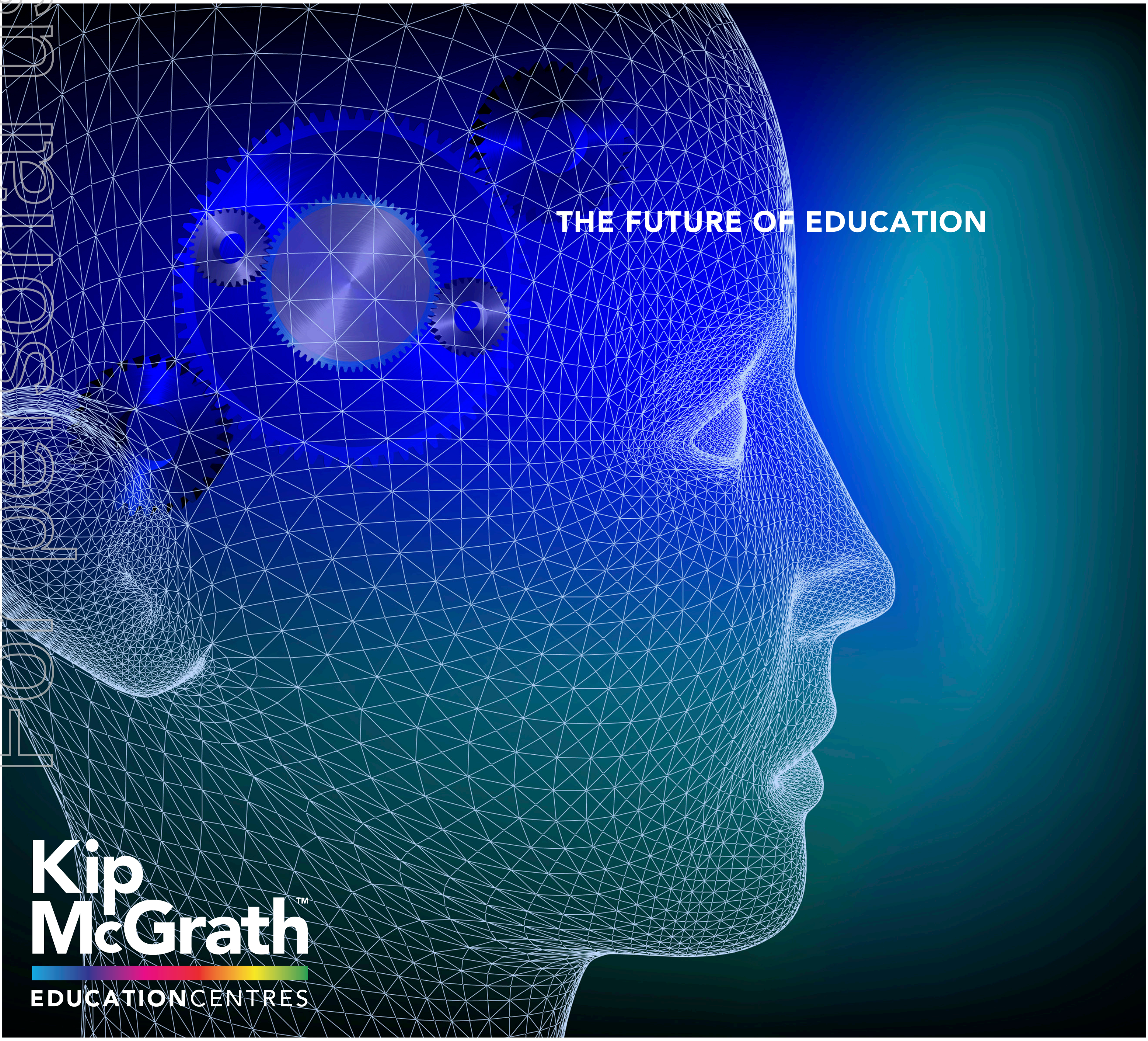
2010

ANNUAL REPORT

Kip McGrath Education Centres Limited

ABN 73 003 415 889



For personal use only

The Internet has been the most fundamental change during my lifetime and for hundreds of years. Someone the other day said, "It's the biggest thing since Gutenberg," and then someone else said "No, it's the biggest thing since the invention of writing."

Rupert Murdoch

the next gen-

For personal use only

For personal use only

contents

CHAIRMAN'S REPORT

For personal use only

Dear Shareholder

The 2010 result is disappointing and fails to meet our expectations of one year ago. While we achieved revenue growth in the core business in Australia and the UK, profitability has been eroded due to an increase of $0.2m in service costs of the restructured UK operation, compounded by an 18% slide in the £Stg against the Australian dollar of $0.3m. Settlement of a long-standing legal matter in Australia and a major debt write-back overseas also impacted profit before tax by a further $0.25m.

The MIBA business returned a loss similar to last year, but importantly, we believe value in the business has been increased by our year long positioning to gain re-registration and re-accreditation of this business with the Office of Higher Education, which we anticipate by October this year. The board is of the view that this highly regulated business requires financial and other resources from specialist providers to achieve its growth potential, and we plan to seek these in the next 12 months.

On a positive note, the board renewal programme was completed this year with the appointment of Ms Lindy Hyam and that process has brought fresh ideas and additional skills to the boardroom. We continued to progress the major initiatives referred to in the Managing Director's report which we forecast will underpin future performance and growth of the business. We remain confident that our strategy is right despite being constrained by both resources and appropriate caution, and that delivery on this strategy will affirm KMEC's position as a pioneer in its field.

My thanks to my fellow directors and all our employees in what has been a testing year. The next 12 months will again be a year of transition, but one which will see completion of all trial stages of our major initiatives. Improved results are anticipated the year after.

Glenn Turner,
Chairman
20 August 2010

For personal use only

MANAGING DIRECTOR'S REPORT

At Kip McGrath Education Centres Limited (KMEC) we are making investments in the business to ensure sustainability in times of rapid technical and social change. This will deliver increased value for our customers and shareholders.

Our Promise to Customers

"Any student can learn if they are taught at the right individual level by professional educators using quality resources in a fun and caring environment embracing technology for students' engagement."

To do this we need to provide our franchisees with ongoing development and enhancements to our franchise model. The business is currently developing three major initiatives.

These are:

1. The Online transformation and shared success franchise model

KMEC has always endeavoured to be at the forefront in technology. We are currently re-developing all of our tuition material and programs for web deployment. This not only includes the upgrade of all of the content but also a management tool for franchisees to run their business. Part of this transformation will be the introduction of a changed relationship including revised fee structure and agreement, which changes franchise fees from a largely fixed nature to a percentage of revenue basis. The management tool and the web enabled material and method will allow franchisees to grow their businesses beyond what they can achieve today as well as providing a more robust support system.

The key drivers leading to this investment are:

- The need to adapt the business in an increasingly digitised and web-connected world
- Existing and potential customer demand
- Capitalising on our existing community ie: the existing franchisee network (600 plus globally) as well as the student customer base (80,000 per week)

The move to online is being done taking a phased low risk approach to maximize the uptake and associated benefits by all Kip McGrath franchisees.

Phase 1 will develop an online SaaS (Software as a Service) student and centre management system for all franchisees. This application will enable franchisees and KMEC to monitor student and business performance and reporting worldwide. This application has been completed and will be rolled out in the last quarter of 2010. It will also form the administrative basis for Phase 2.

For personal use only

Phase 2 will deliver existing Kip McGrath materials online to the KMEC centres, to be used in traditional 'face to face' tutoring. Along with this superior method of online content delivery there will be additional online applications incorporated that will help franchisees run their business more efficiently. This will enable them to tutor more effectively and increase student numbers. Phase 2 is scheduled to be implemented in 2011.

Phase 3 will offer a complete online tutoring application that will allow KMEC franchisees (and KMEC) to offer tutoring services to those not in reach today. The online tutoring experience is being delivered to replicate the tried and tested Kip McGrath 'face to face' tutoring methodology and content. We believe this is what will make it different to existing online competitors. This phase is due for completion in 2012.

Once we have completed these phases the opportunities for tutoring more students and opening more education centres will be realised.

2. The full service franchise model

During the last six months a revised revenue model has been successfully trialled whereby franchisees pay a percentage of revenue in return for expanded service which includes:

- Marketing plan and placement of advertising
- Accounts payable and receivable
- Payroll
- Compliance

The model has proven to be successful for both the franchisee and KMEC and will be implemented for all new franchisees over the short to medium term.

3. MIBA re-accreditation

The McGrath Institute of Business is currently undergoing re-registration and re-accreditation with the Office of Higher Education Queensland. This has been a rigorous and comprehensive project with final submission expected to be completed in the next two months.

For personal use only

Other key achievements during the year were:

- The appointment of new territory Area Developers in Metropolitan Sydney, Western Australia, Victoria, Yorkshire, the Humber, the North and East Midlands England.
- The appointment of new Area Developers in existing territories for North West, South Central and South East England.
- An improved KMEC website has been launched with new features including: a postcode search function; google maps; a shop to sell products directly into the home; a fresh look and feel; a functioning content management system to make changes as we require; search engine optimisation; and many other new features. The website is attracting increased enquiries for franchise sales and free tuition assessments. (www.kipmcgrath.com.au)

I would like to thank all of the Master Franchisees, Area Developers, Franchisees and employees of Kip McGrath Education Centres for all their hard work and support over the year.

Storm McGrath
Managing Director
20 August 2010

For personal use only

The directors of Kip McGrath Education Centres Limited (the "company") submit herewith the annual financial report for the financial year ended 30 June 2010. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

The names and particulars of the directors of the company who held office during or since the end of the financial year are as follows. Directors were in office for the entire period unless otherwise stated:

Name and Qualification	***Age***	***Experience and Special Responsibilities***
Mr Glenn Turner Chairman Independent Non-Executive Director	62	***B Com, Fellow ASCPA, Fellow AICD, Companion IEA, Accredited Mediator & Arbitrator*** Director since 30 October 2007 Member of Audit Committee Chairman Remuneration Committee Glenn joined the Board in 2007 after a 30 year career in industry, the last 11 years as Managing Director of Ludowici Limited, a public Australian company. He is a Fellow of the Australian Society of Certified Practising Accountants, a Fellow of the Australian Institute of Company Directors and a Companion of the Institute of Engineers Australia. He is currently Deputy Chairman of Newcastle Innovation Ltd, the technology commercialisation company of the University of Newcastle, a Director of the Hunter Medical Research Institute (HMRI), Chairman of the HMRI Foundation and director or Chairman of a number of private companies.
Mr Storm McGrath Managing Director Chief Executive Officer	40	***MBA*** Director since 1997 Storm is responsible for recommending strategic direction, day-to-day operations, developing new centres and selling new franchises and master franchises. Director of McGrath Dynasty Pty Ltd.
Mr Kip McGrath Executive Director	64	Director since incorporation in 1987 As co-founder Kip has particular responsibility for strategic planning and developing "Train-the-Trainer" programs.
Mrs Dagnija McGrath Education Director	68	Director since incorporation in 1987 As co-founder Dagnija's strengths are in organisation and being able to envisage the use of technology in the teaching process. She has particular responsibility for the development of new curriculum for overseas markets.
Dr Michael Seamer Independent Non-Executive Director	48	***B Com (Hons)*** Director since 9 December 2004 Chairman of Audit Committee Member Remuneration Committee Michael has a PHD in accounting and finance, and lectures in accounting at the University of Newcastle. Ceased as Director 30 November 2009.
Mr Ian Campbell Independent Non-Executive Director	61	***FCA, MAICD*** Director since 25 August 2009 Chairman of Audit Committee Member Remuneration Committee Ian joined the Board after a 30 year career with the international accounting firm, Ernst & Young. He is a fellow of the Institute of Chartered Accountants Australia and a member of the Australian Institute of Company Directors. He is currently a Non-Executive Director of Redox Pty Ltd, a large chemical importer and distributor and is a consultant with the Board search practice at Talent2 Limited.

For personal use only

Name and Qualification	***Age***	***Experience and Special Responsibilities***
Ms Lindy Hyam Independent Non-Executive Director	57	***MBA, B.Ed, Dip Teach and FAICD*** Director since 1 December 2009 Lindy joined the Board with over 20 years experience in delivering educational services in Australia and in many countries overseas. From 2000 to 2005 Lindy was CEO and Director of IDP Education Australia Pty Ltd, at that time Australia's leading international education company. She was also CEO of IELTS Australia. At this time, Lindy was a Non-Executive Director for the Australia Education Office located in the Australian embassy in Washington DC.
Company secretary		
Ms Darlene Perks Company Secretary Chief Financial Officer	38	***B Bus, CPA*** Darlene is a Certified Practising Accountant, joined Kip McGrath Education Centres Limited in 2008 and has held the Company Secretary position since April 2008.

Corporate structure
Kip McGrath Education Centres Limited is a company limited by shares that is incorporated and domiciled in Australia. Kip McGrath Education Centres Limited has prepared a consolidated financial report incorporating the entities that it controlled during the financial year (refer note 23 to the financial statements).

The registered office of Kip McGrath Education Centres Limited is:

Level 3, 6 Newcomen Street
Newcastle NSW 2300

Nature of operations and principal activities
The principal activities of the company during the course of the financial year were the sale of franchises and providing services to franchisees in the education field. The company does this in Australia and overseas, principally in the United Kingdom and New Zealand. There were no significant changes in the nature of the activities of the company during the year.

Review of operations
The Directors report that operating profit for the Group was $361,556 in the current financial year (2009: profit of $3,292,005). Please refer to the Managing Director's Report for a full review of Business Operations.

Significant events after the balance date
The Directors report that there were no significant events after the balance date.

Future developments
Other than as disclosed in the Managing Director's Report, additional information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations would, in the opinion of the directors, be likely to result in unreasonable prejudice to the consolidated entity.

Environmental regulations and performance
The company's operations are not regulated by any significant environmental regulations under the laws of the Commonwealth, State or Territory.

Dividends
There were no dividends declared for the financial year ended 30 June 2010.

Shares issued on the exercise of options
No ordinary shares of Kip McGrath Education Centres Limited were issued during or since the year ended 30 June 2010 pursuant to the exercise of options granted under the Directors Share Option Plan.

For personal use only

Directors' shareholdings and shares under options

The relevant interest of each director in the shares, and rights or options over such instruments issued by the company, as notified by the directors to the Australian Stock Exchange in accordance with s205G(1) of the Corporations Act 2001, as at 30 June 2010 is as follows:

Directors	Ordinary Shares	Options over Ordinary Shares	Exercise Price $	Grant Date	Expiry Date
Mrs D McGrath	4,293,320	-	-	-	-
Mr K McGrath	5,266,320	-	-	-	-
Mr S McGrath	655,320	50,000	2.50	7/11/05*	7/11/10
Mr S McGrath	-	50,000	3.50	7/11/05*	7/11/10
Mr G Turner	214,000	-	-	-	-
Mr I Campbell	113,745	-	-	-	-
Ms L Hyam	30,000	-	-	-	-
	10,572,705	100,000			

* Conditional to the 100,000 options granted in December 2005 being exercised is the requirement for the consolidated entity to achieve an annual profit before tax of $2,000,000.

The holders of the options do not have the right, by virtue of the option, to participate in any share issue or interest issue of the company or of any other body corporate or registered scheme.

Meetings of directors

The number of meetings of the company's board of directors and each board committee held during the year ended 30 June 2010, and the number of meetings attended by each director, whilst they were a director, were:

	Board Meetings		Audit Committee		Remuneration	
Director	Held	Attended	Held	Attended	Held	Attended
Mr K McGrath	11	10	**	**	**	**
Mr S McGrath	11	11	3 *	3 *	**	**
Mrs D McGrath	11	11	**	**	**	**
Dr M Seamer (leave of absence)	-	-	3	-	**	**
Mr G Turner	11	10	3	3	2	2
Mr I Campbell	10	10	3	3	2	2
Ms L Hyam	6	5	**	**	**	**

* = Not a member of the relevant committee but invited to attend as a management representative
** = Not a member of the relevant committee

Indemnification of officers and auditors

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of any information to gain advantage for themselves or someone else or to cause detriment to the company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

Rounding off of amounts

The Company is an entity to which ASIC Class Order 98/100 applies. Accordingly, amounts in the financial statements and Directors' Report have been rounded to the nearest thousand dollars.

For personal use only

Remuneration report
Please refer to Note 26 in the notes to the financial statements.

This report describes the remuneration arrangements for directors and executives of the company.

One of the committees of the board is the remuneration committee whose role is described in the Corporate Governance Statement following this report. This Corporate Governance Statement was developed during the 2004 year and was amended in the 2007 year. There were two meetings of the committee held during the year. 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 Managing Director. The committee also assists the Managing Director in the remuneration review of senior executives.

(a) Principles used to determine the nature and amount of remuneration

Non-Executive Directors
Fees and payments to non-executive directors reflect the responsibilities of, and the demands made upon the directors. Non-executive directors' fees and payments are reviewed by the committee and recommended to the board if changes are required. The total remuneration for all non-executive directors is not to exceed $200,000 pa.

Managing Director
The remuneration package of the Managing Director is set by the remuneration committee, and approved by the board. In addition to the Managing Directors' fixed salary (inclusive of superannuation) the remuneration package contains both short term and long term incentive amounts which are determined by performance against targets set in advance (refer (c)). These targets are reviewed annually by the committee. The targets are currently focussed on the company's financial performance, measured by annual after-tax profit. No equity based remuneration has been received by the Managing Director in the year ended 30 June 2010.

Executives
The remuneration packages of executives, including proportions linked to performance targets for their areas of specific responsibility, and the company overall, are set by the Managing Director and are reviewed in consultation with the Chairman.

The objective of the company's executive reward framework is to ensure reward for performance is competitive with other employers and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms to market practice for delivery of reward.

The framework provides a mix of fixed pay and short-term incentives (refer (c)). Base pay is reviewed annually to ensure the executive's pay is competitive with the market. Pay is also reviewed on promotion.

(b) Details of remuneration
Details of the remuneration of the directors and the key management personnel (as defined in AASB 124 Related Party Disclosures) of Kip McGrath Education Centres Limited and the consolidated entity are set out in note 26 in the notes to the financial statements.

For personal use only

Remuneration report (cont'd)

(c) Service agreements

Specific performance linked remuneration structures as detailed in the Executive Share Agreement are as follows:

Mr S McGrath

Mr S McGrath is entitled to a short term incentive payment of up to 7.5% of the company's above budget after-tax profit.

He is also entitled to a long term incentive sum paid as options. It is expected that the option plan to permit this will be presented to shareholders for approval at the 2010 AGM.

The board considers that a performance-linked remuneration structure is generating the desired outcome.

Non-executive Directors

Directors' base fees are presently up to $200,000 per annum. Directors' fees cover all main board activities and membership of committees.

The tables in Note 26 in the notes to the financial statements provide details of all directors of the company and the consolidated entity and the executives of the entity and the consolidated entity and the nature and amount of the elements of their remuneration for the year ended 30 June 2010 with comparatives for the year ended 30 June 2009.

(d) Share-based compensation

Options

Options are granted under the Kip McGrath Education Centres Limited Director Share Option Plan (DSOP) which was approved by shareholders at the 19 June 2003 members meeting. The exercise price of the options is determined in accordance with the rules of the DSOP plan.

Options are granted under the plan for no consideration. Options are granted for a five year period.

The terms and conditions of each grant of options affecting remuneration in the previous, this or future reporting periods are as follows:

Grant date	Expiry date	Exercise price	Value per option at grant date	Date exercisable
7 November 2005	7 November 2010	$2.50	$0.22	On or after 7 November 2005 *
7 November 2005	7 November 2010	$3.50	$0.13	On or after 7 November 2005 *

* Conditional to these options being exercised is the requirement for the consolidated entity to achieve an annual profit before tax of $2,000,000.

Options granted under the plan carry no dividend or voting rights.

When exercisable, each option is convertible into one ordinary share.

Fair values at grant date are independently determined using either a Black-Scholes option pricing model or a Binomial option pricing model as deemed appropriate by an independent valuer. These models take 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.

The model inputs for options granted during the year ended 30 June 2006 included:

(a) options are granted for no consideration
(b) exercise prices: $2.50 and $3.50
(c) grant date: 7 November 2005
(d) expiry date: 7 November 2010
(e) share price at grant date: $1.44
(f) expected price volatility of the company's shares: decreasing volatility commencing at 50% pa and trending down to 30% pa.
(g) expected dividend yield: 4.0%
(h) risk-free interest rate: 5.41%

Shares provided on exercise of remuneration options

No remuneration options were exercised during the year.

Interests in contracts or proposed contracts with the company

With the exception of those disclosed in note 27 Related Parties in the notes to the financial statements, no director has during or since the end of the financial year had any interest in a contract or proposed contract with the company being an interest, the nature of which has been declared in accordance with section 300(11)(d) of the Corporations Act 2001.

For personal use only

Corporate governance report
The directors of Kip McGrath Education Centres Limited support the ASX Principles of Corporate Governance. The company's Corporate Governance Statement follows this Directors' Report.

Proceedings on behalf of the company
A claim made in 2004 against the company and a director, alleging misleading and deceptive conduct was settled on 18 February 2010. A confidential deed of release has been signed by both parties. The settlement was fully expensed in the current financial year.

Non-audit services
The company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the company is beneficial.

In these events the board of directors will consider the position and seek advice from the audit committee that it is satisfied that the provision of the non-audit services are compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors will wish to be satisfied that the provision of non-audit services by the auditor, will not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- All non-audit services will have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- None of the services will undermine the general principles relating to auditor's independence as set out in APES 110 "Code of Ethics for Professional Accountants".

A copy of the auditor's declaration of independence as required under section 307C of the Corporations Act is set out on page 20.

Details of the amounts paid to the auditor of the company, Forsythes, and its related practices for audit and non-audit services provided during the period are set out in Note 4 in the notes to the financial statements. In addition, amounts paid to other auditors for the statutory audit have been disclosed.

Auditor's independence declaration
The auditor's independence declaration is included on page 20 of the financial report.

Auditor
Forsythes continues in office in accordance with section 327 of the Corporations Act 2001.

Signed in accordance with a resolution of the directors made pursuant to section 298(2) of the Corporations Act

On behalf of the Directors

....
Glenn Turner
Chairman

....
Storm McGrath
Director

Newcastle,
20 August 2010

CORPORATE GOVERNANCE **STATEMENT**

For personal use only

The directors of Kip McGrath Education Centres Limited are committed to upholding the recommended standards of corporate governance. The following statement outlines the company's main corporate governance practices that were in place throughout the financial year. These practices are discussed in relation to their compliance with the ASX Corporate Governance Council's Principles and Recommendations (2nd Edition) of August 2007.

Principle 1: Lay solid foundations for management and oversight

Recommendation 1.1: **Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.**

The board has adopted a charter setting out its roles and responsibilities. In addition, the company's Corporate Governance Code (adopted on 29 May 2007) formalises the role, powers and responsibilities of the board. The Managing Director and Chief Financial Officer are employed pursuant to engagement agreements.

Role of the board

The board's primary role is the protection and enhancement of long-term shareholder value. To fulfil this role the board has established a framework for the strategic management of the company which includes a system of internal control and management information systems, a business risk management process and the establishment of appropriate ethical standards for directors and employees.

Board processes

The board is assisted in carrying out its responsibilities by the Audit, Risk and Compliance committee and the Remuneration committee. These committees have written mandates and operating procedures which are reviewed regularly. The board has delegated responsibility for operation and administration of the company to the Managing Director and executive management who report directly to the board.

For personal use only

Board processes (cont'd)

The full board schedules twelve meetings per year, plus strategy meetings at such other times as required. The agenda for meetings is prepared in conjunction with the Chairman, Chief Financial Officer and the Managing Director, with submissions circulated in advance. Standing items include the monthly financial statements and Managing Directors' report.

Director education and access to independent advice

The company has implemented induction procedures to ensure new directors are educated about the nature of the business, corporate strategy and the expectations of the company concerning performance of directors.

Each director has the right to access all relevant company information and may, subject to prior consultation with the board, seek independent professional advice from a suitably qualified adviser at the company's expense.

***Recommendation 1.2*: Content of a director's letter upon appointment.**

New Director's receive a formal letter of appointment along with an induction pack.

The contents of the letter and induction pack contain sufficient information to allow the new Director to gain an understanding of:

- Kip McGrath Education Centres Limited's financial, strategic, operational and risk management position;
- The rights, duties and responsibilities of Directors;
- The roles and responsibilities of the Executive Team; and
- The role of Board Committees.

***Recommendation 1.3*: Companies should disclose the process for evaluating the performance of senior executives.**

The performance of the Managing Director is reviewed annually by the remuneration committee. Details of the composition and operation of the remuneration committee is disclosed elsewhere in this statement. The performance of other senior executives is reviewed at least annually by the Managing Director.

For personal use only

Principle 2: Structure the board to add value

***Recommendation 2.1*: A majority of the board should be independent directors.**

The board currently consists of three executive directors (including the Managing Director) and three non executive directors, all of whom are considered independent directors. Apart from emoluments paid in their capacity as directors and shareholdings disclosed in the Directors' Report no non-executive director had any other dealings with the company either during, or since, the end of the financial year.

The composition of the board is structured to ensure that the board has the appropriate mix of expertise and experience. When a vacancy exists, through whatever cause, or where it is considered that the board would benefit from the services of a new director with particular skills, a suitable candidate is appointed by the board subject to their standing for election at the next general meeting of shareholders.

***Recommendation 2.2:* The chair should be an independent director.**

Mr Glenn Turner was elected to chair the board on 10 November 2008.

***Recommendation* 2.3: The roles of chair and chief executive officer should not be exercised by the same individual.**

The roles of the Chairman and Chief Executive Officer are separate.

***Recommendation* 2.4: The board should establish a nomination committee.**

Given the size of the company the board does not consider it necessary to constitute a separate nominations committee. Nomination of directors is agreed to by the full board.

***Recommendation* 2.5: Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.**

The board annually reviews the performance of the board, its committees and its members. The performance of the Managing Director is reviewed annually by the remuneration committee. The Managing Director and the board review the performance of senior managers.

For personal use only

Principle 3: Promote ethical and responsible decision making

Recommendation 3.1: **Companies should establish a code of conduct and disclose the code, or a summary of the code, as to:**

- the practices necessary to maintain confidence in the company's integrity
- the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders.
- the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

The company expects all its employees (including the board) to display appropriate ethical conduct. These expectations were formalized with the adoption of a written code of conduct, applicable to all employees and directors, by the board on 29 May 2007. The code of conduct provides a framework of ethical principles for conducting business and dealing with customers, employees and other stakeholders. The code sets out the responsibilities of employees to the company and requires employees to avoid conflicts of interest, the misuse of company property and the acceptance or offering of inappropriate gifts. The code also contains requirements for the reporting of breaches of the code and protection of employees reporting such breaches.

Recommendation **3.2: Companies should establish a policy concerning trading in company securities by directors, senior executives and employees and disclose the policy or a summary of that policy.**

Employees are permitted to trade in securities of the company subject to applicable statutory restrictions but at no time may they trade shares when in possession of information not disclosed to the market.

Directors and senior management employees are restricted when trading in the company's securities by the company's Code of Practice Buying and Selling Securities, which was formally adopted by the board on 29 May 2007. Under the Code directors and senior executive employees are prohibited from dealing in the company's shares when in possession of unpublished price sensitive information regarding the company or during "closed periods". A closed period is the period from the full-year or half-year reporting date to the announcement date of the full-year or half-year results, and other periods declared by the Chairman.

For personal use only

Principle 4: Safeguard integrity in financial reporting.

***Recommendation* 4.1: The board should establish an audit committee.**

The board has established an audit committee.

***Recommendation* 4.2: The audit committee should be structured so that it:**

- consists only of non-executive directors;
- consists of a majority of independent directors;
- is chaired by an independent chair, who is not chair of the board; and
- has at least three members.

The committee consists entirely of independent directors, Mr Ian Campbell and Mr Glenn Turner. The chairperson, Mr Ian Campbell, is not board chair. While the committee consists of less than the three recommended members, the board is satisfied the experience of the two independent members makes for an effective committee.

***Recommendation* 4.3: The audit committee should have a formal charter.**

The board has established the Audit, Risk and Compliance committee under formal charter.

The responsibilities of the committee include:

- Reviewing the annual and half-year financial reports and other financial information distributed externally.
- Approving new accounting policies to ensure compliance with International Financial Reporting Standards.
- Advising on the establishment and maintenance of a framework of internal control and to insure that the company has an effective risk management system in order for risks to be identified and managed effectively.
- Reviewing the independence of the external auditors and advising the board on the appropriateness of any non-audit services provided by the external auditor.

The external auditors, the Managing Director and/or the Chief Financial Officer, are invited to meetings at the discretion of the committee.

For personal use only

Principle 5: Make timely and balanced disclosure

***Recommendation* 5.1: Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at senior executive level for that compliance and disclose those policies or a summary of those policies.**

The company is committed to complying with the continuous disclosure obligations of the Corporations Act 2001 and the listing rules of the Australian Securities Exchange (ASX). A formal continuous disclosure policy was adopted by the board on 29 May 2007.

The company follows a program of half yearly disclosures to the market on financial and operational results and has established policies and procedures to ensure that a wide audience of investors has access to information given to ASX for market release. Media releases, half yearly financial reports and AGM addresses are lodged with ASX and, upon confirmation of receipt by ASX, are posted to the company's website.

Principle 6: Respect the rights of shareholders

***Recommendation* 6.1: Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.**

The company recognises the right of shareholders to be informed of matters which affect their investment in the company. The company maintains a website which displays corporate governance, financial and operational information.

The board is committed to frequent and relevant communication with shareholders. Shareholders are given a reasonable opportunity to ask questions of the board at general meetings. The external auditor is available at such meetings to answer questions from shareholders on matters relating to the audit of the company's financial statements.

For personal use only

Principle 7: Recognise and manage risk

***Recommendation* 7.1: Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.**

The company has established policies for the oversight and management of material business risks, which are covered under recommendation 7.2.

***Recommendation* 7.2: The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.**

Internal control framework

The board is of the opinion that the size of the company does not warrant the appointment of an internal auditor. To assist in discharging its responsibility, the board has instigated an internal control framework which includes:

Financial reporting

There is a comprehensive budgeting system with an annual budget approved by the directors. Monthly actual results are reported against budget and revised forecasts for the year are prepared regularly.

Business risks

The board receives monthly reports on major risks affecting the company and requires management to develop strategies to mitigate these risks. Major business risks may arise from such matters as action by competitors, government policy changes and changes in foreign exchange rates. Other risks include event risks (where an event occurring in a Kip McGrath centre which may not be under the direct control of the company, could impact on the brand) and system failure. A comprehensive IT risk management system is in place.

The managing director reports to the board on the effectiveness of the company's risk management as a standing item in the monthly Managing Director's report to the board.

For personal use only

***Recommendation* 7.3: The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.**

The board requires the Managing Director and Chief Financial Officer to state in writing to it that the company's financial reports represent a true and fair view, in all material respects, of the company's financial condition and operational results in accordance with the relevant accounting standards and are founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

Principle 8: Remunerate fairly and responsibly

***Recommendation* 8.1: The board should establish a remuneration committee.**

The company has established a remuneration committee comprising the following members, both of whom are independent directors: Mr Ian Campbell and Mr Glenn Turner (Committee Chair).

***Recommendation* 8.2 Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.**

The remuneration committee reviews remuneration packages and policies applicable to the Managing director 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 Managing Director 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.

Forsythes

For personal use only

AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF KIP MCGRATH EDUCATION CENTRES LIMITED

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Kip McGrath Education Centres Limited.

As lead audit partner for the audit of Kip McGrath Education Centres Limited financial statements for the year ended 30 June 2010, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

i. the independence requirements of the Corporations Act 2001 in relation to the audit; and

ii. any applicable code of professional conduct in relation to the audit.

Forsythes

FORSYTHES

MJ Matthews

MJ Matthews
Partner
Chartered Accountants
Newcastle, 20 August 2010

Accounting - Assurance & Risk - Corporate Advisory - Financial Planning - Forensic Accounting - IT & Training - Recruitment

Levels 4/5, Hunter Mall Chambers, 175 Scott Street (PO Box 705) DX 7919 Newcastle NSW 2300 Australia

Telephone 02 4926 2699 Facsimile (02) 4929 1435 Website www.forsythes.com.au Email forsythes@forsythes.com.au

Liability limited by a scheme approved under Professional Standards Legislation, other than for the acts or omissions of financial services licencees

MEMBER OF NEXIA INTERNATIONAL - A WORLDWIDE NETWORK OF INDEPENDENT ACCOUNTING AND CONSULTING FIRMS

NEXIA INTERNATIONAL

For personal use only

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

We have audited the accompanying financial report of Kip McGrath Education Centres Limited, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of 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.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Levels 4/5, Hunter Mall Chambers, 175 Scott Street (PO Box 705) DX 7919 Newcastle NSW 2300 Australia
Telephone 02 4926 2699 Facsimile (02) 4929 1435 Website www.forsythes.com.au Email forsythes@forsythes.com.au

Liability limited by a scheme approved under Professional Standards Legislation, other than for the acts or omissions of financial services licencees
MEMBER OF NEXIA INTERNATIONAL - A WORLDWIDE NETWORK OF INDEPENDENT ACCOUNTING AND CONSULTING FIRMS
NEXIA INTERNATIONAL

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

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

Auditor's opinion

In our opinion:

(a) the financial report of Kip McGrath Education Centres Limited is in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the remuneration report

We have audited the remuneration report included in the directors' report for the year ended 30 June 2010. 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.

Auditor's opinion

In our opinion the remuneration report of Kip McGrath Education Centres Limited for the year ended 30 June 2010, complies with section 300A of the Corporations Act 2001.

Forsythes

FORSYTHES

MJ Matthews
Partner
Chartered Accountants
Newcastle, 20 August 2010

For personal use only

For personal use only

DIRECTOR'S DECLARATION

The directors declare that:

(a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

(b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity; and

(c) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board; and

(d) the directors have been given the declarations required by s.295A of the Corporations Act 2001.

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

On behalf of the Directors

....
Glenn Turner
Chairman

....
Storm McGrath
Director

Newcastle,
20 August 2010

For personal use only

CONSOLIDATED STATEMENT OF **COMPREHENSIVE INCOME**

FOR THE FINACIAL YEAR ENDED 30 JUNE 2010

	Note	2010 $'000	2009 $'000
Revenue		6,141	6,365
Other income		54	13
	2a	6,195	6,378
Cost of sales		(592)	(420)
Gross Profit		5,603	5,958
Employee expenses		(2,432)	(2,493)
Depreciation and amortisation expenses	2b	(256)	(183)
Borrowing expenses	2b	(256)	(313)
Marketing expenses		(127)	(211)
Administration expenses		(1,364)	(1,087)
Merchandising expenses		(469)	(353)
Other expenses		(96)	(11)
Total expenses		(5,000)	(4,651)
Profit before income tax expense		603	1,307
Income tax (expense)/benefit	3a	(241)	1,985
Net profit for the period		362	3,292
Other comprehensive income			
Exchange differences arising on translation of foreign operations		(88)	(5)
Other comprehensive income (net of tax)		(88)	(5)
Total comprehensive income		274	3,287
Profit attributable to:			
Owners of the parent (members)		362	3,369
Non-controlling interests		-	(77)
		362	3,292
Total comprehensive income attributable to:			
Owners of the parent (members)		274	3,364
Non-controlling interests		-	(77)
		274	3,287
Earnings per share			
Basic (cents per share)	18	1.8	17.0
Diluted (cents per share)	18	1.8	17.0

NOTES TO THE FINANCIAL STATEMENTS ARE INCLUDED ON PAGES 28 TO 70

CONSOLIDATED STATEMENT OF **FINANCIAL POSITION**

AS AT 30 JUNE 2010

	Note	2010 $'000	2009 $'000
Current assets			
Cash and cash equivalents	29a	731	823
Trade and other receivables	5	523	595
Inventories	6	171	280
Other current assets	7	105	131
Current tax assets	3c	14	82
Total current assets		1,544	1,911
Non-current assets			
Trade and other receivables	8	16	23
Property plant and equipment	9	398	480
Intangible assets	10	10,551	9,772
Deferred tax assets	3d	1,839	1,771
Total non-current assets		12,804	12,046
Total assets		**14,348**	13,957
Current liabilities			
Trade and other payables	11	738	539
Borrowings	12	824	770
Provisions	13	180	158
Total current liabilities		1,742	1,467
Non-current liabilities			
Deferred tax liabilities	3d	989	749
Borrowings	14	3,232	3,210
Provisions	15	12	36
Total non-current liabilities		4,233	3,995
Total liabilities		**5,975**	5,462
Net assets		**8,373**	8,495
Equity			
Issued capital	16	6,829	6,829
Reserves		661	749
Retained earnings	17	883	917
Equity attributable to owners of the parent		8,373	8,495
Non-controlling interest		-	-
Total equity		**8,373**	8,495

NOTES TO THE FINANCIAL STATEMENTS ARE INCLUDED ON PAGES 28 TO 70

For personal use only

CONSOLIDATED STATEMENT OF **CHANGES IN EQUITY**

FOR THE FINACIAL YEAR ENDED 30 JUNE 2010

	Note	Share capital $'000	Reserves $'000	Retained earnings/ (losses) $'000	Attributable to equity holders of the parent $'000	Minority interest $'000	Total equity $'000
Balance at 1 July 2008		6,829	-	(2,452)	4,377	723	5,100
Transfer from OEI to Reserves		-	754	-	754	(646)	108
Profit for the year		-	-	3,369	3,369	(77)	3,292
Movement in FCTR		-	(5)	-	(5)	-	(5)
Dividends paid	19	-	-	-	-	-	-
Balance at 30 June 2009		6,829	749	917	8,495	-	8,495
Profit for the year		-	-	362	362	-	362
Movement in FCTR		-	(88)	-	(88)	-	(88)
Dividends paid	19	-	-	(396)	(396)	-	(396)
Balance at 30 June 2010		6,829	661	883	8,373	-	8,373

NOTES TO THE FINANCIAL STATEMENTS ARE INCLUDED ON PAGES 28 TO 70

For personal use only

CONSOLIDATED STATEMENT OF **CASH FLOWS**

FOR THE FINACIAL YEAR ENDED 30 JUNE 2010

For personal use only

	Note	2010 $'000	2009 $'000
Cash flows from operating activities			
Receipts from customers		8,335	6,803
Payments to suppliers and employees		(6,736)	(5,119)
Interest received		7	10
Interest and other costs of finance paid		(253)	(306)
Income tax (paid)/refunded		-	106
Net cash provided by operating activities	29b	1,353	1,494
Cash flows from investing activities			
Payment for investments in controlled entities		-	(433)
Proceeds from resale of territories		-	53
Payments for franchise territories		-	(15)
Proceeds from sale of property, plant & equipment		-	20
Payments for property, plant & equipment		(149)	(66)
Payment for intangible assets		(877)	(299)
Net cash used in investing activities		(1,026)	(740)
Cash flows from financing activities			
(Repayment of)/proceeds from borrowings		(103)	23
Proceeds from/(repayment of) borrowings - NAB facility		100	(475)
Repayment of borrowings - convertible notes		-	(150)
Repayment of other borrowings & non current payables		-	(49)
Dividends paid		(396)	-
Net cash used in financing activities		(399)	(651)
Net (decrease)/increase in cash and cash equivalents		(72)	103
Cash and cash equivalents at the beginning of the financial year		823	722
Effects of exchange rate changes on the balance sheet of cash held in foreign currencies		(20)	(2)
Cash and cash equivalents at the end of the financial year	29a	**731**	823

NOTES TO THE FINANCIAL STATEMENTS ARE INCLUDED ON PAGES 28 TO 70

For personal use only

1 Significant accounting policies

Statement of compliance

The financial report is a general purpose report which has been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards and Interpretations, and complies with other requirements of the law. The financial report comprises the consolidated financial statements of the Group. Accounting Standards include Australian equivalents to International Financial Reporting Standards (A-IFRS). Compliance with A-IFRS ensures the financial statements and notes of the company and the Group comply with International Financial Reporting Standards (IFRS).

The financial statements were authorised for issue by the directors on 20 August 2010.

Basis of preparation

The financial report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. Unless otherwise indicated, all amounts are presented in Australian dollars.

The Company is a Company of the kind referred to in ASIC Class Order 98/0100, and in accordance with that Class Order amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

Critical accounting judgments and key sources of estimation uncertainty

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Refer to note 1(s) for a discussion of critical judgments in applying the entity's accounting policies, and key sources of estimation uncertainty.

In the current year the Group has adopted all of the new and revised Standards and interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Cash and cash equivalents

Cash comprises cash on hand an demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, which are subject to an insignificant risk of change in value and have a maturity of three months or less at the date of acquisition. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

(b) Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

For personal use only

1 Summary of accounting policies (cont'd)

(b) Employee benefits (cont'd)

Liabilities recognised in respect of short-term employee benefits are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Liabilities recognised in respect of long-term employee benefits are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date. Contributions to defined contribution retirement plans are recognised as an expense when employees have rendered service entitling them to the contributions.

(c) Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss (FVTPL)', 'held-to-maturity' investments, 'available-for-sale' financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt intrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Held -to-maturity investments

Term deposits are recorded at amortised cost using the effective interest method less impairment, with revenue recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Trade receivables, loans, and other receivables are recorded at amortised cost using the effective interest method less impairment.

Impairment of Financial Assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the orginal effective interest rate. The carrying amount of financial assets including uncollectible trade receivables is reduced by the impairment loss through the use of an allowance account. Subsequent recoveries of amounts written off are applied against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit and loss.

For personal use only

1 Summary of accounting policies (cont'd)

(d) Goods and services tax
Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
ii. for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified within operating cash flows.

(e) Impairment of tangible and intangible assets excluding Goodwill
At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation method can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

(f) Income tax
Current tax
Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

For personal use only

1 Summary of accounting policies (cont'd)

(f) Income tax (cont'd)

Deferred tax

Deferred tax is accounted for using the statement of financial position liability method. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the statement of financial position. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates and interest in joint ventures except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the profit or loss, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

Tax consolidation

The company and all its wholly-owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. Kip McGrath Education Centres Limited is the head entity in the tax-consolidated group. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the "separate taxpayer within group" approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and relevant tax credits of the members of the tax-consolidated group are recognised by the company (as head entity in the tax-consolidated group).

For personal use only

1 Summary of accounting policies (cont'd)

(g) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) (referred to as 'the Group' in these financial statements). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

(h) Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under AASB 3 'Business Combinations' are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 'Non-Current Assets Held for Sale and Discontinued Operations', which are measured at fair value less costs to sell.

(i) Plant and equipment

Plant and equipment is recorded at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is calculated on a straight line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever the shorter, using the straight-line method.

The gain or loss on disposal or retirement of an item of property plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period, with the effect of any changes recognised on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

For personal use only

1 Summary of accounting policies (cont'd)

(i) Plant and equipment (cont'd)

The following estimated useful lives are used in the calculation of depreciation:

	2010	2009
Property, plant and equipment		
Plant and equipment	3 - 10 years	5 - 15 years
Motor vehicles	10 years	8 - 10 years
Leased plant and equipment	3 - 10 years	5 - 10 years

(j) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

<u>Onerous Contracts</u>

Present obligations arising under onerous contracts are recognised and measured as a provision. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

(k) Goodwill

Goodwill acquired in a business combination is initially measured at its cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised at the date of acquisition.

Goodwill is not amortised but is reviewed for impairment annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units, or groups of cash-generating units, expected to benefit from the synergies of the business combination. Cash-generating units or groups of cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

If the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (or groups of cash-generating units), the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of cash-generating units) and then to the other assets of the cash-generating units pro-rata on the basis of the carrying amount of each asset in the cash-generating unit (or group of cash-generating units). An impairment loss recognised for goodwill is recognised immediately in profit or loss and is not reversed in a subsequent period.

On disposal of an operation within a cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal of the operation.

For personal use only

1 Summary of accounting policies (cont'd)

(l) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, price protection, rebates and other similar allowances.

Franchise fees
Revenue from franchise fees is recognised proportionally over the life of the service contract.

Franchise sales
Domestic sales and sales to overseas master franchisees are recognised on satisfactory completion of formal induction and training programs. Overseas franchise sales are recognised when educational materials supplied by the franchisor are shipped to the franchisees.

Educational material
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.

Interest revenue
Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's carrying amount.

Gain/(loss) on disposal of assets
The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and net proceeds on disposal (including incidental costs).

(m) Financial liabilities and equity instruments issued by the Group

Borrowings
Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the borrowing using the effective interest rate method.

Financial liabilities at FVTPL
Loans from related parties are carried on the statement of financial position at their principal amounts. The carrying amounts of loans approximate their net fair value.

Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement. An equity instrument is any contract that evidences a residual interest in the assets of any entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded as the proceeds received, net of direct issue costs.

For personal use only

1 Summary of accounting policies (cont'd)

(m) Financial liabilities and equity instruments issued by the Group (cont'd)

Compound instruments

The component parts of compound instruments are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. The amount is recorded as a liability on an amortised cost basis until extinguished on conversion or upon the instruments reaching maturity. The equity component initially brought to account is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects and is not subsequently remeasured.

Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and subsequently at the higher of:

* The amount of the obligation under the contract, as determined under AASB 137 "Provisions, Contingent Liabilities and Contingent Assets"; and

* the amount initially recognised less, where appropriate, cumulative amortisation in accordance with the revenue recognition policies described in note 1(l).

Financial Liabilities

Financial liabilities are classified as either financial liabilities at "fair value through profit or loss" or other financial liabilities.

Financial Liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss where the financial liability is either held for trading or it is designated as at fair value through profit or loss. A financial liability is held for trading if:

a) it has been incurred principally for the purpose of repurchasing in the near future; or

b) it is part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit taking; or

c) it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading is designated as at fair value through profit or loss upon initial recognition if:

a) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

b) the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

c) it forms part of a contract containing one or more embedded derivatives and AASB 139 "Financial Instruments: Recognition and Measurement" permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on this financial liability. Fair value is determined in the manner described in note 28.

For personal use only

1 Summary of accounting policies (cont'd)

(m) Financial liabilities and equity instruments issued by the Group (cont'd)

Other financial liabilities

Other financial liabilities including borrowings are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

(n) Foreign currency

The individual financial statements of each Group entity are presented in its functional currency being the currency of the primary economic environment in which the entity operates. For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Australian dollars, which is the functional currency of Kip McGrath Education Centres Limited and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences are recognised in profit or loss in the period in which they arises except for:

* Exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings (refer note 1(m));

* Exchange differences on transactions entered into in order to hedge certain foreign currency risks; and

* Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned or likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at exchange rates prevailing at the reporting date.

For personal use only

1 Summary of accounting policies (cont'd)

(o) Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately are recorded at costs less accumulated amortisation and impairment. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period, with any changes in these accounting estimates being accounted for on a prospective basis.

Internally-generated intangible assets- research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

* the technical feasibility of completing the intangible asset so that it will be available for use or sale;
* the intention to complete the intangible asset and use or sell it;
* the ability to use or sell the intangible asset;
* how the intangible asset will generate probable future economic benefits;
* the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
* the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subject to initial recognition, internally-generated intangible assets and product development costs are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Intangible assets excluding reaccreditation costs of $848,294 recognised by the company have an indefinite useful life and are not amortised. Each period, the useful life of this asset is reviewed to determine whether events and circumstances continue to support an indefinite useful life assessment for the asset. Such assets are tested for impairment in accordance with the policy stated in note 1(e).

(p) Inventories

Inventories are valued at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventory on hand by the method most appropriate to each particular class of inventory, with all categories being valued on a first in first out basis. Net realisable value represents the estimated selling price less all estimated costs necessary to make the sale.

For personal use only

1 Summary of accounting policies (cont'd)

(q) Leased assets

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Group as lessee

Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets in, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Finance leased assets are amortised on a straight line basis over the estimated useful life of the asset.

Operating lease payments are recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals are recognised as expenses in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

(r) Share based payments

Equity-settled share-based payments with employees and others providing similar services are measured at the fair value of the equity instrument at the grant date. Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

At each reporting date, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with corresponding adjustment to the equity-settled employee benefits reserve.

The policy described above is applied to all equity-settled share based payments that were granted after 7 November 2002 that vested after 1 January 2005. No amount has been recognised in the financial statements in respect of the other equity-settled share-based payments.

Equity-settled share-based payment transactions with other parties are measured at the fair value of the goods and services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each reporting date.

For personal use only

1 Summary of accounting policies (cont'd)

(s) Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Intangible assets

Useful lives of intangible assets with finite lives are reviewed annually. Any reassessment of useful lives in a particular year will affect the amortisation expense (either increasing or decreasing) through to the end of the reassessed useful life for both the current and future years. Annual assessments are made to ensure it is appropriate that certain intangibles continue to have indefinite lives.

(t) Standards and Interpretations issued not yet effective

At the date of authorisation of the financial report, the Standards and Interpretations listed on the following two pages were in issue but not yet effective.

Initial application of the following Standards/Interpretations is not expected to have any material impact on the financial report of the Group and the Company.

For personal use only

Note 1(t) New Standards and Interpretations Not Yet Effective (cont'd)

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2010, but have not been applied in preparing this financial report.

Australian Accounting Standard	Title	Mandatory Application Date[1]	Possible Impact
AASB 9	Financial Instruments	1 January 2013	AASB 9 and AASB 2009-11 address the classification and measurement of financial assets and are likely to affect the group's accounting for its financial assets. The group is yet to assess its full impact. However, initial indications are that it may affect the group's accounting for available-for sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investment that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss.
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9	1 January 2013	
AASB 124	Related Party Disclosures	1 January 2011	The amendments remove the requirement for government related entities to disclose details of all transactions with the government and other government-related entities, as well as clarify and simplify the definition of a related party. When the amendments are applied, the group and the parent will need to disclose any transactions between its subsidiaries and its associates. The amendments are not expected to have a significant impact on the financial statements.
AASB 2009-12	Amendments to Australian Accounting Standards	1 January 2011	
AASB 2010-4	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project	1 January 2011	The principal amendments contained in AASB 2010-4 are as follows: • accounting policy changes in the year of adoption (AASB 1); • revaluation basis as deemed cost (AASB 1); • use of deemed cost for operations subject to rate regulation (AASB 1); • clarification of disclosures (AASB 7); • clarification of statement of changes in equity (AASB 101); • significant events and transactions (AASB 134); and • fair value of award credits (AASB Interpretation 13). The amendments are not expected to have a significant impact on the financial statements.
AASB 2010-3	Amendments to Australian Accounting Standards arising from the Annual Improvements Project	1 July 2010	The principal amendments contained in AASB 2010-3 are as follows: • measurement of non-controlling interests (AASB 3); • unreplaced and voluntarily replaced share-based payment awards (AASB 3); • transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised AASB 3 Business Combinations (2008); and • transition requirements for amendments arising as a result of AASB 127 Consolidated and Separate Financial Statements. The amendments are not expected to have a significant impact on the financial statements.

[1] Annual reporting periods beginning on or after ...

Note 1(x) New Standards and Interpretations Not Yet Effective (cont'd)

Australian Accounting Standard	Title	Mandatory Application Date[1]	Possible Impact
AASB Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010	AASB Interpretation 119 clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments to the creditor (debt for equity swap). It requires a gain or loss to be recognised in profit or loss which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. The amendments are not expected to have a significant impact on the financial statements.
AASB 2009-13	Amendments to Australian Accounting Standards arising from Interpretation 19	1 July 2010	
AASB 2009-10	Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132]	1 February 2010	This amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously these issues had to be accounted for derivative liabilities. The amendment must be applied retrospectively in accordance with AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors. The amendments are not expected to have a significant impact on the financial statements.
AASB 2009-5	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Process	1 January 2010	The principal amendments contained in AASB 2009-5 are as follows: • disclosure of non-current assets (or disposal groups) classified as held for sale or discontinued operations (AASB 5); • disclosure of information about segment assets (AASB 8); • current/non-current classification of convertible instruments (AASB 101); • classification of expenditures on unrecognised assets (AASB 107); • classification of leases of land and buildings (AASB 117); • determining whether an entity is acting as a principle or as an agent (AASB 118); • unit of accounting for goodwill impairment test (AASB 136); and • treating loan prepayment penalties as closely related embedded derivatives, scope of exemption for business combination contracts and cash flow hedge accounting (AASB 139). The amendments are not expected to have a significant impact on the financial statements.
AASB 2009-8	Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payments Transactions	1 January 2010	These amendments confirm that an entity receiving goods or services in a group share-based payment arrangement must recognise an expense for those goods or services regardless of which entity in the group settles the transaction or whether the transaction is settled in shares or cash. They also clarify how the group-share-based payment arrangement should be measured, that is, whether it is measured as an equity- or a cash-settled transaction. The amendments are not expected to have a significant impact on the financial statements.

[1] Annual reporting periods beginning on or after ...

For personal use only

For personal use only

2 Profit / (loss) from operations

An analysis of the Group's revenue for the year is as follows:

	2010 $'000	2009 $'000
(a) Revenue		
Revenue from franchise operations:		
Domestic	1,685	1,617
Overseas	2,234	2,903
	3,919	4,520
Revenue from the sale of master territories	1,311	647
Revenue from the sale of franchise centres	532	425
Revenue from online higher education student income	344	679
Revenue from online higher education urology contract	-	(25)
Revenue from higher education product licences	-	67
Revenue from direct sales	35	52
Other income from operating activities:		
Interest revenue	7	10
Other	47	3
Total revenue from ordinary activities	**6,195**	**6,378**

For personal use only

2 Profit/(loss) from operations (cont'd)

(b) Expenses

	2010 $'000	2009 $'000
Borrowing costs		
Interest on bank loans	207	228
Interest on obligations under finance leases	18	2
Other parties	31	83
	256	**313**
Depreciation of non-current assets		
Motor vehicles	20	21
Plant & equipment	100	102
	120	123
Amortisation of non-current assets		
Plant & equipment under finance lease	136	60
Total depreciation & amortisation of plant & equipment	256	183
Amortisation of intangible assets	-	-
Total depreciation & amortisation	**256**	**183**
Loss on disposal of plant & equipment	**16**	**11**
Net bad & doubtful debts expense - other entities	**147**	**76**
Net expense for movements in provision for employee entitlements	**(2)**	**60**
Net foreign exchange losses/(gains)	**80**	**(53)**
Operating lease rental		
Minimum lease payments	**347**	**403**

For personal use only

3 Income taxes

Income tax recognised in profit or loss

	2010 $'000	2009 $'000
(a) Tax expense/(income) comprises:		
Current tax expense in respect of the current year	1	145
Deferred tax expense/(income) relating to origination and reversal of temporary differences	240	(2,130)
Adjustments recognised in the current year in relation to the current tax of prior years	-	-
Total tax expense/(income)	**241**	**(1,985)**

The prima facie income tax (benefit)/expense on pre-tax accounting profit/(loss) from operations reconciles to the income tax (benefit)/expense in the financial statements as follows:

	2010 $'000	2009 $'000
Profit from operations	603	1,307
Income tax expense calculated at 30%	**181**	**392**
Amortisation of leases	-	18
Other non-deductible expenses	8	17
Capital allowances	(17)	-
Depreciation add back	17	30
Witholding tax credits not utilised	59	14
Decrease in income tax expense due to:		
Lease payments (deductible)	-	(4)
Other	(1)	(1)
Elimination of Impairment on I'coy loans	-	(44)
Variation in international tax rates	10	(14)
Changes in deferred tax balances as a result of subsidiaries joining the tax consolidated group	-	(1,496)
Previously unrecognised and unused tax losses now brought to account	(16)	(897)
Income tax expense/(benefit) attributable to profit from ordinary activities	**241**	**(1,985)**
The applicable weighted average effective tax rates are as follows:	40%	-152%

For personal use only

3 Income taxes (cont'd)

(a) Tax expense/(income) comprises (cont'd):

	2010 $'000	2009 $'000
Income tax (benefit)/expense attributable to profit/(loss) from ordinary activities is made up of:		
Current income tax asset	69	116
Deferred income tax liability	240	(1,471)
Deferred income tax asset	(68)	(630)
	241	**(1,985)**

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

(b) Income tax recognised directly in other comprehensive income

	2010 $'000	2009 $'000
Deferred tax arising on translation of FX from foreign operations	33	-
Total income tax recognised directly in equity	**33**	**-**

(c) Current tax liabilities/(assets)

	2010 $'000	2009 $'000
Income tax payable/(receivable) attributable to:		
Parent entity	363	(111)
Other	(377)	29
	(14)	**(82)**

(d) Deferred tax balances

	2010 $'000	2009 $'000
Deferred tax assets comprise:		
Tax losses - revenue	740	644
Temporary differences	1,099	1,127
	1,839	**1,771**
Deferred tax liabilities comprise:		
Temporary differences	989	749
	989	**749**

For personal use only

3 Income taxes (cont'd)

Taxable and deductible temporary differences arise from the following:

2010	Opening balance $'000	Charged to income $'000	Closing balance $'000
Gross deferred tax liabilities:			
Expenditure currently deductible for tax but deferred for accounting purposes:			
Research and development	(556)	(252)	(808)
Overseas development	(179)	-	(179)
Bills of exchange	(6)	6	-
Property plant and equipment	(8)	6	(2)
	(749)	**(240)**	**(989)**
Gross deferred tax assets:			
Accruals	22	-	22
Provisions	298	(8)	290
QAX licence temporary difference	404	(22)	382
Education licence temporary difference	381	-	381
Doubtful debts	17	7	24
Unrealised currency loss	5	(5)	-
Tax losses now brought to account	644	96	740
	1,771	**68**	**1,839**
	1,022	**(172)**	**850**

For personal use only

3 Income taxes (cont'd)

2009	Opening balance $'000	Charged to income $'000	Closing balance $'000
Gross deferred tax liabilities:			
Expenditure currently deductible for tax but deferred for accounting purposes:			
Research and development	(590)	34	(556)
Overseas development	(174)	(5)	(179)
Other	30	(30)	-
Trading stock	(15)	15	-
Borrowing costs	-	-	-
Bills of exchange	(18)	12	(6)
Receivable from equity accounted investment	(10)	10	-
Education licence	(600)	600	-
Intellectual property	(603)	603	-
Product development	(240)	240	-
Property plant and equipment	-	(8)	(8)
	(2,220)	**1,471**	**(749)**
Gross deferred tax assets:			
Property plant and equipment / deductible share issue	196	(196)	-
Accruals	21	1	22
Provisions	671	(373)	298
QAX licence temporary difference	-	404	404
Education licence temporary difference	-	381	381
Doubtful debts	27	(10)	17
Foreign currency	3	(3)	-
Unrealised currency loss	1	4	5
Tax losses now brought to account	-	644	644
Accumulated company tax losses	222	(222)	-
	1,141	**630**	**1,771**
	(1,079)	**2,101**	**1,022**

(e) Tax consolidation

Kip McGrath Education Centres Limited and its wholly-owned entities have formed a tax-consolidated group with effect from 1 January 2006 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Kip McGrath Education Centres Limited. The members of the tax-consolidated group are identified at note 23.

Entities within the tax-consolidated group have entered into a tax funding arrangement and a tax-sharing agreement with the head entity. Under the terms of the tax funding arrangement, Kip McGrath Education Centres Limited and each of the entities in the tax-consolidated group has agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity. Such amounts are reflected in amounts receivable from or payable to other entities in the tax-consolidated group.

For personal use only

3 Income taxes (cont'd)

The tax sharing agreement entered into between members of the tax-consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations or if an entity should leave the tax-consolidated group. The effect of the tax sharing agreement is that each member's liability for tax payable by the tax-consolidated group is limited to the amount payable to the head entity under the tax funding arrangement.

4 Remuneration of auditors

	2010 $	2009 $
Auditor of the parent entity		
Audit & half year review of the financial report	94,379	135,077
Other services (i)	839	-
	95,218	135,077
Other auditors		
Audit of subsidiary financial report	8,320	35,024
	8,320	35,024
	103,538	**170,101**

(i) The auditor of the parent entity, Forsythes, provided labour hire services to the Group in the financial year ended 30 June 2010. These services relate to the provision of labour to the marketing divisions of the group.

5 Current trade & other receivables

	2010 $'000	2009 $'000
Trade receivables (i) (ii)	612	611
Allowance for doubtful debts (iii)	(123)	(81)
	489	530
GST receivable	9	34
Franchisee interest free loans	25	31
	523	**595**

(i) The average age of the receivables for the Group is 28 days. Trade receivables over 90 days are provided for based on estimated irrecoverable amounts. No interest is charged on the outstanding trade receivables balances. The group credit policy allows for computer access activation codes to be cancelled for any debtors greater than 90 days.

Before accepting any new customers, the Group assesses the potential customer's credit quality. The master franchisee of Singapore represents 7.3% of the total balance of trade receivables at 30 June 2010. There are no other customers who represent more than 5% of the total balance of trade receivables.

(ii) Ageing of past due but not impaired		
60-90 days	5	0
90-120 days	2	2
Total	**7**	**2**

For personal use only

5 Current trade & other receivables (cont'd)

(iii) Movement in the allowance for doubtful debts	**2010 $'000**	**2009 $'000**
Balance at the beginning of the year	81	349
Impairment losses recognised on receivables	191	123
Amounts written off as uncollectible	(102)	(340)
Amounts recovered during the year	(32)	(50)
Impairment losses reversed	(15)	(1)
Balance at the end of the year	**123**	**81**

In determining the recoverability of a trade receivable, the Group 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. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

(iv) Ageing of impaired trade receivables		
0-30 days	5	5
30-60 days	12	7
60-90 days	5	2
90-120 days	101	67
Total	**123**	**81**

6 Inventories

Stores & educational materials - at cost	**171**	**280**

7 Other current assets

Sundry assets	15	21
Prepayments	83	107
Deposits paid	7	3
	105	**131**

8 Non-current receivables

Other receivables	**16**	**23**

For personal use only

9 Property plant and equipment

	Plant & equipment at cost $'000	Equipment under finance lease at cost $'000	Motor vehicles at cost $'000	Total $'000
Gross carrying amount				
Balance at 1 July 2008	592	640	238	1,470
Additions	45	255	-	300
Disposals	(215)	(55)	(33)	(303)
Net foreign exchange (decrements)/increment	-	-	-	-
Balance at 1 July 2009	422	840	205	1,467
Additions	149	44	-	193
Disposals	(106)	(580)	-	(686)
Net foreign exchange (decrements)/increment	(6)	-	-	(6)
Balance at 30 June 2010	459	304	205	**968**
Accumulated depreciation				
Balance at 1 July 2008	(357)	(547)	(171)	(1,075)
Disposals	209	55	7	271
Depreciation expense (i)	(102)	(60)	(21)	(183)
Net foreign exchange increment/(decrements)	1	-	-	1
Balance at 1 July 2009	(249)	(552)	(185)	(986)
Disposals	90	580	-	670
Depreciation expense (i)	(100)	(136)	(20)	(256)
Net foreign exchange increment/(decrements)	2	-	-	2
Balance at 30 June 2010	(257)	(108)	(205)	**(570)**
Net book value				
As at 30 June 2009	172	288	20	480
As at 30 June 2010	202	196	-	**398**

(i) There was no depreciation during the period that was capitalised. All depreciation has been included in the depreciation expense as disclosed in Note 2 to the financial statements.

For personal use only

10 Intangible assets

	Intellectual property $	Education licence $	Product develop -ment costs $	Overseas develop -ment costs $	Franchise territories $	Other intangibles $	Total $
Gross carrying amount							
Balance at 1 July 2008	4,015	2,000	1,876	779	870	16	9,556
Additions	-	98	238	14	15	15	380
Disposals	-	-	(72)	-	(7)	-	(79)
Net foreign exchange (decrements)/increment	-	-	-	-	(8)	-	(8)
Balance at 1 July 2009	4,015	2,098	2,042	793	870	31	9,849
Additions	-	750	114	-	-	13	877
Disposals	-	-	-	-	-	-	-
Net foreign exchange (decrements)/increment	-	-	-	-	(121)	-	(121)
Balance at 30 June 2010	4,015	2,848	2,156	793	749	44	**10,605**
Accumulated amortisation							
Balance at 1 July 2008	-	-	-	-	(80)	(3)	(83)
Amortisation expense	-	-	-	-	-	-	-
Net foreign exchange (decrements)/increment	-	-	-	-	5	-	5
Balance at 1 July 2009	-	-	-	-	(75)	(3)	(78)
Amortisation expense	-	-	-	-	-	-	-
Net foreign exchange (decrements)/increment	-	-	-	-	24	-	24
Balance at 30 June 2010	-	-	-	-	(51)	(3)	**(54)**
Net book value							
As at 30 June 2009	4,015	2,098	2,042	793	796	28	9,772
As at 30 June 2010	4,015	2,848	2,156	793	698	41	**10,551**

The recoverable amount of the Education Licence is determined on the basis of fair value less cost to sell.

The recoverable amount of the remaining cash-generating units is the net present value of future cash flows of the cash generating unit, which is determined on a value in use calculation.

Recoverable amounts have been determined using:

* 2010/2011 management approved profit and loss and cashflow budgets for each cash generating unit
* inherent growth factors consistent with current performance
* prevailing market based pre-tax discount rates for both the Group's debt and equity instruments (2010: 13.5%, 2009: 8.0%).
* cashflow projections covering a five year period and terminal value
* terminal growth factors depending on the CGU have been set at 2.5% (2009: 4.5%).

Management believes that any reasonable possible change in the key assumptions, on which recoverable amount has been assessed would not cause any shortfall of recoverable amount in any of the cash generating units described above.

For personal use only

	2010 $'000	2009 $'000
11 Current trade and other payables		
Trade payables (i)	425	192
Other payables & accruals	313	347
	738	**539**

(i) The average credit period on purchases is 30 days. The Group has financial risk management policies in place to ensure all payables are paid within the credit timeframe.

	2010 $'000	2009 $'000
12 Current borrowings		
Finance lease liabilities (i)	109	81
Convertible notes (ii) (iii)	475	453
Bank bills (iv)	240	236
	824	**770**

(i) Secured by the assets leased.

(ii) 100,000 convertible notes were issued by the Kip McGrath Institute of Business Australia Pty Ltd on 14 June 2005 at an issue price of $0.50 per note. Each note entitles the holder to convert to one ordinary share at a cost of $0.50 cents per ordinary share. Conversion may occur on the day immediately following the Annual Meeting of the Kip McGrath Institute of Business Australia Pty Ltd. Unconverted notes mature at $0.50 on 13 December 2010.

(iii) 566,667 convertible notes were issued by the Kip McGrath Institute of Business Australia Pty Limited between 10 November 2005 and 26 January 2006 at an issue price of $0.75 per note. Each note entitles the holder to convert to one ordinary share at a cost of $0.75 cents per ordinary share. Conversion may occur on the day immediately following the Annual Meeting of the Kip McGrath Institute of Business Australia Pty Ltd. Unconverted notes mature at $0.75 on 10 October 2010.

(iv) Secured by fixed & floating charge over assets of Kip McGrath Education Centres Limited. The company has a debt amortisation schedule of quarterly capital payments at $62,500 / quarter.

	2010 $'000	2009 $'000
13 Current provisions		
Employee benefits (i)	**180**	**158**

(i) The current provision for employee benefits includes $52,664 of annual leave and vested long service leave entitlements accrued but not expected to be taken in the next 12 months.

	2010 $'000	2009 $'000
14 Non-current borrowings		
Finance lease liabilities (i)	112	190
Fixed rate facility (ii)	2,000	2,000
Floating rate facility (ii)	1,120	1,020
	3,232	**3,210**

(i) Secured by the assets leased.

(ii) Secured by fixed & floating charge over the assets of Kip McGrath Education Centres Limited.

For personal use only

15 Non-current provisions

	2010 $'000	2009 $'000
Employee entitlements	**12**	**36**

16 Issued capital

	2010	2009
19,780,000 (2009:19,780,000) fully paid ordinary shares	**6,829**	**6,829**
Fully paid ordinary shares*		
Balance at beginning of financial year	19,780	19,780
Balance at end of financial year	**19,780**	**19,780**

* Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Share options granted under the Director Share Option Plan (DSOP)

As at 30 June 2010, the company has 100,000 share options on issue (2009:200,000).

17 Retained earnings/(Accumulated losses)

	2010	2009
Balance at beginning of financial year	917	(2,452)
Net profit/(loss) attributable to members of the entity	362	3,369
Dividends paid during the year (note 19)	(396)	-
Balance at end of financial year	**883**	**917**

18 Earnings per share

	2010 Cents per share	2009 Cents per share
Basic earnings per share:		
Total basic earnings per share	1.8	17.0
Diluted earnings per share:		
Total diluted earnings per share	1.8	17.0

For personal use only

18 Earnings per share (cont'd)

Basic and diluted earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	2010 $'000	2009 $'000
Earnings used in the calculation of basic EPS	362	3,369
	2010 No.	**2009 No.**
Weighted average number of ordinary shares for the purposes of basic earnings per share	19,780,000	19,780,000

19 Dividends

	2010 Cents per share	2010 $'000	2009 Cents per share	2009 $'000
Recognised amounts				
Fully paid ordinary shares				
Final dividend: franked to 30% (2009:30%)	2.00	396	-	-
	2.00	396	-	-
Unrecognised amounts				
Fully paid ordinary shares				
Final dividend: franked to 30% (2009:30%)	-	-	2.00	396

	Company 2010 $'000	Company 2009 $'000
Adjusted franking account balance	275	444
Impact on franking account balance of dividends not recognised	-	(169)
	275	**275**

For personal use only

20 Leases

Finance leases

Finance leases relate to printing equipment and computer equipment with lease terms of 3 years. The consolidated entity has options to purchase the printing equipment and computer equipment for nominal amounts at the conclusion of the lease agreements.

	2010 $'000	2009 $'000
Finance lease commitments		
Not longer than 1 year	121	92
Longer than 1 year and not longer than 5 years	117	200
Minimum lease payments *	238	292
Less: future finance charges	(17)	(21)
Total lease liabilities	**221**	**271**
Representing lease liabilities:		
current (note 12)	109	81
non-current (note 14)	112	190
	221	**271**

* Minimum future lease payments includes the aggregate of all lease payments and any guaranteed residual.

Operating leases

Operating leases relate to office and storage space with lease terms of between 1 and 3 years, with an option to extend for a further 3 years and computer equipment with rental terms of 3 years. All office space operating lease contracts contain market review clauses in the event that the consolidated entity exercises its option to renew. The consolidated entity does not have an option to purchase the leased office space at the expiry of the leased period. The consolidated entity has an option to purchase the leased computer equipment at the expiry of the leased period.

	2010 $'000	2009 $'000
Non-cancellable operating lease		
Not longer than 1 year	326	333
Longer than 1 year and not longer than 5 years	634	921
Longer than 5 years	-	-
	960	**1,254**

21 Subsequent events

There were no other events after balance date requiring separate disclosure other than that reported elsewhere in this financial report.

For personal use only

22 Parent entity information

	2010 $'000	2009 $'000
Current assets	1,173	1,437
Total assets	12,491	12,759
Current liabilities	1,181	1,563
Total liabilities	5,186	5,544
Shareholders' equity		
Capital	6,829	6,829
Reserves	-	-
Retained Earnings	476	386
Net profit for the period	486	911
Total comprehensive income	486	911

Kip McGrath Education Centres Limited has issued financial letters of support to Kip McGrath Institute of Business Australia Pty Limited and Kip McGrath Education United Kingdom Ltd. Letters of support were also offered in the prior year.

23 Controlled entities

Name of entity	Country of incorporation	Ownership interest 2010 %	Ownership interest 2009 %
Parent entity			
Kip McGrath Education Centres Limited (i)	Australia		
Controlled entities			
Kip McGrath Further Education Pty Limited (ii)	Australia	100	100
Kip McGrath Global Pty Limited (ii)	Australia	100	100
Kip McGrath Direct Pty Limited (ii)	Australia	100	100
Kip McGrath Institute of Business Australia Pty Limited (ii)	Australia	100	100
Institute for Advanced Knowledge (Australia) Pty Limited (ii)	Australia	100	100
Kip McGrath Education United Kingdom Ltd	United Kingdom	100	100

(i) Kip McGrath Education Centres Limited is the head entity within the tax-consolidated group.
(ii) These companies are members of the tax-consolidated group.

24 Acquisition of businesses

Names of businesses acquired	Principal activity	Date of acquisition	Proportion of shares acquired (%)	Cost of acquisition $'000
2010				
Nil acquired				
				-
2009				
Kip McGrath Direct Pty Limited	Retail Products	1/07/2008	50	-
Kip McGrath Institute of Business Australia Pty Limited	Online Higher Education Provider	1/05/2009	36	433
Institute for Advanced Knowledge (Australia) Pty Limited	Online Higher Education Provider	1/05/2009	36	-
				433

Net cashflow on acquisitions

	2010 $'000	2009 $'000
Total purchase consideration	-	433
Less: non-cash consideration	-	-
Consideration paid in cash	-	433
Less: cash and cash equivalent balances acquired	-	-
	-	**433**

For personal use only

For personal use only

25 Segment information

Primary Segmentation

The company consists of two business segments. The Primary segment being the franchising of education services for the pre-school, primary, secondary and tertiary market (KMEC, Kip McGrath Education UK ("KME UK") & Kip McGrath Direct ("KMD")). The secondary segment is the an online higher education provider (Kip McGrath Institute of Business Australia ("KMIBA")).

Segment revenues

		External sales		Other		Total	
Business		2010 $'000	2009 $'000	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Continuing operations							
KMEC, KME UK, KMD		5,797	5,701	-	-	5,797	5,701
KMIBA		344	664	-	-	344	664
	Total of all segments					6,141	6,365
	Unallocated					54	13
	Consolidated revenues for the period					6,195	6,378

Segment result

		Total	
Business		2010 $'000	2009 $'000
KMEC, KME UK, KMD		851	1,527
KMIBA		(248)	(220)
	Total of all segments	603	1,307
	Unallocated	-	-
	Profit before income tax expense	603	1,307
	Income tax (expense)/benefit	(241)	1,985
	Consolidated profit for the period	362	3,292

Segment assets and liabilities

		Assets		Liabilities		Net Assets	
Business		2010 $'000	2009 $'000	2010 $'000	2009 $'000	2010 $'000	2009 $'000
KMEC, KME UK, KMD		12,833	12,428	(5,057)	(4,165)	7,776	8,263
KMIBA		1,515	1,529	(918)	(1,297)	597	232
	Total of all segments					8,373	8,495
	Unallocated					-	-
	Net assets					8,373	8,495

For personal use only

Secondary Segmentation

Information on geographical segments

The group operates in three principal geographical areas - Australasia, United Kingdom & Europe and Other. The Group's revenue from external customers and information about its segment assets by geographical location is detailed below:

Segment revenues

Geographical	External sales 2010 $'000	External sales 2009 $'000	Other 2010 $'000	Other 2009 $'000	Total 2010 $'000	Total 2009 $'000
Continuing operations						
Australasia	2,954	2,590	-	-	2,954	2,590
United Kingdom & Europe	2,327	2,491	-	-	2,327	2,491
Overseas - other*	860	1,284	-	-	860	1,284
Total of all segments					6,141	6,365
Unallocated					54	13
Consolidated revenues for the period					6,195	6,378

* KMIBA revenues have moved unfavourably $320,000

Segment result

Geographical	Total 2010 $'000	Total 2009 $'000
Australasia	953	875
United Kingdom & Europe	819	1,152
Overseas - other	(463)	(127)
Total of all segments	1,309	1,900
Unallocated	(706)	(593)
Profit before income tax expense	603	1,307
Income tax (expense)/benefit	(241)	1,985
Consolidated profit for the period	362	3,292

Segment assets and liabilities

Geographical	Assets 2010 $'000	Assets 2009 $'000	Liabilities 2010 $'000	Liabilities 2009 $'000	Net Assets 2010 $'000	Net Assets 2009 $'000
Australasia	13,150	8,933	(5,781)	(5,297)	7,369	3,636
United Kingdom & Europe	1,064	2,372	(194)	(165)	870	2,208
Overseas - other	134	2,651	-	-	134	2,651
Total of all segments					8,373	8,495
Unallocated					-	-
Net assets					8,373	8,495

For personal use only

26 Key management personnel

The specified directors of Kip McGrath Education Centres Limited during the year were:

Mr Glenn Turner (Chairman)	
Mr Storm McGrath (Managing Director)	
Mr Kip McGrath (Executive Director)	
Mrs Dagnija McGrath (Executive Director)	
Mr Michael Seamer (Non-executive Director)	(resigned 30 November 2009)
Mr Ian Campbell (Non-executive Director)	(appointed 25 August 2009)
Ms Lindy Hyam (Non-executive Director)	(appointed 1 December 2009)

The specified executives of the Group during the year were:

Mr Storm McGrath (Managing Director)	
Ms Darlene Perks (Chief Financial Officer / Company Secretary)	
Mr Clinton Marquet (Sales and Marketing Manager)	(resigned 30 October 2009)

The key management personnel of the consolidated entity are made up of the specified directors and specified executives of Kip McGrath Education Centres Limited listed above and the additional specified executives of the consolidated entity listed below.

The above specified executives include all the executives of the consolidated entity.

	2010 $	2009 $
Short-term employee benefits	784,733	751,099
Post-employment benefits	-	-
Other long-term benefits	-	-
Termination benefits	-	-
Share-based payment	-	-
	784,733	**751,099**

The remuneration committee reviews the remuneration packages of all specified directors and specified executives on an annual basis and makes recommendations to the board. Remuneration packages are reviewed and determined with due regard to current market rates and are benchmarked against comparable industry salaries adjusted by a performance factor to reflect changes in the performance of the company.

For personal use only

26 Key management personnel remuneration (Cont'd)

Specified directors' remuneration

	Primary			Post employment	Equity	Other benefits	
2010	**Salary and fees $**	**Bonus $**	**Non-monetary $**	**Superannuation $**	**Options $**	**Insurance premiums $**	**Total $**
Mr Storm McGrath	206,862	-	5,533	16,144	-	2,227	230,766
Mr Kip McGrath	103,017	-	2,636	9,271	-	2,227	117,151
Mrs Dagnija McGrath	62,253	-	9,041	5,603	-	2,227	79,124
Mr Michael Seamer	3,896	-	-	351	-	934	5,181
Mr Glenn Turner	45,872	-	-	4,128	-	2,227	52,227
Mr Ian Campbell	29,387	-	-	2,645	-	1,892	33,924
Ms Lindy Hyam	20,069	-	-	1,806	-	1,294	23,169
Total	471,356	-	17,210	39,948	-	13,028	541,542

	Primary			Post employment	Equity	Other benefits	
2009	**Salary and fees $**	**Bonus $**	**Non-monetary $**	**Superannuation $**	**Options $**	**Insurance premiums $**	**Total $**
Mr Storm McGrath	185,143	-	3,108	13,963	-	2,286	204,500
Mr Kip McGrath	94,573	-	2,551	8,512	-	2,286	107,922
Mrs Dagnija McGrath	56,505	-	3,037	5,085	-	2,286	66,913
Mr Michael Seamer	22,494	-	-	2,104	-	2,286	26,884
Mr Glenn Turner	41,398	-	-	3,644	-	2,286	47,328
Total	400,113	-	8,696	33,308	-	11,430	453,547

For personal use only

26 Key management personnel remuneration (Cont'd)

Specified executives' remuneration

	Primary			employment	Equity	Other benefits	
2010	Salary and fees $	Bonus $	Non-monetary $	Superannuation $	Options $	Insurance premiums $	Total $
Ms Darlene Perks	140,422	-	-	12,638	-	2,227	155,287
Mr Clinton Marquet	79,963	-	-	7,197	-	744	87,904
Total	220,385	-	-	19,835	-	2,971	243,191

	Primary			employment	Equity	Other benefits	
2009	Salary and fees $	Bonus $	Non-monetary $	Superannuation $	Options $	Insurance premiums $	Total $
Ms Darlene Perks	132,431	-	-	11,919	-	2,286	146,636
Mr Clinton Marquet	136,358	-	-	12,272	-	2,286	150,916
Total	268,789	-	-	24,191	-	4,572	297,552

For personal use only

27 Related party transactions

Transactions with key management personnel

Directors

Apart from the details disclosed in this note, no key management personnel has entered into a material contract with the company since the end of the previous financial year and there were no material contracts involving key management personnel's interests existing at the year end.

Key management personnel equity holdings

The interests of directors of the reporting entity and their director-related entities in shares and share options of the company at year-end are set out as follows.

Fully paid ordinary shares

2010	Balance at 1 July No.	Granted as compensation No.	Received on exercise of options No.	Net other change No.	Balance at 30 June No.	Balance held nominally No.
Mr Storm McGrath	655,320	-	-	-	655,320	-
Mr Kip McGrath	5,266,320	-	-	-	5,266,320	-
Mrs Dagnija McGrath	4,293,320	-	-	-	4,293,320	-
Mr Michael Seamer	7,000	-	-	(7,000)	-	-
Mr Glenn Turner	130,000	-	-	84,000	214,000	-
Mr Ian Campbell	-	-	-	113,745	113,745	-
Ms Lindy Hyam	-	-	-	30,000	30,000	-
Ms Darlene Perks	120,000	-	-	-	120,000	-
Mr Clinton Marquet (i)	117,605	-	-	(117,605)	-	-
Total	10,589,565	-	-	103,140	10,692,705	-

(i) Mr Clinton Marquet resigned on 30 October 2009, at which point his shareholding balance was 117,605.

2009	Balance at 1 July No.	Granted as compensation No.	Received on exercise of options No.	Net other change No.	Balance at 30 June No.	Balance held nominally
Mr Storm McGrath	54,986	-	-	600,334	655,320	-
Mr Kip McGrath	5,225,986	-	-	40,334	5,266,320	-
Mrs Dagnija McGrath	4,252,986	-	-	40,334	4,293,320	-
Mr Michael Seamer	7,000	-	-	-	7,000	-
Mr Glenn Turner	-	-	-	130,000	130,000	-
Ms Darlene Perks	-	-	-	120,000	120,000	-
Mr Clinton Marquet	117,605	-	-	-	117,605	-
Total	9,658,563	-	-	931,002	10,589,565	-

Key management personnel equity

Director share option plan (DSOP)

The company has a director share option plan, approved at the meeting of members 19 June 2003. Each option is convertible to one ordinary share. The exercise price of the options is determined in accordance with the rules of the DSOP plan.

Shares under options

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

Date options granted	Expiry date	Issue price of shares	Number under option
7 November 2005	7 November 2010	$2.50	50,000
7 November 2005	7 November 2010	$3.50	50,000
			100,000

No option holder has any right under the options to participate in any other share issue of the company or any other entity.

For personal use only

27 Related party transactions (cont'd)

Shares issued on the exercise of options

No ordinary shares of Kip McGrath Education Centres Limited were issued during or since the year ended 30 June 2010 on the exercise of options granted under the Directors Share Option Plan.

There were no options granted during the current year. 100,000 existing options expire on 7 November 2010. Each option entitles the holder to purchase one ordinary share in the company. The value disclosed in note 27 is calculated at the date of grant.

There are no voting or dividend rights attached to the options. There are no voting rights attached to the unissued ordinary shares. Voting rights will be attached to the unissued ordinary shares when the options have been exercised.

Summary of options over unissued ordinary shares

2010	Balance at 1 July No.	Granted as compensation No.	Exercised No.	Net other change No.	Balance at 30 June No.	Balance vested at 30 June No.	Vested but not exercisable No.	Vested and exercisable No.	Options vested during year No.
Mr Storm McGrath	100,000	-	-	-	100,000	-	-	-	-
Mr Michael Seamer	100,000	-	-	(100,000)	-	-	-	-	-
Total	200,000	-	-	(100,000)	100,000	-	-	-	-

2009	Balance at 1 July No.	Granted as compensation No.	Exercised No.	Net other change No.	Balance at 30 June No.	Balance vested at 30 June No.	Vested but not exercisable No.	Vested and exercisable No.	Options vested during year No.
Mr Storm McGrath	500,000	-	-	(400,000)	100,000	-	-	-	-
Mr Michael Seamer	100,000	-	-	-	100,000	-	-	-	-
Total	600,000	-	-	(400,000)	200,000	-	-	-	-

Directors' transactions with the company

A number of the directors of the company, or their director-related entities, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of the entity. The terms and conditions of the transactions with the directors and their director related entities were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on an arm's length basis.

The family relationships of the directors: Mr K McGrath and Mrs D McGrath are husband and wife and Mr S McGrath is their son. Shares in Kip McGrath Investments Pty Ltd are held by Mr K McGrath.

The aggregate of transactions recognised during the year relating to specified directors and their personally related entities were a total expense of $63,813 (2009: $100,473). Details of the transactions are as follows:

Specified Director	Transaction	Note	2010	2009
Mr S McGrath	Material purchases	(i)	63,813	100,473

(i) Kip McGrath Education Centres Limited purchased various materials from McGrath Dynasty Pty Ltd; a company owned by Mr S McGrath. Amounts were billed based on normal market rates for such supplies and were due and payable under normal payment terms.

For personal use only

28 Financial instruments, Financial Risk Management Objectives and Policies

(a) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, basis for measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

The principal activity of the Group is the sale of franchises and provision of services to franchisees in the education sector. In this regard the group is exposed to interest rate risk, credit risk, liquidity risk and foreign currency risk.

The group does not enter into or trade in financial instruments, including derivative financial instruments, for speculative purposes. The use of financial instruments and the overall risk management strategy of the Group is governed by the Board of Directors and is primarily focused on ensuring that the Group is able to finance its business plan and manage potential adverse impacts posed by the above-mentioned risks.

(b) Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2009.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in notes 12 and 14 cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital and retained earnings as disclosed in notes 16 and 17.

(c) Interest rate risk management

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and financial leases. The main exposure of the Group to interest rate risk is through cash and its bank bills, where $1,270,000 is subject to a variable rate. $2,000,000 of the bank bills, the lease liability and convertible notes are at fixed rates.

For personal use only

28 Financial instruments, Financial Risk Management Objectives and Policies (cont'd)

The Group's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities, recognised at the reporting date, are set out below:

		Maturity Dates			
Consolidated 2010	Weighted Average interest rate	Less than 1 year $'000	1 - 5 years $'000	Non Interest Bearing $'000	Total $'000
Financial assets					
Cash and cash equivalents	2.78%	679	-	52	731
Current trade and other receivables	-	-	-	523	523
Non-current trade receivables	-	-	-	16	16
Other current assets	-	-	-	105	105
		679	-	696	1,375
Financial liabilities					
Current trade and other payables	-	-	-	738	738
Bank bills (i)	5.93%	240	1,120	-	1,360
Bank bills (i)	6.29%	-	2,000	-	2,000
Lease liabilities	6.92%	109	112	-	221
Convertible notes	5.00%	475	-	-	475
Provisions	-	-	-	192	192
		824	3,232	930	4,986

(i) The Bank Facility provided by National Australia Bank is subject to the following Financial Covenants:

Interest Cover

Minimum interest cover of 3.00 times measured for the 12 month period ending on 30 June 2010 and thereafter half yearly for Kip McGrath Education Centres Limited.

Interest cover is defined as Earnings before interest and tax divided by interest.

Capital Adequacy

Minimum capital adequacy of 35.00% measured on a daily basis and reported in relation to the 12 month period ending on 30 June 2010 and thereafter half yearly for Kip McGrath Education Centres Limited and subject to annual review.

Capital adequcy calculation defined as: [(Total Assets minus Total Liabilities minus goodwill) divided by (Total Assets)] * 100

Maximum Dividend

"Maximum Dividend % = 80% of NPAT excluding any write downs - (Drawn Funds/Total Facility x 10)". Write downs are restricted to those relating to discontinued operations, intangible assets or investments and losses on disposal of assets.

The impact of a 1% movement in interest rates on the bank bill would cost/(benefit) the group an extra $13,700 in interest payments over the financial year. The only financial liability that attracts a variable interest rate is the bank bills.

For personal use only

28 Financial instruments, Financial Risk Management Objectives and Policies (cont'd)

		Maturity Dates			
Consolidated 2009	Weighted Average interest rate	Less than 1 year $'000	1 - 5 years $'000	Non Interest Bearing $'000	Total $'000
Financial Assets					
Cash and cash equivalents	0.39%	750	-	73	823
Current trade and other receivables	-	-	-	596	596
Non-current trade receivables	-	-	-	23	23
Other current assets	-	-	-	131	131
		750	-	823	1,573
Financial Liabilities					
Current trade and other payables	-	-	-	539	539
Bank bills	4.30%	236	1,020	-	1,256
Bank bills	6.29%	-	2,000	-	2,000
Lease liabilities	5.72%	81	190	-	271
Convertible notes	5.00%	453	-	-	453
Provisions	-	-	-	194	194
		770	3,210	733	4,713

(d) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

The Group 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 group.

Policies have been put in place to ensure that receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

The Group policy for non-payment of debt by contracted partners within the maximum 30-day terms is deactivation of access to student curriculum resources.

Trade receivables consist of a large number of customers, spread across diverse geographical areas. The Group does not have significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, the available-for-sale financial assets, the Group's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of those instruments.

(e) Liquidity risk management

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities; by continously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The tables in note 28(c) reflect the contractual maturity of the consolidated entity and company's assets and liabilities. Included in note 29 is a listing of undrawn facilities that the Group/company has at its disposal to further reduce liquidity risk.

For personal use only

28 Financial instruments, Financial Risk Management Objectives and Policies (cont'd)

(f) Foreign currency risk management

Foreign currency risk arises when the future transactions and recognised assets and liabilities are denominated in a currency which is not the entity's functional currency. The Group operates internationally and is exposed to foreign exchange risk arising primarily from the GB pound. The Group presently does not hedge against these movements. The functional currency of Kip McGrath Education UK Ltd is GB pounds.

The carrying amount of the Group's foreign currency denominated monetary assets / (liabilities) at the reporting date are as follows:

Currency	2010 Balance '000	30/06/2010 Exchange rate	2010 AUD equivalent $'000	2009 Balance '000	30/06/2009 Exchange rate	2009 AUD equivalent $'000
GBP	(368)	0.5666	(650)	(370)	0.4872	(760)
USD	20	0.8523	23	14	0.8114	18
NZD	29	1.2308	24	3	1.2428	2
SGD	0	1.1940	0	19	1.1749	16
ZAR	6	6.5338	1	40	6.3433	6
EUR	8	0.6979	12	10	0.5751	17

The Group trades internationally, particularly in the United Kingdom and New Zealand. There is exposure on a trading basis, which is predominantly in GB pounds (GBP). The exposure in foreign currency movements is minimal as there are no Group liabilities in foreign currencies.

The following table details the Group's sensitivity to a 10% increase and decrease in the Australian Dollar against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other then the currency of the lender of the borrower. A positive number indicates an increase in profit or loss and other equity where the Australian Dollar stengthens against the respective currency. For a weakening of the Australian Dollar against the respective currency there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

The Group currently has exposure to foreign currency movements as 45% of the Group's franchise business profit is derived from overseas operations.

The main exposure is represented in the GBP currency:

	2010 $'000	2009 $'000
Profit or loss	102	112
Other equity	6	27

For personal use only

29 Notes to the cash flow statement

(a) Reconciliation of cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the statement of financial position as follows:

	2010 $'000	2009 $'000
Cash and cash equivalents	731	823
(b) Reconciliation of profit/(loss) for the year to net cash flows from operating activities		
Profit from ordinary activities after income tax	362	3,292
Amortisation of bank facility	5	-
NPV discount of convertible note	22	44
Loss on sale of property, plant & equipment	16	11
Depreciation & amortisation expense	256	183
FX effect on KMUK balance sheet	40	-
Change in operating assets and liabilities:		
Decrease in receivables	72	28
Decrease in inventories	109	9
Decrease in other current assets	26	41
Decrease in current tax assets	68	195
(Increase) in deferred tax assets	(68)	(630)
Increase in current tax payable	-	26
Increase/(decrease) in deferred tax liability	240	(1,471)
Increase/(decrease) in payables	207	(181)
(Decrease) in provisions	(2)	(53)
Net cash inflow from operating activities	**1,353**	**1,494**

For personal use only

29 Notes to the cash flow statement (cont'd)

(c) Financing facilities

	2010 $'000	2009 $'000
Secured bank overdraft facility:		
Amount used	-	-
Amount unused	-	-
	-	**-**
Secured bill acceptance facility: (ii)		
Amount used	3,370	3,270
Amount unused	-	350
	3,370	**3,620**
Secured business credit cards:		
Amount used	6	3
Amount unused	134	137
	140	**140**
Secured finance lease facility:		
Amount used	238	231
Amount unused	-	61
	238	**292**

(i) The Group has access to financing facilities at reporting date as indicated above. The Group expects to meet its other obligations from operating cash flows.

(ii) The bill facility with National Australia Bank has a scheduled $62,500 quarterly amortisation schedule. The Group redrew an additional $350,000 capital from the facility in 2010.

The facility has an expiry date of 30 November 2014.

(d) Non-cash financing and investing activities

During the current financial year, the Group acquired $44,430 of equipment under finance lease. The acquisition will be reflected in the cash flow statement over the term of the finance lease via lease repayments.

30 Contingent liabilities

A claim has been made against the company, alleging Employment Relations - breach of employment contract. The company is defending the claim and are of the opinion, based on legal advice, that the claim will be unsuccessful and no provision is required.

31 Additional Company Information

Kip McGrath Education Centres Limited is a listed public company, incorporated and operating in Australia.

Registered Office & Principal Place of Business

Level 3, 6 Newcomen Street
Newcastle NSW 2300
Tel: (02) 4929 6711

For personal use only

Substantial shareholders

The number of shares held by substantial shareholders and their associates are set out below:

Shareholder	Number of ordinary shares
Mrs D McGrath	4,293,320
Mr K McGrath	4,266,320
Kip McGrath Investments Pty Limited	1,000,000

Voting rights

Ordinary shares

Refer note 16 to financial statements

Options

Refer note 27 to financial statements

Distribution of equity security holders

	Number of equity security holders	
Category	Ordinary shares	Options
1-1,000	102	-
1,001 - 5,000	274	-
5,001 - 10,000	114	-
10,001 - 100,000	123	1
100,001 and over	24	-
Total	637	1

There were 131 shareholders with unmarketable (less then $500) parcels of ordinary shares.

On-market buy-back

There is no current on-market buy-back.

Number of holders of equity securities

Ordinary share capital

19,780,000 fully paid ordinary shares are held by 637 individual shareholders. All issued ordinary shares carry one vote.

For personal use only

Twenty Largest shareholders as at 5 August 2010

Name	Number of ordinary shares held	Percentage of capital held
Mrs Dagnija McGrath	4,175,000	21.11
Mr Kip McGrath	4,175,000	21.11
Kip McGrath Investments Pty Ltd	1,000,000	5.06
Dr Michelle Mulligan (Samak Trust)	573,418	2.90
Mr Storm McGrath	560,000	2.83
Giverny Computer Software Pty Ltd	401,582	2.03
Tonesco Pty Ltd	319,874	1.62
Mr Brian Stephan Sleigh	305,000	1.54
KMEC Superannuation Pty Limited	273,959	1.39
Shift 6 Pty Ltd	267,500	1.35
Liberty Consolidated Holdings	250,000	1.26
National Nominees Limited	241,459	1.22
Mrs Deborah Ann Keating	223,000	1.13
Mr Anthony Mark Van Der Steeg	221,995	1.12
Belsov Pty Ltd	150,000	0.76
Mr Robert Lundy	149,770	0.76
Laudick Pty Ltd	138,528	0.70
Mr Ross W Keating & Mrs Deborah A Keating	137,100	0.69
Mr Keith Stanton Lynch	134,600	0.68
Mr Leon J Cuzzilla & Mrs Lynda J Cuzzilla	120,000	0.61
Total	13,817,785	69.87

KIP McGRATH EDUCATION CENTRES LIMITED
DIRECTORY

For personal use only

Board of Directors
Mr Glenn Turner – Chairman
Mr Storm McGrath – Managing Director
Mr Kip McGrath – Executive Director
Mrs Dagnija McGrath – Executive Director
Mr Ian Campbell - Non-Executive Director
Ms Lindy Hyam - Non-Executive Director

Registered Office
Level 3, 6 Newcomen Street
NEWCASTLE NSW 2300
Telephone: (02) 4929 6711
Facsimile: (02) 4929 6338

Company Secretary
Ms Darlene Perks

Auditors
Forsythes
Level 4, Hunter Mall Chambers
175 Scott Street
NEWCASTLE NSW 2300

Share Registry
Computershare Investor Services Pty Limited
Level 19
307 Queen Street
BRISBANE QLD 4000

Bankers
National Australia Bank Limited
Level 1,
101 Hannell Street
WICKHAM NSW 2293

Commonwealth Bank Australia
Newcastle Branch
136 Hunter Street
NEWCASTLE NSW 2300

Stock Exchange
The company is listed on the Australian Stock Exchange. The Home Exchange is Sydney.

Other information
Kip McGrath Education Centres Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.