2017 ANNUAL REPORT

Kip McGrath Education Centres Ltd • ABN 73 003 415 889

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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 2017
Previous period:	For the year ended 30 June 2016

2. Results for announcement to the market

				$'000
Revenues from ordinary activities	down	7.3%	to	13,507
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	up	25.0%	to	2,635
Profit from ordinary activities after tax attributable to the owners of Kip McGrath Education Centres Limited	up	19.4%	to	1,436
Profit for the year attributable to the owners of Kip McGrath Education Centres Limited	up	19.4%	to	1,436

Dividends
On 9 August 2017, a final dividend for the year ended 30 June 2017 of 1.4 cents per ordinary share, unfranked, was declared and will be paid on 29 September 2017 to those shareholders on the register at 7pm on 15 September 2017. The total distribution will be $630,480.

Comments
The profit for the consolidated entity after providing for income tax amounted to $1,436,000 (30 June 2016: $1,203,000).

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	
	2017 $'000	2016 $'000
Revenue	13,507	14,569
EBITDA	2,635	2,107
Less: Depreciation and amortisation	(773)	(443)
Less: Interest expense	(68)	(69)
Add: Interest income	1	4
Profit before Income tax expense	1,795	1,599
Income tax expense	(359)	(396)
Profit after income tax expense	1,436	1,203

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	(0.12)	(0.97)

Kip McGrath Education Centres Limited
Appendix 4E
Preliminary final report

4. Control gained over entities

Not applicable.

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5. Loss of control over entities

Not applicable.

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6. Dividend reinvestment plans

Not applicable.

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7. Details of associates and joint venture entities

Not applicable.

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8. Foreign entities

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

Not applicable.

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9. Audit qualification or review

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

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

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10. Attachments

Details of attachments (if any):

The Annual Report of Kip McGrath Education Centres Limited for the year ended 30 June 2017 is attached.

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11. Signed

Signed ______________________________ Date: 9 August 2017

Kip McGrath
Chairman
Newcastle

Kip McGrath Education Centres Limited

ABN 73 003 415 889

Annual Report - 30 June 2017

Kip McGrath Education Centres Limited
Corporate directory
30 June 2017

Directors	Kip McGrath (Chairman) Ian Campbell Trevor Folsom Diane Pass
Company secretary	Brett Edwards
Notice of annual general meeting	The details of the annual general meeting of Kip McGrath Education Centres Limited are: 3/6 Newcomen Street Newcastle, NSW 2300 Friday 27 October 2017 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	HSBC Bank Australia Ltd Tower 1, International Towers Sydney Level 36 100 Barangaroo Avenue Sydney NSW 2000
Stock exchange listing	Kip McGrath Education Centres Limited shares are listed on the Australian Securities Exchange (ASX code: KME)
Website	www.kipmcgrath.com

Kip McGrath Education Centres Limited
Chairman's letter
30 June 2017

Dear Shareholders,

The company recorded its 6th straight increase in net profit after tax to $1,436,000 for the full year, which is an increase of 19.4% over the previous year. In addition, EBITDA of $2,635,000 increased by 25.1%.

This result is despite significant headwinds caused by the strengthening Australian dollar and the weak British Pound. The decline in the pound significantly affected earnings, impacting EBITDA alone by $470,000. This was mitigated by strong growth in the franchise business in the Australian, UK and NZ markets.

Core franchise revenue has again increased, as shown in the table below:

	2017 $'000	2016 $'000	2015 $'000
Revenue from franchise fees	9,206	7,713	6,492
Revenue from student lesson fees	2,382	5,553	5,783
Direct costs of student lessons	(1,932)	(4,496)	(5,038)
Core revenue from franchise fees	9,656	8,770	7,237

Our national advertising strategies are contributing significantly to the growth in lesson numbers and we expect this to continue as we further develop these strategies in Australia, UK and New Zealand. Google AdWords, social media, programmatic media and television are working in harmony to produce the results. This ability to attract students using the new media directed to today's parents is not only attracting more students but will indirectly increase centre numbers as we go forward.

Gold partner numbers globally continue to rise, with an increase of 33 (15%) to over 230 operational or about to open in Australia and the United Kingdom. Gold Partners, where we provide back office support, generally do better than other centres resulting in better run and more profitable operations for the franchisees and the company. There is scope for more Gold Partners in UK and we look forward to developing this type of centre in New Zealand beginning in the second half of next year.

Online tutoring is still an exciting opportunity for the company, with more investment being made this year. We set out to provide an at home solution to tuition that mirrored the in-centre experience and could be charged at the same rate as in-centre tuition. This is unique and we are the only company providing such a service. However, it hasn't been without challenges, the biggest being the generally low-level computer specifications in many homes. We now appear to be on the cusp of solving this with more advanced technology than when the project began.

Growth will continue to come from the core business in centres and increasing online revenue, with marketing efforts focussed on building lesson numbers in both these areas.

The Board has budgeted for a continuation of increased profits in the corporate plan covering 2018-2020 with cash and undrawn bank facilities at their strongest.

Today the Board declared an unfranked final dividend of 1.4 cents per share payable on 29 September 2017 to those shareholders on the register at 7pm on 15 September 2017, taking total dividends for the 2017 year to 2 cents (2016 – 1.5 cents), an increase of 33.3%.

Kip McGrath
Chairman
9 August 2017

Kip McGrath Education Centres Limited
Chief Executive Officer's message
30 June 2017

Kip McGrath Education Centres Limited has reported a strong increase in EBITDA to $2.6 million. Unfortunately, the effect of the Australian Dollar strengthening against the UK pound affected this result by $470,000 so the result on constant currency would have seen an increase of 47% over last year.

Overview of our major initiatives:

1. Gold Partner franchisees

We have 230 Gold Partners which is an increase of 33 (15%) from last year with another twenty expected to open during the next half. Gold Partner student numbers on average are higher than Silver Partners as the franchisees can focus more on the teaching side of their business.

2. Online Tutoring

Online tutoring is continuing to grow steadily, reaching 1,000 lessons per month, up from an average of 590 last year (69% increase). We now have our first franchisee with over 100 online students which is a significant milestone. We continue to educate the market our software allows for small group tuition replicating the current in-centre experience. We are committed to continually improve our software so the user experience is more rewarding and it is now in the process of becoming a downloadable App to improve ease of distribution.

3. License Sales

The major costs associated with license sales have now ended, and we remain confident we can achieve long term success. Four schools in South Africa have received funding from the government for Enrichment Centres. We are currently seeking further funding for more schools and funding from large businesses in South Africa as they are required to direct some of their profits towards education.

4. National Marketing

Campaigns in Australia, UK and New Zealand have been very successful. We use a combination of TV and digitial advertising paid for by Franchisees and Head office. Tutoring leads are up 75% via the website and this has led to an increase in student numbers of 20% for the year. We are now trialling the online booking system which we believe will increase the quality of the leads. Initial testing is showing success.

5. Technology Development

We have completed our first year with a complete in-house software team. We have successfully revamped our tutoring software which is now called iKip, and this is currently being rolled out worldwide. iKip is the culmination of the last 7 years of feedback from the network, and we believe this product puts us ahead of our global competitors. The online software is integrated onto the same platform which will allow students to transition smoothly from face to face to online tuition and reverse if they choose to do so.

Outlook

We expect revenue, profit and profit margins will continue to grow through a combination of the ongoing development and automation of the software as a service, our national advertising campaigns and the option for students to choose between face to face and online tuition.

I would like to thank the master franchisees, area developers, franchise representative council members, franchisees and employees for their hard work and support throughout the year.

Storm McGrath
Chief Executive Officer

9 August 2017
Newcastle

Kip McGrath Education Centres Limited
Directors' report
30 June 2017

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 2017.

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
Diane Pass (appointed on 1 February 2017)

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	
	2017 $'000	2016 $'000
Final dividend for the year ended 30 June 2016 of 1.0 cents (2015: 1.0 cents) per ordinary share	451	442
Interim dividend for the year ended 30 June 2017 of 0.6 cents (2016: 0.5 cents) per ordinary share	270	221
	721	663

On 9 August 2017, a final dividend for the year ended 30 June 2017 of 1.4 cents per ordinary share, unfranked, was declared and will be paid on 29 September 2017 to those shareholders on the register at 7pm on 15 September 2017. The total distribution will be $630,480.

Review of operations
The profit for the consolidated entity after providing for income tax amounted to $1,436,000 (30 June 2016: $1,203,000).

Revenue was weaker in the Australia markets (2017: $7,351,000 versus 2016 $8,792,000) due to a shift to revenue primarily from net franchise fee contracts as opposed to older gross fee contracts which ceased being offered at the end of 2014. Revenue growth in the UK market was subdued (2017: $5,190,000 versus $5,111,000 in 2016) due to the impact of the weak British pound during the year. Revenue from other markets increased (2017: $965,000 versus $602,000) primarily due to growth from Middle East operations.

The number of Gold Partners grew to 101 in the Australian market (70% of total centres) and to 129 in the UK market (52% of total centres). Overall centre numbers globally grew slightly to 546 (2016: 538). Lesson numbers on the Insight system continued to grow, with total lesson numbers for the financial year reaching 1,109,000 (compared to 845,000 in the prior year). Year on year lesson growth in Australia has averaged 8% while new Gold Partner, the national marketing campaign and changes to the tax deductibility of tutoring in the UK has assisted to drive lesson growth to 20%. Other key growth markets include the Middle East (up 109%) New Zealand (up 14%) and South Africa (up 10%).

The earnings before interest, tax, depreciation and amortisation ('EBITDA') amounted to $2,635,000 (2016: $2,107,000).

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

Kip McGrath Education Centres Limited
Directors' report
30 June 2017

	Consolidated 2017 $'000	Consolidated 2016 $'000
Revenue	13,507	14,569
EBITDA	2,635	2,107
Less: Depreciation and amortisation	(773)	(443)
Less: Interest expense	(68)	(69)
Add: Interest income	1	4
Profit before Income tax expense	1,795	1,599
Income tax expense	(359)	(396)
Profit after income tax expense	1,436	1,203

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 2017 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Likely developments and expected results of operations
The company has initiated a number of new marketing campaigns in the key Australian and United Kingdom markets for both traditional tutoring services as well as the new on-line products and expects improved growth in both markets. It is expected online lesson numbers will increase significantly as the number of franchises trained in the upgraded software increases.

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:	Non-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

Kip McGrath Education Centres Limited
Directors' report
30 June 2017

Name:	Ian Campbell
Title:	Non-Executive Director
Qualifications:	FCA, MAICD
Experience and expertise:	Ian joined the Board on 25 August 2009 after a 32 years career with the international accounting firm Ernst & Young principally working with entrepreneurial companies and the capital markets. Ian is a Fellow of Chartered Accountants Australia and New Zealand and a member of the Australian Institute of Company Directors. He is currently a non-executive director of CVC Limited 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 the Nomination and Remuneration Committee
Interests in shares:	500,000 ordinary shares
Interests in options:	None

Name:	Trevor Folsom
Title:	Non-Executive Director
Experience and expertise:	Trevor has extensive background and experience and is acknowledged for his ability to engage, invest and advise growth companies, particularly in the technology sector. He is a successful entrepreneur in his own right, developing, from start up, Blueprint Management, which he sold in 2008. He is currently a Director of 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 the Nomination and Remuneration Committee
Interests in shares:	None

Name:	Diane Pass
Title:	Non-Executive Director
Experience and expertise:	Di is currently a Director of the human resources consultancy company 360HR and the Chair of the Advisory Council of Sydney TAFE Institute. Di has more than 20 years local, national and international experience in the recruitment and consulting industry. She is also accomplished in creating and delivering engaging professional development programs and leading complex management consulting assignments. Di is also a member of the Australian Institute of Company Directors.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Member of the Nomination and 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 Chartered Accountants Australia and New Zealand and a member of the Australian Institute of Company Directors. He has 29 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.

Kip McGrath Education Centres Limited
Directors' report
30 June 2017

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 2017, 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	1	1	-	-
Ian Campbell	7	7	1	1	4	4
Trevor Folsom	7	7	1	1	3	4
Diane Pass	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 it is considered to conform to market best practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:
- competitiveness and reasonableness;
- acceptability to shareholders;
- performance linkage / alignment of KMP compensation; and
- transparency.

The 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 director and executive director remuneration is separate.

Non-executive directors' remuneration
Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the 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.

Kip McGrath Education Centres Limited
Directors' report
30 June 2017

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

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

The KMP remuneration and reward framework has four components:
- base pay and non-monetary benefits;
- short-term performance incentives;
- share-based payments; and
- other remuneration, such as superannuation and long service leave.

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

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

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

The short-term incentives ('STI') program is designed to align the targets of the business units with the performance hurdles of executives. STI payments are granted to executives based on specific annual targets and key performance indicators ('KPI') being achieved. KPI's for the chief executive officer are set by the 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. An employee share option plan was approved by shareholders in 2012, the objective of which is to assist in the recruitment, reward, retention and motivation of key employees and directors by facilitating the offering of options over ordinary shares, subject to performance and loyalty hurdles. The plan aims to give selected employees and directors the opportunity to share in the future growth and profitability of the company by better aligning their interests with those of shareholders and provides greater incentive for them to work towards achieving the longer term goals of the company.

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

Consolidated entity performance and link to remuneration
KMP remuneration is linked to the performance of the consolidated entity. Bonus and incentive payments are at the discretion of the Board.

Use of remuneration consultants
During the financial year ended 30 June 2017, the company did not engage the use of remuneration consultants.

Voting and comments made at the company's 2016 Annual General Meeting ('AGM')
At the 2016 AGM, 96% of the shareholders voted to adopt the remuneration report for the year ended 30 June 2016. 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.

Kip McGrath Education Centres Limited
Directors' report
30 June 2017

The KMP 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 (to 1 July 2016)
- Brett Edwards - Company Secretary and Chief Financial Officer
- Jackie Burrows - Chief Executive Officer UK Business
- Catherine Cook - Global Curriculum and Training Manager
- Julie Russell - Global Marketing Manager
- Peter Hepp - IT Manager

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	Share-based payments	
2017	Cash salary and fees $	Bonus $	Non-monetary $	Super-annuation $	Leave benefits $	Equity-settled shares $	Equity-settled options $	Total $
Non-Executive Directors:								
Kip McGrath (Chairman) *	142,608	-	2,158	7,808	-	-	-	152,574
Ian Campbell	63,927	-	2,158	6,073	-	-	-	72,158
Trevor Folsom	54,795	-	2,158	5,205	-	-	-	62,158
Diane Pass	20,653	-	1,079	1,962	-	-	-	23,694
Other Key Management Personnel:								
Storm McGrath	273,831	-	2,158	25,445	-	-	20,335	321,769
James Street	65,951	-	-	601	-	-	-	66,552
Brett Edwards	177,924	9,750	2,158	16,903	-	-	9,288	216,023
Jackie Burrows	143,230	15,175	2,158	-	-	-	2,487	163,050
Catherine Cook	138,104	7,500	2,158	13,120	-	-	528	161,410
Julie Russell	123,139	6,500	2,158	11,698	-	-	528	144,023
Peter Hepp	115,589	6,250	2,158	10,981	-	-	528	135,506
	1,319,751	45,175	20,501	99,796	-	-	33,694	1,518,917

* Kip McGrath receives a $90,000 fee as Non-executive Chairman plus additional remuneration for agreed services.

Kip McGrath Education Centres Limited
Directors' report
30 June 2017

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	Share-based payments	
2016	Cash salary and fees $	Bonus $	Non-monetary $	Super-annuation $	Leave benefits $	Equity-settled shares $	Equity-settled options $	Total $
Non-Executive Directors:								
Kip McGrath (Chairman) *	129,184	-	2,150	10,203	-	-	-	141,537
Ian Campbell	63,926	-	2,150	6,073	-	-	-	72,149
Trevor Folsom	54,794	-	2,150	5,205	-	-	-	62,149
Other Key Management Personnel:								
Storm McGrath	287,318	-	2,150	27,547	-	-	8,472	325,487
James Street	164,384	-	2,150	15,616	-	-	3,624	185,774
Brett Edwards	173,621	-	2,150	16,494	-	-	2,041	194,306
Jackie Burrows	148,536	16,372	2,150	-	-	-	280	167,338
Catherine Cook **	31,963	1,750	2,150	3,470	-	-	-	39,333
Julie Russell **	27,046	5,050	2,150	2,936	-	-	-	37,182
Peter Hepp **	28,275	1,750	2,150	3,070	-	-	-	35,245
	1,109,047	24,922	21,500	90,614	-	-	14,417	1,260,500

* Kip McGrath moved to a Non-Executive capacity in October 2015.
** Remuneration from date of promotion to KMP.

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

	Fixed remuneration		At risk - STI		At risk - LTI	
Name	2017	2016	2017	2016	2017	2016
Non-Executive Directors:						
Kip McGrath	100%	100%	-	-	-	-
Ian Campbell	100%	100%	-	-	-	-
Trevor Folsom	100%	100%	-	-	-	-
Diane Pass	100%	-	-	-	-	-
Other Key Management Personnel:						
Storm McGrath	94%	97%	-	-	6%	3%
James Street	100%	98%	-	-	-	2%
Brett Edwards	90%	99%	5%	-	5%	1%
Jackie Burrows	89%	91%	9%	9%	2%	-
Catherine Cook	95%	98%	5%	2%	-	-
Julie Russell	95%	95%	5%	5%	-	-
Peter Hepp	95%	98%	5%	2%	-	-

The proportion of the cash bonus paid during the year ended 30 June 2017 is as follows:

- Storm McGrath has entitlements to performance incentives of up to 15% of over budget performance capped at $300,000 (nil paid);
- Jackie Burrows has entitlement to performance incentives based on sales in the UK market ($15,175 paid), and
- Other KMP have specific performance incentives of up to 15% of salary or $20,000 whichever is higher.

Kip McGrath Education Centres Limited
Directors' report
30 June 2017

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

- Storm McGrath has entitlements to performance incentives of up to 15% of over budget performance capped at $300,000 (nil paid);
- Jackie Burrows has entitlement to performance incentives based on sales in the UK market ($15,175 paid), and
- Other KMP have specific performance incentives of up to 15% of salary or $20,000 whichever is higher.

Share-based compensation

Issue of options
Details of options over ordinary shares granted to directors and other key management personnel as part of compensation during the year, or that otherwise has affected the remuneration of directors and other key management personnel for the year ended 30 June 2017, are set out below:

Name	Grant Date	No. of options granted	Exercise price	No. of options lapsed during year
Storm McGrath	21 Nov 2014	1,000,000	$0.350	-
James Street	28 Feb 2014	200,000	$0.190	200,000
	20 Aug 2014	150,000	$0.350	150,000
Brett Edwards	28 Feb 2014	150,000	$0.190	-
	20 Aug 2014	150,000	$0.350	-
	19 Aug 2016	100,000	$0.300	-
Jackie Burrows	28 Feb 2014	50,000	$0.190	-
	19 Aug 2016	100,000	$0.300	-
Peter Hepp	19 Aug 2016	100,000	$0.300	-
Julie Russell	19 Aug 2016	100,000	$0.300	-
Catherine Cook	19 Aug 2016	100,000	$0.300	-

There have been no alteration to the terms or conditions of the options granted since grant date.

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	Vesting date	Exercise price	Fair value per option at grant date
28 Feb 2014	200,000	28 Feb 2018	$0.190	$0.223
20 Aug 2014	150,000	31 Dec 2019	$0.350	$0.172
21 Nov 2014	1,000,000	31 Dec 2019	$0.350	$0.172
19 Aug 2016	500,000	31 Dec 2021	$0.300	$0.113

Options granted carry no dividend or voting rights. There were no amounts paid or payable by recipients on the granting of options. Options can only be exercised once vested in the recipient and on or prior to expiry date. Options are not transferable except in special or approved circumstances and will not be listed on the ASX. Shares issued on exercise of options will rank equally with other ordinary shares and will be subject to an application for quotation on the ASX. Options will vest after all specified vesting conditions have been met unless determined otherwise by the board where special circumstances exist, such as in the event of a takeover. Unvested options will lapse immediately the holder ceases employment with the company or where performance targets have not been met prior to expiry. On cessation of employment, the holder has 60 business days to exercise any vested options, or 6 months if employment ceases due to death, disablement or retirement, unless otherwise determined by the board. On exercise, each option converts to one ordinary share in the company.

Vesting of options is subject to meeting a net profit before tax hurdle, meeting annual performance indicators set by the board which are linked to centre number growth, student number growth and on-line business growth.

Kip McGrath Education Centres Limited
Directors' report
30 June 2017

Issue of shares

Details of shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2017 are set out below:

On 31 August 2016, upon the exercise of options, 500,000 ordinary shares were granted to Storm McGrath at $0.075 for a total value of $37,500 and 350,000 ordinary shares were granted to James Street at $0.075 for a total value of $26,250.

Additional disclosures relating to key management personnel

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	833,959	500,000	-	-	1,333,959
Ian Campbell	446,469	-	53,531	-	500,000
James Street *	995,464	350,000	-	(1,345,464)	-
Jackie Burrows	150,000	-	-	-	150,000
	18,653,391	850,000	53,531	(1,345,464)	18,211,458

* Disposals/other represents shares held at resignation date.

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. Options have not vested in the holder unless indicated otherwise.

	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
Options over ordinary shares					
Storm McGrath	1,500,000	-	(500,000)	-	1,000,000
James Street	700,000	-	(350,000)	(350,000)	-
Brett Edwards	300,000	100,000	-	-	400,000
Jackie Burrows	50,000	100,000	-	-	150,000
Peter Hepp	-	100,000	-	-	100,000
Julie Russell	-	100,000	-	-	100,000
Catherine Cook	-	100,000	-	-	100,000
	2,550,000	500,000	(850,000)	(350,000)	1,850,000

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

This concludes the remuneration report, which has been audited.

Kip McGrath Education Centres Limited
Directors' report
30 June 2017

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
28 February 2014	28 February 2018	$0.190	200,000
20 August 2014	31 December 2019	$0.350	150,000
21 November 2014	31 December 2019	$0.350	1,000,000
2 September 2016	31 December 2021	$0.300	500,000
			1,850,000

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

The following ordinary shares of Kip McGrath Education Centres Limited were issued during the year ended 30 June 2017 and up to the date of this report on the exercise of options granted:

Date options granted	Exercise price	Number of shares issued
31 March 2012	$0.075	850,000

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 22 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.

Kip McGrath Education Centres Limited
Directors' report
30 June 2017

The directors are of the opinion that the services as disclosed in note 22 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 ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Auditor's independence declaration

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

Auditor

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

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

On behalf of the directors

Kip McGrath
Chairman

9 August 2017
Newcastle

Kip McGrath Education Centres Limited

ACN: 003 415 889

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

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the audit of Kip McGrath Education Centres Limited for the year ended 30 June 2017, I declare that, to the best of my knowledge and belief, there have been:

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

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

PKF
CHARTERED ACCOUNTANTS

MARTIN MATTHEWS
PARTNER

9 AUGUST 2017
NEWCASTLE, NSW

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

Liability limited by a scheme approved under Professional Standards Legislation

Sydney
Level 8, 1 O'Connell Street
Sydney NSW 2000 Australia
GPO Box 5446 Sydney NSW 2001
p +61 2 8346 6000
f +61 2 8346 6099

Newcastle
755 Hunter Street
Newcastle West NSW 2302 Australia
PO Box 2368 Dangar NSW 2309
p +61 2 4962 2688
f +61 2 4962 3245

Kip McGrath Education Centres Limited
Corporate governance statement
30 June 2017

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 25 August 2017.

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.

Kip McGrath Education Centres Limited
Corporate governance statement
30 June 2017

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

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

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

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

	Proportion of women	Proportion of men
On the board	25%	75%
In senior executive positions	50%	50%
Across the whole organisation	79%	21%

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 July 2017.

Kip McGrath Education Centres Limited
Corporate governance statement
30 June 2017

Principle 2: Structure the board to add value

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

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

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

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

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

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

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

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

Kip McGrath Education Centres Limited
Corporate governance statement
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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	29 years	Non-Executive Chairman
Ian Campbell	25 August 2009	8 years	Independent Non-Executive
Trevor Folsom	22 September 2014	3 years	Independent Non-Executive
Diane Pass	1 February 2017	6 months	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	500,000 ordinary shares held indirectly in superfund	This holding aligns the interests of the director with those of the shareholders and is encouraged by the company.

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.

Kip McGrath Education Centres Limited
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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 2017 and the half-year ended 31 December 2016, 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).

Kip McGrath Education Centres Limited
Corporate governance statement
30 June 2017

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 March 2017.

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.

Kip McGrath Education Centres Limited
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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
Diane Pass	Non-Executive Director	Independent

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

The Board has established the committee under formal Charter.

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

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

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

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

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

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

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

Kip McGrath Education Centres Limited
Contents
30 June 2017

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 9 August 2017. 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 2017

	Note	Consolidated 2017 $'000	Consolidated 2016 $'000
Revenue	4	13,507	14,569
Expenses			
Royalties, commissions and other direct expenses	5	(5,030)	(7,035)
Employee expenses		(2,906)	(2,719)
Marketing expenses		(910)	(506)
Administration expenses		(1,571)	(1,677)
Merchandising expenses		(326)	(382)
Depreciation and amortisation expense	5	(773)	(443)
Net foreign exchange losses		(128)	(139)
Finance costs	5	(68)	(69)
Profit before income tax expense		1,795	1,599
Income tax expense	6	(359)	(396)
Profit after income tax expense for the year attributable to the owners of Kip McGrath Education Centres Limited		1,436	1,203
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		(101)	(93)
Other comprehensive income for the year, net of tax		(101)	(93)
Total comprehensive income for the year attributable to the owners of Kip McGrath Education Centres Limited		1,335	1,110
		Cents	**Cents**
Basic earnings per share	29	3.199	2.723
Diluted earnings per share	29	3.069	2.574

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 2017

	Note	Consolidated 2017 $'000	Consolidated 2016 $'000
Assets			
Current assets			
Cash and cash equivalents	7	4,932	3,530
Trade and other receivables	8	865	636
Other	9	141	153
Total current assets		5,938	4,319
Non-current assets			
Trade receivables		19	80
Property, plant and equipment		111	45
Intangibles	10	10,304	9,969
Deferred tax	11	526	711
Total non-current assets		10,960	10,805
Total assets		16,898	15,124
Liabilities			
Current liabilities			
Trade and other payables	12	3,976	3,259
Borrowings	13	750	350
Income tax payable		37	-
Employee benefits	14	364	297
Total current liabilities		5,127	3,906
Non-current liabilities			
Trade payables		-	40
Borrowings	15	-	300
Deferred tax	16	1,522	1,339
Total non-current liabilities		1,522	1,679
Total liabilities		6,649	5,585
Net assets		10,249	9,539
Equity			
Issued capital	17	8,838	8,774
Reserves	18	598	667
Retained profits		813	98
Total equity		10,249	9,539

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 2017

Consolidated	Issued capital $'000	Reserves $'000	Retained profits $'000	Total equity $'000
Balance at 1 July 2015	8,774	738	(442)	9,070
Profit after income tax expense for the year	-	-	1,203	1,203
Other comprehensive income for the year, net of tax	-	(93)	-	(93)
Total comprehensive income for the year	-	(93)	1,203	1,110
Transactions with owners in their capacity as owners:				
Share-based payments	-	22	-	22
Dividends paid (note 19)	-	-	(663)	(663)
Balance at 30 June 2016	8,774	667	98	9,539

Consolidated	Issued capital $'000	Reserves $'000	Retained profits $'000	Total equity $'000
Balance at 1 July 2016	8,774	667	98	9,539
Profit after income tax expense for the year	-	-	1,436	1,436
Other comprehensive income for the year, net of tax	-	(101)	-	(101)
Total comprehensive income for the year	-	(101)	1,436	1,335
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs (note 17)	64	-	-	64
Share-based payments	-	32	-	32
Dividends paid (note 19)	-	-	(721)	(721)
Balance at 30 June 2017	8,838	598	813	10,249

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 2017

	Note	Consolidated 2017 $'000	Consolidated 2016 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		13,930	15,171
Payments to suppliers and employees (inclusive of GST)		(10,730)	(12,888)
		3,200	2,283
Interest received		1	4
Interest and other finance costs paid		(68)	(69)
Income taxes refunded		-	16
Net cash from operating activities	28	3,133	2,234
Cash flows from investing activities			
Payments for property, plant and equipment		(110)	(52)
Payments for intangibles	10	(1,064)	(976)
Net cash used in investing activities		(1,174)	(1,028)
Cash flows from financing activities			
Proceeds from issue of shares	17	64	-
Proceeds from borrowings		1,305	-
Dividends paid	19	(721)	(663)
Repayment of borrowings		(1,205)	(350)
Net cash used in financing activities		(557)	(1,013)
Net increase in cash and cash equivalents		1,402	193
Cash and cash equivalents at the beginning of the financial year		3,530	3,337
Cash and cash equivalents at the end of the financial year	7	4,932	3,530

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

Kip McGrath Education Centres Limited
Notes to the financial statements
30 June 2017

Note 1. Significant accounting policies

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

New or amended Accounting Standards and Interpretations adopted

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

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

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 26.

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 2017 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.

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.

Kip McGrath Education Centres Limited
Notes to the financial statements
30 June 2017

Note 1. Significant accounting policies (continued)

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 fees
Revenue from franchise fees derived from franchise operations are recognised on a weekly or monthly basis, depending on the underlying contract with the franchisee.

Student lesson fees
Revenue from student lessons derived from franchise operations are recognised when the services are provided pursuant to a student's enrolment agreement, which is typically on a weekly basis.

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.

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.

Kip McGrath Education Centres Limited
Notes to the financial statements
30 June 2017

Note 1. Significant accounting policies (continued)

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

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

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

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

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

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

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

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

Current and non-current classification

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

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

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

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

Cash and cash equivalents

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

Kip McGrath Education Centres Limited
Notes to the financial statements
30 June 2017

Note 1. Significant accounting policies (continued)

Trade and other receivables
Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any 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.

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

Depreciation is calculated on a straight-line basis to write off the net cost of each item of plant and equipment over their expected useful lives. Plant and equipment is currently not material to the financial statements.

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.

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.

Kip McGrath Education Centres Limited
Notes to the financial statements
30 June 2017

Note 1. Significant accounting policies (continued)

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.

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.

Employee benefits

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

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.

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

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

Kip McGrath Education Centres Limited
Notes to the financial statements
30 June 2017

Note 1. Significant accounting policies (continued)

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

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

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

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

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

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

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

Fair value measurement

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

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

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.

Kip McGrath Education Centres Limited
Notes to the financial statements
30 June 2017

Note 1. Significant accounting policies (continued)

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

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

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

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

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

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

Earnings per share

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

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.

Kip McGrath Education Centres Limited
Notes to the financial statements
30 June 2017

Note 1. Significant accounting policies (continued)

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

Comparatives
Certain reclassifications have been made to the prior year to enhance comparability in the statement of financial position.

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

New Accounting Standards and Interpretations not yet mandatory or early adopted
Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2017. 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.

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. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). 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. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The consolidated entity will adopt this standard from 1 July 2018. It is not expected to significantly impact the financial statements on the basis that the main financial assets recognised represent cash and cash equivalent and trade receivables that do not carry a significant financing component and involve a single cash flow representing the repayment of principal, which in the case of trade receivables is the transaction price. Both asset classes will continue to be measured at face value. Other financial asset classes are not material to the group. Financial liabilities of the group are not impacted as the group does not carry them at fair value.

AASB 15 Revenue from Contracts with Customers
This standard is applicable to annual reporting periods beginning on or after 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. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgements made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The consolidated entity will adopt this standard from 1 July 2018. It is not expected to significantly impact the financial statements on the basis that most of the group's revenue is recognised at the time of lessons being provided to a student which represents the satisfaction of the primary performance obligation.

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Note 1. Significant accounting policies (continued)

AASB 16 Leases
This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured as the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (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 will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The consolidated entity will adopt this standard from 1 July 2019 but the impact of its adoption is not expected to materially affect the consolidated entity as there are minimal leases.

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.

Intangible assets with indefinite life
Intellectual property, franchise territories and certain product and overseas development costs are classified as having an indefinite useful life and not amortised as management considers that there is no foreseeable limit to the cash flows these assets are generating. Such assets are subject to annual impairment reviews in accordance with the accounting policy stated in note 1. The recoverable amounts of cash-generating units to which such assets relate have been determined based on value-in-use calculations which require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows. Estimates that management has made with respect to such calculations are disclosed in note 10.

Finite life intangible assets
The consolidated entity determines the estimated useful lives and related amortisation charges for its finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The amortisation charge will increase where the useful lives are less than previously estimated lives. The consolidated entity assesses impairment of such assets at each reporting date by evaluating conditions specific to the consolidated entity, the cash generating unit to which the asset belongs, and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves estimating the asset's fair value less costs of disposal or value-in-use calculations which incorporate a number of key estimates and assumptions. Estimates that management has made with respect to such calculations are disclosed in note 10.

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.

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

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.

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	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Australasia	7,351	8,792	9,723	9,383
United Kingdom and Europe	5,190	5,111	711	711
Overseas other	965	602	-	-
	13,506	14,505	10,434	10,094

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Note 4. Revenue

	Consolidated 2017 $'000	Consolidated 2016 $'000
Sales revenue		
Franchise fees	9,206	7,713
Student lesson fees	2,382	5,553
Sale of franchisee centres	1,423	782
Direct sales	495	457
	13,506	14,505
Other revenue		
Interest	1	4
Other revenue	-	60
	1	64
Revenue	13,507	14,569

Note 5. Expenses

	Consolidated 2017 $'000	Consolidated 2016 $'000
Profit before income tax includes the following specific expenses:		
Depreciation		
Plant and equipment	44	27
Amortisation		
Product and overseas development costs	508	269
Other	221	147
Total amortisation	729	416
Total depreciation and amortisation	773	443
Royalties, commissions and other direct expenses		
Direct costs of student lessons	1,932	4,496
Direct costs of franchise fees	3,098	2,539
Total royalties, commissions and other direct expenses	5,030	7,035
Employee benefits		
Employee benefits expense excluding superannuation	2,640	2,457
Defined contribution superannuation expense	234	240
Share-based payment expense	32	22
Total employee benefits	2,906	2,719
Finance costs		
Interest and finance charges paid/payable	68	69
Rental minimum lease payments	217	274

Kip McGrath Education Centres Limited
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Note 6. Income tax expense

	Consolidated 2017 $'000	Consolidated 2016 $'000
Income tax expense		
Current tax	(9)	(45)
Deferred tax - origination and reversal of temporary differences	368	441
Aggregate income tax expense	359	396
Deferred tax included in income tax expense comprises:		
Decrease in deferred tax assets (note 11)	185	388
Increase in deferred tax liabilities (note 16)	183	53
Deferred tax - origination and reversal of temporary differences	368	441
Numerical reconciliation of income tax expense and tax at the statutory rate		
Profit before income tax expense	1,795	1,599
Tax at the statutory tax rate of 30%	539	480
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Prior year foreign exchange items	(169)	-
Sundry items	(11)	(84)
Income tax expense	359	396

	Consolidated 2017 $'000	Consolidated 2016 $'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 7. Current assets - cash and cash equivalents

	Consolidated 2017 $'000	Consolidated 2016 $'000
Cash at bank	1,697	1,209
Restricted cash	3,235	2,321
	4,932	3,530

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 12.

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Note 8. Current assets - trade and other receivables

	Consolidated 2017 $'000	Consolidated 2016 $'000
Trade receivables	949	860
Less: Provision for impairment of receivables	(84)	(224)
	865	636

Impairment of receivables
The consolidated entity has recognised a loss of $107,000 (2016: $94,000) in profit or loss in respect of impairment of receivables for the year ended 30 June 2017.

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

	Consolidated 2017 $'000	Consolidated 2016 $'000
31-60 days overdue	2	18
61-90 days overdue	1	28
91-120 days overdue	81	178
	84	224

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

	Consolidated 2017 $'000	Consolidated 2016 $'000
Opening balance	224	217
Additional provisions recognised	107	94
Receivables written off during the year as uncollectable	(247)	(87)
Closing balance	84	224

Past due but not impaired
Customers with balances past due but without provision for impairment of receivables amount to $74,000 as at 30 June 2017 ($82,000 as at 30 June 2016).

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 2017 $'000	Consolidated 2016 $'000
31-60 days overdue	8	4
61-90 days overdue	7	3
91-120 days overdue	59	75
	74	82

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Note 9. Current assets - other

	Consolidated 2017 $'000	Consolidated 2016 $'000
Prepayments	141	147
Other deposits	-	6
	141	153

Note 10. Non-current assets - intangibles

	Consolidated 2017 $'000	Consolidated 2016 $'000
Intellectual property - at cost	4,012	4,012
Product and overseas development costs	7,130	6,369
Less: Accumulated amortisation	(2,034)	(1,304)
	5,096	5,065
Franchise territories	711	711
Other intangible assets - at cost	1,154	657
Less: Accumulated amortisation	(669)	(476)
	485	181
	10,304	9,969

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 2015	4,012	4,358	808	328	9,506
Additions	-	976	-	-	976
Exchange differences	-	-	(97)	-	(97)
Amortisation expense	-	(269)	-	(147)	(416)
Balance at 30 June 2016	4,012	5,065	711	181	9,969
Additions	-	539	-	525	1,064
Amortisation expense	-	(508)	-	(221)	(729)
Balance at 30 June 2017	4,012	5,096	711	485	10,304

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Note 10. Non-current assets - intangibles (continued)

The intellectual property and product and overseas development costs are the primary elements of the consolidated entity's system of tutoring which has been developed and acquired over a period exceeding 30 years by the founders and the consolidated entity. The franchise territories asset consists of the buy-back of the right to operate the business in the United Kingdom. As there is no foreseeable limit to the cash flows these assets are generating, they are considered to have an indefinite useful life and not amortised. Instead they are subject to annual impairment reviews. Other intangibles include the contractual rights for certain territories where 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% (2016: 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 16.5% (2016: 16.8%). The discount rate reflects management's estimate of the time value of money and the consolidated entity's weighted average cost of capital, the risk free rate and the volatility of the share price relative to market movements.

b. New centre growth rate of 4% (2016: 6.0%) over the three-year projection period, which reflects, a renewed sales push, 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 4% (2016: 4%) 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 2017 (2016: $nil).

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

The key sensitivity is that centre numbers would need to fall by 5% (2016: increase by 3%) before the CGU would 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.

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Note 11. Non-current assets - deferred tax

	Consolidated 2017 $'000	Consolidated 2016 $'000
Deferred tax asset comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Tax losses	56	266
Impairment of receivables	25	69
Unrealised foreign exchange movements	71	-
Employee benefits	112	91
Accrued expenses	68	63
QAX licence	194	215
	526	704
Amounts recognised in equity:		
Transaction costs on share issue	-	7
Deferred tax asset	526	711
Movements:		
Opening balance	711	1,099
Charged to profit or loss (note 6)	(185)	(388)
Closing balance	526	711

Note 12. Current liabilities - trade and other payables

	Consolidated 2017 $'000	Consolidated 2016 $'000
Trade payables	444	435
Amounts held on behalf of franchisees	3,235	2,321
GST and other similar payables	9	35
Other payables and accruals	288	468
	3,976	3,259

Refer to note 20 for further information on financial instruments.

Note 13. Current liabilities - borrowings

	Consolidated 2017 $'000	Consolidated 2016 $'000
Bank loans	750	350

Refer to note 15 for further information on assets pledged as security and financing arrangements.

Refer to note 20 for further information on financial instruments.

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Note 14. Current liabilities - employee benefits

	Consolidated 2017 $'000	Consolidated 2016 $'000
Annual leave	173	146
Long service leave	191	151
	364	297

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 2017 $'000	Consolidated 2016 $'000
Employee benefits	215	172

Note 15. Non-current liabilities - borrowings

	Consolidated 2017 $'000	Consolidated 2016 $'000
Bank loans	-	300

Refer to note 20 for further information on financial instruments.

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

	Consolidated 2017 $'000	Consolidated 2016 $'000
Bank loans	750	650

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Note 15. Non-current liabilities - borrowings (continued)

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

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

	Consolidated 2017 $'000	Consolidated 2016 $'000
Total facilities		
Bank overdraft	1,750	500
Bank loans	750	650
	2,500	1,150
Used at the reporting date		
Bank overdraft	-	-
Bank loans	750	650
	750	650
Unused at the reporting date		
Bank overdraft	1,750	500
Bank loans	-	-
	1,750	500

Note 16. Non-current liabilities - deferred tax

	Consolidated 2017 $'000	Consolidated 2016 $'000
Deferred tax liability comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Research and development costs	1,239	1,235
Overseas development	283	104
Deferred tax liability	1,522	1,339
Movements:		
Opening balance	1,339	1,286
Charged to profit or loss (note 6)	183	53
Closing balance	1,522	1,339

Note 17. Equity - issued capital

	Consolidated 2017 Shares	2016 Shares	2017 $'000	2016 $'000
Ordinary shares - fully paid	45,034,331	44,184,331	8,838	8,774

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Note 17. Equity - issued capital (continued)

Movements in ordinary share capital

Details	Date	Shares	Issue price	$'000
Balance	1 July 2015	44,184,331		8,774
Balance	30 June 2016	44,184,331		8,774
Conversion of options	31 August 2016	850,000	$0.075	64
Balance	30 June 2017	45,034,331		8,838

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.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

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

The capital risk management policy remains unchanged from the 30 June 2016 Annual Report.

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

Note 18. Equity - reserves

	Consolidated	
	2017 $'000	2016 $'000
Foreign currency reserve	(233)	(132)
Share-based payments reserve	77	45
Other reserves	754	754
	598	667

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

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Note 18. Equity - reserves (continued)

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

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

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 2015	(39)	23	754	738
Foreign currency translation	(93)	-	-	(93)
Share-based payments	-	22	-	22
Balance at 30 June 2016	(132)	45	754	667
Foreign currency translation	(101)	-	-	(101)
Share-based payments	-	32	-	32
Balance at 30 June 2017	(233)	77	754	598

Note 19. Equity - dividends

Dividends paid during the financial year were as follows:

	Consolidated 2017 $'000	Consolidated 2016 $'000
Final dividend for the year ended 30 June 2016 of 1.0 cents (2015: 1.0 cents) per ordinary share	451	442
Interim dividend for the year ended 30 June 2017 of 0.6 cents (2016: 0.5 cents) per ordinary share	270	221
	721	663

On 9 August 2017, a final dividend for the year ended 30 June 2017 of 1.4 cents per ordinary share, unfranked, was declared and will be paid on 29 September 2017 to those shareholders on the register at 7pm on 15 September 2017. The total distribution will be $630,480.

Note 20. 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.

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Note 20. Financial instruments (continued)

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.

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	**2017 $'000**	**2016 $'000**	**2017 $'000**	**2016 $'000**
US dollars	46	73	3	23
Euros	7	6	-	-
Pound Sterling	3,161	2,566	1,696	1,331
New Zealand dollars	470	89	306	42
Singapore dollars	86	219	28	88
South African Rand	44	42	-	-
Kenyan Shilling	4	4	-	-
Hong Kong Dollars	19	-	-	-
	3,837	2,999	2,033	1,484

The consolidated entity had net assets denominated in foreign currencies of $1,804,000 as at 30 June 2017 (assets $3,837,000 less liabilities $2,033,000) (2016: $1,515,000 (assets $2,999,000 less liabilities $1,484,000)). Based on this net position, a 10% strengthening in the Australian dollar from 30 June 2017 levels may expose the consolidated entity to a $180,000 foreign currency loss.

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

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

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

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Note 20. Financial instruments (continued)

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

	2017		2016	
Consolidated	Weighted average interest rate %	Balance $'000	Weighted average interest rate %	Balance $'000
Bank overdrafts and bank loans	4.05%	750	6.13%	650
Cash at bank - term deposit	2.75%	(49)	2.60%	(46)
Net exposure to cash flow interest rate risk		701		604

The consolidated entity has net bank loans and borrowings outstanding, totalling $701,000 (2016: $604,000), which are principal and interest payment loans. Annually cash outlays of approximately $38,000 (2016: $350,000 per quarter) are required to service the debt. An official increase/decrease in interest rates of 100 (2016: 100) basis points would have an adverse/favourable effect on profit before tax of $7,000 (2016: $6,000) per annum. The percentage change is based on the expected volatility of interest rates using market data and analysis.

In June 2017 the consolidated entity entered into a new finance facility with HSBC Bank Australia Ltd. The bank loan covenants are specific annual reporting requirements.

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	
	2017 $'000	2016 $'000
Bank overdraft	1,750	500

Kip McGrath Education Centres Limited
Notes to the financial statements
30 June 2017

Note 20. 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 - 2017	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	-	444	-	-	-	444
Other payables	-	3,532	-	-	-	3,532
Interest-bearing - fixed rate						
Bank loans	4.05%	152	152	446	-	750
Total non-derivatives		4,128	152	446	-	4,726

Consolidated - 2016	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	-	435	-	-	-	435
Other payables	-	2,824	40	-	-	2,864
Interest-bearing - variable						
Bank loans	6.13%	350	300	-	-	650
Total non-derivatives		3,609	340	-	-	3,949

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 21. 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 2017 $	Consolidated 2016 $
Short-term employee benefits	1,385,427	1,155,469
Post-employment benefits	99,796	90,614
Share-based payments	33,694	14,417
	1,518,917	1,260,500

Kip McGrath Education Centres Limited
Notes to the financial statements
30 June 2017

Note 22. 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 2017 $	Consolidated 2016 $
Audit services - PKF Newcastle		
Audit or review of the financial statements	96,206	97,005
Other services - PKF Newcastle		
Preparation of the tax return and other tax services	6,430	23,917
	102,636	120,922
Audit services - unrelated firms		
Audit or review of the financial statements	17,352	10,813
Other services - unrelated firms		
Payroll and tax services	4,304	15,846
	21,656	26,659

Fees of $21,656 (2016: $26,659) were paid to Hazlewoods LLP, who are the auditors of the UK subsidiary Kip McGrath Education United Kingdom Limited.

Note 23. Contingent liabilities

There were no contingent liabilities at 30 June 2017.

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 $58,000 (2016: $48,000).

Note 24. Commitments

	Consolidated 2017 $'000	Consolidated 2016 $'000
PPE Lease commitments - operating		
Committed at the reporting date but not recognised as liability, payable:		
Within one year	267	231
One to five years	639	852
	906	1,083

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 25. Related party transactions

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

Subsidiaries
Interests in subsidiaries are set out in note 27.

Kip McGrath Education Centres Limited
Notes to the financial statements
30 June 2017

Note 25. Related party transactions (continued)

Key management personnel
Disclosures relating to key management personnel are set out in note 21 and the remuneration report included in the directors' report.

Transactions with related parties
During the year a child of Catherine Cook (KMP) was paid $1,880 for undertaking curriculum testing services for the consolidated entity.

During the year, the company Importaurus Pty Ltd, became a related party to Kip McGrath and holds 274,050 shares in the parent entity.

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

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

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

Note 26. Parent entity information

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

Statement of profit or loss and other comprehensive income

	Parent	
	2017 $'000	2016 $'000
Profit after income tax	1,091	1,164
Total comprehensive income	1,091	1,164

Statement of financial position

	Parent	
	2017 $'000	2016 $'000
Total current assets	8,632	4,965
Total assets	6,257	5,582
Total current liabilities	2,557	2,060
Total liabilities	4,058	3,837
Equity		
Issued capital	8,838	8,774
Foreign currency reserve	(42)	(30)
Share-based payments reserve	77	45
Accumulated losses	(6,674)	(7,044)
Total equity	2,199	1,745

Kip McGrath Education Centres Limited
Notes to the financial statements
30 June 2017

Note 26. Parent entity information (continued)

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 2017 and 30 June 2016, except as disclosed in note 23.

Contingent liabilities
The parent entity had no contingent liabilities as at 30 June 2017 and 30 June 2016.

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.

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 27. 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 2017 %	Ownership interest 2016 %
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 28. Reconciliation of profit after income tax to net cash from operating activities

	Consolidated 2017 $'000	Consolidated 2016 $'000
Profit after income tax expense for the year	1,436	1,203
Adjustments for:		
Depreciation and amortisation	773	443
Share-based payments	32	22
Foreign exchange differences	(101)	(21)
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	25	(146)
Decrease in inventories - stores and educational materials	-	36
Decrease in deferred tax assets	185	388
Decrease in prepayments	12	81
Increase in trade and other payables	530	190
Decrease in provision for income tax	(9)	(29)
Increase in deferred tax liabilities	183	53
Increase in employee benefits	67	14
Net cash from operating activities	3,133	2,234

Kip McGrath Education Centres Limited
Notes to the financial statements
30 June 2017

Note 29. Earnings per share

	Consolidated 2017 $'000	Consolidated 2016 $'000
Profit after income tax attributable to the owners of Kip McGrath Education Centres Limited	1,436	1,203
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	44,892,277	44,184,331
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares	1,905,754	2,550,000
Weighted average number of ordinary shares used in calculating diluted earnings per share	46,798,031	46,734,331
	Cents	**Cents**
Basic earnings per share	3.199	2.723
Diluted earnings per share	3.069	2.574

Note 30. 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 Nomination and 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:

2017

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	31/03/2022	$0.075	850,000	-	(850,000)	-	-
28/02/2014	28/02/2018	$0.190	400,000	-	-	(150,000)	250,000
20/08/2014	31/12/2019	$0.350	300,000	-	-	(200,000)	100,000
21/11/2014	31/12/2019	$0.350	1,000,000	-	-	-	1,000,000
02/09/2016	31/12/2021	$0.300	-	500,000	-	-	500,000
			2,550,000	500,000	(850,000)	(350,000)	1,850,000

* Other represents options lapsed

Kip McGrath Education Centres Limited
Notes to the financial statements
30 June 2017

Note 30. Share-based payments (continued)

2016

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	31/03/2022	$0.075	850,000	-	-	-	850,000
28/02/2014	28/02/2018	$0.190	400,000	-	-	-	400,000
20/08/2014	31/12/2019	$0.350	300,000	-	-	-	300,000
21/11/2014	31/12/2019	$0.350	1,000,000	-	-	-	1,000,000
			2,550,000	-	-	-	2,550,000

The options issued in the current financial 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 share price was $0.319 (2016: $0.233).

The weighted average remaining contractual life of options outstanding at the end of the financial year was 1.83 years (2016: 1.71 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
19/08/2016	31/12/2021	$0.000	$0.300	51.00%	4.70%	1.75%	$0.113

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were $32,000 (2016: $22,000).

Note 31. Events after the reporting period

Apart from the dividend declared as disclosed in note 19, no other matter or circumstance has arisen since 30 June 2017 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.

Kip McGrath Education Centres Limited
Directors' declaration
30 June 2017

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 2017 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

9 August 2017
Newcastle

PKF

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF KIP MCGRATH EDUCATION CENTRES LIMITED

Report on the Financial Report

Opinion

We have audited the accompanying financial report of Kip McGrath Education Centres Limited (the company), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company and the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

In our opinion, the financial report of Kip McGrath Education Centres Limited is in accordance with the Corporations Act 2001, including:

a) Giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its performance for the year ended on that date; and

b) Complying with Australian Accounting Standards and the Corporations Regulations 2001.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. 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. Our responsibilities under those standards are further described in the Auditor's Responsibility section of our report.

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

Independence

We are independent of the consolidated entity in accordance with the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

1. Impairment testing of intangible assets

Why significant	How our audit addressed the key audit matter
As discussed in note 10, as at 30 June 2017, the Group has intangible assets of $10.304m. An annual impairment test for intangible assets is required under Australian Accounting Standard (AASB) 136 Impairment of Assets. The evaluation of the recoverable amount requires the group to exercise significant judgment in determining key assumptions, which include: • 5 year cash flow forecast; • Terminal growth factor; and • Discount rate. The outcome of the impairment assessment could vary if different assumptions were applied. As a result, the evaluation of the recoverable amount of intangible assets including goodwill is a key audit matter.	As part of our procedures we assessed the Group's determination of Cash Generating Units (CGUs). The Group has determined there is one CGU, being the whole Group. Our procedures included but were not limited to: • to assessing and challenging: o the assumption of one cash generating unit is appropriate; o the accuracy of the FY18 budget approved by the Board by comparing the budget to FY17 and FY16 actuals; o the assumptions used for the future growth rate by comparing normalised average growth rate from FY16 to FY17 to the growth rate adopted in the impairment model; o the key assumptions for long term growth in the forecast cash flows by comparing them to historical results and industry forecasts; and o the discount rate applied by comparing the weighted average cost of capital to industry benchmarks. • testing, on a sample basis, the mathematical accuracy of the cash flow models; • agreeing inputs in the cash flow models to relevant data including approved budgets and latest forecasts; • reviewing management's sensitivity analysis in relation to key assumptions including discount rate, growth rate and terminal value; and • we assessed the appropriateness of the disclosures including those relating to sensitivities in the assumptions used, included in Note 10.

PKF

2. Area Developer Termination payments (one-off transaction)

Why significant	How our audit addressed the key audit matter
During the year, KMEC entered into a confidential termination agreement with an Australian Area Developer ("AD") which allows KMEC to regain the rights bestowed under this AD arrangement. For this right, KMEC agreed to pay an upfront payment in full and capitalised the purchase as an intangible asset at 15 December 2016. As at 30 June 2017 the written down value of this intangible asset has been included as a part of Note 10 in the financial statements under "Other intangible assets".	We reviewed the AD termination agreement and ensured the asset was capitalised appropriately, traced payment to bank and we recalculated the corresponding amortisation to ensure it was correct at 30 June 2017. We deemed management's decision to amortise the AD termination asset over five years as reasonable given the timeframe of expected future economic benefits and customer churn.

Other Information

Other information is financial and non-financial information in the annual report of the company which is provided in addition to the Financial Report and the Auditor's Report. The directors are responsible for Other Information in the annual report.

The Other Information we obtained prior to the date of this Auditor's Report was the Director's Report. The remaining Other Information is expected to be made available to us after the date of the Auditor's Report.

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

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

We are required to report if we conclude that there is a material misstatement of this Other Information in the Financial Report and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Directors' Responsibilities for the Financial Report

The Directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the Directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the financial report complies with International Financial Reporting Standards.

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

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 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.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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 conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the consolidated entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the consolidated entity to cease to continue as a going concern.

We evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the consolidated entity to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

The Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements. We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2017. In our opinion, the Remuneration Report of Kip McGrath Education Centres Limited for the year ended 30 June 2017, complies with section 300A of the Corporations Act 2001.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

PKF

PKF
CHARTERED ACCOUNTANTS

MARTIN MATTHEWS
PARTNER

9 AUGUST 2017
NEWCASTLE, NSW

Kip McGrath Education Centres Limited
Shareholder information
30 June 2017

The shareholder information set out below was applicable as at 24 July 2017.

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	76	-
1,001 to 5,000	169	-
5,001 to 10,000	71	-
10,001 to 100,000	133	-
100,001 and over	37	6
	486	6
Holding less than a marketable parcel	94	-

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	24.87
CITICORP NOMINEES PTY LIMITED	10,505,539	23.33
KMEC SUPERANNUATION PTY LTD (KMEC SUPERANNUATION FUND A/C)	4,000,000	8.88
J P MORGAN NOMINEES AUSTRALIA LIMITED	1,594,559	3.54
MR STORM KIP MCGRATH	1,333,959	2.96
KIP MCGRATH INVESTMENTS PTY LTD (MCGRATH FAMILY A/C)	1,000,000	2.22
BNP PARIBAS NOMINEES PTY LTD (IB AU NOMS RETAILCLIENT DRP)	881,152	1.96
BELSOV PTY LTD (TURNER FAMILY S/F A/C)	758,052	1.68
ENSI STREET SUPERANNUATION PTY LTD (ENSI STREET RETIREMENT A/C)	600,000	1.33
EMERALD SHARES PTY LIMITED (EMERALD UNIT A/C)	585,933	1.30
MR MATTHEW CHARLES PEEK	580,000	1.29
HETALE PTY LIMITED (EAGLES NEST RETIRE FUND A/C)	500,000	1.11
MR PETER SCARF + MRS IDA SCARF (SCARF SUPER FUND ACCOUNT)	486,215	1.08
ENSI STREET SUPERANNUATION PTY LTD (ENSI STREET RETIREMENT A/C)	415,000	0.92
MR BRIAN STEPHAN SLEIGH	383,000	0.85
MRS JENNIFER ANNE BUCHANAN	374,615	0.83
WHILEY CLOSE INVESTMENTS PTY LTD (SIMS FAMILY SUPER FUND A/C)	327,714	0.73
MR ROBERT LUNDY (LUNDY SUPER FUND A/C)	325,000	0.72
ENSI TRADING COMPANY PTY LTD	307,864	0.68
MR JUAN VARELA + MS ANNE HENCHMAN	306,370	0.68
	36,465,471	80.96

Unquoted equity securities

There are no unquoted equity securities, except the options as disclosed in Note 30.

Kip McGrath Education Centres Limited
Shareholder information
30 June 2017

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	24.87
CITICORP NOMINEES PTY LIMITED	10,505,539	23.33
KMEC SUPERANNUATION PTY LTD (KMEC SUPERANNUATION FUND A/C)	4,000,000	8.88
J P MORGAN NOMINEES AUSTRALIA LIMITED	1,594,559	3.54

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.

Kip McGrath™

EDUCATION CENTRES