

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 2020 |
| Previous period: | For the half-year ended 31 December 2019 |

2. Results for announcement to the market

| | | | \$'000 |
|---|------|----------|--------|
| Revenues from ordinary activities | down | 2.2% to | 8,546 |
| Earnings Before Interest, Tax, Depreciation and Amortisation ('EBITDA') | down | 6.8% to | 2,458 |
| Profit from ordinary activities after tax attributable to the owners of Kip McGrath Education Centres Limited | down | 19.3% to | 826 |
| Profit for the half-year attributable to the owners of Kip McGrath Education Centres Limited | down | 19.3% to | 826 |

Dividends

A final dividend for the year ended 30 June 2020 of 2.0 cents per ordinary share, 100% fully franked, was paid on 17 September 2020. The total distribution was \$1,036,000.

On 23 February 2021, the directors declared a fully franked interim dividend of 1.0 cents per ordinary share for the year ending 30 June 2021 and will be paid on 24 March 2021 to those shareholders on the register at 7pm on 10 March 2021. The total dividend is estimated to be \$520,193.

Comments

The profit for the consolidated entity after providing for income tax amounted to \$826,000 (31 December 2019: \$1,024,000).

With continuing lockdowns in all significant markets due to the COVID-19 pandemic, there continues to be a reduction in revenue from traditional face to face lessons. This has been offset by increased usage of the online tutoring options available on our software platform.

Refer to Managing Director and Chief Executive Officer's report for further commentary on the results.

The earnings before interest, tax, depreciation and amortisation ('EBITDA') amounted to \$2,458,000 (2019: \$2,637,000).

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

| | Consolidated | |
|-------------------------------------|----------------------|----------------------|
| | 31/12/2020 \$'000 | 31/12/2019 \$'000 |
| Revenue | 8,533 | 8,740 |
| EBITDA | 2,458 | 2,637 |
| Less: Depreciation and amortisation | (1,338) | (1,251) |
| Less: Interest expense | (59) | (64) |
| Add: Interest income | 13 | - |
| Profit before income tax expense | 1,074 | 1,322 |
| Income tax expense | (248) | (298) |
| Profit after income tax expense | <u>826</u> | <u>1,024</u> |

3. Net tangible assets

| | Reporting period Cents | Previous period Cents |
|---|------------------------------|-----------------------------|
| Net tangible assets per ordinary security | <u>7.14</u> | <u>(4.04)</u> |

Right-of-use assets have not been treated as intangible assets for the purposes of the net tangible asset calculation.

4. Control gained over entities

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 2020 is attached.

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11. Signed

As authorised by the Board of Directors



Signed _____

Ian Campbell
Chairman
Newcastle

Date: 23 February 2021

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Kip McGrath Education Centres Limited

ABN 73 003 415 889

Interim Report - 31 December 2020

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Dear Shareholder,

I am pleased to report the business remains resilient considering global business conditions amid the Covid-19 pandemic. Revenue for the half was \$8.55m despite the extended lockdowns in the UK, South Africa and locally in the Victorian markets. EBITDA was \$2.46M, whilst net profit after tax was \$826K after depreciation and amortisation of \$1.34M.

Operations

The business is transforming from a franchise only face to face tuition business to a multi-channel, blended learning global tutoring business. As expected, the online business is growing fast and is now a major lesson delivery option across the business. KME delivered 290,000 online lessons for the half, an increase of 800% with gross revenue at the student level of \$16.1M, compared to \$1.7M in the previous half year. Global network revenues for the half year, which is total tutoring fees charged by both franchisees and Kip McGrath's owned corporate centres, was \$41.0 million, down approximately 10% from the same period last year.

We still have several franchisees who do not wish to offer online tutoring and are waiting out the pandemic. Conversely, of the 86% of franchisees who have embraced it, approximately 40%, are doing as well if not better than last year. We are seeing leads in Australia and New Zealand at all time highs for the start of the New Year.

During the second half of the year we will be rolling out new software for the franchisees, incorporating smarter and more effective ways of tutoring and operating their business and allowing the use of tablets and touch screen devices.

Online direct tutoring

Online direct tutoring is our channel where the franchisor advertises in vacant territories in Australia, New Zealand, and the UK. Student numbers in Australia and New Zealand have grown to 500 per week, with the UK at 130 per week after starting operations in September 2020. All teachers are employed by head office which is a key reason employment costs increased \$418,000. This is an important channel for us, covering the key locations where we do not have a franchisee, and is now growing due to the rise in acceptance of online delivery by parents and students.

Corporate owned centres

Our Corporately owned centres have grown significantly with the addition of 6 new corporate centres in January 2021. We now have Corporate Centre hubs operating in key markets in Sydney, Canberra, Newcastle and New Zealand. Current student numbers exceed 1,100 which is up from 400 a year ago. The Corporate Centre channels are critical to growth as they provide improved leadership for franchisees and a clearer understanding of these markets for the Company to continually enhance its product offerings. The channel also provides liquidity to our larger and longer-term franchisees who wish to retire.

New hire additions

In response to the challenges of the Covid-19 pandemic, and the rapid acceptance of online tutoring within the community, the company has used the opportunity to review its corporate structure. With two new channels to market and a desire to grow the business faster we have strengthened the senior leadership team with appointments of:

- Daniel Pludeck - Chief Technology Officer
- Scott Hillard - Chief Commercial Officer focusing on Australasian growth
- Abby Clifton - Chief Product Officer

We have also continued to increase staffing levels to support the growth in the Corporate channels as well as build the capability of the Corporate teams.

Capitalisation and cash balances

We invested \$1.44M in the ongoing development of our specialised software and curriculum, which are typically amortised over 5 and 10 years respectively.

A healthy net cash flow from operations of \$3.2M consolidated our unrestricted cash balances at 31 December of \$8M including an unused \$1.75M banking facility.

Outlook

As things get back to some normality, we believe the business will start to grow at the levels it was pre-pandemic where we recorded 15-20% annual growth rates. Our upgraded software will help this growth as it will be easier for franchisees and parents to use.

The second half has always been more profitable than the first half and this year should be no different. Today the Board declared a fully franked interim dividend of 1 cent per share payable on 24 March 2021 to those shareholders on the register at 7pm on 10 March 2021.



Storm McGrath
Managing Director and CEO

23 February 2021
Newcastle

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The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Kip McGrath Education Centres Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2020.

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 (Chairman)
 Storm McGrath
 Trevor Folsom
 Diane Pass

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 company is also increasing the number of tutoring centres that are corporately owned. The consolidated entity operates in Australia and overseas, principally in the United Kingdom and New Zealand.

Dividends

A final dividend for the year ended 30 June 2020 of 2.0 cents per ordinary share, 100% fully franked, was paid on 17 September 2020. The total distribution was \$1,036,000.

On 23 February 2021, the directors declared a fully franked interim dividend of 1.0 cents per ordinary share for the year ending 30 June 2021 and will be paid on 24 March 2021 to those shareholders on the register at 7pm on 10 March 2021. The total dividend is estimated to be \$520,193.

Review of operations

The profit for the consolidated entity after providing for income tax amounted to \$826,000 (31 December 2019: \$1,024,000).

With continuing lockdowns in all significant markets due to the COVID-19 pandemic, there continues to be a reduction in revenue from traditional face to face lessons. This has been offset by increased usage of the online tutoring options available on our software platform.

Refer to Chairman's letter and Managing Director/Chief Executive Officer's report for further commentary on the results.

The earnings before interest, tax, depreciation and amortisation ('EBITDA') amounted to \$2,458,000 (2019: \$2,637,000).

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

| | Consolidated | |
|-------------------------------------|---------------------|-------------------|
| | 31/12/2020 | 31/12/2019 |
| | \$'000 | \$'000 |
| Revenue | 8,533 | 8,740 |
| EBITDA | 2,458 | 2,637 |
| Less: Depreciation and amortisation | (1,338) | (1,251) |
| Less: Interest expense | (59) | (64) |
| Add: Interest income | 13 | - |
| Profit before income tax expense | 1,074 | 1,322 |
| Income tax expense | (248) | (298) |
| Profit after income tax expense | <u>826</u> | <u>1,024</u> |

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

23 February 2021
Newcastle

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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 2020, 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

DATE: 23 FEBRUARY 2021
NEWCASTLE

| | |
|---|----|
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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 23 February 2021. 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 2020



| | Note | Consolidated | |
|--|------|----------------------|----------------------|
| | | 31/12/2020 \$'000 | 31/12/2019 \$'000 |
| Revenue | 3 | 8,533 | 8,740 |
| Other income | 4 | 513 | - |
| Interest revenue calculated using the effective interest method | | 13 | - |
| Expenses | | | |
| Royalties, commissions and other direct expenses | | (509) | (788) |
| Employee expenses | | (3,221) | (2,813) |
| Marketing expenses | | (1,662) | (1,334) |
| Administration expenses | | (817) | (682) |
| Merchandising expenses | | (348) | (500) |
| Depreciation and amortisation expense | | (1,338) | (1,251) |
| Recovery of receivables | 6 | 14 | 7 |
| Net foreign exchange (losses)/gain | | (45) | 7 |
| Finance costs | | (59) | (64) |
| Profit before income tax expense | | 1,074 | 1,322 |
| Income tax expense | | (248) | (298) |
| Profit after income tax expense for the half-year attributable to the owners of Kip McGrath Education Centres Limited | | 826 | 1,024 |
| Other comprehensive income | | | |
| <i>Items that may be reclassified subsequently to profit or loss</i> | | | |
| Foreign currency translation | | (46) | 160 |
| Other comprehensive income for the half-year, net of tax | | (46) | 160 |
| Total comprehensive income for the half-year attributable to the owners of Kip McGrath Education Centres Limited | | 780 | 1,184 |
| | | Cents | Cents |
| Basic earnings per share | 14 | 1.590 | 2.264 |
| Diluted earnings per share | 14 | 1.523 | 2.129 |

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

| | | Consolidated | |
|--------------------------------|------|----------------------|----------------------|
| | Note | 31/12/2020 \$'000 | 30/06/2020 \$'000 |
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 5 | 11,823 | 12,179 |
| Trade and other receivables | 6 | 813 | 472 |
| Prepayments | | 378 | 358 |
| Total current assets | | <u>13,014</u> | <u>13,009</u> |
| Non-current assets | | | |
| Trade and other receivables | 6 | - | 140 |
| Plant and equipment | | 361 | 359 |
| Right-of-use assets | 7 | 1,449 | 1,694 |
| Intangibles | 8 | 13,920 | 13,482 |
| Deferred tax | | 663 | 736 |
| Total non-current assets | | <u>16,393</u> | <u>16,411</u> |
| Total assets | | <u>29,407</u> | <u>29,420</u> |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 9 | 6,473 | 5,231 |
| Contract liabilities | | 535 | 576 |
| Borrowings | 10 | 600 | 1,426 |
| Lease liabilities | | 505 | 532 |
| Income tax | | 75 | 326 |
| Employee benefits | | 739 | 583 |
| Total current liabilities | | <u>8,927</u> | <u>8,674</u> |
| Non-current liabilities | | | |
| Lease liabilities | | 1,115 | 1,312 |
| Deferred tax | | 1,703 | 1,583 |
| Total non-current liabilities | | <u>2,818</u> | <u>2,895</u> |
| Total liabilities | | <u>11,745</u> | <u>11,569</u> |
| Net assets | | <u>17,662</u> | <u>17,851</u> |
| Equity | | | |
| Issued capital | 11 | 14,524 | 14,457 |
| Reserves | | 705 | 751 |
| Retained profits | | 2,433 | 2,643 |
| Total equity | | <u>17,662</u> | <u>17,851</u> |

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 half-year ended 31 December 2020



| 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 |
| <i>Transactions with owners in their capacity as owners:</i> | | | | |
| Share-based payments | - | (6) | - | (6) |
| Dividends paid (note 12) | - | - | (1,131) | (1,131) |
| Balance at 31 December 2019 | <u>8,876</u> | <u>844</u> | <u>2,094</u> | <u>11,814</u> |
| Consolidated | Issued capital \$'000 | Reserves \$'000 | Retained profits \$'000 | Total equity \$'000 |
| Balance at 1 July 2020 | 14,457 | 751 | 2,643 | 17,851 |
| Profit after income tax expense for the half-year | - | - | 826 | 826 |
| Other comprehensive income for the half-year, net of tax | - | (46) | - | (46) |
| Total comprehensive income for the half-year | - | (46) | 826 | 780 |
| <i>Transactions with owners in their capacity as owners:</i> | | | | |
| Conversion of options | 67 | - | - | 67 |
| Dividends paid (note 12) | - | - | (1,036) | (1,036) |
| Balance at 31 December 2020 | <u>14,524</u> | <u>705</u> | <u>2,433</u> | <u>17,662</u> |

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

| | Note | Consolidated | |
|---|------|----------------------|----------------------|
| | | 31/12/2020 \$'000 | 31/12/2019 \$'000 |
| Cash flows from operating activities | | | |
| Receipts from customers (inclusive of GST) | | 8,743 | 9,131 |
| Payments to suppliers and employees (inclusive of GST) | | (5,672) | (7,616) |
| | | 3,071 | 1,515 |
| Interest received | | 13 | - |
| Government grants received | | 513 | - |
| Interest and other finance costs paid | | (59) | (64) |
| Income taxes paid | | (340) | (476) |
| Net cash from operating activities | | 3,198 | 975 |
| Cash flows from investing activities | | | |
| Payments for property, plant and equipment | | (96) | (150) |
| Payments for intangibles | 8 | (1,439) | (2,293) |
| Net cash used in investing activities | | (1,535) | (2,443) |
| Cash flows from financing activities | | | |
| Proceeds from issue of shares | 11 | 67 | - |
| Proceeds from borrowings | | - | 1,352 |
| Dividends paid | 12 | (1,036) | (1,131) |
| Repayment of borrowings | | (476) | (466) |
| Repayment of lease liabilities | | (224) | (105) |
| Net cash used in financing activities | | (1,669) | (350) |
| Net decrease in cash and cash equivalents | | (6) | (1,818) |
| Cash and cash equivalents at the beginning of the financial half-year | | 11,829 | 7,053 |
| Cash and cash equivalents at the end of the financial half-year | 5 | 11,823 | 5,235 |

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 2020 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 2020 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.

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 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 | |
|---------------------------|-----------------------------|----------------------|---------------------------------|----------------------|
| | 31/12/2020 \$'000 | 31/12/2019 \$'000 | 31/12/2020 \$'000 | 30/06/2020 \$'000 |
| Australasia | 4,346 | 4,235 | 14,826 | 14,742 |
| United Kingdom and Europe | 3,975 | 3,928 | 904 | 793 |
| Overseas other | 199 | 559 | - | - |
| | <u>8,520</u> | <u>8,722</u> | <u>15,730</u> | <u>15,535</u> |

Note 3. Revenue

| | Consolidated | |
|---|---------------------|-------------------|
| | 31/12/2020 | 31/12/2019 |
| | \$'000 | \$'000 |
| <i>Revenue from contracts with customers</i> | | |
| Franchise fees | 5,678 | 6,396 |
| Sale of master territories and franchisee centres | 281 | 357 |
| National advertising contributions (NAC) | 793 | 792 |
| Direct sales | 822 | 417 |
| Student lessons | 946 | 760 |
| | <u>8,520</u> | <u>8,722</u> |
| <i>Other revenue</i> | | |
| Other revenue | 13 | 18 |
| Revenue | <u>8,533</u> | <u>8,740</u> |

Disaggregation of revenue

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

| | Consolidated | |
|---|---------------------|-------------------|
| | 31/12/2020 | 31/12/2019 |
| | \$'000 | \$'000 |
| <i>Timing of revenue recognition</i> | | |
| Services and goods transferred at a point in time | 8,401 | 8,650 |
| Services transferred over time | 119 | 72 |
| | <u>8,520</u> | <u>8,722</u> |

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

Note 4. Other income

| | Consolidated | |
|-------------------|---------------------|-------------------|
| | 31/12/2020 | 31/12/2019 |
| | \$'000 | \$'000 |
| Government grants | 513 | - |
| | <u>513</u> | <u>-</u> |

During the half-year the company received payments from the Australian Government amounting to \$37,500 and \$475,500 as part of its 'Boosting Cash Flow for Employers' and 'JobKeeper' schemes, respectively, in response to COVID-19. These non-tax amounts have been recognised as government grants and recognised as income once there is reasonable assurance that the company will comply with any conditions attached.

Note 5. Cash and cash equivalents

| | Consolidated | |
|-----------------------|---------------------|-------------------|
| | 31/12/2020 | 30/06/2020 |
| | \$'000 | \$'000 |
| <i>Current assets</i> | | |
| Cash at bank | 6,277 | 7,817 |
| Restricted cash | 5,546 | 4,362 |
| | <u>11,823</u> | <u>12,179</u> |

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

Note 6. Trade and other receivables

| | Consolidated | |
|--|---------------------|-------------------|
| | 31/12/2020 | 30/06/2020 |
| | \$'000 | \$'000 |
| <i>Current assets</i> | | |
| Trade receivables | 958 | 492 |
| Less: Allowance for expected credit losses | (153) | (169) |
| | <u>805</u> | <u>323</u> |
| Other receivables | 8 | 149 |
| | <u>813</u> | <u>472</u> |
| <i>Non-current assets</i> | | |
| Other receivables | - | 140 |

Allowance for expected credit losses

The consolidated entity has recognised a recovery of \$14,000 (31 Dec 2019: \$7,000) in profit or loss in respect of the expected credit losses for the period ended 31 December 2020. The allowance is considered reasonable as all revenue has already been received.

Note 7. Right-of-use assets

| | Consolidated | |
|-----------------------------------|---------------------|-------------------|
| | 31/12/2020 | 30/06/2020 |
| | \$'000 | \$'000 |
| <i>Non-current assets</i> | | |
| Land and buildings - right-of-use | 2,166 | 2,169 |
| Less: Accumulated depreciation | (717) | (475) |
| | <u>1,449</u> | <u>1,694</u> |

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

Note 7. Right-of-use assets (continued)

Reconciliations

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

| Consolidated | Land and buildings \$'000 |
|-----------------------------|------------------------------|
| Balance at 1 July 2020 | 1,694 |
| Additions | - |
| Exchange differences | (3) |
| Depreciation expense | (242) |
| | <hr/> |
| Balance at 31 December 2020 | <u>1,449</u> |

Note 8. Intangibles

| | Consolidated | |
|--|----------------------|----------------------|
| | 31/12/2020 \$'000 | 30/06/2020 \$'000 |
| <i>Non-current assets</i> | | |
| Intellectual property - at cost | 4,013 | 4,012 |
| | <hr/> | <hr/> |
| Product and overseas development costs | 12,462 | 11,201 |
| Less: Accumulated amortisation | (6,254) | (5,519) |
| | <hr/> | <hr/> |
| | 6,208 | 5,682 |
| | <hr/> | <hr/> |
| Franchise and development territories | 2,050 | 1,855 |
| Less: Accumulated amortisation | (25) | - |
| | <hr/> | <hr/> |
| | 2,025 | 1,855 |
| | <hr/> | <hr/> |
| Other intangible assets - at cost | 3,574 | 3,574 |
| Less: Accumulated amortisation | (1,900) | (1,641) |
| | <hr/> | <hr/> |
| | 1,674 | 1,933 |
| | <hr/> | <hr/> |
| | 13,920 | 13,482 |
| | <hr/> <hr/> | <hr/> <hr/> |

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 2020 | 4,012 | 5,682 | 1,855 | 1,933 | 13,482 |
| Additions | - | 1,262 | 177 | - | 1,439 |
| Exchange differences | 1 | (2) | 11 | (1) | 9 |
| Amortisation expense | - | (734) | (18) | (258) | (1,010) |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Balance at 31 December 2020 | <u>4,013</u> | <u>6,208</u> | <u>2,025</u> | <u>1,674</u> | <u>13,920</u> |

Note 9. Trade and other payables

| | Consolidated | |
|---------------------------------------|--------------|------------|
| | 31/12/2020 | 30/06/2020 |
| | \$'000 | \$'000 |
| <i>Current liabilities</i> | | |
| Trade payables | 227 | 277 |
| Amounts held on behalf of franchisees | 5,323 | 3,944 |
| GST and other similar payable | 73 | 77 |
| Other payables and accruals | 850 | 933 |
| | 6,473 | 5,231 |
| | 6,473 | 5,231 |

Note 10. Borrowings

| | Consolidated | |
|----------------------------|--------------|------------|
| | 31/12/2020 | 30/06/2020 |
| | \$'000 | \$'000 |
| <i>Current liabilities</i> | | |
| Bank overdraft | - | 350 |
| Bank loans | 600 | 1,076 |
| | 600 | 1,426 |
| | 600 | 1,426 |

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 bank overdraft and loans are secured by a security interest over all property of the consolidated entity to HSBC Bank.

Note 11. Issued capital

| | Consolidated | | | |
|------------------------------|--------------|------------|------------|------------|
| | 31/12/2020 | 30/06/2020 | 31/12/2020 | 30/06/2020 |
| | Shares | Shares | \$'000 | \$'000 |
| Ordinary shares - fully paid | 52,019,331 | 51,819,331 | 14,524 | 14,457 |
| | 52,019,331 | 51,819,331 | 14,524 | 14,457 |

Movements in ordinary share capital

| Details | Date | No of shares | Issue price | \$'000 |
|-----------------------|-------------------|--------------|-------------|--------|
| Balance | 1 July 2020 | 51,819,331 | | 14,457 |
| Conversion of options | 11 September 2020 | 100,000 | \$0.300 | 30 |
| Conversion of options | 11 September 2020 | 100,000 | \$0.370 | 37 |
| Balance | 31 December 2020 | 52,019,331 | | 14,524 |

Note 12. Dividends

A final dividend for the year ended 30 June 2020 of 2.0 cents per ordinary share, 100% fully franked, was paid on 17 September 2020. The total distribution was \$1,036,000.

On 23 February 2021, the directors declared a fully franked interim dividend of 1.0 cents per ordinary share for the year ending 30 June 2021 and will be paid on 24 March 2021 to those shareholders on the register at 7pm on 10 March 2021. The total dividend is estimated to be \$520,193.

Note 13. Contingent liabilities

There were no contingent liabilities at 31 December 2020.

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 2020: \$58,000) and premises in Kotara of \$51,000 (30 June 2020: \$51,000).

Note 14. Earnings per share

| | Consolidated | |
|---|----------------------|----------------------|
| | 31/12/2020 \$'000 | 31/12/2019 \$'000 |
| Profit after income tax attributable to the owners of Kip McGrath Education Centres Limited | 826 | 1,024 |
| | Number | Number |
| Weighted average number of ordinary shares used in calculating basic earnings per share | 51,941,071 | 45,234,331 |
| Adjustments for calculation of diluted earnings per share: | | |
| Options over ordinary shares | 2,300,000 | 2,862,740 |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | 54,241,071 | 48,097,071 |
| | Cents | Cents |
| Basic earnings per share | 1.590 | 2.264 |
| Diluted earnings per share | 1.523 | 2.129 |

Note 15. Events after the reporting period

The impact of the COVID-19 pandemic is ongoing for the consolidated entity up to 31 December 2020, With ongoing impacts in a number of key markets, it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is constantly changing and is dependent on measures imposed by the relevant Governments, such as maintaining social distancing requirements, quarantine, travel restrictions, impacts of vaccines and any economic stimulus that may be provided.

On 16 February 2021, the company issued 200,000 ordinary fully paid shares at an estimated value of \$1.60, in accordance with the announcement to the market on 17 December 2020, the shares are being issued as part of the consideration for the buy back of a key franchise operation in Bossley Park, Sydney.

Apart from the above and the dividend declared as disclosed in note 12, no other matter or circumstance has arisen since 31 December 2020 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, 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 2020 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

23 February 2021
Newcastle

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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 2020, 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 2020, 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.

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 2020 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



CLAYTON HICKEY
PARTNER

DATE 23 FEBRUARY 2021
NEWCASTLE

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