

# 2009

## ANNUAL REPORT

Kip McGrath Education Centres LIMITED

ABN: 73 003 415 889



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# CHAIRMAN'S REPORT

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11 September, 2009

Dear Shareholder,

The 2009 results mark a record profit for KMEC, on the back of a 19% increase in revenue and a significant 13% reduction in operating costs. This is a pleasing result made considerably better by advantageous tax credits, brought to account as a result of the acquisition of the minority interests in Kip McGrath Institute of Business Australia Pty Ltd (formerly IOTA) and Kip McGrath Direct Pty Ltd (formerly Triple G Technologies).

The result reflects lots of hard work and focus by management and a determination by your board to add shareholder value in all we do. For the future, the present core business of franchised operations is healthy and again growing. Of more importance however, are the advances we have made in reshaping the business to participate in a blended model of tuition across all age groups at a variety of levels and using existing and new channels to market, especially the internet.

We are also, as you will be aware, renewing the board to ensure we have the skills, experiences and behaviours necessary to exploit our potential. The recent appointment of Ian Campbell and a shortlist of exceptional candidates for a further appointment are testimony to our commitment to this.

It is our belief that the combination of KMEC's proven and growing content, with the opportunities emerging in private education and tuition in the English speaking world poise the company for above average growth. We are however, determined to get this right and to be patient.

It is also satisfying to be able to announce a return to payment of dividends with a final dividend of 2 cents per share, fully franked, payable on 25 September 2009.

We look forward to your continued support.



GLENN TURNER  
Chairman

# MANAGING DIRECTOR'S REPORT

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Dear Shareholder,

The 2008/09 year has shown a return to profit. The revenue for the business has increased 19% and the costs have been reduced with tighter controls in place.

## **Franchise Sales**

Sales of new franchises for the year were 29 in contrast to 18 last year. Area Developers have been appointed in the UK to increase sales. Master Franchisees in Spain (Mallorca) and United Arab Emirates have been sold during the year. Each of these will run pilot centres over the next 12 months before selling franchises.

## **Operations**

The core business revenue was significantly higher for the year. The franchise fee in the UK was increased to be more in line with the rest of the world. A number of franchisees have reached the third year franchise fee which is higher. The sale of the Higher Education products to franchisees is growing with over 180 centres using some or all of the new products. Billing for these new products commenced in the second half of the year and showed positive cash flow for the year.

## **Kip McGrath Direct (KMD)**

Triple G Technologies Pty Ltd was changed to Kip McGrath Direct Pty Ltd during the year. The business made a positive cash profit of \$20,000 for the year after a loss of \$196,600 (before impairments) in 2008. Revenue is derived from the sale of the Kip McGrath Maths Expert program direct to students in Australia, New Zealand and South Africa. These sales are made in three ways.

1. Direct to customers through the franchise channel
2. Direct to the home through an outsourced sales channel
3. Via the web site

Direct sales are a new revenue stream for the business and have proven successful after only five months of trialling. Another product, the Kip Get Ready for School program will be offered direct to the home during the new year.

## **Kip McGrath Institute of Business (trading as McGrath Institute of Business Australia; 'MIBA')**

During the year KMEC purchased the remaining minority shareholder equity in the Kip McGrath Institute of Business Australia business. The name was changed during the year from Institute of Technology Australia to leverage from the McGrath brand and to more accurately reflect the nature of the degree courses offered.

## **Cashflow**

Cashflow from operations was a positive \$1.5million allowing a repayment to our bank of \$350,000 over and above our scheduled repayments.

## **Tax**

The acquisition of the minority interests in MIBA and KMD has allowed these subsidiaries to join the KMEC tax consolidated group. Included within the tax benefit for the year ended 30 June 2009 was a non-recurring income tax credit of approximately \$2.3 million.

# MANAGING DIRECTOR'S REPORT

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This income tax credit relates to the recognition of deferred tax assets (both revenue tax losses and temporary differences) that were not previously recognised. The deferred tax assets were recognised at 30 June 2009 as it is now considered probable that future taxable profit will be available to offset these balances.

The business has undergone significant change during the year with the appointment of key staff, addition of new revenue streams and introduction of new systems.

## **CFO**

Darlene Perks was appointed as CFO and has improved the timeliness and quality of management reports. A new accounting program and back office function for our post secondary business has been implemented across the group with cost savings from the consolidation of resources.

## **Sales and Marketing Manager**

Clint Marquet was appointed 2 years ago and has improved professionalism in the marketing of the group with emphasis on harmonising and building the brand. Our brands are now:

- Kip McGrath Leaders in Learning – for the corporate business and sale of products direct into the home
- Kip McGrath Education Centres – for the global education centres
- McGrath Institute of Business Australia (MIBA) – for the post secondary business

The new brand reinforces the business as a global leader in education. We have also modernised and standardised the centre fit-out and the marketing for franchisees to use in their premises worldwide.

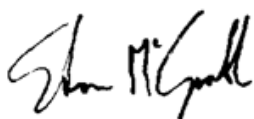
## **CEO McGrath Institute of Business Australia**

A CEO for the post secondary business is being recruited with an appointment likely in September.

## **Outlook**

The core business franchise centre income is continuing to build with an increase in centre numbers. The number of new franchise sales in 2010 is expected to be similar or better than this year. The business is making changes to leverage on its brand, reputation and quality educational materials. We are also investigating other revenue streams in the education sector. Subject to the usual caveat that prevailing market conditions do not deteriorate we are budgeting for an increase in pre-tax earnings over 2009.

I would like to thank our dedicated and loyal staff and all of our franchisees, area developers, master franchisees and their staff for their support.

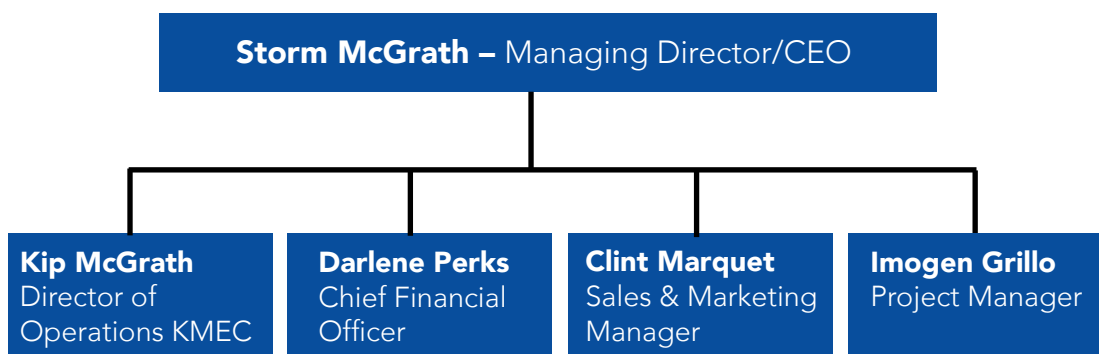


Storm McGrath  
Managing Director

# EXECUTIVE TEAM PROFILE

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## Kip McGrath Organisational Chart - Executive Team



### Storm McGrath – Managing Director/CEO

Following a successful entrepreneurial career in his own businesses, Storm was appointed as a non-executive director to Kip McGrath Education Centres Ltd in 1997, with particular responsibility for managing technology in the business. In 2000, after three years on the board, he took on the position of Project Manager at KMEC. In 2002, Storm was promoted to Director of Operations, where his responsibilities included the sale of franchises globally. During the next 5 years, the number of Kip McGrath Education Centres doubled. In 2007, Storm was promoted to Managing Director/CEO. He is particularly focused on growth and technology in the business and how this can be applied to ensure the future success of the business.



# EXECUTIVE TEAM PROFILE

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## **Darlene Perks (B.Bus CPA) – Chief Financial Officer/Company Secretary**

Darlene joined KMEC in 2008.

Darlene's management skill and insight has developed over 18 years experience as Financial Controller and Operations Manager in varied industries including media, construction and manufacturing, in both private and publicly listed companies. This extensive experience has developed Darlene as a strong operational, financial manager with success in implementing transparent financial reporting mechanics and sound financial platforms for growth.



## **Clint Marquet – Sales and Marketing Manager**

Clint has significant business experience in both the hospitality and telecommunications industries.

Clint's early career in positions of general management in the hospitality industry has given him a good understanding of the drivers in the service industry.

Clint's sales, marketing, IT and distribution experience within the telecommunications industry, has assisted in building the Kip McGrath brand, which is the foundation for business growth moving forward. The revitalised brand, coupled with his experience in channel marketing and sales, places the business in a strong position to grow revenue in the core business, as well as through important new channels to market.



# SALES & MARKETING REPORT

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Since the creation of the first Kip McGrath centre, our business has been known for helping children who are having difficulty at school and need more support to reach their full potential. It is this reputation alone that has sustained the business and built it to the globally recognised brand it is today.

The market has changed significantly over the past 35 years; customers have much higher expectations of the educational standard and the presentation of education providers within the marketplace. This, coupled with the emergence of the internet as an acceptable method of communication, means it's extremely important that KMEC adapt and improve to remain relevant and profitable.

KMEC is in a very unique position with a strong global distribution network and a successful 30 year history of helping children learn. To ensure the business is prepared to take advantage of this unique situation, KMEC has undergone a major brand transformation to facilitate the increase in our channels to market. The aim of the new Kip McGrath brand family is to make Kip McGrath a household name and to enable the business to support students throughout their entire learning journey.

To create our new brand identity, Kip McGrath engaged the assistance of a professional advertising agency to develop a clear, easily identified, youthful and fresh brand. This brand will help us to achieve our future goals by presenting a professional look to customers that will meet their expectations of a successful global provider.

The Kip McGrath executive team see the brand transformation as a cornerstone of the overall company strategy.

## Kip McGrath Education Centre Brand Transformation



# SALES & MARKETING REPORT

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## STEP 1

### Kip McGrath Corporate Identity & Kip McGrath Direct



The new tagline for the Kip McGrath corporate brand 'Leaders in Learning' is a strong positioning statement in the marketplace and will underline the key messages and theme of our corporate marketing going forward. It aims to communicate and cement our market leading position in supplementary education.

To further leverage the brand, Kip McGrath will be using its 30 year history of educating children to deliver quality education products directly into the home.

Products delivered direct into the home are:

#### **Kip Maths Expert @home (KipME@home)**

The KipME@home mathematics program covers the secondary maths syllabus in every Australian state. It is aimed at children who need additional help with maths or are already doing well but would like to excel. The program is interactive and designed to motivate students to learn maths, help with maths homework and do extra tasks at home.

Visit the KipME@home website at [www.homemathssoftware.com.au](http://www.homemathssoftware.com.au)

#### **Kip Get Ready for School @home (GRS@home)**

This educational and fun program has been adapted from the successful GRS course used in Kip McGrath Education Centres around the world. It allows parents or carers to be actively involved in creating a positive learning experience for their child in the comfort of the home. This preschool program is designed to help children enjoy getting ready for school and contains essential learning concepts and important school readiness skills.

Visit the GRS@home website at [www.prepareforschool.com.au](http://www.prepareforschool.com.au)

#### **Times Tables CDs**

Kip McGrath is always looking for ways to help our franchisees improve relationships with customers. Times Tables CDs are a great value add item to offer through centres and a great way to help build the Kip McGrath brand. They also offer an additional revenue stream.

These three products are available online, via our network of education centres and education partners. Given our 30 year history in the development of education programs KMEC is well positioned to deliver more products to market to both strengthen the brand and deliver more solutions to students.



# SALES & MARKETING REPORT

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## STEP 2

### Kip McGrath Education Centres Rebrand



Positioning the Kip McGrath Education Centres brand is vital to our strategy, as it involves establishing a set of attributes or an image that offers a clear benefit to the end consumer and differentiates this product from our competitors. It was important to create a new and exciting look that makes students want to come and stay and ensures that parents are confident that their children are receiving tuition from a professional international organisation, while creating an environment that remains focussed on learning.

Our name alone stands for what we represent; professional tuition by our extensive network of trusted and qualified educators. The new branding also represents the core strength of our business and our vision to help students of all levels reach their full potential.

This phase of the rebranding process consisted of the following activities:

- New, modern logo
- New Kip Generation 2 (KipGen2) centre fitout design to meet the changing needs of the market
- Rebrand of the Kip McGrath corporate, Australian and United Kingdom websites
- Rebrand of all curriculum and marketing materials

## STEP 3

### McGrath Institute of Business Australia (MIBA) Rebrand

Formerly the Institute of Technology Australia, MIBA has primarily attracted overseas students, who are looking to obtain an affordable, quality Australian degree. Our aim is to bring the MIBA brand into the mainstream tertiary education market and deliver quality education at an affordable price.



# DIRECTOR'S REPORT

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The directors of Kip McGrath Education Centres Limited (the "company") submit herewith the annual financial report for the financial year ended 30 June 2009. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

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

<i>Name and Qualification</i>	<i>Age</i>	<i>Experience and Special Responsibilities</i>
<p><b>Mr Glenn Turner</b></p> <p>Chairman Independent Non- Executive Director</p>	61	<p><b>B Com, Fellow ASCPA, Fellow AICD, Companion IEA, Accredited Mediator &amp; Arbitrator</b></p> <p>Director since 30 October 2007 Member of Audit Committee Chairman Remuneration Committee Glenn joined the board in 2007 after a 30 year executive career in business. He is currently the chair of the Hunter Medical Research Institute Foundation, a director of HMRI and Deputy Chair of Newcastle Innovation Pty Ltd. He also holds a number of chair and director roles in private technology based companies.</p>
<p><b>Mr Storm McGrath</b></p> <p>Managing Director Chief Executive Officer</p>	39	<p><b>MBA</b></p> <p>Director since 1997 Storm is responsible for recommending strategic direction, day-to-day operations, developing new centres and selling new franchises and master franchises. Director of McGrath Dynasty Pty Ltd.</p>
<p><b>Mr Kip McGrath</b></p> <p>Executive Director</p>	63	<p>Director since incorporation in 1987 As co-founder Kip has particular responsibility for strategic planning and developing "Train-the-Trainer" programs.</p>
<p><b>Mrs Dagnija McGrath</b></p> <p>Education Director</p>	67	<p>Director since incorporation in 1987 As co-founder Dagnija's strengths are in organisation and being able to envisage the use of technology in the teaching process. She has particular responsibility for the development of new curriculum for overseas markets.</p>
<p><b>Dr Michael Seamer</b></p> <p>Independent Non-Executive Director</p>	47	<p><b>B Com (Hons)</b></p> <p>Director since 9 December 2004 Chairman of Audit Committee Member Remuneration Committee Michael has a PHD in accounting and finance, and lectures in accounting at the University of Newcastle. Currently on leave of absence until 31 December 2009.</p>
<p><b>Mr Ian Campbell</b></p> <p>Independent Non-Executive Director</p>	60	<p><b>FCA, MAICD</b></p> <p>Director since 17 August 2009 Member of Audit Committee Ian has had a 30 year career with international accounting firm, Ernst &amp; Young. He is currently a non-executive director of Redox Pty Ltd and a consultant with the board search practice at Talent2 Limited.</p>
<p><b>Company secretary</b></p>		
<p><b>Ms Darlene Perks</b></p> <p>Company Secretary Chief Financial Officer</p>	38	<p><b>B Bus, CPA</b></p> <p>Certified Practising Accountant, joined Kip McGrath Education Centres Limited in 2008 and has held the Company Secretary position since April 2008.</p>

### Corporate structure

Kip McGrath Education Centres Limited is a company limited by shares that is incorporated and domiciled in Australia. Kip McGrath Education Centres Limited has prepared a consolidated financial report incorporating the entities that it controlled during the financial year (refer note 26 to the financial statements).

The registered office of Kip McGrath Education Centres Limited is:

Level 3, 6 Newcomen Street  
Newcastle NSW 2300

### Nature of operations and principal activities

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

### Review of operations

The Directors report that operating profit for the Group, before minority interests, was \$3,292,005 in the current financial year (2008: loss of \$5,440,126). Please refer to the Managing Director's Report for a full review of Business Operations.

### Significant events after the balance date

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

### Future developments

Other than that disclosed, additional information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations would, in the opinion of the directors, be likely to result in unreasonable prejudice to the consolidated entity.

### Environmental regulations and performance

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

### Dividends

	<b>Cents Per share</b>	<b>Total amount</b>	<b>Franked / unfranked</b>	<b>Date of payment</b>
<i>Declared in respect of the financial year</i>				
Final ordinary dividend for year ended 30 June 2009	2.0	\$395,600	Franked	25/09/2009

### Shares issued on the exercise of options

No ordinary shares of Kip McGrath Education Centres Limited were issued during or since the year ended 30 June 2009 pursuant to the exercise of options granted under the Directors Share Option Plan.

### Directors' shareholdings and shares under options

The relevant interest of each director in the shares, and rights or options over such instruments issued by the company, as notified by the directors to the Australian Stock Exchange in accordance with s205G(1) of the Corporations Act 2001, as at 30 June 2009 is as follows:

Directors	Ordinary Shares	Options over Ordinary Shares	Exercise Price \$	Grant Date	Expiry Date
Mrs D McGrath	4,293,320	-	-	-	-
Mr K McGrath	4,266,320	-	-	-	-
Kip McGrath Investments Pty Ltd *	1,000,000	-	-	-	-
Mr S McGrath	655,320	50,000	2.50	7/11/05**	7/11/10
Mr S McGrath	-	50,000	3.50	7/11/05**	7/11/10
Mr G Turner	130,000	-	-	-	-
Dr M Seamer	7,000	50,000	2.50	7/11/05**	7/11/10
Dr M Seamer	-	50,000	3.50	7/11/05**	7/11/10
	<u>10,351,960</u>	<u>200,000</u>			

\* Shares in Kip McGrath Investments Pty Ltd are held by Mr K McGrath

\*\* Conditional to the 200,000 options granted in December 2005 being exercised is the requirement for the consolidated entity to achieve an annual profit before tax of \$2,000,000.

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

### Meetings of directors

The number of meetings of the company's board of directors and each board committee held during the year ended 30 June 2009, and the number of meetings attended by each director, whilst they were a director, were:

Director	Board Meetings		Audit Committee		Remuneration	
	Held	Attended	Held	Attended	Held	Attended
Mr K McGrath	13	13	**	**	**	**
Mr S McGrath	13	13	2 *	2 *	**	**
Mrs D McGrath	13	13	**	**	**	**
Dr M Seamer	13	13	2	2	1	1
Mr G Turner	13	13	2	2	1	1

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

\*\* = Not a member of the relevant committee

### Indemnification of officers and auditors

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

## **Remuneration report**

Please refer to Note 30 in the notes to the financial statements.

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

One of the committees of the board is the remuneration committee whose role is described in the Corporate Governance Statement following this report. This Corporate Governance Statement was developed during the 2004 year and was amended in the 2007 year. There was one meeting of the committee held during the year. The remuneration committee makes recommendations to the board in relation to remuneration of non-executive directors, and establishes, reviews and approves remuneration terms and the performance of the Managing Director. The committee also assists the Managing Director in the remuneration review of senior executives.

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

#### ***Non-Executive Directors***

Fees and payments to non-executive directors reflect the responsibilities of, and the demands made upon the directors. Non-executive directors' fees and payments are reviewed by the committee and recommended to the board if changes are required. The total remuneration for all non-executive directors is not to exceed \$100,000 pa.

#### ***Managing Director***

The remuneration package of the Managing Director is set by the remuneration committee, and approved by the board. In addition to the Managing Directors' fixed salary (inclusive of superannuation) the remuneration package contains both short term and long term incentive amounts which are determined by performance against targets set in advance (refer Remuneration report (c)). These targets are reviewed annually by the committee. The targets are currently focussed on the company's financial performance, measured by annual after-tax profit. No equity based remuneration has been received by the Managing Director in the year ended 30 June 2009.

#### ***Executives***

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

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

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

### **(b) Details of remuneration**

Details of the remuneration of the directors and the key management personnel (as defined in AASB 124 *Related Party Disclosures*) of Kip McGrath Education Centres Limited and the consolidated entity are set out in note 30 in the notes to the financial statements.

**Remuneration report (cont'd)**

**(c) Service agreements**

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

**Mr S McGrath**

Mr S McGrath is entitled to a short term incentive payment of up to 7.5% of the company's above budget after-tax profit. He is also entitled to a long term incentive sum paid as options. The option plan to permit this will be presented to shareholders for approval at the 2009 AGM.

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

**Non-executive Directors**

Directors' base fees are presently up to \$50,000 per annum. Directors' fees cover all main board activities and membership of committees.

The tables in Note 30 in the notes to the financial statements provide details of all directors of the company and the consolidated entity and the executives of the entity and the consolidated entity and the nature and amount of the elements of their remuneration for the year ended 30 June 2009 with comparatives for the year ended 30 June 2008.

**(d) Share-based compensation**

**Options**

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

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

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

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

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

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

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

Fair values at grant date are independently determined using either a Black-Scholes option pricing model or a Binomial option pricing model as deemed appropriate by an independent valuer. These models take into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

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

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

**Shares provided on exercise of remuneration options**

No remuneration options were exercised during the year.

**Interests in contracts or proposed contracts with the company**

With the exception of those disclosed in note 31 Related Parties in the notes to the financial statements, no director has during or since the end of the financial year had any interest in a contract or proposed contract with the company being an interest, the nature of which has been declared in accordance with section 300(11)(d) of the Corporations Act 2001.

**Corporate governance report**

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

**Proceedings on behalf of the company**

A claim was made in 2004 against the company and a director, alleging misleading and deceptive conduct. The directors are defending the claim and are of the opinion, based on legal advice, that the claim will be unsuccessful and no provision is required. In the directors' opinion, disclosure of any further information about the above matter would be prejudicial to the interest of the company.

**Non-audit services**

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

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

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

A copy of the auditor's declaration of independence as required under section 307C of the Corporations Act is set out on page 23.

Details of the amounts paid to the auditor of the company, Forsythes, and its related practices for audit and non-audit services provided during the period are set out in Note 4 in the notes to the financial statements. In addition, amounts paid to other auditors for the statutory audit have been disclosed. There were no amounts paid in 2009 for non-audit services.

**Auditor's independence declaration**

The auditor's independence declaration is included on page 23 of the financial report.

**Auditor**

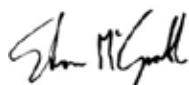
Forsythes continues in office in accordance with section 327 of the Corporations Act 2001.

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

On behalf of the Directors



.....  
Glenn Turner  
Chairman



.....  
Storm McGrath  
Director

Newcastle,  
11 September 2009

# CORPORATE GOVERNANCE STATEMENT

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The directors of Kip McGrath Education Centres Limited are committed to upholding the recommended standards of corporate governance. The adoption of a formal Corporate Governance Code, applicable to the company, was approved by directors on the 29th May 2007. The following statement outlines the company's main corporate governance practices that were in place throughout the financial year. These practices are discussed in relation to their compliance with the ASX Corporate Governance Council's Principles and Recommendations (2<sup>nd</sup> Edition) of August 2007.

## ***Principle 1: Lay solid foundations for management and oversight***

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

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

## ***Role of the board***

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

## ***Board processes***

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

***Board processes (cont'd)***

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

***Director education and access to independent advice***

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

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

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

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

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

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

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

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

***Principle 2: Structure the board to add value***

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

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

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

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

Mr Glenn Turner was elected to chair the board on 10<sup>th</sup> November 2008. Prior to this the board was chaired by Mr Kip McGrath. Mr Turner is an independent non-executive director. Mr McGrath is not considered independent by virtue of his significant shareholding in the company.

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

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

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

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

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

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

**Principle 3: Promote ethical and responsible decision making**

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

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

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

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

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

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

***Principle 4: Safeguard integrity in financial reporting.***

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

The board has established an audit committee.

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

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

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

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

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

The responsibilities of the committee include:

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

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

**Principle 5: Make timely and balanced disclosure**

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

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

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

**Principle 6: Respect the rights of shareholders**

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

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

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

***Principle 7: Recognise and manage risk***

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

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

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

***Internal control framework***

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

***Financial reporting***

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

***Business risks***

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

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

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

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

**Principle 8: Remunerate fairly and responsibly**

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

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

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

The remuneration committee reviews remuneration packages and policies applicable to the Managing director and senior executives. This may include share schemes, incentive performance packages, superannuation entitlements, retirement and termination entitlements, fringe benefit policies and professional indemnity and liability insurance policies. External advice is sought as appropriate. Further details of directors' and executives' remuneration, superannuation and retirement payments are set out in the remuneration report which forms part of the Directors' Report. The Managing Director is invited to committee meetings, as required, to discuss management performance and remuneration packages.

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

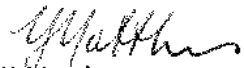
## AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF KIP MCGRATH EDUCATION CENTRES LIMITED

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

As lead audit partner for the audit of Kip McGrath Education Centres Limited financial statements for the year ended 30 June 2009, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- i. the independence requirements of the Corporations Act 2001 in relation to the audit; and
- ii. any applicable code of professional conduct in relation to the audit.

  
FORSYTHES



MJ Matthews  
Partner  
Chartered Accountants  
Newcastle, 11 September 2009

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

We have audited the accompanying financial report of Kip McGrath Education Centres Limited, which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### *Directors' responsibility for the financial report*

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

### *Auditor's responsibility*

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

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

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

***Independence***

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

***Auditor's opinion***

In our opinion:

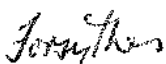
- (a) the financial report of Kip McGrath Education Centres Limited is in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2009 and of their performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

***Report on the Remuneration Report***

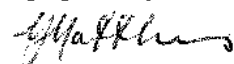
We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

***Auditor's Opinion***

In our opinion the Remuneration Report of Kip McGrath Education Centres Limited for the year ended 30 June 2009, complies with section 300A of the Corporations Act 2001.



FORSYTHES



MJ Matthews

Partner

Chartered Accountants

Newcastle, 11 September 2009

# DIRECTOR'S DECLARATION

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The directors declare that:

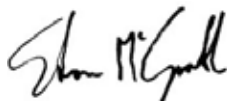
- (a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
- (b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity; and
- (c) the directors have been given the declarations required by s.295A of the Corporations Act 2001.

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

On behalf of the Directors



.....  
Glenn Turner  
Chairman



.....  
Storm McGrath  
Director

Newcastle,  
11 September 2009

# INCOME STATEMENT

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

	Note	Consolidated		Company	
		2009 \$	2008 \$	2009 \$	2008 \$
<b>Continuing Operations</b>					
Revenue		6,365,048	5,173,272	4,555,383	3,404,066
Other income		13,340	167,269	35,297	91,440
	2a	6,378,388	5,340,541	4,590,680	3,495,506
Cost of sales		(419,754)	(313,036)	(240,566)	(130,863)
<b>Gross Profit</b>		5,958,634	5,027,505	4,350,114	3,364,644
Employee expenses		(2,493,590)	(2,877,990)	(1,585,930)	(1,590,615)
Depreciation and amortisation expenses	2b	(182,852)	(255,278)	(152,009)	(139,583)
Borrowing expenses	2b	(312,540)	(334,276)	(304,205)	(329,190)
Marketing expenses		(211,513)	(291,579)	(110,144)	(83,575)
Administration expenses		(1,087,240)	(1,525,169)	(608,269)	(831,572)
Merchandising expenses		(352,671)	87,695	(316,416)	(5,373)
Other expenses		(11,035)	(175,275)	(15,285)	(243,447)
Reversal of impairment/(impairment of non-current assets)	2b	-	(5,661,067)	125,000	(3,763,430)
<b>Total expenses</b>		(4,651,441)	(11,032,938)	(2,967,258)	(6,986,784)
<b>Profit/(loss) before income tax expense</b>	2b	1,307,193	(6,005,433)	1,382,856	(3,622,141)
Income tax benefit/(expense) from continuing operations	3a	1,984,812	827,991	(471,669)	1,037,018
<b>Profit/(loss) for the period from continuing operations</b>		3,292,005	(5,177,442)	911,187	(2,585,123)
<b>Discontinued operations</b>					
Loss for the period from discontinued operations	28	-	(272,946)	-	(278,102)
Income tax benefit relating to discontinued operations	3a	-	10,262	-	10,262
<b>Net profit/(loss) for the period</b>		3,292,005	(5,440,126)	911,187	(2,852,963)
(Profit)/loss attributable to minority interest		76,806	717,017	-	-
<b>Profit/(loss) attributable to members of the parent entity</b>		3,368,811	(4,723,109)	911,187	(2,852,963)
<b>Earnings per share</b>					
From continuing and discontinued operations:					
Basic (cents per share)	22	17.0	(23.9)		
Diluted (cents per share)	22	17.0	(23.9)		
From continuing operations:					
Basic (cents per share)	22	17.0	(22.6)		
Diluted (cents per share)	22	17.0	(22.6)		

NOTES TO THE FINANCIAL STATEMENTS ARE INCLUDED ON PAGES 31 TO 86

# BALANCE SHEET

AS AT 30 JUNE 2009

	Note	Consolidated		Company	
		2009 \$	2008 \$	2009 \$	2008 \$
<b>Current assets</b>					
Cash and cash equivalents	33a	822,766	721,864	568,553	182,072
Trade and other receivables	5	595,651	668,835	418,043	453,168
Inventories	6	279,887	289,014	235,932	243,560
Other current assets	7	131,360	172,849	104,157	167,268
Current tax assets	3b	81,607	276,954	110,776	202,142
<b>Total current assets</b>		<b>1,911,271</b>	<b>2,129,517</b>	<b>1,437,461</b>	<b>1,248,210</b>
<b>Non-current assets</b>					
Trade and other receivables	8	23,249	45,659	845,467	1,019,268
Other financial assets	10	-	-	2,874,964	1,987,504
Property plant and equipment	11	479,510	393,502	436,169	328,262
Intangible assets	12	9,772,149	9,473,374	5,356,649	5,267,247
Goodwill	13	-	-	-	-
Deferred tax assets	3c	1,770,864	1,141,184	1,808,605	1,500,884
<b>Total non-current assets</b>		<b>12,045,772</b>	<b>11,053,718</b>	<b>11,321,854</b>	<b>10,103,165</b>
<b>Total assets</b>		<b>13,957,043</b>	<b>13,183,235</b>	<b>12,759,315</b>	<b>11,351,375</b>
<b>Current liabilities</b>					
Trade and other payables	15	538,948	746,998	1,096,212	280,444
Borrowings	16	770,390	3,905,656	316,980	3,760,384
Provisions	17	157,677	181,299	149,540	181,299
<b>Total current liabilities</b>		<b>1,467,015</b>	<b>4,833,953</b>	<b>1,562,732</b>	<b>4,222,127</b>
<b>Non-current liabilities</b>					
Deferred tax liabilities	3c	748,862	2,219,577	738,598	750,911
Borrowings	18	3,209,596	962,431	3,209,596	8,131
Provisions	19	36,591	66,529	33,525	66,529
<b>Total non-current liabilities</b>		<b>3,995,049</b>	<b>3,248,537</b>	<b>3,981,719</b>	<b>825,571</b>
<b>Total liabilities</b>		<b>5,462,064</b>	<b>8,082,490</b>	<b>5,544,451</b>	<b>5,047,697</b>
<b>Net assets</b>		<b>8,494,979</b>	<b>5,100,745</b>	<b>7,214,864</b>	<b>6,303,677</b>
<b>Equity</b>					
Issued capital	20	6,829,115	6,829,115	6,829,115	6,829,115
Reserves		748,633	-	-	-
Retained earnings	21	917,231	(2,451,580)	385,749	(525,438)
Parent entity interest		8,494,979	4,377,535	7,214,864	6,303,677
Minority interest		-	723,210	-	-
<b>Total equity</b>		<b>8,494,979</b>	<b>5,100,745</b>	<b>7,214,864</b>	<b>6,303,677</b>

NOTES TO THE FINANCIAL STATEMENTS ARE INCLUDED ON PAGES 31 TO 86

# STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

Consolidated	Note	Share capital	Reserves	Retained earnings/ (losses)	Attributable to equity holders of the parent	Minority interest	Total equity
		\$	\$	\$	\$	\$	\$
Balance at 1 July 2007		6,829,115	-	2,667,129	9,496,244	1,440,227	10,936,471
Loss for the year		-	-	(4,723,109)	(4,723,109)	(717,017)	(5,440,126)
Dividends paid	23	-	-	(395,600)	(395,600)	-	(395,600)
Balance at 30 June 2008		6,829,115	-	(2,451,580)	4,377,535	723,210	5,100,745
Transfer from OEI to Reserves		-	753,794	-	753,794	(646,404)	107,390
Profit for the year		-	-	3,368,811	3,368,811	(76,806)	3,292,005
Movement in FCTR		-	(5,161)	-	(5,161)	-	(5,161)
Dividends paid	23	-	-	-	-	-	-
Balance at 30 June 2009		6,829,115	748,633	917,231	8,494,979	-	8,494,979

Company	Note	Share capital	Reserves	Retained earnings/ (losses)	Attributable to equity holders of the parent	Minority interest	Total equity
		\$	\$	\$	\$	\$	\$
Balance at 1 July 2007		6,829,115	-	2,723,125	9,552,240	-	9,552,240
Loss for the year		-	-	(2,852,963)	(2,852,963)	-	(2,852,963)
Dividends paid	23	-	-	(395,600)	(395,600)	-	(395,600)
Balance at 30 June 2008		6,829,115	-	(525,438)	6,303,677	-	6,303,677
Profit for the year		-	-	911,187	911,187	-	911,187
Dividends paid	23	-	-	-	-	-	-
Balance at 30 June 2009		6,829,115	-	385,749	7,214,864	-	7,214,864

NOTES TO THE FINANCIAL STATEMENTS ARE INCLUDED ON PAGES 31 TO 86

# CASH FLOW STATEMENT

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

	Note	Consolidated		Company	
		2009 \$	2008 \$	2009 \$	2008 \$
<b><u>Cash flows from operating activities</u></b>					
Receipts from customers		6,802,501	5,618,389	4,812,478	3,751,272
Payments to suppliers and employees		(5,117,025)	(4,743,174)	(3,050,544)	(3,051,027)
Interest received		9,533	33,196	9,078	29,909
Interest and other costs of finance paid		(306,390)	(334,276)	(298,055)	(329,190)
Income tax refunded / (paid)		105,811	(144,646)	58,862	(227,579)
Net cash provided by operating activities	33 (b)	1,494,430	429,489	1,531,819	173,385
<b><u>Cash flows from investing activities</u></b>					
Payment for investments in controlled entities		(432,610)	-	(887,460)	(4)
Proceeds from resale of territories		52,273	-	52,273	-
Payments for franchise territories		(15,000)	-	(15,000)	-
Proceeds from sale of property, plant & equipment		20,273	-	12,273	-
Payments for property, plant & equipment		(66,431)	(194,353)	(57,245)	(107,190)
Payment for intangible assets		(298,954)	(2,161,745)	(81,902)	(1,289,321)
Net cash used in investing activities		(740,449)	(2,356,098)	(977,061)	(1,396,515)
<b><u>Cash flows from financing activities</u></b>					
Amounts advanced from / (to) controlled entities		-	-	332,619	(641,607)
Proceeds from borrowings		22,846	846,604	22,832	985,220
Repayment of borrowings - NAB facility		(475,000)	-	(475,000)	-
Repayment of borrowings - convertible notes		(150,000)	-	-	-
Repayment of other borrowings & non current payables		(48,727)	-	(48,728)	-
Dividends paid		-	(395,600)	-	(395,600)
Net cash (used in)/provided by financing activities		(650,881)	451,004	(168,277)	(51,987)
<b>Net increase/(decrease) in cash and cash equivalents</b>					
		103,100	(1,475,605)	386,481	(1,275,116)
<b>Cash and cash equivalents at the beginning of the financial year</b>					
		721,864	2,197,469	182,072	1,457,188
Effects of exchange rate changes on the balance sheet of cash held in foreign currencies					
		(2,198)	-	-	-
<b>Cash and cash equivalents at the end of the financial year</b>					
	33 (b)	822,766	721,864	568,553	182,072

NOTES TO THE FINANCIAL STATEMENTS ARE INCLUDED ON PAGES 31 TO 86

# NOTES TO THE FINANCIAL STATEMENTS

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FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

## 1 Significant accounting policies

### Financial reporting framework

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

The financial statements were authorised for issue by the directors on 11th September 2009.

### Basis of preparation

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

### Critical accounting judgments and key sources of estimation uncertainty

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

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

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

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

#### (a) Cash and cash equivalents

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

#### (b) Employee benefits

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

Liabilities recognised in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

## 1 Summary of accounting policies (Cont'd)

### (c) Financial assets

Subsequent to initial recognition, investments in subsidiaries are measured at cost in the company financial statements. Subsequent to initial recognition, investments in associates are accounted for under the equity method in the consolidated financial statements and the cost method in the company financial statements.

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

#### Held-to-maturity investments

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

#### Loans and receivables

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

#### Impairment of Financial Assets

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

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

### (d) Goods and services tax

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

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

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

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

**1 Summary of accounting policies (Cont'd)**

**(e) Impairment of assets excluding Goodwill**

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

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

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

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

**(f) Income tax**

Current tax

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

Deferred tax

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

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

**1 Summary of accounting policies (Cont'd)**

**(f) Income tax (cont'd)**

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

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

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

Current and deferred tax for the period

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

Tax consolidation

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

**(g) Financial instruments issued by the company**

Debt and equity instruments

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

Compound instruments

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

## **1 Summary of accounting policies (Cont'd)**

### **(g) Financial instruments issued by the company (cont'd)**

#### Financial guarantee contract liabilities

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

- \* The amount of the obligation under the contract, as determined under AASB 137 "Provisions, Contingent Liabilities and Contingent Assets"; and
- \* the amount initially recognised less, where appropriate, cumulative amortisation in accordance with the revenue recognition policies described in note 1 (l).

#### Financial Liabilities

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

#### Financial Liabilities at fair value through profit or loss

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

- a) it has been incurred principally for the purpose of repurchasing in the near future; or
- b) it is part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit taking; or
- c) it is a derivative that is not designated and effective as a hedging instrument.

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

- a) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- b) the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- c) it forms part of a contract containing one or more embedded derivatives and AASB 139 "Financial Instruments: Recognition and Measurement" permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on this financial liability. Fair value is determined in the manner described in note 32.

#### Other financial liabilities

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

## **1 Summary of accounting policies (Cont'd)**

### **(h) Basis of consolidation**

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

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

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

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. In the separate financial statements of the Company, intra-group transactions (common control transactions) are generally accounted for by reference to the existing (consolidated) book value of the items. Where the transaction value of common control items differ from their consolidated book value, the difference is recognised as a contribution by or distribution to equity participants by the transacting entities.

Minority interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

### **(i) Business combinations**

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

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

**1 Summary of accounting policies (Cont'd)**

**(j) Plant and equipment**

Plant and equipment is recorded at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition. Depreciation is calculated on a straight line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever the shorter, using the straight-line method. The gain or loss on disposal or retirement of an item of property plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period, with the effect of any changes recognised on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease. The following estimated useful lives are used in the calculation of depreciation:

	<u>2009</u>	<u>2008</u>
<b>Property, plant and equipment</b>		
Plant and equipment	5 - 15 years	5 - 15 years
Motor vehicles	8 - 10 years	8 - 10 years
Leased plant and equipment	5 - 10 years	5 - 10 years

**(k) Provisions**

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

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

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

Onerous Contracts

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

**1 Summary of accounting policies (Cont'd)**

**(l) Goodwill**

Goodwill acquired in a business combination is initially measured at its cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised at the date of acquisition. Goodwill is subsequently measured at its cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units, or groups of cash-generating units, expected to benefit from the synergies of the business combination. Cash-generating units or groups of cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

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

**(m) Revenue recognition**

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

***Franchise fees***

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

***Franchise sales***

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

***Educational material***

Revenue from the sale of educational materials and promotional products is recognised at the time the control of the product passes to the customer. This control will pass when the customer orders the curriculum or other products are shipped.

***Interest revenue***

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

***Gain/(loss) on disposal of assets***

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

**1 Summary of accounting policies (Cont'd)**

**(n) Borrowings**

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

**(o) Foreign currency**

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

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

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

- \* Exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings (refer note 1 (n));
- \* Exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- \* Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned or likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity on or after the date of transition to A-IFRS are treated as assets and liabilities of the foreign entity and translated at exchange rates prevailing at the reporting date. Goodwill arising on acquisitions before the date of transition to A-IFRS is treated as an Australian dollar denominated asset.

**1 Summary of accounting policies (Cont'd)**

**(p) Intangible assets**

Intangible assets acquired separately

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

Internally-generated intangible assets- research and development expenditure

The costs of assets constructed or internally generated by the company, other than goodwill, include the cost of materials and direct labour. Directly attributable overheads and other incidental costs are also capitalised to the asset. Expenditure including that on internally generated assets other than research and development costs, is only recognised as an asset when the company controls future economic benefits as a result of the costs incurred that are probable and can be measured reliably.

Costs in relation to feasibility assessments, market research, advertising, franchisee selections and ongoing costs of maintenance during the selection phase are expensed as incurred.

When the decision has been taken to develop a new market, costs incurred in the establishment of franchise contract rights in that (foreign) market, and the development of associated new products, are capitalised.

Costs attributable to feasibility and alternative approach assessments are expensed as incurred.

All costs incurred in relation to the re-accreditation of the university licence will be amortised over a 5 year period. All other costs recognised as intangible assets have been assessed as having indefinite useful lives.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identifiable and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Product development

Costs incurred in the development of new products are expensed as incurred, unless they relate to the acquisition of an asset, in which case they are capitalised. Costs in relation to feasibility assessments, market research, advertising, franchisee selection and ongoing costs of maintenance during the operation phase are expensed. Costs incurred in developing a new product, or necessarily incurred in establishing a franchising contract in a new market, to the extent they represent probable future economic benefits controlled by the company, that can be reliably measured, are capitalised as an asset. Capitalisation of costs ceases at the point when revenue is generated.

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

**(q) Inventories**

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

## **1 Summary of accounting policies (Cont'd)**

### **(r) Leased assets**

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

#### Group as lessee

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

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

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

#### Lease incentives

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

### **(s) Share based payments**

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

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

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

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

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

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

**1 Summary of accounting policies (Cont'd)**

**(t) Non-current payables**

Loans from related parties are carried on the balance sheet at their principal amounts. The carrying amounts of loans approximate their net fair value.

**(u) Key sources of estimation uncertainty**

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

Intangible assets

Useful lives of intangible assets with finite lives are reviewed annually. Any reassessment of useful lives in a particular year will affect the amortisation expense (either increasing or decreasing) through to the end of the reassessed useful life for both the current and future years. Details of the assumptions used are detailed in note 14. Annual assessments are made to ensure it is appropriate that certain intangibles continue to have indefinite lives.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the balance sheet date was \$nil (2008: nil) after an impairment loss of nil (2008: \$3,370,978) was recognised during the current financial year. Details of the impairment loss calculation are provided in note 14.

**(v) Comparative amounts**

The Group and company have reclassified the 2008 comparative income items in Note 2(a) to provide the user with a better understanding of the nature of the revenues generated.

**(w) Standards and Interpretations issued not yet effective**

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

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

**1. Summary of Accounting policies (cont'd)**

<i>Reference</i>	<i>Title</i>	<i>Expected to be initially applied in the financial year ending</i>
AASB 108.30, 31	AASB 101 presentation of Financial Statements' (revised September 2007), AASB 2007-8 "Amendments to Australian Accounting Standards arising from AASB 101", AASB 2007-10 "Further Amendments to Australian Accounting Standards arising from AASB 101"	30 June 2010
AASB 123	AASB 123 "Borrowing Costs" (revised) AASB 2007-6 "Amendments to Australian Accounting Standards arising from AASB 123"	30 June 2010
AASB 3	AASB 3 "Business Contributions" (revised) AASB 2127 "Consolidated and Separate Financial Statements" (revised) and AASB 2008-3 "Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127"	30 June 2010
AASB 2008-1	AASB 2008-1 "Amendments to Australian Accounting Standard – Share based payments: Vesting Conditions and Cancellations"	30 June 2010
AASB 2008-5	AASB 2008-5 "Amendments to Australian Accounting Standards – arising from the Annual Improvements Project"	30 June 2010

**1. Summary of Accounting policies (cont'd)**

<i>Reference</i>	<i>Title</i>	<i>Expected to be initially applied in the financial year ending</i>
AASB 2008-6	AASB 2008-6 "Further Amendments to Australian Accounting Standards – arising from the Annual Improvements Project"	30 June 2010
AASB 2008-7	AASB 2008-7 "Amendments to Australian Accounting Standards – Cost of an investment in a subsidiary, Jointly Controlled Entity or Associate"	30 June 2010
AASB 2008-8	AASB 2008-8 "Amendments to Australian Accounting Standards – Eligible Hedged Funds"	30 June 2010
AASB Interpretation 16	AASB Interpretation 16 "Hedges of a Net Investment in a Foreign Operation"	30 June 2010
AASB Interpretation 17	AASB Interpretation 17 "Distribution of Non-cash Assets to Owners" AASB 2008-13 "Amendments to Australian Accounting Standards – arising from AASB Interpretation 17 - Distribution of Non-cash Assets to Owners"	30 June 2010

## 2 Profit / (loss) from operations

An analysis of the Group's revenue for the year, from both continuing and discontinued operations, is as follows:

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>(a) Revenue</b>				
<i>Continuing operations:</i>				
Revenue from franchise operations:				
Domestic	1,617,157	1,515,170	1,617,156	1,513,094
Overseas	2,903,431	2,244,459	1,892,897	1,546,000
	4,520,588	3,759,628	3,510,053	3,059,094
Revenue from the sale of master territories	647,282	73,300	637,282	73,300
Revenue from the sale of franchise centres	424,883	273,987	354,467	251,642
Revenue from university student income	678,971	760,718	-	-
Revenue from university urology contract	(25,056)	285,609	-	-
Revenue from higher education product licences	66,611	20,030	53,581	20,030
Revenue from direct sales	51,769	-	-	-
<i>Other income from operating activities:</i>				
Interest revenue	9,969	33,196	32,297	29,909
Other	3,371	134,072	3,000	61,531
<b>Total revenue from ordinary activities</b>	<b>6,378,388</b>	<b>5,340,541</b>	<b>4,590,680</b>	<b>3,495,506</b>
<i>Discontinued Operations</i>				
Tuition fees (Note 28)	-	68,587	-	68,587
	-	68,587	-	68,587
<b>(b) Expenses</b>				
Profit/(loss) for the year include the following expenses:				
<b><i>Impairment of non-current assets</i></b>				
Impairment of overseas development costs	-	95,465	-	95,465
Impairment of product development costs	-	1,169,095	-	-
Impairment of education licence	-	20,153	-	-
Impairment of goodwill	-	3,370,978	-	-
Impairment of investment in equity accounted investments	-	71,797	-	71,797
Impairment of loan to subsidiary	-	-	(125,000)	285,000
Impairment of territories	-	337,116	-	337,116
Impairment of intellectual property	-	594,005	-	-
Impairment in other intangibles	-	1,406	-	-
Impairment of other assets	-	1,052	-	-
Impairment of investment in subsidiaries	-	-	-	2,974,052
	-	<b>5,661,067</b>	<b>(125,000)</b>	<b>3,763,430</b>

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

(b) Expenses (cont'd)

	Consolidated		Company	
	2009 \$	2008 \$	2009 \$	2008 \$
<b>Borrowing costs</b>				
Interest on bank loans	227,908	255,977	227,842	255,879
Interest on obligations under finance leases	1,583	4,480	1,583	3,192
Other parties	83,049	73,819	74,780	70,118
	<b>312,540</b>	<b>334,276</b>	<b>304,205</b>	<b>329,190</b>
<b>Depreciation of non-current assets</b>				
Motor vehicles	20,525	22,646	20,526	20,930
Plant & equipment	101,884	89,600	73,533	60,703
	122,409	112,246	94,059	81,633
<b>Amortisation of non-current assets</b>				
Plant & equipment under finance lease	60,443	60,035	57,950	57,950
<b>Total depreciation &amp; amortisation of plant &amp; equipment</b>	182,852	172,281	152,009	139,583
Amortisation of intangible assets	-	82,997	-	-
<b>Total depreciation &amp; amortisation</b>	<b>182,852</b>	<b>255,278</b>	<b>152,009</b>	<b>139,583</b>
Loss on disposal of plant & equipment	11,393	38,154	15,643	3,030
Net bad & doubtful debts expense - other entities	75,970	436,134	(13,273)	140,748
Net expense for movements in provision for employee entitlements	60,098	20,252	48,895	34,788
Net foreign exchange (gains)/losses	(52,978)	133,326	(29,768)	240,418
<b>Operating lease rental expenses:</b>				
Minimum lease payments	402,787	472,338	349,451	387,087

3 Income taxes

Income tax recognised in profit or loss

	Consolidated		Company	
	2009 \$	2008 \$	2009 \$	2008 \$
<b>(a) Tax expense/(income) comprises:</b>				
Current tax expense/(income) in respect of the current year	145,328	107,728	119,642	(1,044,349)
Deferred tax expense/(income) relating to origination and reversal of temporary differences	(2,130,140)	(943,050)	352,027	-
Adjustments recognised in the current year in relation to the current tax of prior years	-	(2,931)	-	(2,931)
<b>Total tax expense/(income)</b>	<b>(1,984,812)</b>	<b>(838,253)</b>	<b>471,669</b>	<b>(1,047,280)</b>
<b>Attributable to:</b>				
Continuing operations	(1,984,812)	(827,991)	471,669	(1,037,018)
Income tax benefit from discontinued operations (note 28)	-	(10,262)	-	(10,262)
	<b>(1,984,812)</b>	<b>(838,253)</b>	<b>471,669</b>	<b>(1,047,280)</b>

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

Profit/(loss) from continuing operations	1,307,193	(6,005,434)	1,382,856	(3,622,141)
Profit/(loss) from discontinued operations	-	(272,946)	-	(278,102)
Profit/(loss) from operations	1,307,193	(6,278,380)	1,382,856	(3,900,243)
Income tax (benefit)/expense calculated at 30%	<b>392,158</b>	<b>(1,883,514)</b>	<b>414,857</b>	<b>(1,170,073)</b>
Amortisation of leases	18,133	18,011	17,386	17,385
Lease interest	440	1,311	440	925
Other non-deductible expenses	16,097	658,939	16,097	885
Effect of exiting the STS	-	67,373	-	-
Tax losses not brought to account	-	354,346	-	145,330
Discount NPV of convertible notes	-	31,675	-	-
Equity investment disposed	30,000	-	30,000	-
Withholding tax credits not utilised	14,090	-	-	-
Decrease in income tax expense due to:				
Lease payments (deductible)	(4,316)	(17,365)	(4,316)	(11,750)
Other	(907)	(63,960)	(2,795)	(27,052)
Over provision in prior year	-	(5,069)	-	(2,930)
Elimination of Impairment on I'coy loans	(43,615)	-	-	-
Foreign Entity var in AUD tax rate to UK of subsidiaries joining the tax consolidated group	(13,571)	-	-	-
Previously unrecognised and unused tax losses now brought to account	(1,495,862)	-	-	-
	(897,459)	-	-	-
<b>Income tax (benefit)/expense attributable to (loss)/profit from ordinary activities</b>	<b>(1,984,812)</b>	<b>(838,253)</b>	<b>471,669</b>	<b>(1,047,280)</b>
The applicable weighted average effective tax rates are as follows:	-152%	13%	34%	27%

3 Income taxes (cont'd)

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

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$
Income tax (benefit)/expense attributable to profit/(loss) from ordinary activities is made up of:				
Current income tax asset	115,583	1,408	791,703	(2,931)
Deferred income tax liability	(1,470,715)	219,963	(12,313)	244,176
Deferred income tax asset	(629,680)	(1,059,624)	(307,721)	(1,288,525)
	<b>(1,984,812)</b>	<b>(838,253)</b>	<b>471,669</b>	<b>(1,047,280)</b>

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

(b) Current tax liabilities/(assets)

Income tax payable/(receivable) attributable to:

Parent entity	(110,776)	(202,142)	(110,776)	(202,142)
Other	29,169	(74,812)	-	-
	<b>(81,607)</b>	<b>(276,954)</b>	<b>(110,776)</b>	<b>(202,142)</b>

(c) Deferred tax balances

Deferred tax assets comprise:

Tax losses - revenue	644,491	-	644,491	-
Temporary differences	1,126,373	1,141,184	1,164,114	1,500,884
	<b>1,770,864</b>	<b>1,141,184</b>	<b>1,808,605</b>	<b>1,500,884</b>

Deferred tax liabilities comprise:

Temporary differences	748,862	2,219,577	738,598	750,911
	<b>748,862</b>	<b>2,219,577</b>	<b>738,598</b>	<b>750,911</b>

3 Income taxes (Cont'd)

Taxable and deductible temporary differences arise from the following:

<b>Consolidated</b>			
2009	Opening balance \$	Charged to income \$	Closing balance \$
<b>Gross deferred tax liabilities:</b>			
Expenditure currently deductible for tax but deferred for accounting purposes:			
Research and development	(589,724)	33,716	(556,008)
Overseas development	(174,407)	(4,182)	(178,589)
Other	30,492	(30,492)	-
Trading stock	(14,780)	14,780	-
Borrowing costs	(36)	-	(36)
Bills of exchange	(18,210)	11,733	(6,477)
Receivable from equity accounted investment	(9,539)	9,539	-
Education licence	(600,000)	600,000	-
Intellectual property	(602,942)	602,942	-
Product development	(240,431)	240,431	-
Property plant and equipment	-	(7,752)	(7,752)
	<b>(2,219,577)</b>	<b>1,470,715</b>	<b>(748,862)</b>
<b>Gross deferred tax assets:</b>			
Property plant and equipment / deductible share issue costs	196,046	(196,046)	-
Accruals	20,774	1,576	22,350
Provisions	670,785	(373,291)	297,494
QAX licence temporary difference	-	403,502	403,502
Education licence temporary difference	-	380,691	380,691
Doubtful debts	27,320	(10,332)	16,988
Foreign currency receivables	2,685	(2,685)	-
Unrealised currency loss	1,220	4,128	5,348
Tax losses now brought to account	-	644,491	644,491
Accumulated company tax losses	222,354	(222,354)	-
	<b>1,141,184</b>	<b>629,680</b>	<b>1,770,864</b>
	<b>(1,078,393)</b>	<b>2,100,395</b>	<b>1,022,002</b>

3 Income taxes (Cont'd)

Consolidated			
2008	Opening balance \$	Charged to income \$	Closing balance \$
<b>Gross deferred tax liabilities:</b>			
Expenditure currently deductible for tax but deferred for accounting purposes:			
Research and development	(308,518)	(281,206)	(589,724)
Overseas development	(201,591)	27,184	(174,407)
Other	(2,849)	15,095	12,246
Trading stock	(33,744)	18,964	(14,780)
Receivable from equity accounted investment	(9,539)	-	(9,539)
Education licence	(600,000)	-	(600,000)
Intellectual property	(602,942)	-	(602,942)
Product development	(240,431)	-	(240,431)
	<b>(1,999,614)</b>	<b>(219,963)</b>	<b>(2,219,577)</b>
<b>Gross deferred tax assets:</b>			
Property plant and equipment / deductible share issue costs	13,487	182,559	196,046
Accruals	15,839	4,935	20,774
Provisions	44,437	848,702	893,139
Doubtful debts	3,892	23,428	27,320
Foreign currency receivables	2,685	-	2,685
Unrealised currency loss	1,220	-	1,220
	<b>81,560</b>	<b>1,059,624</b>	<b>1,141,184</b>
	<b>(1,918,054)</b>	<b>839,661</b>	<b>(1,078,393)</b>

3 Income taxes (Cont'd)

2009	Company		
	Opening balance \$	Charged to income \$	Closing balance \$
<b>Gross deferred tax liabilities:</b>			
Expenditure currently deductible for tax but deferred for accounting purposes:			
Research and development	(540,218)	(15,790)	(556,008)
Overseas development	(174,407)	(4,182)	(178,589)
Other	(11,929)	11,929	-
Trading stock	(14,782)	14,782	-
Borrowing costs	(36)	-	(36)
Receivable from equity accounted investment	-	-	-
Property plant and equipment	-	(3,965)	(3,965)
	<b>(741,372)</b>	<b>2,774</b>	<b>(738,598)</b>
<b>Gross deferred tax assets:</b>			
Property plant and equipment / deductible share issue costs	(9,266)	9,266	-
Accruals	20,550	(1,500)	19,050
Provisions	1,075,430	(27,475)	1,047,955
Equity accounted investment	39,539	(39,539)	-
Impairment subsidiary loans	85,500	(37,500)	48,000
Doubtful debts	27,320	(10,332)	16,988
Foreign currency receivables	38,238	(6,117)	32,121
Unrealised currency loss	1,219	(1,219)	-
Accumulated company tax losses	222,354	(222,354)	-
Subsidiary losses now brought to account	-	644,491	644,491
	<b>1,500,884</b>	<b>307,721</b>	<b>1,808,605</b>
	<b>759,512</b>	<b>310,495</b>	<b>1,070,007</b>

3 Income taxes (Cont'd)

2008	Company		
	Opening balance \$	Charged to income \$	Closing balance \$
<b>Gross deferred tax liabilities:</b>			
Expenditure currently deductible for tax but deferred for accounting purposes:			
Research and development	(259,012)	(281,206)	(540,218)
Overseas development	(201,591)	27,184	(174,407)
Other	(2,847)	(9,118)	(11,965)
Trading stock	(33,746)	18,964	(14,782)
Receivable from equity accounted investment	(9,539)	-	(9,539)
	<b>(506,735)</b>	<b>(244,176)</b>	<b>(750,911)</b>
<b>Gross deferred tax assets:</b>			
Property plant and equipment / deductible share issue costs	13,487	(22,753)	(9,266)
Accruals	15,615	4,935	20,550
Impairments	-	-	-
Provisions	29,815	1,045,615	1,075,430
Accumulated company tax losses	-	222,354	222,354
Doubtful debts	3,892	23,428	27,320
Equity accounted investment	-	39,539	39,539
Impairment subsidiary loans	-	85,500	85,500
Impairment losses	145,646	(145,646)	-
Foreign currency receivables	2,685	35,553	38,238
Unrealised currency loss	1,219	-	1,219
	<b>212,359</b>	<b>1,288,525</b>	<b>1,500,884</b>
	<b>(294,376)</b>	<b>1,044,349</b>	<b>749,973</b>

(d) Tax consolidation

Kip McGrath Education Centres Limited and its wholly-owned entities have formed a tax-consolidated group with effect from 1 January 2006 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Kip McGrath Education Centres Limited. The members of the tax-consolidated group are identified at note 26.

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

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

**4 Remuneration of auditors**

	Consolidated		Company	
	2009 \$	2008 \$	2009 \$	2008 \$
<b>Auditor of the parent entity</b>				
Audit & half year review of the financial report	135,077	133,890	112,863	120,657
Other services (i)	-	9,100	-	9,100
	135,077	142,990	112,863	129,757
<b>Other auditors</b>				
Audit of subsidiary financial report	35,024	21,225	-	21,225
	35,024	21,225	-	21,225
	<b>170,101</b>	<b>164,215</b>	<b>112,863</b>	<b>150,982</b>

(i) The auditor of the parent entity, Forsythes, provided labour hire services to the Group in the financial year ended 30 June 2008. These services relate to the provision of labour to the marketing and administration divisions of the group.

**5 Current trade & other receivables**

Trade receivables (i) (ii)	611,028	1,003,329	422,198	541,972
Allowance for doubtful debts (iii)	(81,287)	(349,296)	(56,625)	(91,066)
	529,741	654,033	365,573	450,906
GST receivable	34,382	14,803	20,942	2,262
Franchisee interest free loans	31,528	-	31,528	-
Receivable from equity accounted investment	-	113,500	-	113,500
Impairment of receivable from equity accounted investment	-	(113,500)	-	(113,500)
	<b>595,651</b>	<b>668,835</b>	<b>418,043</b>	<b>453,168</b>

(i) The average age of the receivables for the Group is 32 days. Trade receivables over 90 days are provided for based on estimated irrecoverable amounts. No interest is charged on the outstanding trade receivables balances. The group credit policy allows for computer access activation codes to be cancelled for any debtors greater than 90 days.

Before accepting any new customers, the Group assesses the potential customer's credit quality. There are no customers who represent more than 5% of the total balance of trade receivables.

**(ii) Ageing of past due but not impaired**

60-90 days	152	74,868	1,596	59,366
90-120 days	2,059	76,082	856	40,329
Total	<b>2,211</b>	<b>150,950</b>	<b>2,452</b>	<b>99,695</b>

**(iii) Movement in the allowance for doubtful debts**

Balance at the beginning of the year	349,296	12,972	91,066	12,972
Impairment losses recognised on receivables	123,020	336,324	29,806	78,094
Amounts written off as uncollectible	(339,874)	-	(23,284)	-
Amounts recovered during the year	(49,948)	-	(39,756)	-
Impairment losses reversed	(1,207)	-	(1,207)	-
Balance at the end of the year	<b>81,287</b>	<b>349,296</b>	<b>56,625</b>	<b>91,066</b>

**5 Current trade & other receivables (cont'd)**

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>(iv) Ageing of impaired trade receivables</b>				
60-90 days	2,191	-	2,191	-
90-120 days	337,683	-	21,093	-
Total	<b>339,874</b>	<b>-</b>	<b>23,284</b>	<b>-</b>
<b>6 Inventories</b>				
Stores & educational materials - at cost	<b>279,887</b>	<b>289,014</b>	<b>235,932</b>	<b>243,560</b>
<b>7 Other current assets</b>				
Sundry assets	20,518	68,647	20,518	68,648
Prepayments	107,512	90,524	81,335	85,077
Deposits paid	3,330	13,678	2,304	13,543
	<b>131,360</b>	<b>172,849</b>	<b>104,157</b>	<b>167,268</b>
<b>8 Non-current receivables</b>				
Receivables from controlled entities	-	-	982,218	1,258,623
Provision for doubtful debts	-	-	(160,000)	(285,000)
	-	-	822,218	973,623
Other receivables	23,249	45,659	23,249	45,645
	<b>23,249</b>	<b>45,659</b>	<b>845,467</b>	<b>1,019,268</b>
<b>9 Equity accounted investments</b>				
Equity accounted investment at cost	-	131,797	-	131,797
Provision for impairment	-	(71,797)	-	(71,797)
Disposal of investment	-	(60,000)	-	(60,000)
Investment in associates	-	-	-	-
	-	-	-	-
In the prior financial year, the company disposed of its interest in Elevate Education Pty Ltd.				
<b>10 Other non-current financial assets</b>				
Shares in controlled entities (note 26)	-	-	5,847,964	4,960,504
Less: Provision for impairment	-	-	(2,973,000)	(2,973,000)
	-	-	<b>2,874,964</b>	<b>1,987,504</b>

11 Property plant and equipment

	<b>Consolidated</b>			<b>Total</b>
	<b>Plant &amp; equipment at cost</b>	<b>Equipment under finance lease at cost</b>	<b>Motor vehicles at cost</b>	
	\$	\$	\$	\$
<b>Gross carrying amount</b>				
<b>Balance at 1 July 2007</b>	508,494	640,217	251,095	1,399,806
Additions	194,353	-	-	194,353
Disposals	(111,132)	-	(13,200)	(124,332)
<b>Balance at 1 July 2008</b>	591,715	640,217	237,895	1,469,827
Additions	45,487	254,676	-	300,163
Disposals	(214,764)	(54,833)	(32,638)	(302,235)
Net foreign exchange (decrements)/increment	(292)	-	-	(292)
<b>Balance at 30 June 2009</b>	422,146	840,060	205,257	<b>1,467,463</b>
<b>Accumulated depreciation</b>				
<b>Balance at 1 July 2007</b>	(320,399)	(479,794)	(154,467)	(954,660)
Disposals	44,854	-	5,762	50,616
Depreciation expense (i)	(81,932)	(67,703)	(22,646)	(172,281)
<b>Balance at 1 July 2008</b>	(357,477)	(547,497)	(171,351)	(1,076,325)
Disposals	208,849	54,574	7,146	270,569
Depreciation expense (i)	(101,884)	(60,443)	(20,525)	(182,852)
Net foreign exchange increment/(decrements)	655	-	-	655
<b>Balance at 30 June 2009</b>	(249,857)	(553,366)	(184,730)	<b>(987,953)</b>
<b>Net book value</b>				
As at 30 June 2008	234,238	92,720	66,544	393,502
As at 30 June 2009	172,289	286,694	20,527	<b>479,510</b>

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

11 Property plant and equipment (Cont'd)

	Company			Total \$
	Plant & equipment at cost \$	Equipment under finance lease at cost \$	Motor vehicles at cost \$	
<b>Gross carrying amount</b>				
<b>Balance at 1 July 2007</b>	388,929	579,500	205,257	1,173,686
Additions	107,190	-	-	107,190
Disposals	(9,696)	-	-	(9,696)
Transfer	-	-	32,638	32,638
<b>Balance at 1 July 2008</b>	486,423	579,500	237,895	1,303,818
Additions (ii)	33,156	254,676	-	287,832
Disposals	(193,696)	-	(32,638)	(226,334)
Transfer	-	-	-	-
<b>Balance at 30 June 2009</b>	325,883	834,176	205,257	<b>1,365,316</b>
<b>Accumulated depreciation</b>				
<b>Balance at 1 July 2007</b>	(267,252)	(424,967)	(143,680)	(835,899)
Disposals	6,665	-	-	6,665
Depreciation expense (i)	(53,033)	(65,618)	(20,930)	(139,581)
Transfer	-	-	(6,741)	(6,741)
<b>Balance at 1 July 2008</b>	(313,620)	(490,585)	(171,351)	(975,556)
Disposals	191,272	-	7,146	198,418
Depreciation expense (i)	(73,533)	(57,950)	(20,526)	(152,009)
Transfer	-	-	-	-
<b>Balance at 30 June 2009</b>	(195,881)	(548,535)	(184,731)	<b>(929,147)</b>
<b>Net book value</b>				
As at 30 June 2008	172,803	88,915	66,544	328,262
As at 30 June 2009	130,002	285,641	20,526	<b>436,169</b>

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

12 Intangible assets

	Consolidated						Total \$
	Intellectual property \$	Education licence \$	Product develop -ment costs \$	Overseas develop -ment costs \$	Franchise territories \$	Other intangibles \$	
<b>Gross carrying amount</b>							
<b>Balance at 1 July 2007</b>	4,609,081	2,000,000	1,790,605	879,236	344,600	5,117	9,628,639
Additions	-	20,153	1,254,496	4,852	870,085	12,159	2,161,745
Disposals	-	-	-	(9,290)	(7,484)	-	(16,774)
Impairment	(594,005)	(20,153)	(1,169,095)	(95,465)	(337,116)	(1,405)	(2,217,239)
<b>Balance at 1 July 2008</b>	4,015,076	2,000,000	1,876,006	779,333	870,085	15,871	9,556,371
Additions	-	98,335	237,674	13,939	15,000	15,330	380,278
Disposals	-	-	(71,543)	-	(7,500)	-	(79,043)
Net foreign exchange (decrements)/increment	-	-	-	-	(7,678)	-	(7,678)
<b>Balance at 30 June 2009</b>	4,015,076	2,098,335	2,042,137	793,272	869,907	31,201	9,849,927
<b>Accumulated amortisation</b>							
<b>Balance at 1 July 2007</b>	-	-	-	-	-	-	-
Amortisation expense	-	-	-	-	(79,758)	(3,239)	(82,997)
<b>Balance at 1 July 2008</b>	-	-	-	-	(79,758)	(3,239)	(82,997)
Amortisation expense	-	-	-	-	-	-	-
Net foreign exchange (decrements)/increment	-	-	-	-	5,219	-	5,219
<b>Balance at 30 June 2009</b>	-	-	-	-	(74,539)	(3,239)	(77,778)
<b>Net book value</b>							
As at 30 June 2008	4,015,076	2,000,000	1,876,006	779,333	790,327	12,632	9,473,374
As at 30 June 2009	4,015,076	2,098,335	2,042,137	793,272	795,368	27,962	9,772,149

	Company					Total \$
	Intellectual property \$	Product develop -ment costs \$	Overseas develop -ment costs \$	Franchise territories \$	Other intangibles \$	
<b>Gross carrying amount</b>						
<b>Balance at 1 July 2007</b>	2,599,276	938,652	869,946	5,000	5,117	4,417,991
Additions	-	937,354	4,852	339,600	7,515	1,289,321
Disposals	-	-	-	(7,484)	-	(7,484)
Impairment	-	-	(95,465)	(337,116)	-	(432,581)
<b>Balance at 1 July 2008</b>	2,599,276	1,876,006	779,333	-	12,632	5,267,247
Additions	-	124,177	13,939	15,000	15,330	168,445
Disposals	-	(71,543)	-	(7,500)	-	(79,043)
<b>Balance at 30 June 2009</b>	2,599,276	1,928,640	793,271	7,500	27,962	5,356,649
<b>Accumulated amortisation</b>						
<b>Balance at 1 July 2007</b>	-	-	-	-	-	-
<b>Balance at 1 July 2008</b>	-	-	-	-	-	-
<b>Balance at 30 June 2009</b>	-	-	-	-	-	-
<b>Net book value</b>						
As at 30 June 2008	2,599,276	1,876,006	779,333	-	12,632	5,267,247
As at 30 June 2009	2,599,276	1,928,640	793,271	7,500	27,962	5,356,649

12 Intangible assets (cont'd)

*Recoverable amount of non-current assets valued on cost basis*

Included in Intangible assets - Product development costs and Overseas development costs are capitalised development costs in respect of the following products:

*Written down value:*

	Product development costs \$	Overseas development costs \$	Total development costs \$
English as a foreign language curriculum	478,543	223,692	702,235
Pre University curriculum	119,922	-	119,922
EFL/Pre University curriculum	218,920	-	218,920
USA curriculum	95,823	206,069	301,892
Kip McGrath higher education curriculum	842,849	-	842,849
Kip Maths Expert	155,994	-	155,994
Other	130,087	363,511	493,598
	<b>2,042,137</b>	<b>793,272</b>	<b>2,835,410</b>

The English as a Foreign Language (EFL) curriculum was developed as the basis for the company's commercialisation of a product for the teaching of English to non-English speaking markets. Markets being developed with the EFL curriculum include Indonesia, Mexico, Malaysia and South Korea. During the year ended 30 June 2009 Mexico was the main market using the EFL product.

The sale during the year of two Mexican franchises (\$8,290) and the Mallorca Master Franchise (\$31,900), confirm the directors' confidence that the carrying value of EFL curriculum is recoverable through future cash inflows from the expansion of franchise centre numbers throughout non-English speaking countries.

The directors consider that the carrying value of Pre University curriculum is appropriate and recoverable through future revenue generated from foreign students seeking University entry and future cash flows from commercialisation.

The USA curriculum has been developed as the learning program to support expansion into the USA market. The USA curriculum is finalised and has been commercialised with its introduction to existing USA franchisees and the establishment of two pilot centres in South Korea (using the USA curriculum).

The directors consider the carrying value of the USA curriculum is appropriate and recoverable through future cash inflows from the expansion of centres in the USA, South Korea and other markets.

Kip McGrath higher education curriculum is the development of a range of new education programs for sale to franchisees and online. This curriculum has been distributed as an additional franchise licence to new and existing franchisees. We currently have existing franchisees in Australia, New Zealand, South Africa and Singapore contracted to use the new curriculum.

The directors consider that the carrying value of the Kip McGrath higher education curriculum is appropriate and recoverable through existing and future revenue generated from currently contracted franchisees and the planned roll out into other markets.

Kip Maths expert curriculum is the carrying value of "QAX" development costs incurred to upgrade the product to a platform to be able to be sold into the home market. Sales of this product commenced in February 2009 through a sales partner distribution channel.

*Allocation of indefinite life intangible assets to cash-generating units*

Refer to note 14 for details of the allocation of indefinite life intangible assets to cash-generating units.

	Consolidated		Company	
	2009 \$	2008 \$	2009 \$	2008 \$
<b>13 Goodwill</b>				
<i>Gross carrying amount</i>				
Balance at beginning of financial year	3,370,978	3,370,978	-	-
Additional amounts recognised from business combinations during the period	-	-	-	-
Amounts derecognised on discontinued operations	-	-	-	-
Balance at end of financial year	3,370,978	3,370,978	-	-
<i>Accumulated impairment losses</i>				
Balance at beginning of financial year	3,370,978	-	-	-
Impairment losses for the year	-	3,370,978	-	-
Balance at end of financial year	3,370,978	3,370,978	-	-
<i>Net book value</i>				
At the beginning of the financial year	-	3,370,978	-	-
At the end of the financial year	-	-	-	-

*Allocation of goodwill to cash-generating units*

Refer to note 14 for details of the allocation of goodwill to cash-generating units.

#### 14 Intangible assets - impairment testing

##### (a) Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to business segment and country of operation.

A segment-level summary of the goodwill allocation is presented below.

2009	Consolidated		Company	
	Australasia	Total	Australasia	Total
	\$	\$	\$	\$
Educational Curriculum	-	-	-	-
2008	Consolidated		Company	
	Australasia	Total	Australasia	Total
	\$	\$	\$	\$
Educational Curriculum	-	-	-	-

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

During the prior year, the group assessed the recoverable amount of goodwill and determined that goodwill associated with the Group's educational curriculum was impaired by \$3.37 million. The recoverable amount of the educational services was assessed by reference to the cash-generating unit's value in use. A discount factor of 13.5% per annum was applied in the value in use model.

##### Allocation of goodwill to cash-generating units

Goodwill has been allocated for impairment testing purposes across the Australasian segment of the group's cash-generating units. No other segments have had goodwill allocated to them.

##### (b) Impairment tests for intangible assets with indefinite useful lives - educational curriculum

Educational curriculum is allocated to the Group's CGUs identified according to business segment and country of operation.

Educational curriculum is the combination of the Group's following intangible asset categories: intellectual property, product development costs and overseas product development costs. Intellectual property represents the original educational curriculum purchased at incorporation, other educational curriculum developed since incorporation, and the intangible assets of Kip McGrath Direct (being Kip Maths Expert (QAX) software). Product development costs represent the cost of developing new educational curriculum additional to the original intellectual property acquired. Overseas product development costs represent new educational curriculum customised to specific overseas markets using the intellectual property or product development costs as the base education curriculum. Due to the inter-related nature of these intangible assets the Group believes that the best disclosure of these intangible assets is as a single CGU. The Group believes that the addition of new curriculum for a country increases the scope of the Group to earn revenue in the future.

**14 Intangible assets - impairment testing (Cont'd)**

A segment-level summary of the educational curriculum allocation is presented below.

Consolidated 2009	Australasia \$	United Kingdom & Europe \$	Africa \$	Asia Pacific \$	Central & Northern America \$	Total \$
Educational curriculum	5,280,728	1,952,454	513,510	1,575,205	450,251	9,772,148

Consolidated 2008	Australasia \$	United Kingdom & Europe \$	Africa \$	Asia Pacific \$	Central & Northern America \$	Total \$
Educational curriculum	5,025,220	1,953,902	508,744	1,542,316	443,191	9,473,374

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

In performing the value in use calculations for the education curriculum it was apparent that the current carrying value is justified and there is no impairment required.

**(c) Impairment tests for intangible assets with indefinite useful lives - franchise territories**

Franchise territories are allocated to the Group's CGUs identified according to business segment and country of operation.

Franchise territories represent the territories the Group has repurchased from franchisees to sell as new territory boundaries (Australia) and the purchase of the National Master Franchise and South West Master Franchise in the United Kingdom.

A segment-level summary of the franchise territories allocation is presented below.

Consolidated 2009	Australasia \$	United Kingdom & Europe \$	Total \$
Franchise Territories	7,500	787,867	795,367

Consolidated 2008	Australasia \$	United Kingdom & Europe \$	Total \$
Franchise Territories	-	790,327	790,327

The recoverable amount of a CGU is determined based on value-in-use calculations and any potential future sales of these franchise territories. During the year the Group assessed the recoverable amount of the franchise territories and determined that the current carrying value is justified and there is no impairment required.

14 Intangible assets - impairment testing (Cont'd)

(d) Impairment tests for intangible assets with indefinite useful lives - educational licence

Educational licence is allocated to the Group's CGUs identified according to business segment and country of operation.

Educational licence represents the tertiary education licence the Group acquired as part of the acquisition of the Kip McGrath Institute of Business Australia Pty Ltd.

A segment-level summary of the educational licence allocation is presented below.

Consolidated 2009	Australasia \$	Total \$
Tertiary educational licence	2,098,335	2,098,335

Consolidated 2008	Australasia \$	Total \$
Tertiary educational licence	2,000,000	2,000,000

In performing the fair value less cost to sell calculation for the education licence it was apparent that the current carrying value is justified and there is no impairment required.

(e) Key assumptions used for value-in-use calculations

CGU	Gross margin *		Growth rate **		Discount rate ***	
	2009 %	2008 %	2009 %	2008 %	2009 %	2008 %
Educational services:						
Goodwill	-	-	-	-	13.5	10.0
Educational curriculum****						
Australasia	78.0	67.5	4.5	4.5	13.5	10.0
United Kingdom & Europe	60.6	67.5	4.5	4.5	13.5	10.0
Africa	40.0	67.5	4.5	4.5	13.5	10.0
Asia Pacific	42.5	67.5	4.5	4.5	13.5	10.0
Central & North America	49.9	67.5	4.5	4.5	13.5	10.0
Weighted Average	63.5	67.5	4.5	4.5	13.5	10.0
Franchise territories			-	-	13.5	10.0
Educational licence	-	-	-	-	13.5	10.0

\* Budgeted gross margins for 2009-2010 are calculated from existing contractual arrangements. Overhead allocations have been apportioned to segment territories according to percentage of income.

\*\* Weighted average growth rate used to extrapolate cash flows beyond the budget period.

\*\*\* In performing the value-in-use calculations for each CGU, the company has applied pre-tax discount rates to discount the forecast future attributable post tax cash flows. The equivalent pre-tax discount rates are disclosed above. The pre-tax discount rate applied in 2009 was 13.5% (2008: 10%).

#### **14 Intangible assets - impairment testing (Cont'd)**

\*\*\*\* Value-in-use calculations for educational curriculum amounts relate to franchise fees, and the sale of new franchises. The increase of franchise fees relating to the sale of franchises are ignored in the calculations, and will further support the carrying values of educational curriculum.

These assumptions have been used for the analysis of each CGU within the business segment. Management determined budgeted gross margin based on past performance and its expectations for the future. The weighted average growth rates used are consistent with forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments and the countries in which they operate.

##### **(f) Impact of possible changes in key assumptions**

Management considers that minor variations to any of the key assumptions used for the value-in-use calculations listed above will not adversely affect the carrying value of intangible assets.

##### **(g) Impairment charge**

An impairment charge of \$nil (2008: \$2,217,239) (refer note 12) arose during the year across a range of intangible CGU's. Impairment was found in 2008 in the value of the education licence, QAX maths program and overseas development costs.

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>15 Current trade and other payables</b>				
Trade payables (i)	192,024	358,465	97,256	177,938
Amounts payable to controlled entities	-	-	791,509	-
Other payables & accruals	346,924	388,533	207,447	102,506
	<b>538,948</b>	<b>746,998</b>	<b>1,096,212</b>	<b>280,444</b>

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

(ii) Tax losses were transferred to the parent entity when two subsidiaries joined the KMEC tax consolidated group. The intercompany loan represents the amounts payable by the parent entity to these subsidiaries on consideration of these losses.

<b>16 Current borrowings</b>				
Finance lease liabilities (i)	81,431	34,652	81,431	34,652
Convertible notes (ii) (iii)	453,410	145,273	-	-
Bank bills (iv)	235,549	3,725,731	235,549	3,725,732
	<b>770,390</b>	<b>3,905,656</b>	<b>316,980</b>	<b>3,760,384</b>

(i) Secured by the assets leased.

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

(iii) 566,667 convertible notes were issued by the Kip McGrath Institute of Business Australia Pty Limited between 10 November 2005 and 26 January 2006 at an issue price of \$0.75 per note. Each note entitles the holder to convert to one ordinary share at a cost of \$0.75 cents per ordinary share. Conversion may occur on the day immediately following the Annual Meeting of the Kip McGrath Institute of Business Australia Pty Ltd. Unconverted notes mature at \$0.75 on 13 June 2010.

(iv) Secured by fixed & floating charge over assets of Kip McGrath Education Centres Limited. The company has an debt amortisation schedule of quarterly capital payments at \$62,500 / quarter. The company repaid an extra \$350,000 off the debt in 2009.

<b>17 Current provisions</b>				
Employee benefits (i)	157,677	67,641	149,540	67,641
Onerous rental leases (ii)	-	113,658	-	113,658
	<b>157,677</b>	<b>181,299</b>	<b>149,540</b>	<b>181,299</b>

(i) The current provision for employee benefits includes \$66,113 (company \$66,113) of annual leave and vested long service leave entitlements accrued but not expected to be taken in the next 12 months.

(ii) Relates to rental leases for the Company Owned Centres.

	Consolidated	Company
	\$	\$
Onerous lease contracts		
Balance at 1 July 2008	113,658	113,658
Payments made	(113,658)	(113,658)
Balance at 30 June 2009	-	-

	Consolidated		Company	
	2009 \$	2008 \$	2009 \$	2008 \$
<b>18 Non-current borrowings</b>				
Finance lease liabilities (i)	189,596	8,131	189,596	8,131
Convertible notes (ii)	-	414,300	-	-
Fixed Rate Facility (iii)	3,020,000	-	3,020,000	-
Redeemable preference shares (iv)	-	540,000	-	-
	<b>3,209,596</b>	<b>962,431</b>	<b>3,209,596</b>	<b>8,131</b>

- (i) Secured by the assets leased.
- (ii) Convertible note liabilities have been classified as current borrowings as they have a maturity date of 13 June 2010.
- (iii) Secured by fixed & floating charge over the assets of Kip McGrath Education Centres Limited.
- (iv) As part of its acquisition of the minority interests of Kip McGrath Institute of Business Australia Pty Ltd ("KMIBA"), the parent entity also acquired KMIBA's redeemable preference shares. These have been appropriately eliminated on consolidation in accordance with the Group's accounting policies.

**19 Non-current provisions**

Employee entitlements	<b>36,591</b>	<b>66,529</b>	<b>33,525</b>	<b>66,529</b>
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**20 Issued capital**

19,780,000 (2008:19,780,000) fully paid ordinary shares	<b>6,829,115</b>	<b>6,829,115</b>	<b>6,829,115</b>	<b>6,829,115</b>
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Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the company does not have a limited amount of authorised capital and issued shares do not have a par value.

**Fully paid ordinary shares\***

Balance at beginning of financial year	19,780,000	19,780,000	19,780,000	19,780,000
Balance at end of financial year	<b>19,780,000</b>	<b>19,780,000</b>	<b>19,780,000</b>	<b>19,780,000</b>

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

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

As at 30 June 2009, the company has 200,000 share options on issue (2008:600,000).

	Consolidated		Company	
	2009 \$	2008 \$	2009 \$	2008 \$
<b>21 (Accumulated losses)/Retained earnings</b>				
Balance at beginning of financial year	(2,451,580)	2,667,129	(525,438)	2,723,125
Net profit/(loss) attributable to members of the entity	3,368,811	(4,723,109)	911,187	(2,852,963)
Net profit attributable to minority interest	-	-	-	-
Dividends paid during the year (note 23)	-	(395,600)	-	(395,600)
Balance at end of financial year	<b>917,231</b>	<b>(2,451,580)</b>	<b>385,749</b>	<b>(525,438)</b>

**22 Earnings per share**

	Consolidated	
	2009 Cents per share	2008 Cents per share
<b>Basic earnings per share:</b>		
From continuing operations	17.0	(22.6)
From discontinuing operations	-	(1.3)
	<b>17.0</b>	<b>(23.9)</b>
<b>Diluted earnings per share:</b>		
From continuing operations	17.0	(22.6)
From discontinuing operations	-	(1.3)
	<b>17.0</b>	<b>(23.9)</b>

**Basic and diluted earnings per share**

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

	2009 \$	2008 \$
Net profit	3,368,811	(4,723,109)
Earnings used in the calculation of basic EPS	3,368,811	(4,723,109)
Adjustments to exclude loss for the period from discontinued operations	-	262,684
Earnings used in the calculation of basic EPS from continuing operations	<b>3,368,811</b>	<b>(4,460,425)</b>
	<b>2009 No.</b>	<b>2008 No.</b>
Weighted average number of ordinary shares for the purposes of basic earnings per share	19,780,000	19,780,000

23 Dividends

	2009		2008	
	Cents per share	\$	Cents per share	\$
<b>Recognised amounts</b>				
<b>Fully paid ordinary shares</b>				
Final dividend: franked to 30% (2008:30%)	-	-	-	-
Interim dividend: franked to 30% (2008:30%)	-	-	2.00	395,600
	-	-	2.00	395,600
<b>Unrecognised amounts</b>				
<b>Fully paid ordinary shares</b>				
Final dividend: franked to 30% (2008:30%)	2.00	395,600	-	-

On 25 August 2009, the directors declared a 2 cent fully franked dividend in respect of the financial year ended 30 June 2009.

	Company	
	2009 \$	2008 \$
Adjusted franking account balance	444,282	592,984
Impact on franking account balance of dividends not recognised	(169,543)	-
	<b>274,739</b>	<b>592,984</b>

24 Leases

Finance leases

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

	Consolidated		Company	
	2009 \$	2008 \$	2009 \$	2008 \$
<b>Finance lease commitments</b>				
Not longer than 1 year	92,013	36,121	92,013	36,121
Longer than 1 year and not longer than 5 years	199,550	8,392	199,550	8,392
Minimum lease payments *	291,563	44,513	291,563	44,513
Less: future finance charges	(20,536)	(1,730)	(20,536)	(1,730)
Total lease liabilities	<b>271,027</b>	<b>42,783</b>	<b>271,027</b>	<b>42,783</b>
Representing lease liabilities:				
current (note 16)	81,431	34,652	81,431	34,652
non-current (note 18)	189,596	8,131	189,596	8,131
	<b>271,027</b>	<b>42,783</b>	<b>271,027</b>	<b>42,783</b>

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

## 24 Leases (cont'd)

### Operating leases

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

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>Non-cancellable operating lease payments</b>				
Not longer than 1 year	333,274	349,391	238,296	304,269
Longer than 1 year and not longer than 5 years	921,136	358,515	742,054	322,626
Longer than 5 years	-	-	-	-
	<b>1,254,410</b>	<b>707,906</b>	<b>980,350</b>	<b>626,895</b>

## 25 Subsequent events

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

## 26 Controlled entities

Name of entity	Country of incorporation	Ownership interest	
		2009	2008
		%	%
<b>Parent entity</b>			
	Australia		
<b>Controlled entities</b>			
Kip McGrath Further Education Pty Limited (ii)	Australia	100	100
Kip McGrath Global Pty Limited (ii)	Australia	100	100
Kip McGrath Direct Pty Limited (ii) (v)	Australia	100	50
Kip McGrath Institute of Business Australia Pty Limited (ii) (iii)	Australia	100	64
Institute for Advanced Knowledge (Australia) Pty Limited (ii)	Australia	100	64
Kip McGrath Education United Kingdom Ltd (iv)	United Kingdom	100	100

(i) Kip McGrath Education Centres Limited is the head entity within the tax-consolidated group.

(ii) These companies are members of the tax-consolidated group.

(iii) Formerly known as Institute of Technology Australia Pty Limited.

(iv) Formerly known as Lanevista Limited.

(v) Formerly known as Triple G Technology Pty Limited.

27 Acquisition of businesses

Names of businesses acquired	Principal activity	Date of acquisition	Proportion of shares acquired (%)	Cost of acquisition \$
<b>2009</b>				
Kip McGrath Direct Pty Limited	Retail Products	1/07/2008	50	-
Kip McGrath Institute of Business Australia Pty Limited	Online University	1/05/2009	36	432,610
Institute for Advanced Knowledge (Australia) Pty Limited	Online University	1/05/2009	36	-
				432,610
<b>2008</b>				
Lanevista Ltd	Franchise operations	1/09/2007	100	4
				4

Net cashflow on acquisitions

	Consolidated		Company	
	2009 \$	2008 \$	2009 \$	2008 \$
Total purchase consideration	432,610	-	432,610	-
Less: non-cash consideration	-	-	-	-
Consideration paid in cash	432,610	-	432,610	-
Less: cash and cash equivalent balances acquired	-	-	-	-
	<b>432,610</b>	-	<b>432,610</b>	-

## 28 Discontinued operations

### Disposal of company owned centres

All company owned centres ("COC") are now closed. Although classified as a discontinued business as at 30 June 2007, some revenues and expenditures occurred during the 2008 financial year. The COC business was classified and accounted for at 30 June 2008 as a discontinued business.

The combined results of the discontinued operations which have been included in the income statement are as follows. The comparative profit and cash flows from discontinued operations have been re-presented to include those operations classified as discontinued in the current period:

	Consolidated	
	2009	2008
	\$	\$
<b>Profit from discontinued operations:</b>		
Revenue (note 2)	-	67,735
Other income (note 2)	-	852
	-	68,587
Expenses		
Employee expenses	-	(35,701)
Depreciation and amortisation expenses	-	(3,411)
Borrowing costs	-	-
Marketing expenses	-	(1,676)
Administration expenses	-	(179,016)
Merchandising expenses	-	-
	-	(219,804)
Loss before tax	-	(151,217)
Attributable income tax benefit	-	10,262
	-	(140,955)
Loss on disposal of operation	-	(121,729)
	-	(262,684)
Loss for the year from discontinued operations	-	(262,684)
<b>Cash flows from discontinued operations:</b>		
Net cash flows from operating activities	-	(103,517)
Net cash flows from investing activities	-	-
Net cash flows from financing activities	-	-
Net cash flows	-	(103,517)

29 Segment information

**Primary Segmentation**

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

**Segment revenues**

Business	External sales		Other		Total	
	2009	2008	2009	2008	2009	2008
	\$	\$	\$	\$	\$	\$
<b>Continuing operations</b>						
KMEC, KME UK, KMD	5,701,135	4,280,337	-	-	5,701,135	4,280,337
KMIBA	663,915	1,060,204	-	-	663,915	1,060,204
	Total of continuing operation segments				6,365,050	5,340,541
	Discontinued operations				-	68,587
	Total of all segments				6,365,050	5,409,128
	Unallocated				13,338	-
	Consolidated revenues for the period				6,378,388	5,409,128

**Segment result**

Business	Total	
	2009	2008
	\$	\$
KMEC, KME UK, KMD	1,527,581	(5,784,060)
KMIBA	(220,388)	(231,635)
	Total of continuing operation segments	
	1,307,193	(6,015,695)
	Discontinued operations	
	-	(262,684)
	Total of all segments	
	1,307,193	(6,278,379)
	Unallocated	
	-	-
	Profit/(loss) before income tax expense	
	1,307,193	(6,278,379)
	Income tax benefit/(expense)	
	1,984,812	838,253
	Consolidated profit for the period	
	3,292,005	(5,440,126)

**Segment assets and liabilities**

Business	Assets		Liabilities		Net Assets	
	2009	2008	2009	2008	2009	2008
	\$	\$	\$	\$	\$	\$
KMEC, KME UK, KMD	12,428,239	12,447,111	(4,164,649)	(6,314,873)	8,263,590	6,132,238
KMIBA	1,528,804	721,320	(1,297,415)	(1,639,156)	231,389	(917,836)
					8,494,979	5,214,402
					-	(113,658)
					8,494,979	5,100,744
					-	-
					8,494,979	5,100,744

**Secondary Segmentation**

**Information on geographical segments**

The group operates in five principal geographical area's - Australasia, United Kingdom & Europe, Africa, Asia Pacific and Central & North America. The Group's revenue from external customers and information about its segment assets by geographical location is detailed below:

**Segment revenues**

Geographical	External sales		Other		Total	
	2009	2008	2009	2008	2009	2008
	\$	\$	\$	\$	\$	\$
<b>Continuing operations</b>						
Australasia	2,590,216	1,665,401	-	-	2,590,216	1,665,402
United Kingdom & Europe	2,490,652	1,876,055	-	-	2,490,652	1,876,055
Africa	458,795	183,930	-	-	458,795	183,930
Asia Pacific	647,525	1,317,947	-	-	647,525	1,317,947
Central & Northern America	177,861	16,569	-	-	177,861	16,569
					6,365,049	5,059,903
					-	68,587
					6,365,049	5,128,490
					13,339	280,638
					6,378,388	5,409,128

**Segment result**

<b>Geographical</b>	<b>Total</b>	
	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
Australasia	87,272	(7,393,501)
United Kingdom & Europe	1,172,380	1,495,256
Africa	181,179	80,330
Asia Pacific	144,152	(49,545)
Central & Northern America	119,589	8,169
Total of continuing operation segments	1,704,572	(5,859,291)
Discontinued operations	-	(262,684)
Total of all segments	1,704,572	(6,121,975)
Unallocated	(397,379)	(156,404)
Profit/(loss) before income tax expense	1,307,193	(6,278,379)
Income tax benefit/(expense)	1,984,812	838,253
Consolidated profit/(loss) for the period	3,292,005	(5,440,126)

**Segment assets and liabilities**

<b>Geographical</b>	<b>Assets</b>		<b>Liabilities</b>		<b>Net Assets</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Australasia	8,933,411	7,580,788	(5,297,347)	(7,861,250)	3,636,064	(280,462)
United Kingdom & Europe	2,372,255	2,701,408	(164,716)	(92,035)	2,207,539	2,609,373
Africa	525,561	444,770	-	-	525,561	444,770
Asia Pacific	1,653,295	1,856,520	-	-	1,653,295	1,856,520
Central & Northern America	472,520	560,748	-	(744)	472,520	560,004
Total of continuing operation segments	8,494,979	5,190,205			8,494,979	5,190,205
Discontinued operations	-	(113,658)			-	(113,658)
Total of all segments	8,494,979	5,076,547			8,494,979	5,076,547
Unallocated	-	24,198			-	24,198
Net assets	8,494,979	5,100,745			8,494,979	5,100,745

**30 Key management personnel**

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

- Mr Glenn Turner (Chairman)
- Mr Storm McGrath (Managing Director)
- Mr Kip McGrath (Executive Director)
- Mrs Dagnija McGrath (Executive Director)
- Mr Michael Seamer (Non-executive Director)

The specified executives of the Group during the year were:

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

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

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

	Consolidated		Company	
	2009 \$	2008 \$	2009 \$	2008 \$
Short-term employee benefits	751,099	1,082,775	751,099	734,741
Post-employment benefits	-	-	-	-
Other long-term benefits	-	-	-	-
Termination benefits	-	-	-	-
Share-based payment	-	-	-	-
	<b>751,099</b>	<b>1,082,775</b>	<b>751,099</b>	<b>734,741</b>

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

30 Key management personnel remuneration (Cont'd)

Specified directors' remuneration

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

2008	Salary and fees		Primary		Post employment		Equity		Other benefits		Total
	\$	\$	Bonus	Non-monetary	Superannuation	Options	Options	Insurance premiums	Insurance premiums	\$	
Mr Keith Lynch	22,932	-	-	-	2,064	-	-	-	656	656	25,652
Mr Storm McGrath	139,315	-	-	2,439	10,183	-	-	-	1,569	1,569	153,506
Mr Kip McGrath	95,541	-	-	2,439	8,485	-	-	-	1,569	1,569	108,035
Mrs Dagnija McGrath	56,984	-	-	4,164	5,061	-	-	-	1,569	1,569	67,778
Mr Michael Seamer	22,932	-	-	-	2,064	-	-	-	1,569	1,569	26,565
Mr Glenn Turner	31,072	-	-	-	-	-	-	-	1,042	1,042	32,114
Total	368,777	-	-	9,042	27,857	-	-	-	7,974	7,974	413,650

30 Key management personnel remuneration (Cont'd)

Specified executives' remuneration		2009					2008							
		Salary and fees \$	Primary Bonus \$	Non-monetary \$	Post employment Superannuation \$	Equity Options \$	Other benefits Insurance premiums \$	Total \$	Salary and fees \$	Primary Bonus \$	Non-monetary \$	Post employment Superannuation \$	Equity Options \$	Other benefits Insurance premiums \$
Ms Darlene Perks	132,431	-	-	11,919	-	2,286	146,636	28,724	-	-	2,585	-	103	31,412
Mr Clinton Marquet	136,358	-	-	12,272	-	2,286	150,916	42,875	-	-	3,836	-	527	47,238
Total	268,789	-	-	24,191	-	4,572	297,552	137,539	-	-	12,200	-	1,565	151,304
								90,382	-	-	-	-	754	91,136
								141,169	-	-	16,902	-	1,440	159,511
								64,220	-	-	5,780	-	1,569	71,569
								105,858	-	-	9,527	-	1,569	116,954
Total	610,767	-	-	50,830	-	7,527	669,124	610,767	-	-	50,830	-	7,527	669,124

31 Related party transactions

(a) Transactions with key management personnel

*Directors*

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

*Key management personnel equity holdings*

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

*Fully paid ordinary shares*

2009	Balance at 1 July No.	Granted as compensation No.	Received on exercise of options No.	Net other change No.	Balance at 30 June No.	Balance held nominally No.
Mr Storm McGrath	54,986	-	-	600,334	655,320	-
Mr Kip McGrath	5,225,986	-	-	40,334	5,266,320	-
Mrs Dagnija McGrath	4,252,986	-	-	40,334	4,293,320	-
Mr Michael Seamer	7,000	-	-	-	7,000	-
Mr Glenn Turner	-	-	-	130,000	130,000	-
Ms Darlene Perks	-	-	-	120,000	120,000	-
Mr Clinton Marquet	117,605	-	-	-	117,605	-
Total	9,540,958	-	-	931,002	10,351,960	-

2008	Balance at 1 July No.	Granted as compensation No.	Received on exercise of options No.	Net other change No.	Balance at 30 June No.	Balance held nominally No.
Mr Storm McGrath	-	-	-	-	54,986	-
Mr Kip McGrath	-	-	-	-	5,225,986	-
Mrs Dagnija McGrath	-	-	-	-	4,252,986	-
Mr Michael Seamer	-	-	-	-	7,000	-
Mr Glenn Turner	-	-	-	-	-	-
Ms Darlene Perks	-	-	-	-	-	-
Mr Clinton Marquet	-	-	-	-	117,605	-
Total	-	-	-	-	9,540,958	-

**Key management personnel equity holdings**

**Director share option plan (DSOP)**

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

**Shares under options**

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

Date options granted	Expiry date	Issue price of shares	Number under option
7 November 2005	7 November 2010	\$2.50	100,000
7 November 2005	7 November 2010	\$3.50	100,000
			200,000

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

31 Related party transactions (cont'd)

Shares issued on the exercise of options

No ordinary shares of Kip McGrath Education Centres Limited were issued during or since the year ended 30 June 2009 on the exercise of options granted under the Directors Share Option Plan.

There were no options granted during the current year. 200,000 existing options expire on 7 November 2010. Each option entitles the holder to purchase one ordinary share in the company. The value disclosed in note 31 is calculated at the date of grant.

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

Summary of options over unissued ordinary shares

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

2008	Balance at 1 July No.	Granted as compensation No.	Exercised No.	Net other change No.	Balance at 30 June No.	Balance vested at 30 June No.	Vested but not exercisable No.	Vested and exercisable No.	Options vested during year No.
Mr Storm McGrath	500,000	-	-	-	500,000	-	-	-	-
Mr Michael Seamer	100,000	-	-	-	100,000	-	-	-	-
Total	600,000	-	-	-	600,000	-	-	-	-

Directors' transactions with the company

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

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

The aggregate of transactions recognised during the year relating to specified directors and their personally related entities were a total expense of \$100,473 (2008: \$217,404) and loan repayments of \$0 (2008: \$0). Details of the transactions are as follows:

Specified Director	Transaction	Note	2009	2008
Mr S McGrath	Material purchases	(i)	100,473	217,404

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

## 32 Financial instruments, Financial Risk Management Objectives and Policies

### (a) Significant accounting policies

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

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

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

### (b) Capital Risk Management

The Group Manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2008.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in notes 16 and 18, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital and retained earnings as disclosed in notes 20 and 21.

### (c) Interest rate risk management

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

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

Consolidated 2009	Weighted Average interest rate	Maturity Dates			Total
		Less than 1 year	1 - 5 years	Non Interest Bearing	
<b>Financial assets</b>					
Cash and cash equivalents	0.39%	750,077	-	72,689	822,766
Current trade and other receivables	-	-	-	595,651	595,651
Non-current trade receivables	-	-	-	23,249	23,249
Other current assets	-	-	-	131,360	131,360
	0	750,077	-	822,949	1,573,026
<b>Financial liabilities</b>					
Current trade and other payables	-	-	-	538,948	538,948
Bank bills (i)	4.30%	235,549	1,020,000	-	1,255,549
Bank bills (i)	6.29%	-	2,000,000	-	2,000,000
Lease liabilities	5.72%	81,431	189,596	-	271,027
Convertible notes	5.00%	453,410	-	-	453,410
Provisions	-	-	-	194,268	194,268
	0	770,390	3,209,596	733,216	4,713,202

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

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

**Interest Cover**

Minimum interest cover of 3.00 times measured for the 12 month period ending on 30/06/2009 and thereafter half yearly for Kip McGrath Education Centres Limited.

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

**Capital Adequacy**

Minimum capital adequacy of 35.00% measured on a daily basis and reported in relation to the 12 month period ending on 30/06/2009 and thereafter half yearly for Kip McGrath Education Centres Limited and subject to annual review.

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

**Maximum Dividend**

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

The impact of a 1% movement in interest rates on the bank bill would cost/(benefit) the group an extra \$12,700 in interest payments over the financial year. The only financial liability that attracts a variable interest rate is the bank bills.

Consolidated 2008	Weighted Average interest rate	Maturity dates			Non interest bearing	Total
		Less than 1 year	1 - 5 years			
<b>Financial Assets</b>						
Cash and cash equivalents	2.5%	677,525	-		44,339	721,864
Current trade and other receivables	-	-	-		668,835	668,835
Non-current trade receivables	-	-	-		45,659	45,659
Other current assets	-	-	-		172,849	172,849
	-	677,525	-		931,683	1,609,208
<b>Financial Liabilities</b>						
Current Trade and other payables	-	-	-		746,998	746,998
Bank bills (i)	7.44%	3,725,732	-		-	3,725,732
Lease liabilities	7.72%	34,652	8,131		-	42,782
Convertible Notes	7.25%	145,273	414,300		-	559,573
Redeemable preference shares	-	-	-		540,000	540,000
Provisions	-	-	-		247,828	247,828
	-	3,905,657	422,431		1,534,826	5,862,913

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

Company 2009	Weighted Average interest rate	Maturity Dates			Total
		Less than 1 year	1 - 5 years	Non Interest Bearing	
<b>Financial assets</b>					
Cash and cash equivalents	2.5%	495,864	-	72,689	568,553
Current trade and other receivables	-	-	-	418,043	418,043
Non-current trade receivables	-	-	-	845,467	845,467
Other current assets	-	-	-	104,157	104,157
	-	495,864	-	1,440,356	1,936,220
<b>Financial liabilities</b>					
Current trade and other payables	-	-	-	1,096,212	1,096,212
Bank bills (i)	4.30%	235,549	1,020,000	-	1,255,549
Bank bills (i)	6.29%	-	2,000,000	-	2,000,000
Lease liabilities	7.72%	81,431	189,596	-	271,027
Provisions	-	-	-	183,065	183,065
	-	316,980	3,209,596	1,279,277	4,805,853

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

**Interest Cover**

Minimum interest cover of 3.00 times measured for the 12 month period ending on 30/06/2009 and thereafter half yearly for Kip McGrath Education Centres Limited.

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

**Capital Adequacy**

Minimum capital adequacy of 35.00% measured on a daily basis and reported in relation to the 12 month period ending on 30/06/2009 and thereafter half yearly for Kip McGrath Education Centres Limited and subject to annual review.

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

**Maximum Dividend**

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

The impact of a 1% movement in interest rates on the bank bill would cost/(benefit) the group an extra \$12,700 in interest payments over the financial year. The only financial liability that attracts a variable interest rate is the bank bills.

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

Company 2008	Weighted Average interest rate	Fixed maturity dates			Total
		Less than 1 year	1 - 5 years	Non interest bearing	
<b>Financial Assets</b>					
Cash and cash equivalents	2.5%	137,733	-	44,339	182,072
Current trade and other receivables	-	-	-	453,168	453,168
Non-current trade receivables	-	-	-	1,019,268	1,019,268
Other current assets	-	-	-	167,268	167,268
	-	137,733	-	1,684,042	1,821,775
<b>Financial Liabilities</b>					
Current trade and other payables	-	-	-	280,444	280,444
Bank bills	7.44%	3,725,732	-	-	3,725,732
Lease liabilities	7.72%	34,652	8,131	-	42,782
Provisions	-	-	-	247,828	247,828
	-	3,760,384	8,131	528,271	4,296,786

**(d) Credit risk management**

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

The Group has adopted a policy of dealing with only recognised, creditworthy third parties. All franchisees are subject to legal and credit checks prior to contracting with the group.

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

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

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

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

**(e) Liquidity risk management**

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

The tables in note 32 (c) reflect the contractual maturity of the consolidated entity and company's assets and liabilities. Included in note 33 is a listing of undrawn facilities that the Group/company has at its disposal to further reduce liquidity risk.

**32 Financial instruments, Financial Risk Management Objectives and Policies (cont'd)**  
**(f) Foreign currency risk management**

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

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

Currency	2009	30/06/2009	2009	2008	30/06/2008	2008
	Balance	Exchange rate	AUD equivalent	Balance	Exchange rate	AUD equivalent
GBP	(370,180)	0.4872	(759,811)	3,499	0.4829	7,245
USD	14,208	0.8114	17,511	39,381	0.9626	40,911
NZD	2,776	1.2428	2,234	9,003	1.2609	7,140
SGD	18,704	1.1749	15,920	15,497	1.3106	11,825
ZAR	40,099	6.3433	6,321	274,198	7.6579	35,806
EUR	9,910	0.5751	17,231	-	0.6091	-

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

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

The Group currently has no material exposure to foreign currency movements.

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$
Profit or loss	9,561	-	-	-
Other equity	26,933	-	(69,074)	-

33 Notes to the cash flow statement

(a) Reconciliation of cash and cash equivalents

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

	Consolidated		Company	
	2009 \$	2008 \$	2009 \$	2008 \$
Cash and cash equivalents	822,766	721,864	568,553	182,072
<b>(b) Reconciliation of profit/(loss) for the year to net cash flows from operating activities</b>				
Profit/(loss) from ordinary activities after income tax	3,292,005	(5,440,126)	911,187	(2,852,963)
Impairment of intangibles	-	5,589,270	-	432,581
Impairment of non-current receivable	-	-	(125,000)	285,000
Impairment of investment in subsidiary	-	71,797	-	3,045,849
NPV discount of Convertible Note	43,838	-	-	-
Loss on sale of property, plant & equipment	11,393	38,154	15,643	3,030
Depreciation & amortisation	182,852	255,278	152,009	139,583
<b>Change in operating assets and liabilities:</b>				
(Increase)/decrease in receivables	28,411	484,466	(9,648)	201,837
(Increase)/decrease in inventories	9,127	(25,449)	7,628	19,349
(Increase)/decrease in other current assets	41,489	(10,649)	63,111	(44,002)
(Increase)/decrease in current tax assets	195,347	(143,239)	59,055	(202,142)
(Increase)/decrease in deferred tax assets	(629,681)	(1,059,624)	(307,721)	(1,288,525)
Increase/(decrease) in current tax payable	26,046	-	-	(28,368)
Increase/(decrease) in deferred tax liability	(1,470,715)	219,963	(12,313)	244,176
Increase/(decrease) in payables	(182,578)	352,134	842,139	71,724
Increase/(decrease) in provisions	(53,104)	97,514	(64,271)	146,256
<b>Net cash inflow from operating activities</b>	<b>1,494,430</b>	<b>429,489</b>	<b>1,531,819</b>	<b>173,385</b>

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

(c) Financing facilities

	Consolidated		Company	
	2009 \$	2008 \$	2009 \$	2008 \$
Secured bank overdraft facility:				
Amount used	-	-	-	-
Amount unused	-	250,000	-	250,000
	<b>-</b>	<b>250,000</b>	<b>-</b>	<b>250,000</b>
Secured bill acceptance facility: (ii)				
Amount used	3,270,000	3,745,000	3,270,000	3,745,000
Amount unused	350,000	-	350,000	-
	<b>3,620,000</b>	<b>3,745,000</b>	<b>3,620,000</b>	<b>3,745,000</b>
Secured business credit cards:				
Amount used	136,744	-	136,744	-
Amount unused	3,256	-	3,256	-
	<b>140,000</b>	<b>-</b>	<b>140,000</b>	<b>-</b>
Secured finance lease facility:				
Amount used	230,587	48,544	225,915	48,544
Amount unused	61,360	451,456	66,032	451,456
	<b>291,947</b>	<b>500,000</b>	<b>291,947</b>	<b>500,000</b>

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

(ii) The bill facility with National Australia Bank has a scheduled \$62,500 quarterly amortisation schedule. The Group repaid an additional \$350,000 capital off the facility in 2009. The facility has an expiry date of 13 Dec 2010.

(d) Non-cash financing and investing activities

During the current financial year, the Group acquired \$254,676 of equipment under finance lease. The acquisition will be reflected in the cash flow statement over the term of the finance lease via lease repayments.

### **34 Contingent liabilities**

A claim is continuing against the company and a director, alleging misleading and deceptive conduct. The directors are defending the claim and are of the opinion, based on legal advice, that the claim will be unsuccessful and no provision is required. In the directors' opinion, disclosure of any further information about the above matter would be prejudicial to the interest of the company.

### **35 Additional Company Information**

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

#### Registered Office & Principal Place of Business

Level 3, 6 Newcomen Street

Newcastle NSW 2300

Tel: (02) 4929 6711

# ADDITIONAL ASX INFORMATION

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## Substantial shareholders

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

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

## Voting rights

### Ordinary shares

Refer note 21 to financial statements

### Options

Refer note 32 to financial statements

## Distribution of equity security holders

Category	Number of equity security holders	
	Ordinary shares	Options
1-1,000	109	-
1,001 - 5,000	299	-
5,001 - 10,000	123	-
10,001 - 100,000	129	4
100,001 and over	24	-
Total	684	4

There were 120 shareholders with unmarketable (less than \$500) parcels of ordinary shares.

## On-market buy-back

There is no current on-market buy-back.

## Number of holders of equity securities

### Ordinary share capital

19,780,000 fully paid ordinary shares are held by 804 individual shareholders. All issued ordinary shares carry one vote.

# additional asx information

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## Twenty Largest shareholders as at 4 September 2009

Name	Number of ordinary shares held	Percentage of capital held
Mrs Dagnija McGrath	4,175,000	21.11
Mr Kip McGrath	4,175,000	21.11
Kip McGrath Investments Pty Ltd	1,000,000	5.06
Dr Michelle Mulligan (Samak Trust)	573,418	2.90
Mr Storm McGrath	560,000	2.83
Giverny Computer Software Pty Ltd	401,582	2.03
Mr Brian Stephan Sleigh	380,000	1.92
KMEC Superannuation Pty Limited	273,959	1.39
MIPEGU Pty Ltd	268,000	1.35
Liberty Consolidated Holdings	250,000	1.26
Mrs Deborah Ann Keating	223,000	1.13
Mr Anthony Mark Van Der Steeg	221,995	1.12
Shift 6 Pty Ltd	200,000	1.01
Stevlaur Pty Ltd	200,000	1.01
JP Morgan Nominees Australia	169,821	0.86
Mr Robert Lundy	149,770	0.76
Laudick Pty Ltd	138,528	0.70
Mr Ross W Keating & Mrs Deborah A Keating	137,100	0.69
Mr Keith Stanton Lynch	134,600	0.68
Maverick FB Investments Pty Ltd	120,000	0.61
Total	13,751,773	69.53

# KIP McGRATH EDUCATION CENTRES LIMITED

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## DIRECTORY

### **Board of Directors**

Mr Glenn Turner – Chairman  
Mr Storm McGrath – Managing Director  
Mr Kip McGrath – Executive Director  
Mrs Dagnija McGrath – Executive Director  
Mr Michael Seamer – Non-Executive Director  
Mr Ian Campbell - Non-Executive Director

### **Registered Office**

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

### **Company Secretary**

Ms Darlene Perks

### **Auditors**

Forsythes  
Level 5, Hunter Mall Chambers  
175 Scott Street  
NEWCASTLE NSW 2300

### **Share Registry**

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

### **Bankers**

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

Commonwealth Bank Australia  
Newcastle Branch  
136 Hunter Street