**Kip McGrath Education Centres Limited**
**Appendix 4D**
**Half-year report**

## 1. Company details

| | |
|---|---|
| Name of entity: | Kip McGrath Education Centres Limited |
| ABN: | 73 003 415 889 |
| Reporting period: | For the half-year ended 31 December 2019 |
| Previous period: | For the half-year ended 31 December 2018 |

## 2. Results for announcement to the market

The consolidated entity has adopted Accounting Standard AASB 16 'Leases' for the half-year ended 31 December 2019 using the modified retrospective approach and as such the comparatives have not been restated.

| | | | | $'000 |
|---|---|---|---|---|
| Revenues from ordinary activities | up | 22.1% | to | 8,740 |
| Earnings Before Interest, Tax, Depreciation and Amortisation ('EBITDA') | up | 12.8% | to | 2,637 |
| Profit from ordinary activities after tax attributable to the owners of Kip McGrath Education Centres Limited | down | 8.2% | to | 1,024 |
| Profit for the half-year attributable to the owners of Kip McGrath Education Centres Limited | down | 8.2% | to | 1,024 |

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

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

*Comments*
The profit for the consolidated entity after providing for income tax amounted to $1,024,000 (31 December 2018: $1,115,000).

AASB 16 'Leases' had no significant impact on the current period. The current profit before income tax expense was reduced by $58,000. This included an increased depreciation and amortisation expense of $236,000 and increased finance costs of $39,000, offset by a reduction in other expenses (reclassification of lease expenses) of $217,000. As at 31 December 2019, net current assets were reduced by $447,000 (attributable to current lease liabilities) and net assets were reduced by $131,000 (attributable to right-of-use assets, lease liabilities).

Refer to Managing Director and Chairman's letter for further commentary.

The earnings before interest, tax, depreciation and amortisation ('EBITDA') amounted to $2,637,000 (2018: $2,336,000).

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

| | Consolidated 31/12/2019 $'000 | Consolidated 31/12/2018 $'000 |
|---|---|---|
| Revenue | 8,740 | 7,157 |
| EBITDA | 2,637 | 2,336 |
| Less: Depreciation and amortisation | (1,251) | (794) |
| Less: Interest expense | (64) | (25) |
| Profit before income tax expense | 1,322 | 1,517 |
| Income tax expense | (298) | (402) |
| Profit after income tax expense | 1,024 | 1,115 |

## 3. Net tangible assets

| | Reporting period Cents | Previous period Cents |
|---|---|---|
| Net tangible assets per ordinary security | (4.04) | (3.42) |

## 4. Control gained over entities

Not applicable.

## 5. Loss of control over entities

Not applicable.

## 6. Dividend reinvestment plans

Not applicable.

## 7. Details of associates and joint venture entities

Not applicable.

## 8. Foreign entities

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

Not applicable.

## 9. Audit qualification or review

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

The financial statements were subject to a review by the auditors and the review report is attached as part of the Interim Report.

## 10. Attachments

*Details of attachments (if any):*

The Interim Report of Kip McGrath Education Centres Limited for the half-year ended 31 December 2019 is attached.

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## 11. Signed

Signed ____________________________ Date: 25 February 2020

Ian Campbell
Chairman
Newcastle

# Kip McGrath Education Centres Limited

**ABN 73 003 415 889**

## Interim Report - 31 December 2019

Dear Shareholder,

In a half characterised by significant uncertainty due to Brexit in the UK, our largest market, we are pleased to report revenue for the company increased 22.1 percent. We also had an increase in EBITDA of 12.8%. Notwithstanding this strong growth, net profit after tax is slightly down due primarily to:

- increased amortisation and depreciation expense following the acquisition of the Yorkshire and the Humber UK area developers; and
- increased staffing costs to accelerate delivery on our strategy of blending our franchise network with corporate owned centres

Operations

Lesson numbers for the half have increased globally and whilst lower than budget, we expect this will correct in the historically stronger second half.

The business is currently coming to the end of a 2-year build for all software to run the franchise and corporate centres. We are on track to have this completed for the Australasian Franchisee conference in April this year. We have accelerated our resource allocation to meet the deadline, well in advance of decommissioning our old software in October 2021.

Online Tutoring

Online tutoring growth, although slower than expected, continues to demonstrate it's the way forward complementing our face to face education centres. We continue to invest strongly in this area with the number of online lessons in corporate centres doubling over the past year to 700 lessons per month.

Corporate Owned Centres

The four corporate owned centres continue to grow and will soon become profitable. Start-up losses of this new business of $100,000 for the half were as per budget with expenses well maintained. This remains a key growth strategy as we continue to acquire further profitable centres from franchisees looking to retirement.

Area Developer Acquisitions

In September we completed the buyback of the Yorkshire and the Humber UK Area Developer. This strategy has been good for the business with a continued centralisation of support for centres and an additional contribution to profit.

Depreciation and amortisation

Our depreciation for the half was $1.25M which is up $460,000 from last year. Significantly this number includes $224,000 for the depreciation of Area Developer businesses acquired and $236,000 for leases at head office and the corporate owned centres.

Capitalisation and Cash flow

We invested $877,000 for the half on expenditure related to the ongoing development of software and curriculum which did reduce operating cash flow, however this investment is key to our strategy and our unused banking facility of $1.75M remains intact.

Outlook

Over the next 12 months we will be rolling out our new systems for franchises and company owned centres. We have begun testing the new system in January in corporate centres ready for deployment after the April conference. We have invested significant money, time and effort to build what we believe will be a major enhancement to the current system. We expect to see significant improvements in administration time and student lessons. This will lead to continued growth for centres and online in the years ahead.

The second half has always been stronger than the first half and this year should be no different.

Today the Board declared a franked interim dividend of 1.5 cent per share payable on 31 March 2020 to those shareholders on the register at 5pm on 29 March 2020.

Storm McGrath
Managing Director
25 February 2020

Ian Campbell
Chairman
25 February 2020

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Kip McGrath Education Centres Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2019.

## Directors

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

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

## Principal activities

The principal activities of the consolidated entity during the course of the financial half-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

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

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

## Review of operations

The profit for the consolidated entity after providing for income tax amounted to $1,024,000 (31 December 2018: $1,115,000).

Refer to Managing Director and Chairman's letter for further commentary on the results.

The earnings before interest, tax, depreciation and amortisation ('EBITDA') amounted to $2,637,000 (2018: $2,336,000).

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

| | Consolidated | |
|---|---|---|
| | 31/12/2019 $'000 | 31/12/2018 $'000 |
| Revenue | 8,740 | 7,157 |
| EBITDA | 2,637 | 2,336 |
| Less: Depreciation and amortisation | (1,251) | (794) |
| Less: Interest expense | (64) | (25) |
| Profit before income tax expense | 1,322 | 1,517 |
| Income tax expense | (298) | (402) |
| Profit after income tax expense | 1,024 | 1,115 |

AASB 16 'Leases' had no significant impact on the current period. The current profit before income tax expense was reduced by $58,000. This included an increased depreciation and amortisation expense of $236,000 and increased finance costs of $39,000, offset by a reduction in other expenses (reclassification of lease expenses) of $217,000. As at 31 December 2019, net current assets were reduced by $447,000 (attributable to current lease liabilities) and net assets were reduced by $131,000 (attributable to right-of-use assets, lease liabilities).

## Significant changes in the state of affairs

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

## Rounding of amounts

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

## Auditor's independence declaration

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

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors

Ian Campbell
Chairman

25 February 2020
Newcastle

Kip McGrath Education Centres Limited

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

I am pleased to provide the following declaration of independence to the directors of Kip McGrath Education Centres Limited.

As lead audit partner for the review of the financial statements of Kip McGrath Education Centres Limited for the half-year ended 31 December 2019, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

PKF

CLAYTON HICKEY
PARTNER

25 FEBRUARY 2020
NEWCASTLE



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

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## General information

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

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

Level 3
6 Newcomen Street
Newcastle NSW 2300

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

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

**Kip McGrath Education Centres Limited**
**Statement of profit or loss and other comprehensive income**
**For the half-year ended 31 December 2019**

| | Note | Consolidated 31/12/2019 $'000 | Consolidated 31/12/2018 $'000 |
|---|---|---|---|
| **Revenue** | 3 | 8,740 | 7,157 |
| Other income | | - | 247 |
| **Expenses** | | | |
| Royalties, commissions and other direct expenses | | (788) | (587) |
| Employee expenses | | (2,713) | (1,734) |
| Marketing expenses | | (1,334) | (1,239) |
| Administration expenses | | (757) | (1,130) |
| Merchandising expenses | | (500) | (362) |
| Depreciation and amortisation expense | | (1,251) | (794) |
| Impairment of receivables | 5 | (18) | (23) |
| Net foreign exchange gain/(losses) | | 7 | 7 |
| Finance costs | | (64) | (25) |
| **Profit before income tax expense** | | 1,322 | 1,517 |
| Income tax expense | | (298) | (402) |
| **Profit after income tax expense for the half-year attributable to the owners of Kip McGrath Education Centres Limited** | | 1,024 | 1,115 |
| **Other comprehensive income** | | | |
| *Items that may be reclassified subsequently to profit or loss* | | | |
| Foreign currency translation | | 160 | 8 |
| Other comprehensive income for the half-year, net of tax | | 160 | 8 |
| **Total comprehensive income for the half-year attributable to the owners of Kip McGrath Education Centres Limited** | | 1,184 | 1,123 |
| | | **Cents** | **Cents** |
| Basic earnings per share | 15 | 2.26 | 2.48 |
| Diluted earnings per share | 15 | 2.13 | 2.33 |



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

| | Note | Consolidated 31/12/2019 $'000 | Consolidated 30/06/2019 $'000 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 4 | 5,235 | 7,053 |
| Trade and other receivables | 5 | 718 | 557 |
| Prepayments | | 159 | 165 |
| Total current assets | | 6,112 | 7,775 |
| **Non-current assets** | | | |
| Trade and other receivables | 5 | - | 199 |
| Plant and equipment | | 442 | 377 |
| Right-of-use assets | 6 | 1,937 | - |
| Intangibles | 7 | 13,634 | 12,356 |
| Deferred tax | | 738 | 631 |
| Total non-current assets | | 16,751 | 13,563 |
| **Total assets** | | 22,863 | 21,338 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 8 | 4,757 | 5,749 |
| Contract liabilities | | 740 | 813 |
| Borrowings | 9 | 1,336 | 450 |
| Lease liabilities | 10 | 447 | - |
| Income tax | | 140 | 572 |
| Employee benefits | | 559 | 512 |
| Total current liabilities | | 7,979 | 8,096 |
| **Non-current liabilities** | | | |
| Lease liabilities | 10 | 1,621 | - |
| Deferred tax | | 1,449 | 1,475 |
| Total non-current liabilities | | 3,070 | 1,475 |
| **Total liabilities** | | 11,049 | 9,571 |
| **Net assets** | | 11,814 | 11,767 |
| **Equity** | | | |
| Issued capital | 11 | 8,876 | 8,876 |
| Reserves | 12 | 844 | 690 |
| Retained profits | | 2,094 | 2,201 |
| **Total equity** | | 11,814 | 11,767 |

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

| **Consolidated** | **Issued capital $'000** | **Reserves $'000** | **Retained profits $'000** | **Total equity $'000** |
|---|---|---|---|---|
| Balance at 1 July 2018 | 8,838 | 655 | 1,125 | 10,618 |
| Profit after income tax expense for the half-year | - | - | 1,115 | 1,115 |
| Other comprehensive income for the half-year, net of tax | - | 8 | - | 8 |
| Total comprehensive income for the half-year | - | 8 | 1,115 | 1,123 |
| *Transactions with owners in their capacity as owners:* | | | | |
| Share-based payments | - | 39 | - | 39 |
| Dividends paid (note 13) | - | - | (901) | (901) |
| Balance at 31 December 2018 | 8,838 | 702 | 1,339 | 10,879 |

| **Consolidated** | **Issued capital $'000** | **Reserves $'000** | **Retained profits $'000** | **Total equity $'000** |
|---|---|---|---|---|
| Balance at 1 July 2019 | 8,876 | 690 | 2,201 | 11,767 |
| Profit after income tax expense for the half-year | - | - | 1,024 | 1,024 |
| Other comprehensive income for the half-year, net of tax | - | 160 | - | 160 |
| Total comprehensive income for the half-year | - | 160 | 1,024 | 1,184 |
| *Transactions with owners in their capacity as owners:* | | | | |
| Share-based payments | - | (6) | - | (6) |
| Dividends paid (note 13) | - | - | (1,131) | (1,131) |
| Balance at 31 December 2019 | 8,876 | 844 | 2,094 | 11,814 |

*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 half-year ended 31 December 2019

| | Note | Consolidated 31/12/2019 $'000 | 31/12/2018 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers (inclusive of GST) | | 9,131 | 7,499 |
| Payments to suppliers and employees (inclusive of GST) | | (7,616) | (5,490) |
| | | 1,515 | 2,009 |
| Interest and other finance costs paid | | (64) | (25) |
| Income taxes paid | | (476) | (523) |
| Net cash from operating activities | | 975 | 1,461 |
| **Cash flows from investing activities** | | | |
| Payments for property, plant and equipment | | (150) | (31) |
| Payments for intangibles | 7 | (2,293) | (893) |
| Net cash used in investing activities | | (2,443) | (924) |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | 1,352 | 900 |
| Dividends paid | 13 | (1,131) | (901) |
| Repayment of borrowings | | (466) | (975) |
| Repayment of lease liabilities | | (105) | - |
| Net cash used in financing activities | | (350) | (976) |
| Net decrease in cash and cash equivalents | | (1,818) | (439) |
| Cash and cash equivalents at the beginning of the financial half-year | | 7,053 | 5,916 |
| Cash and cash equivalents at the end of the financial half-year | 4 | 5,235 | 5,477 |

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

## Note 1. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2019 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2019 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

### New or amended Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

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

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

*AASB 16 Leases*

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

*Impact of adoption*

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

| | 1 July 2019 $"000 |
|---|---|
| Operating lease commitments as at 1 July 2019 (AASB 117) | 1,291 |
| Operating lease commitments discount based on the weighted average incremental borrowing rate of 5% (AASB 16) | (152) |
| Short-term leases not recognised as a right-of-use asset (AASB 16) | 22 |
| Lease extensions recognised under AASB16 | 609 |
| Leases not commencing until after 1 July 2019 | (121) |
| Right-of-use assets (AASB 16) | 1,649 |
| | |
| Lease liabilities - current (AASB 16) | (1,163) |
| Lease liabilities - non-current (AASB 16) | (486) |
| | |
| Reduction in opening retained profits as at 1 July 2019 | - |

## Note 1. Significant accounting policies (continued)

*Practical expedients applied*
In adopting AASB 16, the Group has used the following practical expedients permitted by the standard:

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

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

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

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

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

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

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

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

## Note 1. Significant accounting policies (continued)

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

## Note 2. 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, the Chief Financial 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 as disclosed throughout these financial statements.

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

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

*Geographical information*

| | Sales to external customers | | Geographical non-current assets | |
|---|---|---|---|---|
| | 31/12/2019 $'000 | 31/12/2018 $'000 | 31/12/2019 $'000 | 30/06/2019 $'000 |
| Australasia | 3,348 | 2,421 | 13,538 | 11,974 |
| New Zealand | 887 | 771 | - | - |
| United Kingdom and Europe | 3,928 | 3,434 | 538 | 759 |
| Overseas other | 559 | 519 | - | - |
| | 8,722 | 7,145 | 14,076 | 12,733 |

## Note 3. Revenue

| | Consolidated | |
|---|---|---|
| | 31/12/2019 $'000 | 31/12/2018 $'000 |
| *Revenue from contracts with customers* | | |
| Franchise fees | 6,396 | 5,572 |
| Sale of master territories and franchisee centres | 357 | 358 |
| National advertising contributions (NAC) | 792 | 720 |
| Direct sales | 417 | 397 |
| Student lessons | 760 | 98 |
| | 8,722 | 7,145 |
| *Other revenue* | | |
| Other revenue | 18 | 12 |
| Revenue | 8,740 | 7,157 |

## Note 3. Revenue (continued)

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

| | Consolidated | |
|---|---|---|
| | 31/12/2019 $'000 | 31/12/2018 $'000 |
| *Timing of revenue recognition* | | |
| Services and goods transferred at a point in time | 8,650 | 7,032 |
| Services transferred over time | 72 | 113 |
| | 8,722 | 7,145 |

The disaggregation of revenue by major product lines is disclosed at the top of revenue note and the geographical regions is presented in note 2 - operating segments.

## Note 4. Cash and cash equivalents

| | Consolidated | |
|---|---|---|
| | 31/12/2019 $'000 | 30/06/2019 $'000 |
| *Current assets* | | |
| Cash at bank | 1,184 | 2,471 |
| Restricted cash | 4,051 | 4,582 |
| | 5,235 | 7,053 |

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

## Note 5. Trade and other receivables

| | Consolidated | |
|---|---|---|
| | 31/12/2019 $'000 | 30/06/2019 $'000 |
| *Current assets* | | |
| Trade receivables | 785 | 653 |
| Less: Allowance for expected credit losses | (88) | (110) |
| | 697 | 543 |
| Other receivables | 9 | 14 |
| GST and other similar receivable | 12 | - |
| | 718 | 557 |
| *Non-current assets* | | |
| Other receivables | - | 199 |
| | 718 | 756 |

*Allowance for expected credit losses*
The consolidated entity has recognised a loss of $18,000 (31 Dec 2018: $23,000) in profit or loss in respect of the expected credit losses for the period ended 31 December 2019. The allowance is considered reasonable as all revenue has already been received.

## Note 6. Right-of-use assets

| | Consolidated 31/12/2019 $'000 | Consolidated 30/06/2019 $'000 |
|---|---|---|
| *Non-current assets* | | |
| Land and buildings - right-of-use | 2,173 | - |
| Less: Accumulated depreciation | (236) | - |
| | 1,937 | - |

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

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

The consolidated entity also leases office equipment under agreements of less than 2 years. These leases are either short term or low value so have been expensed as incurred and not capitalised as right of use assets.

## Note 7. Intangibles

| | Consolidated 31/12/2019 $'000 | Consolidated 30/06/2019 $'000 |
|---|---|---|
| *Non-current assets* | | |
| Intellectual property - at cost | 4,012 | 4,012 |
| | | |
| Product and overseas development costs | 10,251 | 9,373 |
| Less: Accumulated amortisation | (4,715) | (4,008) |
| | 5,536 | 5,365 |
| | | |
| Franchise and development territories | 1,894 | 1,850 |
| | | |
| Other intangible assets - at cost | 3,574 | 2,287 |
| Less: Accumulated amortisation | (1,382) | (1,158) |
| | 2,192 | 1,129 |
| | | |
| | 13,634 | 12,356 |

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

| **Consolidated** | Intellectual property $'000 | Product and overseas development costs $'000 | Franchise and development territories $'000 | Other intangibles $'000 | Total $'000 |
|---|---|---|---|---|---|
| Balance at 1 July 2019 | 4,012 | 5,365 | 1,850 | 1,129 | 12,356 |
| Additions | - | 877 | 58 | 1,358 | 2,293 |
| Exchange differences | - | - | (14) | (71) | (85) |
| Amortisation expense | - | (706) | - | (224) | (930) |
| | | | | | |
| Balance at 31 December 2019 | 4,012 | 5,536 | 1,894 | 2,192 | 13,634 |

## Note 8. Trade and other payables

| | Consolidated | |
|---|---|---|
| | 31/12/2019 $'000 | 30/06/2019 $'000 |
| *Current liabilities* | | |
| Trade payables | 251 | 596 |
| Amounts held on behalf of franchisees | 3,925 | 4,410 |
| GST and other similar payable | - | 58 |
| Other payables and accruals | 581 | 685 |
| | 4,757 | 5,749 |

## Note 9. Borrowings

| | Consolidated | |
|---|---|---|
| | 31/12/2019 $'000 | 30/06/2019 $'000 |
| *Current liabilities* | | |
| Bank loans | 1,336 | 450 |

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

At the balance date the entity had available undrawn banking facilities of $1,750,000.

*Assets pledged as security*
The company has granted a security interest over all property to HSBC.

## Note 10. Lease liabilities

| | Consolidated | |
|---|---|---|
| | 31/12/2019 $'000 | 30/06/2019 $'000 |
| *Current liabilities* | | |
| Lease liability | 447 | - |
| *Non-current liabilities* | | |
| Lease liability | 1,621 | - |
| | 2,068 | - |

Refer to note 6 for further information.

## Note 11. Issued capital

| | Consolidated | | | |
|---|---|---|---|---|
| | 31/12/2019 Shares | 30/06/2019 Shares | 31/12/2019 $'000 | 30/06/2019 $'000 |
| Ordinary shares - fully paid | 45,234,331 | 45,234,331 | 8,876 | 8,876 |

## Note 12. Reserves

| | Consolidated 31/12/2019 $'000 | Consolidated 30/06/2019 $'000 |
|---|---|---|
| Foreign currency reserve | (155) | (315) |
| Share-based payments reserve | 245 | 251 |
| Other reserves | 754 | 754 |
| | 844 | 690 |

## Note 13. Dividends

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

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

## Note 14. Contingent liabilities

There were no contingent liabilities at 31 December 2019.

The consolidated entity has entered into arrangements to provide a guarantee to the lessor of the head office premises amounting to $58,000 (30 June 2019: $58,000) and premises in Kotara of $51,000 (30 June 2019: $51,000).

## Note 15. Earnings per share

| | Consolidated 31/12/2019 $'000 | Consolidated 31/12/2018 $'000 |
|---|---|---|
| Profit after income tax attributable to the owners of Kip McGrath Education Centres Limited | 1,024 | 1,115 |
| | **Number** | **Number** |
| Weighted average number of ordinary shares used in calculating basic earnings per share | 45,234,331 | 45,034,331 |
| Adjustments for calculation of diluted earnings per share: | | |
| Options over ordinary shares | 2,862,740 | 2,900,000 |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | 48,097,071 | 47,934,331 |
| | **Cents** | **Cents** |
| Basic earnings per share | 2.26 | 2.48 |
| Diluted earnings per share | 2.13 | 2.33 |

## Note 16. Events after the reporting period

Apart from the dividend declared as disclosed in note 13, no other matter or circumstance has arisen since 31 December 2019 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;

- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the financial half-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.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors

Ian Campbell
Chairman

25 February 2020
Newcastle

# INDEPENDENT AUDITOR'S REVIEW REPORT

# TO THE MEMBERS OF KIP MCGRATH EDUCATION CENTRES LIMITED

## Report on the Half-Year Financial Report

### Conclusion

We have reviewed the accompanying half-year financial report of Kip McGrath Education Centres Limited (the company) and controlled entities (the consolidated entity), which comprises the statement of financial position as at 31 December 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Kip McGrath Education Centres Limited is not in accordance with the *Corporations Act 2001* including:-

(a) giving a true and fair view of the consolidated entity's the financial position as at 31 December 2019, and of its financial performance for the half-year ended on that date; and

(b) complying with the Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

### Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. In accordance with the *Corporations Act 2001*, we have given the directors' of the company a written Auditor's Independence Declaration.

### Directors' Responsibility for the Half-Year Financial Report

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



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## Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the company's financial position as at 31 December 2019 and its performance for the half year ended on that date, and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Kip McGrath Education Centres Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

PKF

PKF

CLAYTON HICKEY
PARTNER

25 FEBRUARY 2020
NEWCASTLE