with substantial growth since 2011, based on a tailored education method developed over the company's 45-year history. Our online platform has strengthened lead management and onboarding, whilst our improved lesson planning with new curriculum material, enhances the learning platform. All regions are expected to see improvements as the lockdown eases and we return to a sense of normality, with leads generated and assessment bookings at an all-time high in July.

Today, the Board determined to pay a fully franked final dividend of 2 cents per share on 29 September 2020 to those shareholders on the register at 7pm on 15 September 2020.

This year's success would not have been achieved without the tireless commitment of our executive team and the dedication of our Master Franchisees, Area Developers, Franchisees and all our staff worldwide. Thank you to all.



Ian Campbell  
Chairman  
25 August 2020

This year has been one of the most challenging years in the history of the company. We have seen a major movement to online tutoring and encouraging progress with our Corporate centre initiative. After the initial lockdown, our key markets experienced a 76% reduction in revenue. We reacted quickly in reducing non-core expenses and staff numbers, as well as mobilising our team in training our franchisees with our fit for purpose online tutoring system. The results were immediate, such that our revenue for the year grew 5.3% to \$17.1M and EBITDA held its line at \$5.2M.

Fortunately, our well-developed online tutoring tools were already advanced. However, prior to COVID-19, the worldwide tuition market engagement was slower than expected. COVID-19 changed all that! Over 500 centres worldwide are now actively tutoring online. Overall student lessons online surged from 550 per week to over 20,000 per week. Student lessons bounced back 55% within a few weeks. On top of this significant change, our marketing collateral was refined to show the benefits online tutoring is able to offer. This was completed in 6 weeks. We are now seeing major areas of our business in and out of lockdown. Centres are pivoting back and forth as best they can. Some franchisees are finding the challenge difficult and we have had 20 centre closures in the past 4 months. We have not been able to train new franchisees in the past 5 months, so sales for new franchisees are down for the year to 14 globally which is about half the normal levels.

As we shifted to online, global revenue is getting back to normal levels, even with the significant reduction in revenue for the last quarter of approximately \$2M.

The corporate centres continue to grow with revenue at \$1.45M for the year which would have been \$200K more without the last quarter reductions. With the new advertising and parents concern for their children's education, we continue to see increased leads and assessment bookings.

#### Overview of our major initiatives:

##### 1. *Gold Partner Franchisees*

We have 296 active Gold Partners which is an increase of 14 from last year. Total active centre numbers are currently 521, which peaked at 551 centres pre COVID-19 but after closures, is just below last year's 524 active centres. The situation with active centres is very fluid with COVID-19 and we expect a number of centres may reopen once the lock down situation in various countries settles.

##### 2. *Online Tutoring*

Online tutoring is now the major revenue earner for the company. Lockdowns, parents working from home and schools closed has meant not only do parents know what online tutoring is, for a lot of them it is the only choice available. Online tutoring is also a much more scalable option and with 4 years head start building the online platform we have a significant advantage over the great majority of our competitors. Our bespoke system has many tools which are only useful for tutoring with content built in, whiteboard, seeing the questions the child is working on in real time.

The number of online lessons versus face to face lessons fluctuates on a weekly basis due to lockdowns. Online lessons in Australia are at 50% of total lessons. New Zealand is 30% but this will change depending on the Auckland lockdown duration. A major indicator of the concern parents have with the education of their children is that the UK is sitting at 5,000 online lessons a week during the summer holidays, a significant increase over the prior year.

##### 3. *National Marketing*

The Campaigns in Australia, UK and New Zealand were refined with an increased emphasis on online tutoring. Initially and as expected, global leads dropped significantly early in the lockdown. With the release of the new campaigns and increased focus on digital marketing, global leads are now at all-time highs.

##### 4. *Technology Development*

With the outbreak of COVID-19 our development team has made online tutoring the focus, rather than face to face tutoring. We have also made changes to the old system to cope with such a large increase in online lessons. This has delayed our release, but all the delays were necessary. We are currently trialling the new online tutoring software. We are working towards a global release early in 2021. The new technology will make the platform much more accessible for our customers and usability is enhanced. We believe this will help drive global student numbers.

5. *Acquisition of Master Franchise territories and Area Developers.*

The purchase of Yorkshire and the Humber in the United Kingdom was concluded last September. Scotland remains the last of these acquisitions, which we aim to complete in the second quarter, once revenue trends settle down.

6. *Corporate Centres and Corporate online direct*

Student numbers across corporate in Australia reached 600 a week in early March after the usual summer holiday reduction. After the lockdowns we emphasised the benefits of online, and after a reduction in student lessons, they are currently sitting at 770 in early August and growing at 15 per week.

Our advertising investment has been increased which will accelerate the growth in this sector. The first full year revenue was \$1.4M and breakeven. We have planned for corporate centre revenue to double over the next twelve months. We will commence Corporate Online in the UK in September, advertising only, in areas where we do not have a franchisee. We believe corporate centres can be a great way of testing and implementing new ideas and initiatives reducing franchisees stress and risk. We also believe a good mixture of franchisees and corporate centres is a solid strategy for all.

**Outlook**

Whilst global student numbers remain down from pre COVID-19 lockdowns, the business continues to grow. Centres which have embraced the new paradigm are getting back to normal trade. Corporate and Corporate Direct are growing well and showing franchisees – 'it's a new world with plenty of opportunities to grow and prosper'. We expect revenue, profit and profit margins will continue to grow through a combination of the ongoing development and automation of the software as a service, our national advertising campaigns and the option for students to choose between face to face and online tuition.

I would like to thank the Franchisees, Master Franchisees, Area Developers, and employees for their hard work and support throughout what has been a tumultuous year. I would also like to thank our dedicated and motivating teachers and the parents who continue to bring their children to Kip McGrath.

We are committed to our motto that 'every child can learn, they just have to be taught well', and we will continue to do this for our current 40,000 students and the thousands who will join Kip McGrath in the future.



Storm McGrath  
Managing Director and CEO  
25 August 2020

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 2020.

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

## Principal activities

The principal activities of the consolidated entity during the course of the financial year continued to be the sale of franchises and providing services to franchisees in the education field. The 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:

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Final dividend for the year ended 30 June 2019 of 2.5 cents (2018: 2.0 cents) per ordinary share	1,131	901
Interim dividend for the year ended 30 June 2020 of nil cents (2019: 1.5 cents) per ordinary share	-	675
	<u>1,131</u>	<u>1,576</u>

On 25 August 2020, a final dividend for the year ended 30 June 2020 of 2.0 cents per ordinary share, 100% fully franked, was determined to be paid on 17 September 2020 to those shareholders on the register at 7p.m. on 3 September 2020. The total distribution will be \$1,036,385.

## Review of operations

The profit for the consolidated entity after providing for income tax amounted to \$1,573,000 (30 June 2019: \$2,652,000).

With the lockdowns in all significant markets due to the COVID-19 pandemic, there has been a material fall in revenue from traditional face to face lessons. This has been offset by increased usage of the online tutoring options available on our software platform. Overall it is estimated COVID-19 has impacted revenue by \$2,400,000 and reduced net profit for the year by \$1,400,000 before taking into account government grants.

In June 2020, the company completed an Institutional Placement of 6,585,000 shares at 90 cents per share to raise a net \$5,581,000 (see note 19) to fund an accelerate growth of the Kip Online platform.

Revenue has grown by 5.3% to \$17,110,000, with growth in student lesson fees from corporate centres offsetting a fall in franchise fees. Student lesson fees from corporate centres were up 470% to \$1,425,000 following the acquisition of the Belconnen centre in August 2019 and the focus on the online Direct centre in Australia and New Zealand. Franchise fees fell 2% to \$12,095,000 with COVID-19 impacting all key markets from March 2020.

The pandemic resulted in a 6% fall in global attended lesson numbers from 1,527,000 in the prior year to 1,425,000 in the current financial year. Corporate Centre lessons in the Australasian market jumped from 4,400 last financial year to 22,600 in the current financial year, including 10,300 online lessons. Australasian franchisees taught 350,800 lessons, including 81,000 online but overall, this was down 8% on the prior year. In the UK market the franchise network taught 723,000 lessons, down from 775,000 in the prior year however online lessons jumped significantly from 21,000 to over 174,000 in the current year.

Gold Partners for Australia increased to 129 just prior to the pandemic but have now fallen to 121 with a number of centres ceasing operations. Total centres in Australia stand at 144. In the New Zealand market, there were 58 active centres, down slightly from 62 in the prior year. In the UK market, Gold Partners have fallen to 166, down from 181 active centres in the prior year. Currently 247 centres remain active in the UK market.

The South African and Middle East markets saw a significant shut down with the pandemic with revenues falling by 22% to \$838,000. At this point there has been minimal return to normal in those markets.

AASB 16 'Leases' had no significant impact on the current period. The current profit before income tax expense was reduced by \$32,000. This included an increased depreciation and amortisation expense of \$478,000 and increased finance costs of \$77,000, offset by a reduction in other expenses (reclassification of lease expenses) of \$523,000. As at 30 June 2020, net current assets were reduced by \$532,000 (attributable to current lease liabilities) and net assets were reduced by \$150,000 (attributable to right-of-use assets, less lease liabilities).

The consolidated entity has increased its monitoring of debt recovery as there is an increased probability of franchisees and customers delaying payment or being unable to pay in the current environment. As a result, we have increased our allowance of expected credit losses as at 30 June 2020.

The earnings before interest, tax, depreciation and amortisation ('EBITDA') amounted to \$5,208,000 (2019: \$5,207,000).

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>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Revenue	17,123	16,263
EBITDA	5,208	5,207
Less: Depreciation and amortisation	(2,660)	(1,593)
Less: Interest expense	(141)	(55)
Profit before Income tax expense	2,407	3,559
Income tax expense	(834)	(907)
Profit after income tax expense	<u>1,573</u>	<u>2,652</u>

### **Significant changes in the state of affairs**

Apart from the impact of COVID-19 noted earlier, there were no other significant changes in the state of affairs of the consolidated entity during the financial year.

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

The impact of the COVID-19 pandemic is ongoing for the consolidated entity up to 30 June 2020. With ongoing waves in a number of key markets, it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the relevant Governments, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

Apart from the dividend as discussed above, no other matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

### **Likely developments and expected results of operations**

The company has commenced operating a number of corporately owned education centres in the Australian market as part of a strategy to drive growth and greater franchisee engagement. More details are set out in the CEO's Report. It is expected that future growth will continue to be in line with recent experience.

## Environmental regulation

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

## Information on directors

Name:	Ian Campbell (appointed as Chairman on 5 August 2019)
Title:	Non-Executive Director and Chairman
Qualifications:	FCA, MAICD
Experience and expertise:	Ian joined the Board on 25 August 2009 after a 32 year career with the international accounting firm Ernst & Young principally working with entrepreneurial companies and the capital markets. Ian is a Fellow of Chartered Accountants Australia and New Zealand and a member of the Australian Institute of Company Directors. He is currently a non-executive director of CVC Limited, Redox Pty Ltd and Bigstone Capital Pty Ltd. His previous non-executive director roles included Gloria Jean's Coffees International Pty Limited, Green's Foods Holdings Pty Ltd and Young Achievement Australia Limited and he was a partner with the Board search practice of the Allegis Group (formerly Talent2).
Other current directorships:	CVC Ltd
Former directorships (last 3 years):	None
Special responsibilities:	Chairman of the Audit Committee and member of the Remuneration Committee
Interests in shares:	500,000 ordinary shares
Interests in options:	None
Name:	Storm McGrath (appointed as Executive Director on 5 August 2019)
Title:	Executive Director, Chief Executive Officer and Investor Relations
Qualifications:	Master of Business Administration
Experience and expertise:	Storm is currently the CEO of Kip McGrath Education Centres Ltd. Storm first joined the board in 1997 to advise on technology and strategy. At the time he had been running two successful businesses of his own. He joined the executive team in 2000 and was employed to run the IT department and general operations and later went on to be responsible for global franchise sales. In 2005 he was appointed joint managing director and in 2007 he was appointed managing director. He is responsible for day to day operations and strategic direction of the company.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	None
Interests in shares:	3,153,598 ordinary shares
Interests in options:	1,500,000 options over ordinary shares
Name:	Trevor Folsom
Title:	Non-Executive Director
Experience and expertise:	Trevor has extensive background and experience and is acknowledged for his ability to engage, invest and advise growth companies, particularly in the technology sector. He is a successful entrepreneur in his own right, developing, from start up, Blueprint Management, which he sold in 2008. He is currently a Director of Investible, an early stage technology investment company.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Member of the Audit Committee and member of the Remuneration Committee
Interests in shares:	165,000 ordinary shares



Name: Diane Pass  
Title: Non-Executive Director  
Qualifications: MAICD  
Experience and expertise: Diane is the Founder and Director of the human resources consultancy firm 360HR. She has more than 26 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: 105,473 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 31 years of experience in accounting and reporting in a number of major Australian and international businesses, including 10 years with international accounting firm Ernst & Young. He was previously a director of GMAC Australia LLC, a US company operating in the finance segment in Australia.

#### Meetings of directors

The number of meetings of the company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2020, 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	1	1	4	4
Storm McGrath	12	12	-	-	3	4
Trevor Folsom	12	12	1	1	4	4
Diane Pass	12	12	1	1	4	4

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

#### Remuneration report (audited)

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

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

The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation
- Additional information
- Additional disclosures relating to KMP



### ***Principles used to determine the nature and amount of remuneration***

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

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

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

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

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

#### ***Non-executive directors' remuneration***

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

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

#### ***Executive remuneration***

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

The KMP remuneration and reward framework has four components:

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

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

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

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

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

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

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

#### *Consolidated entity performance and link to remuneration*

KMP remuneration is linked to the performance of the consolidated entity. Bonus and incentive payments are at the discretion of the Board. Refer to the section 'Additional information' below for details of the earnings and total shareholders return for the last five years.

#### *Use of remuneration consultants*

The consolidated entity did not engage the use of a remuneration consultant during the financial year ended 30 June 2020.

#### *Voting and comments made at the company's 2019 Annual General Meeting ('AGM')*

At the 2019 AGM, 99% of the shareholders voted to adopt the remuneration report for the year ended 30 June 2019. 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
- Catherine Cook - Global Curriculum and Training Manager

	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 \$	\$
<b>2020</b>								
<i>Non-Executive Directors:</i>								
Ian Campbell (Chairman)	101,229	-	3,737	9,617	-	-	-	114,583
Trevor Folsom	68,493	-	3,737	6,506	-	-	-	78,736
Diane Pass	76,003	-	3,737	6,508	-	-	-	86,248
Kip McGrath *	10,597	-	369	1,381	27,808	-	-	40,155
<i>Executive Directors:</i>								
Storm McGrath	383,073	25,000	3,737	41,142	-	-	2,082	455,034
<i>Other KMP:</i>								
Brett Edwards	232,174	10,000	3,737	23,695	-	-	965	270,571
Jackie Burrows	163,636	10,000	3,737	-	-	-	760	178,133
Catherine Cook	95,171	-	2,447	8,849	-	-	-	106,467
	1,130,376	45,000	25,238	97,698	27,808	-	3,807	1,329,927

\* Includes remuneration from the beginning of the year to the date of resignation 5 August 2019. Kip McGrath received consultancy fees of \$61,673 following his resignation from the Board.

\*\* A cash incentive was paid to management in July 2020. The Board agreed a number of strategic operational targets by which the execution of these targets would give rise to a short term incentive, payable at the Board's discretion. As key operational targets were achieved a proportional incentive was paid.

	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 \$	\$
<b>2019</b>								
<i>Non-Executive Directors:</i>								
Kip McGrath (Chairman)	107,446	-	3,611	9,476	-	-	-	120,533
Ian Campbell	77,098	-	3,611	7,324	-	-	-	88,033
Trevor Folsom	67,975	-	3,611	6,456	-	-	-	78,042
Diane Pass	67,975	-	3,611	6,457	-	-	-	78,043
<i>Other KMP:</i>								
Storm McGrath	361,137	50,000	3,611	36,683	-	-	10,000	461,431
Brett Edwards	213,733	17,250	3,611	21,279	-	-	4,634	260,507
Jackie Burrows	163,636	13,636	3,611	-	-	-	3,654	184,537
Catherine Cook	183,885	-	3,009	18,894	-	-	3,045	208,833
	1,242,885	80,886	28,286	106,569	-	-	21,333	1,479,959

\* A cash incentive was paid to management in July 2019. The Board agreed a number of strategic operational targets by which the execution of these targets would give rise to a short term incentive, payable at the Board's discretion. As key operational targets were achieved a proportional incentive was paid.

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

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2020	2019	2020	2019	2020	2019
<i>Non-Executive Directors:</i>						
Ian Campbell	100%	100%	-	-	-	-
Trevor Folsom	100%	100%	-	-	-	-
Diane Pass	100%	100%	-	-	-	-
Kip McGrath	100%	100%	-	-	-	-
<i>Executive Directors:</i>						
Storm McGrath	93%	-	6%	-	1%	-
<i>Other KMP:</i>						
Storm McGrath	-	87%	-	11%	-	2%
Brett Edwards	95%	91%	4%	7%	1%	2%
Jackie Burrows	93%	91%	6%	7%	1%	2%
Catherine Cook	100%	92%	-	7%	-	1%

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

Name	Cash bonus paid/payable		Cash bonus forfeited	
	2020	2019	2020	2019
<i>Executive Directors:</i>				
Storm McGrath	36%	-	64%	-
<i>Other KMP:</i>				
Storm McGrath	-	33%	-	67%
Brett Edwards	53%	55%	47%	45%
Jackie Burrows	43%	62%	57%	38%
Catherine Cook	-	-	100%	100%

### Service agreements

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

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

### Share-based compensation

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	Vested Date	Exercise period	Exercise price	Fair value per
					option at grant date
20/08/2014	150,000	17/08/2018	Until 31 Dec 2021	\$0.350	\$0.17
21/11/2014	1,000,000	17/08/2018	Until 31 Dec 2021	\$0.350	\$0.17
19/08/2016	400,000	23/08/2019	1 Jan 2021 to 31 Dec 2021	\$0.300	\$0.11
09/10/2017	450,000	23/08/2019	1 Jan 2021 to 31 Dec 2021	\$0.370	\$0.10
27/10/2017	500,000	23/08/2019	1 Jan 2021 to 31 Dec 2021	\$0.370	\$0.10

*Issue of shares*

There were no shares issued to directors and other KMP as part of compensation during the year ended 30 June 2020.

**Additional information**

The earnings of the consolidated entity for the five years to 30 June 2020 are summarised below:

	2020 \$'000	2019 \$'000	2018 \$'000	2017 \$'000	2016 \$'000
Sales revenue	17,123	16,263	13,060	13,507	14,569
EBITDA	5,208	5,207	4,079	2,635	2,107
Profit after income tax	1,573	2,652	2,263	1,436	1,203

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

	2020	2019	2018	2017	2016
Share price at financial year end (\$)	1.025	0.995	0.580	0.320	0.280
Basic earnings per share (cents per share)	3.455	5.888	5.025	3.199	2.723
Diluted earnings per share (cents per share)	3.276	5.536	4.752	3.069	2.574

**Additional disclosures relating to KMP**

*Shareholding*

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

	Balance at the start of the year	Received as part of remuneration	Additions	Sales	Balance at the end of the year
<i>Ordinary shares</i>					
Ian Campbell	500,000	-	-	-	500,000
Storm McGrath	1,102,731	-	2,050,867	-	3,153,598
Trevor Folsom	65,000	-	100,000	-	165,000
Diane Pass	55,000	-	50,473	-	105,473
Jackie Burrows	200,000	-	-	-	200,000
Brett Edwards	150,000	-	-	-	150,000
Kip McGrath	16,078,474	-	-	(4,223,310)	11,855,164
	18,151,205	-	2,201,340	(4,223,310)	16,129,235

*Option holding*

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

	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year	Vested and exercisable
Options over ordinary shares						
Storm McGrath	1,500,000	-	-	-	1,500,000	1,000,000
Brett Edwards	400,000	-	-	-	400,000	150,000
Jackie Burrows	200,000	-	-	-	200,000	-
	2,100,000	-	-	-	2,100,000	1,150,000

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

*Loans to KMP and their related parties*

There are no loans to KMP or their related parties.

*Other transactions with KMP and their related parties*

During the year, \$nil (2019: \$3,650) was paid to 360 HR Pty Ltd, a related party to Diane Pass, for the reimbursement of externally acquired training materials.

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

**Shares under option**

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

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

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 2020 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.

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

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

#### Rounding of amounts

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

#### Auditor's independence declaration

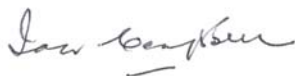
A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

#### Auditor

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

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

On behalf of the directors



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Ian Campbell  
Chairman

25 August 2020  
Newcastle

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 2020, 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

PKF



CLAYTON HICKEY  
PARTNER

25 AUGUST 2020  
NEWCASTLE, NSW



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

Both this Corporate Governance Statement and the ASX Appendix 4G have been lodged with the ASX. This statement has been approved by the company's Board of Directors ('Board') and is current as at 25 August 2020.

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

#### **Principle 1: Lay solid foundations for management and oversight**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	Proportion of women	Proportion of men
On the board	25%	75%
In senior executive positions	33%	67%
Across the whole organisation	67%	33%

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

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

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

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

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

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

The Board conducts an annual performance assessment of the CEO against agreed performance measures determined at the start of the year. The CEO undertakes the same assessments of senior executives. In assessing the performance of the individual, the review includes consideration of the senior executive's function, individual targets, group targets, and the overall performance of the company. The most recent review was completed in July 2020.

## Principle 2: Structure the board to add value

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

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

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

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

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

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

**Board member attributes**

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

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

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

Director's name	Appointment date	Length of service at reporting date	Independence status
Ian Campbell	25 August 2009	11 years	Independent Non-Executive – Chairman (appointed on 5 August 2019)
Trevor Folsom	22 September 2014	5 years	Independent Non-Executive
Diane Pass	1 February 2017	3 years	Independent Non-Executive
Storm McGrath	5 August 2019	1 year	Executive Director – Chief Executive Officer

The composition of the Board is structured to ensure that the Board has the appropriate mix of expertise and experience.

Details of directors that the Board has declared as independent but which maintain an interest or relationship that could be perceived as impairing independence, and the reason as to the Board's determination are as follows:

Director's name	Details of interest or relationship	Board reasoning why director is independent
Ian Campbell	500,000 ordinary shares held indirectly in superfund	This holding aligns the interests of the director with those of the shareholders and is encouraged by the company.
Trevor Folsom	165,000 ordinary shares held indirectly	This holding aligns the interests of the director with those of the shareholders and is encouraged by the company.
Diane Pass	105,473 ordinary shares held directly	This holding aligns the interests of the director with those of the shareholders and is encouraged by the company.

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

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

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

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

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

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

### **Principle 3: Act ethically and responsibly**

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

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

### **Principle 4: Safeguard integrity in corporate reporting**

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

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

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

During the year the Committee consisted entirely of non-executive directors, Ian Campbell, Diane Pass, and Trevor Folsom. The chairperson, Ian Campbell, is also the Board chair and is an independent director during the financial year ended 30 June 2020. Ian Campbell has remained Audit Committee Chair due to his extensive experience and qualifications in the audit sector.

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

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

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

For the financial year ended 30 June 2020 and the half-year ended 31 December 2019, the company's CEO and CFO provided the Board with the required declarations.

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

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

#### **Principle 5: Make timely and balanced disclosure**

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

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

#### **Principle 6: Respect the rights of security holders**

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

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

#### *Recommendations 6.2 and 6.3*

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

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



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

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

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

## Principle 7: Recognise and manage risk

### Recommendations 7.1 & 7.2

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

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

The company does not maintain a Risk Committee as it is considered that the current size of the Board does not warrant the formal establishment of a separate committee. The Board and Audit Committee therefore performs the function of such a committee which includes setting of corporate governance policy and exercising due care and skill in assessing risk, developing strategies to mitigate such risk, monitoring the risk and the company's effectiveness in managing it. The company maintains internal controls which assist in managing enterprise risk, and these are reviewed as part of the scope of the external audit, with the auditor providing the Board with commentary on their effectiveness and the need for any additional controls. The CEO and CFO are responsible for monitoring operational risk, ensuring all relevant insurances are in place, and ensuring that all regulatory and compliance obligations of the company are satisfied. The last review was completed in August 2020.

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

The company did not have a dedicated internal audit function during the year ending 30 June 2020. The responsibility for risk management and internal controls lies with both the CEO and CFO who continually monitor the company's internal and external risk environment. Necessary action is taken to protect the integrity of the company's books and records through design and implementation of internal controls and operational efficiencies, mitigation of risks, and safeguard of the company assets.

From 1 July 2020, an independent accounting firm has been appointed to establish an internal audit function.

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

As at the date of reporting the company continues to be exposed to the significant operational and economic risks posed by the COVID-19 pandemic. These risks are being managed through active engagement with franchisees and customers to mitigate the operational risks of the pandemic, as well as prudent management of the organisation to mitigate the economic risks. The pivot to the online capability in the business has been a significant part of the company's response to these risks.

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

## Principle 8: Remunerate fairly and responsibly

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

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

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

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

The Board has established the committee under formal Charter.

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

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

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

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

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

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

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

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## **General information**

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

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

Level 3  
6 Newcomen Street  
Newcastle NSW 2300

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 25 August 2020. The directors have the power to amend and reissue the financial statements.



**Kip McGrath Education Centres Limited**  
**Statement of profit or loss and other comprehensive income**  
**For the year ended 30 June 2020**



	<b>Note</b>	<b>Consolidated 2020 \$'000</b>	<b>2019 \$'000</b>
<b>Revenue</b>	4	17,123	16,263
Other income	5	472	249
<b>Expenses</b>			
Royalties, commissions and other direct expenses	6	(1,307)	(1,864)
Employee expenses	6	(5,521)	(3,630)
Marketing expenses		(2,775)	(2,959)
Administration expenses		(1,661)	(1,954)
Merchandising expenses		(935)	(809)
Depreciation and amortisation expense	6	(2,660)	(1,593)
Impairment of receivables	9	(93)	(76)
Loss on sale of assets		(28)	-
Net foreign exchange losses		(67)	(13)
Finance costs	6	(141)	(55)
<b>Profit before income tax expense</b>		2,407	3,559
Income tax expense	7	(834)	(907)
<b>Profit after income tax expense for the year attributable to the owners of Kip McGrath Education Centres Limited</b>		1,573	2,652
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		67	(70)
Other comprehensive income for the year, net of tax		67	(70)
<b>Total comprehensive income for the year attributable to the owners of Kip McGrath Education Centres Limited</b>		<u>1,640</u>	<u>2,582</u>
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	33	3.455	5.888
Diluted earnings per share	33	3.276	5.536

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

	Note	Consolidated 2020 \$'000	2019 \$'000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	8	12,179	7,053
Trade and other receivables	9	472	557
Prepayments		358	165
Total current assets		13,009	7,775
<b>Non-current assets</b>			
Trade and other receivables	9	140	199
Plant and equipment		359	377
Right-of-use assets	10	1,694	-
Intangibles	11	13,482	12,356
Deferred tax	12	736	631
Total non-current assets		16,411	13,563
<b>Total assets</b>		29,420	21,338
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	13	5,231	5,749
Contract liabilities	14	576	813
Borrowings	15	1,426	450
Lease liabilities	16	532	-
Income tax		326	572
Employee benefits	17	583	512
Total current liabilities		8,674	8,096
<b>Non-current liabilities</b>			
Lease liabilities	16	1,312	-
Deferred tax	18	1,583	1,475
Total non-current liabilities		2,895	1,475
<b>Total liabilities</b>		11,569	9,571
<b>Net assets</b>		17,851	11,767
<b>Equity</b>			
Issued capital	19	14,457	8,876
Reserves	20	751	690
Retained profits		2,643	2,201
<b>Total equity</b>		17,851	11,767

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

**Kip McGrath Education Centres Limited**  
**Statement of changes in equity**  
**For the year ended 30 June 2020**



<b>Consolidated</b>	<b>Issued capital \$'000</b>	<b>Reserves \$'000</b>	<b>Retained profits \$'000</b>	<b>Total equity \$'000</b>
Balance at 1 July 2018	8,838	655	1,125	10,618
Profit after income tax expense for the year	-	-	2,652	2,652
Other comprehensive income for the year, net of tax	-	(70)	-	(70)
Total comprehensive income for the year	-	(70)	2,652	2,582
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 19)	38	-	-	38
Share-based payments (note 20)	-	105	-	105
Dividends paid (note 21)	-	-	(1,576)	(1,576)
Balance at 30 June 2019	8,876	690	2,201	11,767
<b>Consolidated</b>	<b>Issued capital \$'000</b>	<b>Reserves \$'000</b>	<b>Retained profits \$'000</b>	<b>Total equity \$'000</b>
Balance at 1 July 2019	8,876	690	2,201	11,767
Profit after income tax expense for the year	-	-	1,573	1,573
Other comprehensive income for the year, net of tax	-	67	-	67
Total comprehensive income for the year	-	67	1,573	1,640
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 19)	5,581	-	-	5,581
Share-based payments (note 20)	-	(6)	-	(6)
Dividends paid (note 21)	-	-	(1,131)	(1,131)
Balance at 30 June 2020	14,457	751	2,643	17,851

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

	Note	Consolidated 2020 \$'000	2019 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST)		17,731	16,850
Payments to suppliers and employees (inclusive of GST)		(13,846)	(11,647)
		3,885	5,203
Government grants		472	-
Interest and other finance costs paid		(141)	(55)
Income taxes paid		(893)	(333)
Net cash from operating activities	31	3,323	4,815
<b>Cash flows from investing activities</b>			
Payments for plant and equipment		(170)	(367)
Payments for intangibles	11	(3,128)	(1,623)
Net cash used in investing activities		(3,298)	(1,990)
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares	19	5,927	38
Proceeds from borrowings		2,377	1,325
Share issue transaction costs		(346)	-
Dividends paid	21	(1,131)	(1,576)
Repayment of borrowings		(1,751)	(1,475)
Repayment of leases		(325)	-
Net cash from/(used in) financing activities		4,751	(1,688)
Net increase in cash and cash equivalents		4,776	1,137
Cash and cash equivalents at the beginning of the financial year		7,053	5,916
Cash and cash equivalents at the end of the financial year	8	11,829	7,053

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

## Note 1. Significant accounting policies

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

### New or amended Accounting Standards and Interpretations adopted

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

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

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

#### AASB 16 Leases

The consolidated entity has adopted AASB 16 from 1 July 2019. The standard replaces AASB 117 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

#### Impact of adoption

AASB 16 was adopted using the modified retrospective approach and as such the comparatives have not been restated. The impact of adoption on opening retained profits as at 1 July 2019 was nil as follows:

	1 July 2019 \$'000
Operating lease commitments as at 1 July 2019 (AASB 117)	1,291
Operating lease commitments discount based on the weighted average incremental borrowing rate of 5% (AASB 16)	(152)
Short-term leases not recognised as a right-of-use asset (AASB 16)	22
Lease extensions recognised under AASB 16	609
Leases not commencing until after 1 July 2019	(121)
Right-of-use assets (AASB 16)	<u>1,649</u>
Lease liabilities - current (AASB 16)	(1,163)
Lease liabilities - non-current (AASB 16)	<u>(486)</u>
Reduction in opening retained profits as at 1 July 2019	<u><u>-</u></u>

#### Practical expedients applied

In adopting AASB 16, the consolidated entity has used the following practical expedients permitted by the standard:

- applied a single discount rate to a portfolio of leases with reasonably similar characteristics;
- accounted for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases;
- excluded initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

## Note 1. Significant accounting policies (continued)

### *AASB 2020-4 Amendment to Australian Accounting Standards - COVID-19-Related Rent Concessions*

The consolidated entity has early adopted the amendment to AASB 16 from 1 July 2019. The amendment provides a practical expedient for lessees to account for COVID-19-related rent concessions that: result in lease payments that are substantially the same as, or less than, the consideration for the lease immediately prior to the change; where any reduction in the lease payments affects only payments originally due on or before 30 June 2021; and where there is no substantive change to other terms and conditions of the lease. The practical expedient allows an entity not to assess rent concessions meeting the criteria as a lease modification. As a result, to the extent that lease concessions represent a forgiveness or waiver of lease payments, such concessions are treated as variable lease payments recognised in profit or loss with a corresponding adjustment to the lease liability. To the extent that the lease concession in substance represents a delay in lease repayments such that lease consideration is not changed, the lease liability is not extinguished. Interest continues to accrue for that period. The consolidated entity has applied the practical expedient to all rent concessions that meet the abovementioned criteria and the profit or loss impact from the adoption of this amendment is detailed in note 6.

### *Interpretation 23 Uncertainty over Income Tax*

The consolidated entity has adopted Interpretation 23 from 1 July 2019. The interpretation clarifies how to apply the recognition and measurement requirements of AASB 112 'Income Taxes' in circumstances where uncertain tax treatments exists. The interpretation requires: the consolidated entity to determine whether each uncertain tax treatment should be treated separately or together, based on which approach better predicts the resolution of the uncertainty; the consolidated entity to consider whether it is probable that a taxation authority will accept an uncertain tax treatment; and if the consolidated entity concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it shall reflect the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates, measuring the tax uncertainty based on either the most likely amount or the expected value. In making the assessment it is assumed that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. Interpretation 23 was adopted using the modified retrospective approach and as such comparatives have not been restated. There was no impact of adoption on opening retained profits as at 1 July 2019.

### **Basis of preparation**

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

### *Historical cost convention*

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

### *Critical accounting estimates*

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

### **Parent entity information**

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 29.

### **Principles of consolidation**

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Kip McGrath Education Centres Limited ('company' or 'parent entity') as at 30 June 2020 and the results of all subsidiaries for the year then ended. Kip McGrath Education Centres Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

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

## Note 1. Significant accounting policies (continued)

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

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

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

### Operating segments

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

### Foreign currency translation

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

#### *Foreign currency transactions*

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

#### *Foreign operations*

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

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

### Revenue recognition

The consolidated entity recognises revenue as follows:

#### *Revenue from contracts with customers*

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

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



## Note 1. Significant accounting policies (continued)

### *Franchise fees*

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

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

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

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

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

### *Direct sales*

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

### *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**

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

## **Income tax**

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



## Note 1. Significant accounting policies (continued)

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- when the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- when the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

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

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

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

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

### Current and non-current classification

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

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

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

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

### Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the statement of cash flows presentation purposes, cash and cash equivalents also includes bank overdrafts, which are shown within borrowings in current liabilities on the statement of financial position.

## Note 1. Significant accounting policies (continued)

### Trade and other receivables

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

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

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

### Plant and equipment

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

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

### Right-of-use assets

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

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

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

### Intangible assets

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

#### *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.

## Note 1. Significant accounting policies (continued)

### *Other intangibles*

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

### **Impairment of non-financial assets**

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

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

### **Trade and other payables**

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

### **Contract liabilities**

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

### **Borrowings**

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

### **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.

The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred. Variable lease payments include rent concessions in the form of rent forgiveness or a waiver as a direct consequence of COVID-19 and which relate to payments originally due on or before 30 June 2021.

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

### **Finance costs**

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

### **Employee benefits**

#### *Short-term employee benefits*

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

## Note 1. Significant accounting policies (continued)

### *Other long-term employee benefits*

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

### *Defined contribution superannuation expense*

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

### *Share-based payments*

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

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

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

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

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

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

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

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

### **Fair value measurement**

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

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

## Note 1. Significant accounting policies (continued)

### Issued capital

Ordinary shares are classified as equity.

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

### Dividends

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

### Business combinations

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

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

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

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

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

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

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

### 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.



## Note 1. Significant accounting policies (continued)

### *Diluted earnings per share*

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

### **Goods and Services Tax ('GST') and other similar taxes**

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

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

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

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

### **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 2020. 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.

### *Conceptual Framework for Financial Reporting (Conceptual Framework)*

The revised Conceptual Framework is applicable to annual reporting periods beginning on or after 1 January 2020 and early adoption is permitted. The Conceptual Framework contains new definition and recognition criteria as well as new guidance on measurement that affects several Accounting Standards. Where the consolidated entity has relied on the existing framework in determining its accounting policies for transactions, events or conditions that are not otherwise dealt with under the Australian Accounting Standards, the consolidated entity may need to review such policies under the revised framework. At this time, the application of the Conceptual Framework is not expected to have a material impact on the consolidated entity's financial statements.

## Note 2. Critical accounting judgements, estimates and assumptions

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

### **COVID-19**

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

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

### *Intangible assets with indefinite life*

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

### *Finite life intangible assets*

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

### *Share-based payment transactions*

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

### *Determination of variable consideration for services transferred over time*

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

### *Allowance for expected credit losses*

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

### *Income tax*

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

### *Recovery of deferred tax assets*

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



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

### *Employee benefits provision*

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

### *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.

### *Lease term*

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

### *Incremental borrowing rate*

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

### *Management assumptions for lease extensions*

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

### *Management assumptions for non-lease components*

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

## Note 3. 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.

### Note 3. Operating segments (continued)

#### 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	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Australasia	8,083	6,825	14,742	11,974
United Kingdom and Europe	8,172	8,323	793	759
Overseas other	838	1,080	-	-
	<u>17,093</u>	<u>16,228</u>	<u>15,535</u>	<u>12,733</u>

### Note 4. Revenue

	Consolidated	
	2020 \$'000	2019 \$'000
<i>Revenue from contract with customers</i>		
Franchise fees	12,095	12,336
Sale of master territories and franchisee centres	585	1,010
National advertising contributions (NAC)	1,863	1,782
Direct sales	1,125	798
Student lessons	1,425	302
	<u>17,093</u>	<u>16,228</u>
<i>Other revenue</i>		
Other revenue	30	35
Revenue	<u>17,123</u>	<u>16,263</u>

#### Disaggregation of revenue

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

	Consolidated	
	2020 \$'000	2019 \$'000
<i>Timing of revenue recognition</i>		
Services and goods transferred at a point in time	16,743	15,829
Services transferred over time	350	399
	<u>17,093</u>	<u>16,228</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 3 - operating segments.

## Note 5. Other income

	Consolidated	
	2020	2019
	\$'000	\$'000
Government grants *	472	-
Other income from legal settlement	-	249
Other income	472	249

\* During the year the company received payments from the Australian Government amounting to \$50,000 and \$422,000 as part of its 'Boosting Cash Flow for Employers' and 'JobKeeper' schemes, respectively, in response to COVID-19. These non-tax amounts have been recognised as government grants and recognised as income once there is reasonable assurance that the company will comply with any conditions attached.

## Note 6. Expenses

	Consolidated	
	2020	2019
	\$'000	\$'000
Profit before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Plant and equipment	185	61
Land and buildings right-of-use assets	478	-
Total depreciation	663	61
<i>Amortisation</i>		
Product and overseas development costs	1,512	1,226
Other intangibles	485	306
Total amortisation	1,997	1,532
Total depreciation and amortisation	2,660	1,593
<i>Employee benefits</i>		
Employee benefits expense excluding superannuation	4,981	3,244
Defined contribution superannuation expense	535	357
Share-based payment expense	5	29
Total employee benefits	5,521	3,630
<i>Finance costs</i>		
Interest and finance charges paid/payable on borrowings from financial institutions	64	55
Interest and finance charges paid/payable on lease liabilities	77	-
Finance costs expensed	141	55
<i>Leases</i>		
Minimum lease payments	-	319
Variable lease payments - COVID-19 related rent concessions	23	-
	23	319

**Note 7. Income tax expense**

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Income tax expense</i>		
Current tax	662	839
Deferred tax - origination and reversal of temporary differences	3	68
Adjustment recognised for prior periods	169	-
Aggregate income tax expense	<u>834</u>	<u>907</u>
Deferred tax included in income tax expense comprises:		
Decrease/(increase) in deferred tax assets (note 12)	(105)	5
Increase in deferred tax liabilities (note 18)	108	63
Deferred tax - origination and reversal of temporary differences	<u>3</u>	<u>68</u>
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Profit before income tax expense	<u>2,407</u>	<u>3,559</u>
Tax at the statutory tax rate of 27.5%	662	979
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Other non-deductible expenses	(4)	-
Sundry items	<u>7</u>	<u>(72)</u>
Adjustment recognised for prior periods	<u>665</u>	<u>907</u>
Income tax expense	<u>169</u>	<u>-</u>
	<u>834</u>	<u>907</u>
	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Tax losses not recognised</i>		
Unused tax losses for which no deferred tax asset has been recognised	<u>1,269</u>	<u>1,269</u>
Potential tax benefit @ 26% (2019: 27.5%)	<u>330</u>	<u>349</u>

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

**Note 8. Cash and cash equivalents**

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Current assets</i>		
Cash at bank	7,817	2,471
Restricted cash	4,362	4,582
	<u>12,179</u>	<u>7,053</u>

*Reconciliation to cash and cash equivalents at the end of the financial year*

The above figures are reconciled to cash and cash equivalents at the end of the financial year as shown in the statement of cash flows as follows:

Balances as above	12,179	7,053
Bank overdraft (note 15)	(350)	-
Balance as per statement of cash flows	<u>11,829</u>	<u>7,053</u>

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

**Note 9. Trade and other receivables**

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Current assets</i>		
Trade receivables	492	653
Less: Allowance for expected credit losses	(169)	(110)
	<u>323</u>	<u>543</u>
Other receivables	<u>149</u>	<u>14</u>
	<u>472</u>	<u>557</u>
<i>Non-current assets</i>		
Other receivables	<u>140</u>	<u>199</u>

*Allowance for expected credit losses*

The consolidated entity has recognised a loss of \$93,000 (2019: \$76,000) in profit or loss in respect of expected credit losses for the year ended 30 June 2020. 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:

<b>Consolidated</b>	<b>Expected credit loss rate</b>		<b>Carrying amount</b>		<b>Allowance for expected credit losses</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
	<b>%</b>	<b>%</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Not overdue	1%	1%	338	448	3	4
0 to 3 months overdue	16%	15%	139	106	22	16
Over 3 months overdue	93%	91%	<u>155</u>	<u>99</u>	<u>144</u>	<u>90</u>
			<u>632</u>	<u>653</u>	<u>169</u>	<u>110</u>

#### Note 9. Trade and other receivables (continued)

The consolidated entity has increased its monitoring of debt recovery as there is an increased probability of franchisees and customers delaying payment or being unable to pay, due to COVID-19. As a result, the calculation of expected credit losses has been revised as at 30 June 2020 and rates have increased in each category up to 3 months overdue.

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

	Consolidated	
	2020 \$'000	2019 \$'000
Opening balance	110	68
Additional provisions recognised	93	76
Amounts recovered during the year	(34)	(34)
Closing balance	169	110

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

	Consolidated	
	2020 \$'000	2019 \$'000
<i>Non-current assets</i>		
Land and buildings - right-of-use	2,169	-
Less: Accumulated depreciation	(475)	-
	1,694	-

Additions to the right-of-use assets during the year were \$539,000.

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.

#### Note 11. Intangibles

	Consolidated	
	2020 \$'000	2019 \$'000
<i>Non-current assets</i>		
Intellectual property - at cost	4,012	4,012
Product and overseas development costs	11,201	9,373
Less: Accumulated amortisation	(5,519)	(4,008)
	5,682	5,365
Franchise and development territories	1,855	1,850
Other intangible assets - at cost	3,574	2,287
Less: Accumulated amortisation	(1,641)	(1,158)
	1,933	1,129
	13,482	12,356

## Note 11. Intangibles (continued)

### Reconciliations

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

Consolidated	Intellectual property \$'000	Product and overseas development costs \$'000	Franchise and development territories \$'000	Other intangibles \$'000	Total \$'000
Balance at 1 July 2018	4,012	5,402	1,837	1,001	12,252
Additions	-	1,189	-	434	1,623
Exchange differences	-	-	13	-	13
Amortisation expense	-	(1,226)	-	(306)	(1,532)
Balance at 30 June 2019	4,012	5,365	1,850	1,129	12,356
Additions	-	1,829	-	1,299	3,128
Exchange differences	-	-	5	(10)	(5)
Amortisation expense	-	(1,512)	-	(485)	(1,997)
Balance at 30 June 2020	4,012	5,682	1,855	1,933	13,482

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

### Impairment tests for indefinite life intangibles

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

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% (2019: 2.4%). There are no terminal values in the calculation.

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

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

- Pre-tax discount rate 14.7% (2019: 15.8%). 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 19% (2019: 16%) 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 2020 (2019: \$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 fall by 24% (2019: fall by 18%) before the CGU would be impaired, with all other assumptions remaining constant.



#### Note 11. Intangibles (continued)

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

	Consolidated 2020 \$'000	2019 \$'000
<i>Non-current assets</i>		
Deferred tax asset comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Allowance for expected credit losses	46	25
Unrealised foreign exchange movements	59	63
Contract liabilities	158	224
Employee benefits	166	140
Leases	39	-
Accrued expenses	79	40
QAX licence	120	139
Other items	69	-
Deferred tax asset	<u>736</u>	<u>631</u>
<i>Movements:</i>		
Opening balance	631	636
Credited/(charged) to profit or loss (note 7)	<u>105</u>	<u>(5)</u>
Closing balance	<u>736</u>	<u>631</u>

#### Note 13. Trade and other payables

	Consolidated 2020 \$'000	2019 \$'000
<i>Current liabilities</i>		
Trade payables	277	596
Amounts held on behalf of franchisees	3,944	4,410
GST and other similar payables	77	58
Other payables and accruals	<u>933</u>	<u>685</u>
	<u>5,231</u>	<u>5,749</u>

Refer to note 22 for further information on financial instruments.

#### Note 14. Contract liabilities

	Consolidated 2020 \$'000	2019 \$'000
<i>Current liabilities</i>		
Contract liabilities on franchise sales	<u>576</u>	<u>813</u>

#### Note 14. Contract liabilities (continued)

##### *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 \$576,000 as at 30 June 2020 (\$813,000 as at 30 June 2019) and is expected to be recognised as revenue in future periods as follows:

	Consolidated 2020 \$'000	2019 \$'000
Within 6 months	113	184
6 to 12 months	106	158
12 to 18 months	81	101
18 to 24 months	73	94
24 to 30 months	51	69
30 to 36 months	43	61
beyond 36 months	109	146
	<u>576</u>	<u>813</u>

#### Note 15. Borrowings

	Consolidated 2020 \$'000	2019 \$'000
<i>Current liabilities</i>		
Bank overdraft	350	-
Bank loans	<u>1,076</u>	<u>450</u>
	<u>1,426</u>	<u>450</u>

Refer to note 22 for further information on financial instruments.

Funds from additional GBP denominated borrowings were used to acquire area developer territories in the UK.

##### *Total secured liabilities*

The total secured liabilities are as follows:

	Consolidated 2020 \$'000	2019 \$'000
Bank overdraft	350	-
Bank loans	<u>1,076</u>	<u>450</u>
	<u>1,426</u>	<u>450</u>

##### *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.

## Note 15. Borrowings (continued)

### Financing arrangements

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

	Consolidated	
	2020 \$'000	2019 \$'000
Total facilities		
Bank overdraft	1,750	1,750
Bank loans	1,076	1,486
	<u>2,826</u>	<u>3,236</u>
Used at the reporting date		
Bank overdraft	350	-
Bank loans	1,076	450
	<u>1,426</u>	<u>450</u>
Unused at the reporting date		
Bank overdraft	1,400	1,750
Bank loans	-	1,036
	<u>1,400</u>	<u>2,786</u>

## Note 16. Lease liabilities

	Consolidated	
	2020 \$'000	2019 \$'000
<i>Current liabilities</i>		
Lease liability	<u>532</u>	<u>-</u>
<i>Non-current liabilities</i>		
Lease liability	<u>1,312</u>	<u>-</u>

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

## Note 17. Employee benefits

	Consolidated	
	2020 \$'000	2019 \$'000
<i>Current liabilities</i>		
Annual leave	312	236
Long service leave	271	276
	<u>583</u>	<u>512</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.

#### Note 17. Employee benefits (continued)

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

	Consolidated 2020 \$'000	Consolidated 2019 \$'000
Employee benefits	358	314

#### Note 18. Deferred tax

	Consolidated 2020 \$'000	Consolidated 2019 \$'000
<i>Non-current liabilities</i>		
Deferred tax liability comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Research and development costs	1,583	1,475
Deferred tax liability	1,583	1,475
<i>Movements:</i>		
Opening balance	1,475	1,412
Charged to profit or loss (note 7)	108	63
Closing balance	1,583	1,475

#### Note 19. Issued capital

	2020 Shares	Consolidated 2019 Shares	2020 \$'000	2019 \$'000
Ordinary shares - fully paid	51,819,331	45,234,331	14,457	8,876

#### Movements in ordinary share capital

Details	Date	Shares	Issue price	\$'000
Balance	1 July 2018	45,034,331		8,838
Conversion of options	25 June 2019	200,000	\$0.190	38
Balance	30 June 2019	45,234,331		8,876
Issue of shares	15 June 2020	6,585,000	\$0.900	5,927
Transaction costs		-	\$0.000	(346)
Balance	30 June 2020	51,819,331		14,457

#### 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 2019 Annual Report.

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

## Note 20. Reserves

	Consolidated	
	2020	2019
	\$'000	\$'000
Foreign currency reserve	(248)	(315)
Share-based payments reserve	245	251
Other reserves	754	754
	<u>751</u>	<u>690</u>

### *Foreign currency reserve*

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

### *Share-based payments reserve*

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

### *Other reserves*

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

## Note 20. Reserves (continued)

### Movements in reserves

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

Consolidated	Foreign currency \$'000	Share-based payments \$'000	Other \$'000	Total \$'000
Balance at 1 July 2018	(245)	146	754	655
Foreign currency translation	(70)	-	-	(70)
Share-based payments	-	105	-	105
Balance at 30 June 2019	(315)	251	754	690
Foreign currency translation	67	-	-	67
Share-based payments	-	(6)	-	(6)
Balance at 30 June 2020	(248)	245	754	751

## Note 21. Dividends

Dividends paid during the financial year were as follows:

	Consolidated 2020 \$'000	2019 \$'000
Final dividend for the year ended 30 June 2019 of 2.5 cents (2018: 2.0 cents) per ordinary share	1,131	901
Interim dividend for the year ended 30 June 2020 of nil cents (2019: 1.5 cents) per ordinary share	-	675
	1,131	1,576

On 25 August 2020, a final dividend for the year ended 30 June 2020 of 2.0 cents per ordinary share, 100% fully franked, was determined to be paid on 17 September 2020 to those shareholders on the register at 7p.m. on 3 September 2020. The total distribution will be \$1,036,385.

## 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.

## Note 22. Financial instruments (continued)

### Market risk

#### Foreign currency risk

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

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The consolidated entity presently does not hedge foreign exchange risks, 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	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
US dollars	117	28	-	-
Euros	1	4	-	-
Pound Sterling	3,819	4,476	2,484	2,577
New Zealand dollars	221	724	119	245
Singapore dollars	3	56	-	-
South African Rand	63	92	-	-
Kenyan Shilling	-	3	-	-
Hong Kong Dollars	5	3	-	-
	<u>4,229</u>	<u>5,386</u>	<u>2,603</u>	<u>2,822</u>

The consolidated entity had net assets denominated in foreign currencies of \$1,626,000 as at 30 June 2020 (assets \$4,229,000 less liabilities \$2,603,000) (2019: \$2,564,000 (assets \$5,386,000 less liabilities \$2,822,000)). Based on this net position, a 10% strengthening in the Australian dollar from 30 June 2020 levels may expose the consolidated entity to a \$163,000 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	2020		2019	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
Bank overdrafts and bank loans	3.02%	<u>1,426</u>	3.73%	<u>450</u>
Net exposure to cash flow interest rate risk		<u>1,426</u>		<u>450</u>



## Note 22. Financial instruments (continued)

The consolidated entity has net bank loans and borrowings outstanding, totalling \$1,426,000 (2019: \$450,000), which are principal and interest payment loans. Quarterly cash outlays of approximately \$129,000 (2019: \$38,000 per quarter) are required to service the debt. An official increase/decrease in interest rates of 100 (2019: 100) basis points would have an adverse/favourable effect on profit before tax of \$14,300 (2019: \$4,500) per annum. The percentage change is based on the expected volatility of interest rates using market data and analysis.

### Credit risk

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

The consolidated entity has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the consolidated entity based on recent sales experience, historical collection rates and forward-looking information that is available. As disclosed in note 9, due to COVID-19, the calculation of expected credit losses has been revised as at 30 June 2020 and rates have increased in each category up to 3 months overdue.

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

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

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

### Liquidity risk

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

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

### Financing arrangements

Unused borrowing facilities at the reporting date:

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Bank overdraft	1,400	1,750
Bank loans	-	1,036
	<u>1,400</u>	<u>2,786</u>

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

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

**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.

<b>Consolidated - 2020</b>	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	-	277	-	-	-	277
Other payables	-	4,954	-	-	-	4,954
<i>Interest-bearing - variable</i>						
Bank overdraft	2.68%	350	-	-	-	350
Bank loans	2.75%	1,076	-	-	-	1,076
Lease liability	3.80%	532	518	794	-	1,844
Total non-derivatives		7,189	518	794	-	8,501

<b>Consolidated - 2019</b>	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	-	596	-	-	-	596
Other payables	-	5,153	-	-	-	5,153
<i>Interest-bearing - fixed rate</i>						
Bank loans	3.73%	450	-	-	-	450
Total non-derivatives		6,199	-	-	-	6,199

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 \$1,426,000 (2019: \$450,000) 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:

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Short-term employee benefits	1,200,614	1,352,057
Post-employment benefits	97,698	106,569
Termination benefits	27,808	-
Share-based payments	3,807	21,333
	<u>1,329,927</u>	<u>1,479,959</u>

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

## Note 25. Remuneration of auditors

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

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
<i>Audit services - PKF Newcastle</i>		
Audit or review of the financial statements	<u>105,000</u>	<u>105,000</u>
<i>Other services - PKF Newcastle</i>		
Preparation of the tax return and other tax services	<u>21,770</u>	<u>14,285</u>
	<u>126,770</u>	<u>119,285</u>
<i>Other services - network firms</i>		
Preparation of the tax return (NZ)	<u>1,950</u>	<u>3,100</u>
<i>Audit services - unrelated firms</i>		
Audit or review of the financial statements	<u>11,482</u>	<u>10,878</u>
<i>Other services - unrelated firms</i>		
Payroll and tax services	<u>2,122</u>	<u>6,213</u>
	<u>13,604</u>	<u>17,091</u>

Fees of \$13,604 (2019: \$17,091) were paid to Hazlewoods LLP, who are the auditors of the UK subsidiary Kip McGrath Education United Kingdom Limited.

## Note 26. Contingent liabilities

There were no contingent liabilities at 30 June 2020.

The consolidated entity has entered into arrangements to provide a guarantee to the lessor of the head office premises amounting to \$58,000 (2019: \$58,000) and premises in Kotara of \$51,000 (2019: \$51,000).

## Note 27. Commitments

Consolidated	
2020	2019
\$'000	\$'000

### Capital commitments

Committed at the reporting date but not recognised as liability, payable:

Property, plant and equipment

Intangible assets

18	20
-	1,296

## Note 28. Related party transactions

### Parent entity

Kip McGrath Education Centres Limited is the parent entity.

### Subsidiaries

Interests in subsidiaries are set out in note 30.

### Key management personnel

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

### Transactions with related parties

During the year, \$nil (2019: \$3,650) was paid to 360 HR Pty Ltd, a related party to Diane Pass, for the reimbursement of externally acquired training materials.

### Receivable from and payable to related parties

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

### Loans to/from related parties

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

### Terms and conditions

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

## Note 29. Parent entity information

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

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

Parent	
2020	2019
\$'000	\$'000

Profit after income tax

222	769
-----	-----

Total comprehensive income

222	769
-----	-----

## Note 29. Parent entity information (continued)

### Statement of financial position

	Parent	
	2020 \$'000	2019 \$'000
Total current assets	8,343	1,947
Total assets	15,046	8,276
Total current liabilities	5,679	3,817
Total liabilities	7,336	5,225
Equity		
Issued capital	14,457	8,876
Foreign currency reserve	3	10
Share-based payments reserve	245	251
Accumulated losses	(6,995)	(6,086)
Total equity	7,710	3,051

### 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 2020 and 30 June 2019, except as disclosed in note 26.

### Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2020 and 30 June 2019.

### Significant accounting policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 1, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity.

## 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 1:

Name	Principal place of business / Country of incorporation	Ownership interest	
		2020 %	2019 %
Kip McGrath Education Australia Pty Ltd	Australia	100%	100%
Kip McGrath Global Pty Limited	Australia	100%	100%
Kip McGrath Direct Pty Ltd	Australia	100%	100%
Kip McGrath Education United Kingdom Ltd	United Kingdom	100%	100%
Kip McGrath Education New Zealand Limited	New Zealand	100%	100%

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

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Profit after income tax expense for the year	1,573	2,652
Adjustments for:		
Depreciation and amortisation	2,660	1,593
Share-based payments	(6)	105
Foreign exchange differences	72	(83)
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	144	(237)
Decrease/(increase) in deferred tax assets	(105)	160
Decrease/(increase) in prepayments	(193)	155
Increase/(decrease) in trade and other payables	(702)	137
Decrease in contract liabilities	(237)	(145)
Increase/(decrease) in provision for income tax	(62)	491
Increase/(decrease) in deferred tax liabilities	108	(77)
Increase in employee benefits	71	64
Net cash from operating activities	<u>3,323</u>	<u>4,815</u>

**Note 32. Changes in liabilities arising from financing activities**

<b>Consolidated</b>	<b>Bank loans</b>	<b>Lease liability</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Balance at 1 July 2018	600	-	600
Net cash used in financing activities	(150)	-	(150)
Balance at 30 June 2019	450	-	450
Net cash from/(used in) financing activities	626	(325)	301
Acquisition of plant and equipment by means of leases	-	539	539
Acquisition of leases - adoption of new standard	-	1,653	1,653
Rent - concessions	-	(23)	(23)
Balance at 30 June 2020	<u>1,076</u>	<u>1,844</u>	<u>2,920</u>

**Note 33. Earnings per share**

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Profit after income tax attributable to the owners of Kip McGrath Education Centres Limited	1,573	2,652
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	45,522,200	45,037,619
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares	2,500,000	2,862,740
Weighted average number of ordinary shares used in calculating diluted earnings per share	48,022,200	47,900,359
	<b>Cents</b>	<b>Cents</b>
Basic earnings per share	3.455	5.888
Diluted earnings per share	3.276	5.536

**Note 34. Share-based payments**

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

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

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

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

**2020**

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

**2019**

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



#### Note 34. Share-based payments (continued)

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

The weighted average share price was \$0.364 (2019: \$0.364).

The weighted average remaining contractual life of options outstanding at the end of the financial year was 1.35 years (2019: 1.59 years).

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were \$5,000 (2019: \$29,000).

#### Note 35. Events after the reporting period

The impact of the COVID-19 pandemic is ongoing for the consolidated entity up to 30 June 2020, With ongoing waves in a number of key markets, it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the relevant Governments, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

Apart from the dividend as disclosed in note 21, no other matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

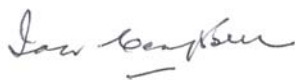
In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 30 June 2020 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

25 August 2020  
Newcastle

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KIP MCGRATH EDUCATION CENTRES LIMITED

## Report on the Financial Report

### Opinion

We have audited the accompanying financial report of Kip McGrath Education Centres Limited (the Company), which comprises the consolidated statement of financial position as at 30 June 2020, 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 2020 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 \$13.482m as at 30 June 2020.</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 FY21 budget approved by the Board by comparing the budget to FY20 actuals;</li> <li>○ the key assumptions for the future growth rate used in the model by comparing the average historical growth rates from FY18 to FY20 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>

## Key Audit Matters (cont'd)

### 2. Adoption of new accounting standard – AASB 16 Leases

#### Why significant

The Company adopted AASB 16 Leases with effect from 1 July 2019, which resulted in changes to the accounting policies. The Company has elected to use the modified retrospective approach and as such not to restate comparative information as permitted by the transitional provisions contained within AASB 16.

The impact of AASB 16 is a change in accounting policy for operating leases. This change in accounting policy results in Right-of-use Assets of \$1.649mil and Lease Liabilities of the same amount being recognized in the Statement of Financial Position at adoption date.

The net present value of the Right-of-use Assets and Lease Liabilities could vary depending on the estimates used in determining the lease make good provision, the lease term and the incremental borrowing rate. As a result, the judgements which have been applied and the estimates made in determining the impact of AASB 16, this area is considered a Key Audit Matter.

#### How our audit addressed the key audit matter

Our procedures included, but were not limited to, the following:

- obtained an understanding of the Company's adoption of AASB 16 and assessed the design and implementation of the key controls relating to the determination of the AASB 16 transition impact disclosure;
- we assessed the discount rates applied in determining the lease liabilities;
- we assessed the accuracy of the Right-of-use Asset and Lease Liabilities by testing the lease data captured by management for a sample of leases through the inspection of lease documentation both on the date of adoption as well as the reporting date;
- we assessed the lease term used and whether it is enforceable in accordance with AASB 16;
- considered the completeness of the lease data by testing the reconciliation of the Company's lease liability to operating lease commitments disclosed in the 2019 financial report and by considering if we had knowledge of any other contracts which may contain a lease;
- assessed the key judgements applied and estimates made by management; and
- determined if the disclosures made in the financial report pertaining to leases, including disclosures relating to the transition to AASB 16, were in compliance with AASBs.

## 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 2020, but does not include the financial report and our auditor's report thereon.

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

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

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

## Directors' Responsibilities for the Financial Report

The Directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error

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

## Auditor's Responsibilities for the Audit of the Financial Report

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

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the consolidated entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the consolidated entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the consolidated entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the consolidated entity to express an opinion on the group financial report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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 2020. In our opinion, the Remuneration Report of Kip McGrath Education Centres Limited for the year ended 30 June 2020, 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



CLAYTON HICKEY  
PARTNER

25 AUGUST 2020  
NEWCASTLE, NSW

The shareholder information set out below was applicable as at 31 July 2020.

#### Distribution of equitable securities

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

	Number of holders of ordinary shares	Number of holders of options over ordinary shares
1 to 1,000	338	-
1,001 to 5,000	818	-
5,001 to 10,000	265	-
10,001 to 100,000	243	-
100,001 and over	45	5
	<b>1,709</b>	<b>5</b>
Holding less than a marketable parcel	114	-

#### Equity security holders

*Twenty largest quoted equity security holders*

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

	Ordinary shares Number held	% of total shares issued
National Nominees Limited	10,367,157	20.01
Mr Kip McGrath	8,019,871	15.48
Storm Superannuation Fund Pty Ltd (Storm Super Fund A/C)	2,050,867	3.96
KMEC Superannuation Pty Ltd (KMEC Superannuation Fund A/C)	1,949,133	3.76
CS Third Nominees Pty Limited (HSBC Cust Nom AU Ltd 13 A/C)	1,791,738	3.46
Sandhurst Trustees Ltd (Endeavor Asset Mgmt MDA A/C)	1,766,608	3.41
J P Morgan Nominees Australia Pty Limited	1,456,260	2.81
Mr Storm Kip McGrath	1,102,731	2.13
Kip McGrath Investments Pty Ltd (McGrath Family A/C)	1,000,000	1.93
Sandhurst Trustees Ltd (Cyan C3G Fund A/C)	977,778	1.89
HSBC Custody Nominees (Australia) Limited - A/C 2	783,439	1.51
Rendina Pty Ltd (Rendina Super Fund A/C)	700,000	1.35
Mr Brian Stephan Sleigh	688,000	1.33
BNP Paribas Nominees Pty Ltd (IB AU Noms RetailClient DRP)	592,023	1.14
Mr Matthew Charles Peek	580,000	1.12
Emerald Shares Pty Limited (Emerald Unit A/C)	530,000	1.02
Ensi Street Superannuation Pty Ltd (Ensi Street Retirement A/C)	508,181	0.98
Hetale Pty Limited (Eagles Nest Retire Fund A/C)	500,000	0.96
Ms Snezana Bowden	410,000	0.79
HSBC Custody Nominees (Australia) Limited	380,999	0.74
	<b>36,154,785</b>	<b>69.78</b>

*Unquoted equity securities*

	Number on issue	Number of holders
--	--------------------	----------------------

Options over ordinary shares issued

2,500,000

5

**Substantial holders**

Substantial holders in the company are set out below:

	Ordinary shares Number held	% of total shares issued
National Nominees Limited	10,367,157	20.01
Mr Kip McGrath	8,019,871	15.48

**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.