Kip McGrath Education Centres Limited
Appendix 4E
Preliminary final report

1. Company details

Name of entity:	Kip McGrath Education Centres Limited
ABN:	73 003 415 889
Reporting period:	For the year ended 30 June 2015
Previous period:	For the year ended 30 June 2014

2. Results for announcement to the market

				$'000
Revenues from ordinary activities	up	18.5%	to	14,893
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	up	24.6%	to	2,025
Profit from ordinary activities after tax attributable to the owners of Kip McGrath Education Centres Limited	up	47.4%	to	1,079
Profit for the year attributable to the owners of Kip McGrath Education Centres Limited	up	47.4%	to	1,079

Dividends

	Amount per security Cents	Franked amount per security Cents
Interim dividend for the year ended 30 June 2015 of 0.5 cents per ordinary share, fully franked	0.500	0.500

On 21 August 2015, a final dividend for the year ended 30 June 2015 of 1.0 cents per ordinary share, 95.1% franked, was declared and will be paid on 18 September 2015 to those shareholders on the register at 5pm on 2 September 2015. A total distribution will be $442,000.

Comments
The profit for the consolidated entity after providing for income tax amounted to $1,079,000 (30 June 2014: $732,000).

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

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

	Consolidated 2015 $'000	Consolidated 2014 $'000
Revenue	14,893	12,572
EBITDA	2,025	1,625
Less: Depreciation and amortisation	(372)	(368)
Less: Interest expense	(113)	(195)
Add: Interest income	7	2
Profit before Income tax expense	1,547	1,064
Income tax expense	(468)	(332)
Profit after income tax expense	1,079	732

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	(0.99)	(2.91)

4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable.

6. Dividends

Current period

	Amount per security Cents	Franked amount per security Cents
Interim dividend for the year ended 30 June 2015 of 0.5 cents per ordinary share, fully franked	0.500	0.500

On 21 August 2015, a final dividend for the year ended 30 June 2015 of 1.0 cents per ordinary share, 95.1% franked, was declared and will be paid on 18 September 2015 to those shareholders on the register at 5pm on 2 September 2015. A total distribution will be $442,000.

Previous period
There were no dividends paid, recommended or declared during the previous financial period.

7. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

Not applicable.

9. Foreign entities

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

Not applicable.

10. Audit qualification or review

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

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

11. Attachments

Details of attachments (if any):

The Annual Report of Kip McGrath Education Centres Limited for the year ended 30 June 2015 is attached.

12. Signed

Signed _____ Date: 21 August 2015

Kip McGrath
Chairman
Newcastle

Kip McGrath Education Centres Limited

ABN 73 003 415 889

Annual Report - 30 June 2015

Kip McGrath Education Centres Limited
Corporate directory
30 June 2015

Directors	Kip McGrath (Chairman) Ian Campbell Trevor Folsom
Company secretary	Brett Edwards
Notice of annual general meeting	The details of the annual general meeting of Kip McGrath Education Centres Limited are: 3/6 Newcomen Street Newcastle, NSW 2300 Friday 20 November 2015 at 11:00 am (AEST)
Registered office	Level 3 6 Newcomen Street Newcastle, NSW 2300 Head office telephone: 02 4929 6711
Share register	Computershare Investor Services Pty Limited 117 Victoria Street, West End, QLD 4101 Shareholders enquiries: 1300 787 272
Auditor	PKF Newcastle 755 Hunter Street Newcastle West, NSW 2302
Bankers	Commonwealth Bank Australia, Newcastle Branch 136 Hunter Street, Newcastle NSW 2300 National Australia Bank Limited Level 1, 101 Hannell Street Wickham, NSW 2293
Stock exchange listing	Kip McGrath Education Centres Limited shares are listed on the Australian Securities Exchange (ASX code: KME)
Website	www.kipmcgrath.com

21 August 2015
Newcastle

Dear Shareholders,

I am pleased to report that the 2014/15 financial year saw significant progress in the strategy of Kip McGrath Education Centres ('KMEC') to establish a leading position in the global tutoring and education sector.

Work remains but KMEC's FY15 financial results are encouraging and suggest the strategic course we have set is the right one. For the full year ended 30 June 2015 KMEC posted a 47% increase in net profit to $1.1 million, on the back of a 19% increase in revenue to $14.9 million. Earnings before interest, tax, depreciation and amortisation ('EBITDA') rose 25% to $2.0 million for the year.

Our 541 centres, as at the reporting date, was down slightly on the 550 of a year earlier, but we saw a significant increase in the number of Gold Partnerships taken up as a proportion of all franchisee agreements. This is a welcome development. Gold Partners are those franchisees to whom KMEC provides complete back-office and administrative support and are typically more efficient and profitable franchisee operations. Efforts to migrate more franchisees onto Gold Partner agreements are ongoing.

Students were at the heart of KMEC since the company was founded some four decades ago, and that remains the case. Kip McGrath centres have always taken pride in the difference they make to the lives of individual students.

In June 2015 KMEC participated in 19CCEM, the triennial Conference of Commonwealth Education Ministers in the Bahamas, as one of the first-ever private-sector delegations invited to join and present as one of three key note speakers at this forum. KMEC's attendance was in recognition of the strong contribution we have made to education in developing Commonwealth countries, working in partnership with local education authorities. The 19CCEM event has coincided with some exciting developments for KMEC in developing countries, which are detailed in the Chief Executive Officer's report to follow.

It is hard to understate the importance of international markets to KMEC's future. We have developed a unique remedial educational content and methodology package that can be delivered in any English-speaking country. As the company's founder, my vision was always to assist students in need, to give them the best possible start in life. It's a source of great satisfaction – not only to me personally but also to our staff and many of our shareholders who are similarly motivated - to see that vision being carried out globally today.

In FY15 KMEC has consolidated its platform for sustained, long-term growth. On behalf of the Board I want to thank all our staff and franchisees for their hard work and dedication, those thousands of families who have put their faith in our tutoring systems each week, and our loyal shareholders.

Based on these results, the Board determined today a dividend of 1.0 cent per share, payable on 18 September 2015 to those shareholders on the register at 5pm on 2 September 2015.

We look forward to continued success in the year ahead.

Yours sincerely,

Kip McGrath
Chairman

Our vision continues to see KMEC deploying its proven educational content, teaching methodology and delivery platform in the global market, leveraging the experience and track record gained over several decades of successful tutoring operations in Australia.

The pillars underpinning this strategy are:

- the introduction of common and scalable technology platforms for both franchise management ('Intuition') and content deployment ('Insight') across the Kip McGrath global network;
- the introduction of an online tutoring model, KipOnline; and
- the introduction of Gold Partnership franchise agreements, under which KMEC provides end-to-end back-office support for franchisees.

Taken together, these initiatives will support KMEC's transition from being a network of relatively loosely connected tutoring franchises recording somewhat inconsistent performance, into an integrated, web-based tutoring platform that can be replicated easily and at scale in just about any international market.

This program is ambitious but, if executed successfully, promises to deliver significant long-term value to shareholders. I am pleased to report that during FY15 KMEC made continued strong progress in implementing our strategy, and by the reporting date was tracking well across most measures.

Of the 541 franchised KMEC centres operating globally as at 30 June 2015, 507 centres - accounting for a combined 30,000 students - were using the Intuition platform, up from 443 centres a year earlier. Centres using intuition are uniformly more profitable and productive, more than justifying our investment in this platform.

On the content front, 79% of centres had adopted our proprietary Insight teaching software by the end of the year, up from 60% the previous year. The widespread uptake of this innovative web-based teaching tool across the KMEC network has demonstrably improved the quality and consistency of tuition delivered, leading to better student learning outcomes, higher student retention and growth in overall student numbers.

The benefits of our shift to a percentage-of-revenue franchise model, introduced in 2010, were bolstered in FY15 by strong growth in uptake of Gold Partnerships, which are a source of incremental revenue growth to KMEC. By 30 June 2015, 32% of our franchisees globally had signed on as Gold Partners, up from 21% a year earlier.

Progress made, both in embedding these strategic initiatives across KMEC and in our international expansion, is reflected in the financial performance for the financial year. The uplift in KMEC's revenue of 19% was underpinned by 21% growth in revenue from the UK and our newly-opened offices in the Middle East. Notwithstanding a slight fall in centre numbers in the UK following the departure of a group of 25 franchisees during the year, by the reporting date sales were steadily increasing.

In October 2014 KMEC launched KipOnline, a new platform enabling teachers to deliver lessons to groups of students remotely over the Internet, following successful pilots. While we expect this platform will have a central role in KMEC's model in future, initial progress has been challenging. By the reporting date 150 students per week were using KipOnline, which was short of our target. Numbers are growing, however, as technological issues – primarily the quality of hardware and the Internet connection used - are addressed by KMEC and parents, we expect the service to gain traction rapidly. Encouragingly, students using KipOnline are performing on average better than those taking lessons in-centre and feedback from parents indicates a high degree of satisfaction with the convenience and quality of the KipOnline experience.

Clearly, KMEC is well down the path of establishing a global tutoring footprint. Today, Kip McGrath centres globally provide around 21,500 lessons per week using our proprietary Insight software, in countries as diverse as Australia, New Zealand, the UK, South Africa and, more recently, Abu Dhabi.

Our efforts to expand this footprint were boosted following our participation in 19CCEM, as one of only three private sector organisations invited to attend, in The Bahamas in June 2015. This forum gave KMEC invaluable exposure to education Ministers and policymakers from mainly developing Commonwealth countries, where boosting literacy and numeracy is a key issue. As it turns out, this need is readily addressed by KMEC's Insight platform, and the potential for licensing Insight in developing countries was successfully demonstrated to the leaders gathered at 19CCEM.

Prior to the conference, KMEC completed the pilot and sale of licensing agreements to a group of 8 schools in South Africa – our first such licensing sale. We are now in discussions with South African authorities with a view to greatly expanding this number, in a country with 28,000 schools requiring remedial support. We are also responding to interest from 15 other Commonwealth countries that are keen to explore supplementary education models based on the Kip McGrath model.

To recap, it has been an exciting year for KMEC, one in which we crystallised our global vision and made tangible strides in realising this vision. In the coming year we expect to see continued progress in positioning KMEC as a leading participant in

the global tutoring and remediation market, translating to sustained earnings growth over the long term. In achieving this goal, we look forward to the continued support of our dedicated team of employees and franchisees.

I look forward to updating shareholders on our progress.

Storm McGrath
Chief Executive Officer

21 August 2015
Newcastle

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Kip McGrath Education Centres Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2015.

Directors

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

Kip McGrath
Ian Campbell
Trevor Folsom (appointed on 22 September 2014)
Richard Ryan (resigned on 22 September 2014)
Joe Ewart (resigned as alternate director for Richard Ryan on 22 September 2014)

Principal activities

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

Dividends

Dividends paid during the financial year were as follows:

	Consolidated	
	2015 $'000	2014 $'000
Interim dividend for the year ended 30 June 2015 of 0.5 cents per ordinary share, fully franked	221	-

On 21 August 2015 a final dividend for the year ended 30 June 2015 of 1.0 cents per ordinary share, 95.1% franked, was declared and will be paid on 18 September 2015 to those shareholders on the register at 5pm on 2 September 2015. A total distribution will be $442,000.

Review of operations

The profit for the consolidated entity after providing for income tax amounted to $1,079,000 (30 June 2014: $732,000).

The earnings before interest, tax, depreciation and amortisation ('EBITDA') amounted to $2,025,000 (2014: $1,625,000).

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

	Consolidated	
	2015 $'000	2014 $'000
Revenue	14,893	12,572
EBITDA	2,025	1,625
Less: Depreciation and amortisation	(372)	(368)
Less: Interest expense	(113)	(195)
Add: Interest income	7	2
Profit before Income tax expense	1,547	1,064
Income tax expense	(468)	(332)
Profit after income tax expense	1,079	732

The United Kingdom and Middle East markets have driven the strong financial performance of the company this financial year, with overall revenues up 21% in these markets.

Australasian revenue has risen by 16% to $9,563,000 this year with the substantial progress in the move to percentage of revenue contracts for nearly all centres in Australia. Within Australia 94% of centres are using the Insight product, averaging over 10,300 lessons per week. Online lessons are steadily increasing, with around 150 students per week now attending lessons remotely with a tutor.

UK and European revenues are up 16% to $4,220,000 with strong sales continuing for Gold Partner centres in the UK market. Overall centre numbers have fallen slightly to 228 centres, but there are now 72 operational Gold Partners in the UK, with another 4 converting to gold contracts in August following resales. Centres have now significantly increased their level of technology usage, with over 11,700 lessons per week being undertaken using Insight.

Significant changes in the state of affairs

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

Matters subsequent to the end of the financial year

Apart from the dividend declared as discussed above, no other matter or circumstance has arisen since 30 June 2015 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Likely developments and expected results of operations

It is expected that the overall number of franchise centres will grow modestly while the on-line product is progressively rolled out into all key markets. The company will also increase its focus on new markets for its licenced software product, to consolidate on recent sales in South Africa and the UK college market.

Environmental regulation

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

Information on directors

Name:	Kip McGrath
Title:	Executive Director and Chairman
Experience and expertise:	As co-founder, Kip has particular responsibility for strategic planning and developing "Train-the-Trainer" programs.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	None
Interests in shares:	16,227,499 ordinary shares (including 11,227,499 directly held)
Interests in options:	None

Name:	Ian Campbell
Title:	Non-Executive Director
Qualifications:	FCA, MAICD
Experience and expertise:	Ian joined the Board on 25 August 2009 after a 31 year career with the international accounting firm Ernst & Young principally working with entrepreneurial companies and the capital markets. Ian is a fellow of The Institute of Chartered Accountants in Australia and a member of the Australian Institute of Company Directors. He is currently a non-executive director of CVC Limited and Redox Pty Ltd and a partner with the Board search practice of the Allegis Group (formerly Talent2). His previous non-executive director roles included Gloria Jean's Coffees International Pty Limited, Green's Foods Holdings Pty Ltd and Young Achievement Australia Limited.
Other current directorships:	CVC Ltd
Former directorships (last 3 years):	None
Special responsibilities:	Chairman of the Audit Committee and Chairman of Remuneration Committee
Interests in shares:	446,469 ordinary shares
Interests in options:	None

Name:	Trevor Folsom (appointed on 22 September 2014)
Title:	Non-Executive Director
Experience and expertise:	Trevor has extensive background and experience and is acknowledged for his ability to engage, invest and advise growth companies, particularly in the technology sector. He is a successful entrepreneur in his own right, developing, from start up, Blueprint Management, which he sold in 2008. He is currently a Director of Elevation Capital, an early stage technology investment company.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Member of the Audit Committee and member of Remuneration Committee
Interests in shares:	None

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

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

Company secretary

Brett Edwards is a Fellow of the Institute of the Chartered Accountants in Australia and a member of the Australian Institute of Company Directors. He has 27 years of experience in accounting and reporting in a number of major Australian and international businesses, including 10 years with international accounting firm Ernst & Young. He was previously a director of GMAC Australia LLC, a US company operating in the finance segment in Australia.

Meetings of directors

The number of meetings of the company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2015, and the number of meetings attended by each director were:

	Full Board		Nomination and Remuneration Committee		Audit Committee	
	Attended	Held	Attended	Held	Attended	Held
Kip McGrath	7	7	-	-	-	-
Ian Campbell	7	7	2	2	4	4
Richard Ryan	2	2	2	2	1	1
Trevor Folsom	5	5	-	-	3	3

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

Remuneration report (audited)

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

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

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

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

Principles used to determine the nature and amount of remuneration

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

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

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

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

In accordance with best practice corporate governance, the structure of non-executive directors and executive remunerations are separate.

Non-executive directors remuneration

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

ASX listing rules requires that the aggregate non-executive directors' remuneration shall be determined periodically by a general meeting. The most recent determination was at the Annual General Meeting held on 19 November 2010, where the shareholders approved an aggregate remuneration of $200,000 per annum.

Executive remuneration

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

The KMP remuneration and reward framework has four components:

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

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

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

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

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

Long-term incentives ('LTI') include share options and long service leave.

Consolidated entity performance and link to remuneration
KMP remuneration is not directly linked to the performance of the consolidated entity. Bonus and incentive payments are at the discretion of the Board.

Use of remuneration consultants
During the financial year ended 30 June 2015, the company did not engage the use of remuneration consultants.

Voting and comments made at the company's 2014 Annual General Meeting ('AGM')
At the last AGM, 98% of the shareholders voted to adopt the remuneration report for the year ended 30 June 2014. The company did not receive any specific feedback at the AGM regarding its remuneration practices.

Details of remuneration

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

The key management personnel of the consolidated entity consisted of the directors of Kip McGrath Education Centres Limited and the following persons:
- Storm McGrath - Chief Executive Officer and Investor Relations
- James Street - Chief Executive Officer - Online
- Brett Edwards - Company Secretary and Chief Financial Officer
- Jackie Burrows - Chief Executive Officer UK Business

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
2015	Cash salary and fees $	Bonus $	Non-monetary $	Super-annuation $	Employee leave $	Equity-settled $	Total $
Non-Executive Directors:							
Ian Campbell	55,000	-	3,071	-	-	-	58,071
Richard Ryan	11,275	-	689	-	-	-	11,964
Trevor Folsom	31,735	-	2,381	3,014	-	-	37,130
Executive Directors:							
Kip McGrath (Chairman)	154,988	-	3,071	14,724	-	-	172,783
Other Key Management Personnel:							
Storm McGrath	267,753	31,050	3,071	28,386	-	7,425	337,685
James Street	164,294	10,000	3,071	16,558	-	5,537	199,460
Brett Edwards	164,979	10,000	3,071	16,527	-	3,100	197,677
Jackie Burrows	110,612	-	3,071	-	-	699	114,382
	960,636	51,050	21,496	79,209	-	16,761	1,129,152

2014	Short-term benefits: Cash salary and fees $	Short-term benefits: Bonus $	Short-term benefits: Non-monetary $	Post-employment benefits: Super-annuation $	Long-term benefits: Termination benefits $	Share-based payments: Equity-settled $	Total $
Non-Executive Directors:							
Ian Campbell	39,575	-	2,687	3,005	-	-	45,267
Richard Ryan	37,500	-	2,687	-	-	-	40,187
Joe Ewart (1)	34,375	-	2,687	-	-	-	37,062
Executive Directors:							
Kip McGrath (Chairman)	161,675	-	2,687	14,954	-	-	179,316
Other Key Management Personnel:							
Storm McGrath	235,890	17,127	2,687	23,404	-	-	279,108
James Street	155,610	10,000	2,687	15,393	-	2,799	186,489
Brett Edwards	143,226	10,000	2,687	14,046	-	2,099	172,058
Nick Grogan (2)	-	-	2,687	-	-	-	2,687
Jackie Burrows	93,135	-	-	-	-	699	93,834
	900,986	37,127	21,496	70,802	-	5,597	1,036,008

(1) Resigned on 31 May 2014 but remained as an alternative director to Richard Ryan.
(2) Alternate director.

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

Name	Fixed remuneration 2015	Fixed remuneration 2014	At risk - STI 2015	At risk - STI 2014	At risk - LTI 2015	At risk - LTI 2014
Non-Executive Directors:						
Ian Campbell	100%	100%	-%	-%	-%	-%
Richard Ryan	100%	100%	-%	-%	-%	-%
Joe Ewart	-%	100%	-%	-%	-%	-%
Trevor Folsom	100%	-%	-%	-%	-%	-%
Executive Directors:						
Kip McGrath	100%	100%	-%	-%	-%	-%
Other Key Management Personnel:						
Storm McGrath	89%	94%	9%	6%	2%	-%
James Street	92%	93%	5%	5%	3%	2%
Brett Edwards	93%	93%	5%	6%	2%	1%
Jackie Burrows	100%	100%	-%	-%	-%	-%

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

Name	Cash bonus paid/payable 2015	Cash bonus paid/payable 2014	Cash bonus forfeited 2015	Cash bonus forfeited 2014
Other Key Management Personnel:				
Storm McGrath	90%	80%	10%	20%
James Street	100%	100%	-%	-%
Brett Edwards	100%	100%	-%	-%

Service agreements

KMP have standard contracts of employment that have no entitlement to termination payments in the event of removal for misconduct. Termination can be made by either the consolidated entity or individual subject to one to six month's notice. Storm McGrath has performance incentives of up to 10%, capped at $150,000 for over-budget performance based on achievement of performance targets. James Street and Brett Edwards have performance incentives of up to 5%, capped at $75,000.

Share-based compensation

Issue of shares

There were no shares issued to directors and other KMP as part of compensation during the year ended 30 June 2015.

Options

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

Grant date	No. granted	Expiry date	Exercise price	Fair value per option at grant date
23 October 2014	300,000	31 December 2019	$0.350	$0.190
21 November 2014	1,000,000	31 December 2019	$0.350	$0.190

Options granted carry no dividend or voting rights.

Fair value of the share options granted was determined by reference to the likelihood that the vesting conditions will be met.

Details of options over ordinary shares granted, vested and lapsed for directors and other key management personnel as part of compensation during the year ended 30 June 2015 are set out below:

Name	Grant date	Number of options granted $	Value of options granted $	Value of options vested $
Storm McGrath	21 November 2014	1,000,000	4,942	-
James Street	23 October 2014	150,000	1,001	-
Brett Edwards	23 October 2014	150,000	1,001	-

There were no options exercised for directors and other KMP as part of compensation during the year ended 30 June 2015.

Additional disclosures relating to key management personnel

In accordance with Class Order 14/632, issued by the Australian Securities and Investments Commission, relating to 'Key management personnel equity instrument disclosures', the following disclosure relates only to equity instruments in the company or its subsidiaries.

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

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
Ordinary shares					
Kip McGrath	16,227,499	-	-	-	16,227,499
Storm McGrath	837,960	-	-	-	837,960
Ian Campbell	446,469	-	-	-	446,469
James Street	929,664	-	-	-	929,664
Jackie Burrows	150,200	-	-	-	150,200
	18,591,792	-	-	-	18,591,792

Option holding
The number of options over ordinary shares in the company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
Options over ordinary shares					
Storm McGrath	500,000	1,000,000	-	-	1,500,000
James Street	550,000	150,000	-	-	700,000
Brett Edwards	150,000	150,000	-	-	300,000
Jackie Burrows	50,000	-	-	-	50,000
	1,250,000	1,300,000	-	-	2,550,000

This concludes the remuneration report, which has been audited.

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

Grant date	Expiry date	Exercise price	Number under option
31 March 2012	31 March 2016	$0.075	850,000
28 February 2014	28 February 2018	$0.190	400,000
23 October 2014	31 December 2019	$0.350	300,000
21 November 2014	31 December 2019	$0.350	1,000,000
			2,550,000

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

Shares issued on the exercise of options
There were no ordinary shares of Kip McGrath Education Centres Limited issued on the exercise of options during the year ended 30 June 2015 and up to the date of this report.

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

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

Indemnity and insurance of auditor

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

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

Proceedings on behalf of the company

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

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 29 to the financial statements.

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

The directors are of the opinion that the services as disclosed in note 29 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

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

Officers of the company who are former partners of PKF Newcastle

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

Rounding of amounts

The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on the following page.

Auditor

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

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

On behalf of the directors

Kip McGrath
Chairman

21 August 2015
Newcastle

PKF

21 August 2015

The Board of Directors
Kip McGrath Education Centres Limited
Level 3, 6 Newcomen Street
NEWCASTLE NSW 2300

Dear Board Members

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

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the audit of Kip McGrath Education Centres Limited for the year ended 30 June 2015, I declare that, to the best of my knowledge and belief, there have been:

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

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

PKF NEWCASTLE
Chartered Accountants

Martin Matthews
Partner

Dated: 21 August 2015

Newcastle, NSW

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

Liability limited by a scheme approved under Professional Standards Legislation

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

Both this Corporate Governance Statement and the ASX Appendix 4G have been lodged with the ASX. This statement has been approved by the company's Board of Directors ('Board') and is current as at 21 August 2015.

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

Principle 1: Lay solid foundations for management and oversight

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	Proportion of women	Proportion of men
On the board	0%	100%
In senior executive positions	25%	75%
Across the whole organisation	73%	27%

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

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

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

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

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

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

The Board conducts an annual performance assessment of the CEO against agreed performance measures determined at the start of the year. The CEO undertakes the same assessments of senior executives. In assessing the performance of the individual, the review includes consideration of the senior executive's function, individual targets, group targets, and the overall performance of the company. The most recent review was completed in August 2014.

Principle 2: Structure the board to add value

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

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

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

The Board's skills matrix indicates the mix of skills, experience and expertise that are considered necessary at Board level for optimal performance of the Board. The matrix reflects the Board's objective to have an appropriate mix of industry and professional experience including skills such as leadership, governance, strategy, finance, risk, IT, HR, policy development, international business and customer relationship. External consultants may be brought in with specialist knowledge to address areas where this is an attribute deficiency in the Board.

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

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

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

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

Director's name	Appointment date	Length of service at reporting date	Independence status
Kip McGrath	9 March 1988	27 years	Executive Chairman
Ian Campbell	25 August 2009	6 years	Independent Non-Executive
Trevor Folsom	22 September 2014	1 year	Independent Non-Executive

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

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

Director's name	Details of interest or relationship	Board reasoning why director is independent
Ian Campbell	446,469 ordinary shares held indirectly in superfund	This holding aligns the interests of the director with those of the shareholders and is encouraged by the company.

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

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

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

Kip McGrath is Chair of the Board and does not hold the position of CEO of the company. Whilst Kip McGrath is not an independent director the Board considers him the most suitable director for the role due to being a co-founder of the company. The CEO is Storm McGrath.

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

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

Principle 3: Act ethically and responsibly

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

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

Principle 4: Safeguard integrity in corporate reporting

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

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

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

The Committee consists entirely of non-executive directors, Ian Campbell and Trevor Folsom. The chairperson, Ian Campbell is not Board chair and is an independent director. Whilst the committee consists of less than the three recommended members, the Board is satisfied the experience of the two members makes for an effective committee.

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

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

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

For the financial year ended 30 June 2015 and the half-year ended 31 December 2014, the company's CEO and CFO provided the Board with the required declarations.

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

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

Principle 5: Make timely and balanced disclosure

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

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

Principle 6: Respect the rights of security holders

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

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

Recommendations 6.2 and 6.3

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

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

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

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

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

Principle 7: Recognise and manage risk

Recommendations 7.1 & 7.2

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

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

The company does not maintain a Risk Committee as it is considered that the current size of the Board does not warrant the formal establishment of a separate committee. The Board and Audit Committee therefore performs the function of such a committee which includes setting of corporate governance policy and exercising due care and skill in assessing risk, developing strategies to mitigate such risk, monitoring the risk and the company's effectiveness in managing it. The company maintains internal controls which assist in managing enterprise risk, and these are reviewed as part of the scope of the external audit, with the auditor providing the Board with commentary on their effectiveness and the need for any additional controls. The CEO and CFO are responsible for monitoring operational risk, ensuring all relevant insurances are in place, and ensuring that all regulatory and compliance obligations of the company are satisfied. The last review was completed in May 2014.

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

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

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

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

Principle 8: Remunerate fairly and responsibly

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

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

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

The Committee consists entirely of non-executive directors, Ian Campbell and Trevor Folsom. The chairperson, Ian Campbell is not Board chair and is an independent director. Whilst the committee consists of less than the three recommended members, the Board is satisfied the experience of the two members makes for an effective committee.

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

The Board has established the committee under formal Charter.

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

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

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

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

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

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

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

Contents

General information

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

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

Level 3
6 Newcomen Street
Newcastle NSW 2300

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 21 August 2015. The directors have the power to amend and reissue the financial statements.

Kip McGrath Education Centres Limited
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2015

	Note	Consolidated 2015 $'000	Consolidated 2014 $'000
Revenue	4	14,893	12,572
Other income	5	60	35
Expenses			
Royalties, commissions and other direct expenses		(8,012)	(7,043)
Employee expenses		(2,667)	(2,252)
Marketing expenses		(407)	(187)
Administration expenses		(1,456)	(1,062)
Merchandising expenses		(379)	(436)
Depreciation and amortisation expense	6	(372)	(368)
Finance costs	6	(113)	(195)
Profit before income tax expense		1,547	1,064
Income tax expense	7	(468)	(332)
Profit after income tax expense for the year attributable to the owners of Kip McGrath Education Centres Limited	25	1,079	732
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		177	(29)
Other comprehensive income for the year, net of tax		177	(29)
Total comprehensive income for the year attributable to the owners of Kip McGrath Education Centres Limited		1,256	703
		Cents	**Cents**
Basic earnings per share	37	2.442	1.712
Diluted earnings per share	37	2.333	1.674

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

Kip McGrath Education Centres Limited
Statement of financial position
As at 30 June 2015

	Note	Consolidated 2015 $'000	Consolidated 2014 $'000
Assets			
Current assets			
Cash and cash equivalents	8	3,337	2,400
Trade and other receivables	9	498	463
Inventories	10	36	45
Other	11	234	68
Total current assets		4,105	2,976
Non-current assets			
Receivables	12	72	74
Property, plant and equipment	13	20	15
Intangibles	14	9,506	9,304
Deferred tax	15	1,099	1,445
Total non-current assets		10,697	10,838
Total assets		14,802	13,814
Liabilities			
Current liabilities			
Trade and other payables	16	2,991	2,295
Borrowings	17	350	350
Income tax	18	63	22
Provisions	19	282	262
Total current liabilities		3,686	2,929
Non-current liabilities			
Payables	20	110	253
Borrowings	21	650	1,400
Deferred tax	22	1,286	1,214
Total non-current liabilities		2,046	2,867
Total liabilities		5,732	5,796
Net assets		9,070	8,018
Equity			
Issued capital	23	8,774	8,774
Reserves	24	738	544
Accumulated losses	25	(442)	(1,300)
Total equity		9,070	8,018

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

Kip McGrath Education Centres Limited
Statement of changes in equity
For the year ended 30 June 2015

Consolidated	Issued capital $'000	Reserves $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 July 2013	7,229	567	(2,032)	5,764
Profit after income tax expense for the year	-	-	732	732
Other comprehensive income for the year, net of tax	-	(29)	-	(29)
Total comprehensive income for the year	-	(29)	732	703
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs (note 23)	1,545	-	-	1,545
Share-based payments	-	6	-	6
Balance at 30 June 2014	8,774	544	(1,300)	8,018

Consolidated	Issued capital $'000	Reserves $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 July 2014	8,774	544	(1,300)	8,018
Profit after income tax expense for the year	-	-	1,079	1,079
Other comprehensive income for the year, net of tax	-	177	-	177
Total comprehensive income for the year	-	177	1,079	1,256
Transactions with owners in their capacity as owners:				
Share-based payments	-	17	-	17
Dividends paid (note 26)	-	-	(221)	(221)
Balance at 30 June 2015	8,774	738	(442)	9,070

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

Kip McGrath Education Centres Limited
Statement of cash flows
For the year ended 30 June 2015

	Note	Consolidated 2015 $'000	Consolidated 2014 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		15,673	13,341
Payments to suppliers and employees (inclusive of GST)		(13,196)	(10,994)
		2,477	2,347
Interest received		7	2
Interest and other finance costs paid		(113)	(178)
Income taxes refunded (paid)		14	(10)
Net cash from operating activities	36	2,385	2,161
Cash flows from investing activities			
Payments for property, plant and equipment	13	(24)	(25)
Payments for intangibles	14	(453)	(183)
Net cash used in investing activities		(477)	(208)
Cash flows from financing activities			
Proceeds from borrowings		-	2,000
Dividends paid	26	(221)	-
Repayment of borrowings		(750)	(2,523)
Net cash used in financing activities		(971)	(523)
Net increase in cash and cash equivalents		937	1,430
Cash and cash equivalents at the beginning of the financial year		2,400	970
Cash and cash equivalents at the end of the financial year	8	3,337	2,400

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

Note 1. Significant accounting policies

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

New, revised or amending Accounting Standards and Interpretations adopted

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

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

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

- AASB 2012-3 Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities
- AASB 2013-3 Amendments to AASB 136 - Recoverable Amount Disclosures for Non-Financial Assets
- AASB 2013-4 Amendments to Australian Accounting Standards - Novation of Derivatives and Continuation of Hedge Accounting
- AASB 2013-5 Amendments to Australian Accounting Standards - Investment Entities
- AASB 2014-1 Amendments to Australian Accounting Standards (Parts A to C)
- Interpretation 21 Levies

Basis of preparation

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

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

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

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 33.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Kip McGrath Education Centres Limited ('company' or 'parent entity') as at 30 June 2015 and the results of all subsidiaries for the year then ended. Kip McGrath Education Centres Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

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

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

Note 1. Significant accounting policies (continued)

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

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

Operating segments

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

Foreign currency translation

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

Foreign currency transactions

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

Foreign operations

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

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

Revenue recognition

Revenue is recognised when it is probable that the economic benefit will flow to the consolidated entity and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Franchise operations

Revenue from student lessons are recognised when the services are provided. Revenue from franchise operations is recognised in line with the contract, typically monthly.

Sales of master territories and franchise centres

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.

Direct sales

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

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

Note 1. Significant accounting policies (continued)

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

Income tax

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

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

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

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

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

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

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

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

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

Current and non-current classification

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

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

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

Note 1. Significant accounting policies (continued)

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

Cash and cash equivalents

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

Trade and other receivables

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

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the consolidated entity will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Inventories

Stores and educational materials are stated at the lower of cost and net realisable value on a 'first in first out' basis. Cost comprises direct materials and delivery costs, direct labour, import duties and other taxes. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Property, plant and equipment

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

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment over their expected useful lives as follows:

Plant and equipment	3-10 years
Equipment under lease	3-10 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Plant and equipment under lease are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

Leases

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

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

Note 1. Significant accounting policies (continued)

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

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

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

Intangible assets

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

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

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

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

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

Impairment of non-financial assets

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

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

Trade and other payables

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

Borrowings

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

Note 1. Significant accounting policies (continued)

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

Finance costs

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

Provisions

Provisions are recognised when the consolidated entity has a present (legal or constructive) obligation as a result of a past event, it is probable the consolidated entity 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 the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

Employee benefits

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

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

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

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

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

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

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

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

Note 1. Significant accounting policies (continued)

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

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

Fair value measurement

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

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

Issued capital

Ordinary shares are classified as equity.

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

Dividends

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

Business combinations

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

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

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

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

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

Note 1. Significant accounting policies (continued)

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

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

Earnings per share

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

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

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

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

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

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

Rounding of amounts
The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

New Accounting Standards and Interpretations not yet mandatory or early adopted
Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2015. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

Note 1. Significant accounting policies (continued)

AASB 9 Financial Instruments
This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. The consolidated entity will adopt this standard from 1 July 2018 but the impact of its adoption is yet to be assessed. The consolidated entity believes the adoption of the standard to be immaterial and is currently carrying out the impact assessment.

IFRS 15 Revenue from Contracts with Customers
This standard is currently applicable to annual reporting periods beginning on or after 1 January 2017 (however Exposure Draft 263 'Effective Date of AASB 15' proposes to defer the application date by one year to 1 January 2018). The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services). It is expected that the consolidated entity will adopt this standard from 1 July 2018 (presuming ED 263 is passed) but the impact of its adoption is yet to be assessed. The consolidated entity believes the adoption of the standard to be immaterial and is currently carrying out the impact assessment.

Other accounting standards issued are not considered to have a significant impact on the financial statements of the consolidated entity. These standards (and their operative dates) include:

- AASB 14 Regulatory Deferral Accounts (from 1 January 2016);
- AASB 2014-1 Amendments to Australian Accounting Standards (Part D from 1 January 2016 and Part E from 1 January 2018);
- AASB 2014-3 Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations (from 1 January 2016);
- AASB 2014-4 Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation (from 1 January 2016);
- AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15 (from 1 January 2017);
- AASB 2014-6 Amendments to Australian Accounting Standards – Agriculture: Bearer Plants (from 1 January 2016);
- AASB 2014-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2014) (from 1 January 2018);
- AASB 2014-8 Amendments to Australian Accounting Standards arising from AASB 9 (December 2014) – Application of AASB 9 (December 2009) and AASB 9 (December 2010) (from 1 January 2015);
- AASB 2014-9 Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements (from 1 January 2016);
- AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (from 1 January 2016);
- AASB 2015-1 Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012–2014 Cycle (from 1 January 2016);
- AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101(from 1 January 2016);
- AASB 2015-3 Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality (from 1 July 2015);
- 2015-4 Amendments to Australian Accounting Standards – Financial Reporting Requirements for Australian Groups with a Foreign Parent (from 1 July 2015); and
- AASB 2015-5 Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception (from 1 January 2016).

Note 2. Critical accounting judgements, estimates and assumptions

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

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

Provision for impairment of receivables
The provision for impairment of receivables assessment requires a degree of estimation and judgement. The level of provision is assessed by taking into account the recent sales experience, the ageing of receivables, historical collection rates and specific knowledge of the individual debtor's financial position.

Estimation of useful lives of assets
The consolidated entity determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Impairment of non-financial assets other than indefinite life intangible assets
The consolidated entity assesses impairment of non-financial assets other than indefinite life intangible assets at each reporting date by evaluating conditions specific to the consolidated entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

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

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

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

Note 3. Operating segments

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

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

Geographical information
The geographical information of non-current assets below is exclusive of financial instruments, deferred tax assets, post employment benefits assets and rights under insurance contracts.

Geographical information

	Sales to external customers		Geographical non-current assets	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Australasia	9,563	8,232	9,379	9,143
United Kingdom and Europe	4,220	3,632	219	250
Overseas other	948	654	-	-
	14,731	12,518	9,598	9,393

Note 4. Revenue

	Consolidated	
	2015 $'000	2014 $'000
Sales revenue		
Revenue from franchise fees	6,492	5,765
Revenue from student lesson fees	5,783	5,707
Revenue from sale of franchisee centres	1,665	908
Revenue from direct sales	532	138
Revenue from sale of master territories	259	-
	14,731	12,518
Other revenue		
Interest	7	2
Other revenue	155	52
	162	54
Revenue	14,893	12,572

Note 5. Other income

	Consolidated	
	2015 $'000	2014 $'000
Net foreign exchange gain	60	35

Note 6. Expenses

	Consolidated 2015 $'000	Consolidated 2014 $'000
Profit before income tax includes the following specific expenses:		
Depreciation		
Plant and equipment	19	13
Amortisation		
Product and overseas development costs	151	318
Other	202	37
Total amortisation	353	355
Total depreciation and amortisation	372	368
Costs of sale		
Direct costs of student lessons	5,038	4,583
Other costs of sale	3,365	2,887
Total cost of sale	8,403	7,470
Finance costs		
Interest and finance charges paid/payable	113	195
Rental minimum lease payments	257	252
Defined contribution superannuation expense	166	129
Bad debt written off	22	23

Note 7. Income tax expense

	Consolidated 2015 $'000	Consolidated 2014 $'000
Income tax expense		
Current tax	50	21
Deferred tax - origination and reversal of temporary differences	418	311
Aggregate income tax expense	468	332
Deferred tax included in income tax expense comprises:		
Decrease in deferred tax assets (note 15)	346	363
Increase/(decrease) in deferred tax liabilities (note 22)	72	(52)
Deferred tax - origination and reversal of temporary differences	418	311
Numerical reconciliation of income tax expense and tax at the statutory rate		
Profit before income tax expense	1,547	1,064
Tax at the statutory tax rate of 30%	464	319
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Sundry items	4	13
Income tax expense	468	332

Note 7. Income tax expense (continued)

	Consolidated 2015 $'000	Consolidated 2014 $'000
Tax losses not recognised		
Unused tax losses for which no deferred tax asset has been recognised	1,269	1,269
Potential tax benefit @ 30%	381	381

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

Note 8. Current assets - cash and cash equivalents

	Consolidated 2015 $'000	Consolidated 2014 $'000
Cash at bank	1,306	1,006
Restricted cash	2,031	1,394
	3,337	2,400

Restricted cash represents amounts held on behalf of franchisees and is not available for use by the consolidated entity. The corresponding liability is recognised in other payables and accruals at note 16.

Note 9. Current assets - trade and other receivables

	Consolidated 2015 $'000	Consolidated 2014 $'000
Trade receivables	715	596
Less: Provision for impairment of receivables	(217)	(133)
	498	463

Impairment of receivables
The consolidated entity has recognised a loss of $84,000 (2014: $30,000) in profit or loss in respect of impairment of receivables for the year ended 30 June 2015.

The ageing of the impaired receivables provided for above are as follows:

	Consolidated 2015 $'000	Consolidated 2014 $'000
91-120 days overdue	217	133

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

Movements in the provision for impairment of receivables are as follows:

	Consolidated 2015 $'000	Consolidated 2014 $'000
Opening balance	133	103
Additional provisions recognised	106	53
Receivables written off during the year as uncollectable	(22)	(23)
Closing balance	217	133

Past due but not impaired
Customers with balances past due but without provision for impairment of receivables amount to $43,000 as at 30 June 2015 ($33,000 as at 30 June 2014).

The consolidated entity did not consider a credit risk on the aggregate balances after reviewing the credit terms of customers based on recent collection practices.

The ageing of the past due but not impaired receivables are as follows:

	Consolidated 2015 $'000	Consolidated 2014 $'000
31-60 days overdue	24	19
61-90 days overdue	19	14
	43	33

Note 10. Current assets - inventories

	Consolidated 2015 $'000	Consolidated 2014 $'000
Stores and educational materials - at cost	36	45

Note 11. Current assets - other

	Consolidated 2015 $'000	Consolidated 2014 $'000
Prepayments	228	62
Other deposits	6	6
	234	68

Note 12. Non-current assets - receivables

	Consolidated 2015 $'000	Consolidated 2014 $'000
Trade receivables	72	74

Note 13. Non-current assets - property, plant and equipment

	Consolidated 2015 $'000	Consolidated 2014 $'000
Plant and equipment - at cost	303	272
Less: Accumulated depreciation	(283)	(257)
	20	15
Equipment under lease	299	299
Less: Accumulated depreciation	(299)	(299)
	-	-
	20	15

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

Consolidated	Plant and equipment $'000	Total $'000
Balance at 1 July 2013	3	3
Additions	25	25
Depreciation expense	(13)	(13)
Balance at 30 June 2014	15	15
Additions	24	24
Depreciation expense	(19)	(19)
Balance at 30 June 2015	20	20

Note 14. Non-current assets - intangibles

	Consolidated 2015 $'000	Consolidated 2014 $'000
Intellectual property - at cost	4,012	4,012
Product and overseas development costs	5,492	5,046
Less: Accumulated amortisation	(1,134)	(990)
	4,358	4,056
Franchise territories	860	758
Less: Accumulated amortisation	(54)	(54)
	806	704
Other intangible assets - at cost	622	622
Less: Accumulated amortisation	(292)	(90)
	330	532
	9,506	9,304

Note 14. Non-current assets - intangibles (continued)

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

Consolidated	Intellectual property $'000	Product and overseas development costs $'000	Franchise territories $'000	Other intangibles $'000	Total $'000
Balance at 1 July 2013	4,012	4,219	645	128	9,004
Additions	-	155	-	441	596
Exchange differences	-	-	59	-	59
Amortisation expense	-	(318)	-	(37)	(355)
Balance at 30 June 2014	4,012	4,056	704	532	9,304
Additions	-	453	-	-	453
Exchange differences	-	-	102	-	102
Amortisation expense	-	(151)	-	(202)	(353)
Balance at 30 June 2015	4,012	4,358	806	330	9,506

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

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

The recoverable amount has been determined by a value-in-use calculation using a discounted cash flow model, based on a three year projection period approved by management and extrapolated for a further two years using a growth rate of 2.4% (2014: 2.4%). There are no terminal values in the calculation.

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

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

a. Pre-tax discount rate 17.2% (2014: 17.9%). The discount rate of 17.2% pre-tax reflects management's estimate of the time value of money and the consolidated entity's weighted average cost of capital, the risk free rate and the volatility of the share price relative to market movements.

b. New centre growth rate of 3.0% (2014: 3.0%) over the three year projection period, which reflects an expected move towards larger on-line based centres and a continued movement towards percentage of revenue contracts, which management believe is reasonable given the current trading performance of the consolidated entity.

c. Foreign exchange rates consistent with current market conditions.

d. On-line tutoring services to be 8% (2014: 15%) of total lessons over the three year projection period, which management believe is reasonable given current growth in the market segment.

Based on the above, there was no impairment required for the year ended 30 June 2015 (2014: $nil).

Note 14. Non-current assets - intangibles (continued)

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

a) The new centre growth would need to fall to 0% (2014: -2%) before the CGU would need to be impaired, with all other assumptions remaining constant
b) The discount rate would need to increase by 16% (2014: 17%) before the CGU would need to be impaired, with all other assumptions remaining constant
c) The Australian dollar would need to strengthen by 24% (2014: 100%) before the CGU would need to be impaired, with all other assumptions remaining constant
d) On-line tutoring services would need to grow to only 1% (2014: 4%) of total lessons before the CGU would need to be impaired, with all other assumptions remaining constant

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

Note 15. Non-current assets - deferred tax

	Consolidated	
	2015 $'000	2014 $'000
Deferred tax asset comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Tax losses	575	982
Impairment of receivables	65	33
Employee benefits	86	79
Accrued expenses	123	42
QAX licence temporary difference	236	300
	1,085	1,436
Amounts recognised in equity:		
Transaction costs on share issue	14	9
Deferred tax asset	1,099	1,445
Movements:		
Opening balance	1,445	1,808
Charged to profit or loss (note 7)	(346)	(363)
Closing balance	1,099	1,445

Note 16. Current liabilities - trade and other payables

	Consolidated 2015 $'000	Consolidated 2014 $'000
Trade payables	442	772
GST and other similar payable	7	19
Other payables and accruals	2,542	1,504
	2,991	2,295

Refer to note 27 for further information on financial instruments.

Note 17. Current liabilities - borrowings

	Consolidated 2015 $'000	Consolidated 2014 $'000
Bank loans	350	350

Refer to note 21 for further information on assets pledged as security and financing arrangements.

Refer to note 27 for further information on financial instruments.

Note 18. Current liabilities - income tax

	Consolidated 2015 $'000	Consolidated 2014 $'000
Provision for income tax	63	22

Note 19. Current liabilities - provisions

	Consolidated 2015 $'000	Consolidated 2014 $'000
Employee benefits	282	262

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

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

	Consolidated 2015 $'000	Consolidated 2014 $'000
Employee benefits	20	27

Note 20. Non-current liabilities - payables

	Consolidated 2015 $'000	Consolidated 2014 $'000
Trade payables	110	253

Refer to note 27 for further information on financial instruments.

Note 21. Non-current liabilities - borrowings

	Consolidated 2015 $'000	Consolidated 2014 $'000
Bank loans	650	1,400

Refer to note 27 for further information on financial instruments.

Total secured liabilities
The total secured liabilities (current and non-current) are as follows:

	Consolidated 2015 $'000	Consolidated 2014 $'000
Bank loans	1,000	1,750

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

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

	Consolidated 2015 $'000	Consolidated 2014 $'000
Total facilities		
Bank overdraft	500	-
Bank loans	1,000	1,750
	1,500	1,750
Used at the reporting date		
Bank overdraft	-	-
Bank loans	1,000	1,750
	1,000	1,750
Unused at the reporting date		
Bank overdraft	500	-
Bank loans	-	-
	500	-

Note 22. Non-current liabilities - deferred tax

	Consolidated 2015 $'000	Consolidated 2014 $'000
Deferred tax liability comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Research and development costs	104	127
Overseas development	1,182	1,087
Deferred tax liability	1,286	1,214
Movements:		
Opening balance	1,214	1,266
Credited/(charged) to profit or loss (note 7)	72	(52)
Closing balance	1,286	1,214

Note 23. Equity - issued capital

	Consolidated 2015 Shares	Consolidated 2014 Shares	Consolidated 2015 $'000	Consolidated 2014 $'000
Ordinary shares - fully paid	44,184,331	44,184,331	8,774	8,774

Movements in ordinary share capital

Details	Date	Shares	Issue price	$'000
Balance	1 July 2013	26,796,706		7,229
Conversion of convertibles notes issued to Editure on 4 November 2011	31 July 2013	7,322,142	$0.087	639
Conversion of convertibles notes issued to Editure on 15 May 2012	31 July 2013	3,466,177	$0.090	312
Conversion of convertibles notes issued to Kip and Danija McGrath on 8 November 2011	31 July 2013	6,599,306	$0.090	594
Balance	30 June 2014	44,184,331		8,774
Balance	30 June 2015	44,184,331		8,774

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

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

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

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

Note 23. Equity - issued capital (continued)

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

The capital risk management policy remains unchanged from the 30 June 2014 Annual Report.

The capital structure of the consolidated entity consist of net debt (borrowings as detailed in notes 17 and 21 – offset by cash and bank balances as detailed in note 8) and equity of the consolidated entity (comprising issued capital, reserves and accumulated losses as detailed in notes 23, 24 and 25).

Note 24. Equity - reserves

	Consolidated	
	2015 $'000	2014 $'000
Foreign currency reserve	(39)	(216)
Share-based payments reserve	23	6
Other reserves	754	754
	738	544

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

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

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

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

Consolidated	Foreign currency $'000	Share-based payments $'000	Other $'000	Total $'000
Balance at 1 July 2013	(187)	-	754	567
Foreign currency translation	(29)	-	-	(29)
Share-based payments	-	6	-	6
Balance at 30 June 2014	(216)	6	754	544
Foreign currency translation	177	-	-	177
Share-based payments	-	17	-	17
Balance at 30 June 2015	(39)	23	754	738

Note 25. Equity - accumulated losses

	Consolidated 2015 $'000	Consolidated 2014 $'000
Accumulated losses at the beginning of the financial year	(1,300)	(2,032)
Profit after income tax expense for the year	1,079	732
Dividends paid (note 26)	(221)	-
Accumulated losses at the end of the financial year	(442)	(1,300)

Note 26. Equity - dividends

Dividends
Dividends paid during the financial year were as follows:

	Consolidated 2015 $'000	Consolidated 2014 $'000
Interim dividend for the year ended 30 June 2015 of 0.5 cents per ordinary share, fully franked	221	-

On 21 August 2015 a final dividend for the year ended 30 June 2015 of 1.0 cents per ordinary share, 95.1% franked, was declared and will be paid on 18 September 2015 to those shareholders on the register at 5pm on 2 September 2015. A total distribution will be $442,000.

Franking credits

	Consolidated 2015 $'000	Consolidated 2014 $'000
Franking credits available for subsequent financial years based on a tax rate of 30%	180	275

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:
- franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date

These credits will be fully absorbed with the dividend announced on 21 August 2015.

Note 27. Financial instruments

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

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

Note 27. Financial instruments (continued)

Market risk

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

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

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

	Assets		Liabilities	
Consolidated	**2015 $'000**	**2014 $'000**	**2015 $'000**	**2014 $'000**
US dollars	89	24	40	75
Euros	6	-	-	-
Pound Sterling	2,464	648	1,443	446
New Zealand dollars	101	94	-	-
Singapore dollars	95	95	28	18
South African Rand	51	62	-	-
Kenyan Shilling	9	-	-	-
	2,815	923	1,511	539

The consolidated entity had net assets denominated in foreign currencies of $1,304,000 as at 30 June 2015 (assets $2,815,000 less liabilities $1,511,000) (2014: $384,000 (assets $923,000 less liabilities $539,000)). Based on this net position, the consolidated entity is not exposed to any significant foreign currency sensitivity from its existing assets and liabilities.

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

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

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

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

	2015		2014	
Consolidated	**Weighted average interest rate %**	**Balance $'000**	**Weighted average interest rate %**	**Balance $'000**
Bank overdrafts and bank loans	6.23%	1,000	6.80%	1,750
Cash at bank - term deposit	3.10%	(46)	3.15%	(38)
Net exposure to cash flow interest rate risk		954		1,712

Note 27. Financial instruments (continued)

The consolidated entity has net bank loans and borrowings outstanding, totalling $954,000 (2014: $1,712,000), which are principal and interest payment loans. Annually cash outlays of approximately $350,000 (2014: $350,000 per quarter) are required to service the debt. An official increase/decrease in interest rates of 100 (2014: 100) basis points would have an adverse/favourable effect on profit before tax of $9,500 (2014: $17,000) per annum. The percentage change is based on the expected volatility of interest rates using market data and analysis.

Credit risk

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

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

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

Liquidity risk

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

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

Financing arrangements
Unused borrowing facilities at the reporting date:

	Consolidated	
	2015	2014
	$'000	$'000
Bank overdraft	500	-

The bank loan covenants are specific quarterly and annual reporting requirements, a requirement to maintain EBITDA above $1.3m on a rolling 12 month basis and a restriction on dividends to not exceed net profit less current debt obligations.

Note 27. Financial instruments (continued)

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

Consolidated - 2015	Weighted average interest rate %	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Non-derivatives						
Non-interest bearing						
Trade payables	-%	442	-	-	-	442
Other payables	-%	2,548	110	-	-	2,658
Interest-bearing - variable						
Bank loans	6.23%	350	350	350	-	1,050
Total non-derivatives		3,340	460	350	-	4,150

Consolidated - 2014	Weighted average interest rate %	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Non-derivatives						
Non-interest bearing						
Trade payables	-%	772	-	-	-	772
Other payables	-%	1,523	253	-	-	1,776
Interest-bearing - variable						
Bank loans	6.80%	450	1,505	-	-	1,955
Total non-derivatives		2,745	1,758	-	-	4,503

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

Fair value of financial instruments
Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

Note 28. Key management personnel disclosures

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

	Consolidated 2015 $	Consolidated 2014 $
Short-term employee benefits	1,033,182	959,609
Post-employment benefits	79,209	70,802
Share-based payments	16,761	5,597
	1,129,152	1,036,008

Note 29. Remuneration of auditors

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

	Consolidated 2015 $	Consolidated 2014 $
Audit services - PKF Newcastle		
Audit or review of the financial statements	81,575	79,500
Other services - PKF Newcastle		
Preparation of the tax return	7,084	1,200
	88,659	80,700
Audit services - unrelated firms		
Audit or review of the financial statements	11,400	13,260
Other services - unrelated firms		
Payroll and tax services	9,925	16,372
	21,325	29,632

Fees of $21,325 (2014: $13,260) were paid to Hazlewoods LLP, who are the auditors of the UK subsidiary Kip McGrath Education United Kingdom Limited.

Note 30. Contingent assets and liabilities

The consolidated entity has entered into arrangements to provide a guarantee to the consolidated entity's lessor over its operating lease of the head office premises amounting to $46,194 (2014: $37,000).

Contingent assets
The consolidated entity is in a dispute with a number of ex-franchisees in the United Kingdom in respect of contractual obligations following termination. In June 2015 the consolidated entity filed 2 claims in English courts seeking settlement of damages. The consolidated entity has taken legal advice and having considered the legal advice, the directors are of the opinion that the consolidated entity will be successful in its action.

Contingent liabilities
The consolidated entity is in a dispute with an ex-employee in relation to a matter before the Fair Work Commission. The consolidated entity has taken legal advice and having considered the legal advice, the directors are of the opinion that the consolidated entity has no liability and that no additional provisions are required.

Note 31. Commitments

	Consolidated 2015 $'000	Consolidated 2014 $'000
Capital commitments		
Committed at the reporting date but not recognised as liability, payable:		
Intangible assets	47	130
PPE Lease commitments - operating		
Committed at the reporting date but not recognised as liability, payable:		
Within one year	202	261
One to five years	63	325
	265	586

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

Note 32. Related party transactions

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

Subsidiaries
Interests in subsidiaries are set out in note 34.

Key management personnel
Disclosures relating to key management personnel are set out in note 28 and the remuneration report in the directors' report.

Transactions with related parties
There were no transactions with related parties during the current and previous financial year.

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

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

Note 33. Parent entity information

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

Statement of profit or loss and other comprehensive income

	Parent 2015 $'000	Parent 2014 $'000
Loss after income tax	(1,640)	(1,148)
Total comprehensive income	(1,640)	(1,148)

Note 33. Parent entity information (continued)

Statement of financial position

	Parent 2015 $'000	Parent 2014 $'000
Total current assets	2,160	1,651
Total assets	5,193	7,977
Total current liabilities	2,088	2,022
Total liabilities	3,944	4,881
Equity		
Issued capital	8,774	8,774
Foreign currency reserve	(4)	-
Share-based payments reserve	23	6
Other reserves	1	-
Accumulated losses	(7,545)	(5,684)
Total equity	1,249	3,096

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries
The parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2015 and 30 June 2014, except as disclosed in note 30.

Contingent liabilities
The parent entity had no contingent liabilities as at 30 June 2015 and 30 June 2014.

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

Capital commitments - Property, plant and equipment
The parent entity has capital commitments to purchase intangible assets as disclosed in note 31.

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

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

Note 34. Interests in subsidiaries

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

Name	Principal place of business / Country of incorporation	Ownership interest 2015 %	Ownership interest 2014 %
Kip McGrath Education Australia Pty Ltd	Australia	100.00%	100.00%
Kip McGrath Global Pty Limited	Australia	100.00%	100.00%
Kip McGrath Direct Pty Ltd	Australia	100.00%	100.00%
Kip McGrath Education United Kingdom Ltd	United Kingdom	100.00%	100.00%
Kip McGrath Education New Zealand Limited	New Zealand	100.00%	100.00%

Note 35. Events after the reporting period

Apart from the dividend declared as disclosed in note 26, no other matter or circumstance has arisen since 30 June 2015 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Note 36. Reconciliation of profit after income tax to net cash from operating activities

	Consolidated	
	2015 $'000	2014 $'000
Profit after income tax expense for the year	1,079	732
Adjustments for:		
Depreciation and amortisation	372	368
Share-based payments	17	6
Foreign exchange differences	75	(59)
Finance costs - non-cash	-	17
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	(33)	15
Decrease in inventories	9	5
Decrease in deferred tax assets	346	363
Increase in prepayments	(166)	(36)
Increase in trade and other payables	530	780
Increase in provision for income tax	64	11
Increase/(decrease) in deferred tax liabilities	72	(52)
Increase in other provisions	20	11
Net cash from operating activities	2,385	2,161

Note 37. Earnings per share

	Consolidated	
	2015 $'000	2014 $'000
Profit after income tax attributable to the owners of Kip McGrath Education Centres Limited	1,079	732
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	44,184,331	42,755,211
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares	2,064,521	984,795
Weighted average number of ordinary shares used in calculating diluted earnings per share	46,248,852	43,740,006
	Cents	Cents
Basic earnings per share	2.442	1.712
Diluted earnings per share	2.333	1.674

Note 38. Share-based payments

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

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

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

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

2015

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
31/03/2012	31/03/2016	$0.075	850,000	-	-	-	850,000
28/02/2014	28/02/2018	$0.190	400,000	-	-	-	400,000
23/10/2014	31/12/2019	$0.350	-	300,000	-	-	300,000
21/11/2014	31/12/2019	$0.350	-	1,000,000	-	-	1,000,000
			1,250,000	1,300,000	-	-	2,550,000

2014

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
31/03/2012	31/03/2016	$0.075	850,000	-	-	-	850,000
28/02/2014	28/02/2018	$0.190	-	400,000	-	-	400,000
			850,000	400,000	-	-	1,250,000

The options issued in the year have the following vesting conditions:

• Meeting annual performance indicators set by the Board; and
• The employee remains in employment until date of vesting.

The weighted average remaining contractual life of options outstanding at the end of the financial year was 2.96 years (2014: 2.39 years).

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

Grant date	Expiry date	Option price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
23/10/2014	31/12/2019	$0.320	$0.350	85.00%	-%	2.46%	$0.190
21/11/2014	31/12/2019	$0.310	$0.350	85.00%	-%	2.46%	$0.190

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were $17,000 (2014: $6,000).

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

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

On behalf of the directors

Kip McGrath
Chairman

21 August 2015
Newcastle

PKF

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

Report on the Financial Report

We have audited the accompanying financial report of Kip McGrath Education Centres Limited, which comprises the statement of financial position as at 30 June 2015, and statement of profit or loss and other comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the 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 of the financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements,* that the financial statements comply 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. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including 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 of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We 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*.

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

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PKF

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 2015 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 from pages 7 to 12 of the directors' report for the year ended 30 June 2015. 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 2015, complies with section 300A of the *Corporations Act 2001.*

PKF

PKF NEWCASTLE
Chartered Accountants

MARTIN MATTHEWS
Partner

Dated: 21 August 2015

Newcastle, NSW

The shareholder information set out below was applicable as at 6 August 2015.

Distribution of equitable securities

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

	Number of holders of ordinary shares	Number of holders of options over ordinary shares
1 to 1,000	78	-
1,001 to 5,000	188	-
5,001 to 10,000	92	-
10,001 to 100,000	145	-
100,001 and over	37	-
	540	-
Holding less than a marketable parcel	80	-

Equity security holders

Twenty largest quoted equity security holders

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

	Ordinary shares	
	Number held	% of total shares issued
MR KIP MCGRATH	11,200,499	25.35
CITICORP NOMINEES PTY LIMITED	8,895,130	20.13
KMEC SUPERANNUATION PTY LTD (KMEC SUPERANNUATION FUND A/C)	4,000,000	9.05
NATIONAL NOMINEES LIMITED	3,415,416	7.73
KIP MCGRATH INVESTMENTS PTY LTD (MCGRATH FAMILY A/C)	1,000,000	2.26
MR STORM KIP MCGRATH	833,959	1.89
J P MORGAN NOMINEES AUSTRALIA LIMITED	770,549	1.74
BELSOV PTY LTD (TURNER FAMILY S/F A/C)	758,052	1.72
ENSI STREET SUPERANNUATION PTY LTD (ENSI STREET RETIREMENT A/C)	600,000	1.36
SHIFT 6 PTY LTD (THE TWO BUNNIES FAMILY A/C)	535,933	1.21
HETALE PTY LIMITED (EAGLES NEST RETIRE FUND A/C)	446,469	1.01
MR LEO WOODWARD + MRS JOAN WOODWARD	402,942	0.91
GIVERNY COMPUTER SOFTWARE PTY LTD (KHADRA MULLIGAN P/L S/F A/C)	401,582	0.91
MR BRIAN STEPHAN SLEIGH	688,000	1.56
MR ROBERT LUNDY (LUNDY SUPER FUND A/C)	322,098	0.73
MRS JENNIFER ANNE BUCHANAN	316,300	0.72
ENSI TRADING COMPANY PTY LTD	307,864	0.70
MR STEVEN JOHN MCCARTHY	300,000	0.68
MR CHRISTOPHER TURNER	271,708	0.61
LIBERTY CONSOLIDATED HOLDINGS	250,000	0.57
	35,716,501	80.84

Unquoted equity securities

There are no unquoted equity securities, except the options as disclosed in Note 38.

Substantial holders

Substantial holders in the company are set out below:

	Ordinary shares	
	Number held	% of total shares issued
MR KIP MCGRATH	11,200,499	25.35
CITICORP NOMINEES PTY LIMITED	8,895,130	20.13
KMEC SUPERANNUATION PTY LTD (KMEC SUPERANNUATION FUND A/C)	4,000,000	9.05
NATIONAL NOMINEES LIMITED	3,415,416	7.73

Voting rights

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

Ordinary shares

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

There are no other classes of equity securities.