

1. Company details

Name of entity:	Kip McGrath Education Centres Limited
ABN:	73 003 415 889
Reporting period:	For the half-year ended 31 December 2021
Previous period:	For the half-year ended 31 December 2020

2. Results for announcement to the market

			\$'000
Revenues from ordinary activities	up	32.9% to	11,354
Earnings Before Interest, Tax, Depreciation and Amortisation ('EBITDA')	up	15.6% to	2,842
Profit from ordinary activities after tax attributable to the owners of Kip McGrath Education Centres Limited	up	11.1% to	918
Profit for the half-year attributable to the owners of Kip McGrath Education Centres Limited	up	11.1% to	918

Dividends

A final dividend for the year ended 30 June 2021 of 1.0 cents per ordinary share, 100% fully franked, was paid on 23 September 2021. The total distribution was \$522,193.

On 22 February 2022, the directors declared a fully franked interim dividend of 1.0 cents per ordinary share for the year ending 30 June 2022 and will be paid on 24 March 2022 to those shareholders on the register at 7pm on 10 March 2022. The total dividend is estimated to be \$565,000.

Comments

The profit for the consolidated entity after providing for income tax amounted to \$918,000 (31 December 2020: \$826,000).

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

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

The earnings before interest, tax, depreciation and amortisation ('EBITDA') amounted to \$2,842,000 (2020: \$2,458,000). EBITDA is a financial measure which is not prescribed by the Australian Accounting Standards ('AASBs') and represents the profit under AASBs adjusted for specific items. The directors consider EBITDA to be one of the core earnings measures of the consolidated entity.

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

	Consolidated	
	31/12/2021 \$'000	31/12/2020 \$'000
Revenue	11,354	8,533
EBITDA	2,842	2,458
Less: Depreciation and amortisation	(1,592)	(1,338)
Less: Interest expense	(51)	(59)
Add: Interest income	-	13
Profit before income tax expense	1,199	1,074
Income tax expense	(281)	(248)
Profit after income tax expense	918	826

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	(3.75)	7.14

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

4. Control gained over entities

On 1 September 2021, the consolidated entity acquired a 70% interest in the US subsidiary Tutorfly Holdings Inc. Refer to note 13 for further information.

5. Loss of control over entities

Not applicable.

6. Dividend reinvestment plans

Not applicable.

7. Details of associates and joint venture entities

Not applicable.

8. Foreign entities

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

Not applicable.

9. Audit qualification or review

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

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

10. Attachments

Details of attachments (if any):

The Interim Report of Kip McGrath Education Centres Limited for the half-year ended 31 December 2021 is attached.

11. Signed

As authorised by the Board of Directors

Signed



Date: 22 February 2022

Ian Campbell
Chairman
Newcastle

Kip McGrath Education Centres Limited

ABN 73 003 415 889

Interim Report - 31 December 2021

Dear Shareholder,

I am pleased to report the business is now performing well as the world starts to live with Covid-19. Revenue for the half was up 32.9% to \$11.35M principally due to growth in our Corporate Centre business and Tutorfly. Our core business saw lessons grow by 13% despite the impact of lockdowns in key markets. EBITDA has increased 15.6% to \$2.84M, whilst net profit after tax was up 11.1% to \$918K. The increase in net profit is even more significant when the prior year impact from government support during the pandemic is removed.

Operations

The business is now a blended learning tutoring model. The students choose their preferred learning style (face to face or online) from week to week. Once lockdowns have ended for a reasonable length of time, we see record numbers of leads and lessons. We are seeing proof of this in the UK which has now been out of lock down for 6 months. Numbers in NSW, VIC and Auckland are now starting to grow again but they have been impacted this half. Globally, scheduled lesson numbers were 922,000, up 13% from the previous year's 817,000. There were 342,000 online lessons scheduled, an increase of 9% over the prior period.

Our corporate centres showed significant growth at the student level, with fees of \$2.7M, compared to \$0.9M in the previous half year. The corporate business is still scaling and has not contributed significantly to profit this half - a business growing at 300% does require cash to grow so quickly. US based Tutorfly saw revenues of \$500K when we budgeted less than \$100K for this half. It is also at a breakeven point when we budgeted losses for over 18 months to grow the business. These two new strategies add exciting growth dimensions for our business, on top of the already growing tutoring business worldwide.

Global network revenue for the half year, which is total tutoring fees charged by franchisees, Tutorfly and Kip McGrath's owned corporate centres, was \$47.6M, up approximately 16% from the same period last year.

Tutorfly acquisition

On 1 September 2021, Kip McGrath Education Centres Ltd (the Company) purchased a 70% stake in the US based business Tutorfly.com. ('Tutorfly') for an initial payment of US\$500,000 via its newly incorporated subsidiary, Tutorfly Holdings Inc. The Company made a further payment of US\$500,000 in December 2021 when Tutorfly achieved US\$20,000 per month net revenue target. The Company made a final settlement of US\$2,000,000 in February 2022 to purchase the remaining 30% stake in the business as it had achieved the US\$50,000 per month net revenue target. This settlement included 2,000,000 ordinary shares in the Company as well as a cash payment of US\$525,000.

Other acquisitions

On 12 July 2021, the Company executed an agreement for the South African master franchisee to hand back the South African territory, which includes approximately 50 operating centres. The total payment for the hand back amounted to South African Rand 5,100,000 (approximately A\$460,000). These centres are now fully serviced by the UK Head Office in Gloucester.

On 16 August 2021, the Company purchased back the Scotland Area Developer for a capital payment of £250,000 (approximately A\$470,000) payable over a 12-month period commencing October 2021. The territory has 32 active centres and is now fully serviced by the UK Head Office in Gloucester.

In January 2022, the Consolidated Entity purchased another 5 Corporate Centres, including 4 in Southern Queensland and 1 in Tasmania for A\$770,000. There are now 22 operational Corporate Centres in Australia

Capitalisation and cash balances

We invested \$1.4M in the ongoing development of our specialised software and curriculum, which are typically amortised over 5 and 10 years respectively and a further \$2.6M in acquisitions. A healthy net cash flow from operations of \$2.9M leaves us with unrestricted cash balances at 31 December of \$3.7M along with \$1.2M in unused banking facilities.

Outlook

The UK operations are currently seeing outstanding growth and our free assessment requests in Australia are booking strongly. When we see clear air from at least three months without lockdowns we believe the business will start to grow at the levels it was pre-pandemic where we recorded 15-20% annual growth rates.

The second half has always been more profitable than the first half and this year should be no different. Today the Board declared a franked interim dividend of 1 cent per share payable on 24 March 2022 to those shareholders on the register at 7pm on 10 March 2022.

A handwritten signature in black ink, appearing to read 'Storm McGrath'.

Storm McGrath
Managing Director and CEO

22 February 2022
Newcastle

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Kip McGrath Education Centres Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2021.

Directors

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

Ian Campbell (Chairman)
Storm McGrath
Trevor Folsom
Diane Pass

Principal activities

The principal activities of the consolidated entity during the course of the financial half-year continued to be the sale of franchises and providing services to franchisees in the education field. The company is also increasing the number of tutoring centres that are corporately owned. The consolidated entity operates in Australia and overseas, principally in the United Kingdom and New Zealand.

Dividends

A final dividend for the year ended 30 June 2021 of 1.0 cents per ordinary share, 100% fully franked, was paid on 23 September 2021. The total distribution was \$522,193.

On 22 February 2022, the directors declared a fully franked interim dividend of 1.0 cents per ordinary share for the year ending 30 June 2022 and will be paid on 24 March 2022 to those shareholders on the register at 7pm on 10 March 2022. The total dividend is estimated to be \$565,000.

Review of operations

The profit for the consolidated entity after providing for income tax amounted to \$918,000 (31 December 2020: \$826,000).

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

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

The earnings before interest, tax, depreciation and amortisation ('EBITDA') amounted to \$2,842,000 (2020: \$2,458,000). EBITDA is a financial measure which is not prescribed by the Australian Accounting Standards ('AASBs') and represents the profit under AASBs adjusted for specific items. The directors consider EBITDA to be one of the core earnings measures of the consolidated entity.

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

	Consolidated	
	31/12/2021	31/12/2020
	\$'000	\$'000
Revenue	11,354	8,533
EBITDA	2,842	2,458
Less: Depreciation and amortisation	(1,592)	(1,338)
Less: Interest expense	(51)	(59)
Add: Interest income	-	13
Profit before income tax expense	1,199	1,074
Income tax expense	(281)	(248)
Profit after income tax expense	918	826

Significant changes in the state of affairs

On 12 July 2021, the company executed an agreement for the South African master franchisee to hand back the South African territory, which includes approximately 50 operating centres. The total payment for the hand back amounted to South African Rand 5,100,000 (approximately A\$460,000). These centres are now fully serviced by the UK Head Office in Gloucester.

On 28 July 2021, the company executed an agreement for £40,000 (approximately A\$75,000) to acquire the Gloucester North centre in England. This centre is our first Corporate Centre Hub in the UK market, located at our UK head office.

On 16 August 2021, the company purchased back the Scotland Area Developer for a capital payment of £250,000 (approximately A\$470,000) payable over a 12-month period commencing October 2021. The territory has 32 active centres and is now fully serviced by the UK Head Office in Gloucester.

On 1 September 2021, the company purchased a 70% stake in the US based business Tutorfly.com. ('Tutorfly') for an initial payment of US\$500,000 via its newly incorporated subsidiary, Tutorfly Holdings Inc. The company made a further payment of US\$500,000 in December 2021 when Tutorfly achieved US\$20,000 per month net revenue targets. The company agreed a final settlement of US\$2,000,000 in February 2022 to purchase the remaining 30% stake in the business as it had achieved the US\$50,000 per month net revenue target prior to 31 December 2021. This settlement included 2,000,000 ordinary shares in the company issued on 21 February 2022 as well as a cash payment of US\$525,000.

In January 2022, the company purchased another 5 Corporate Centres, including 4 in Southern Queensland and 1 in Tasmania for A\$770,000.

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

Rounding of amounts

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

Auditor's independence declaration

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

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

On behalf of the directors



Ian Campbell
Chairman

22 February 2022
Newcastle

Kip McGrath Education Centres Limited

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

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

As lead audit partner for the review of the financial statements of Kip McGrath Education Centres Limited for the half-year ended 31 December 2021, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.



PKF



MARTIN MATTHEWS
PARTNER

22 FEBRUARY 2022
NEWCASTLE, NSW

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

Liability limited by a scheme approved
under Professional Standards Legislation

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PKF (NS) Audit & Assurance Limited Partnership is a member firm of the PKF International Limited family of separately owned firms and does not accept any responsibility or liability for the actions or inactions of any individual member or correspondent firm or firms.

For our office locations visit www.pkf.com.au

Kip McGrath Education Centres Limited
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General information

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

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

7 Bond Street
Newcastle NSW 2300

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 22 February 2022. The directors have the power to amend and reissue the financial statements.

Kip McGrath Education Centres Limited
Statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2021



		Consolidated	
	Note	31/12/2021	31/12/2020
		\$'000	\$'000
Revenue	3	11,354	8,533
Government grants		-	513
Interest revenue calculated using the effective interest method		-	13
Expenses			
Royalties, commissions and other direct expenses		(164)	(509)
Employee expenses		(5,174)	(3,221)
Marketing expenses		(1,372)	(1,662)
Administration expenses		(1,434)	(817)
Merchandising expenses		(401)	(348)
Depreciation and amortisation expense		(1,592)	(1,338)
(Impairment)/recovery of receivables		(33)	14
Net foreign exchange (losses)/gain		66	(45)
Finance costs		(51)	(59)
Profit before income tax expense		1,199	1,074
Income tax expense		(281)	(248)
Profit after income tax expense for the half-year attributable to the owners of Kip McGrath Education Centres Limited		918	826
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		8	(46)
Other comprehensive income for the half-year, net of tax		8	(46)
Total comprehensive income for the half-year attributable to the owners of Kip McGrath Education Centres Limited		926	780
		Cents	Cents
Basic earnings per share	14	1.757	1.590
Diluted earnings per share	14	1.692	1.523

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

Kip McGrath Education Centres Limited
Statement of financial position
As at 31 December 2021



		Consolidated	
	Note	31/12/2021	30/06/2021
		\$'000	\$'000
Assets			
Current assets			
Cash and cash equivalents	4	8,536	10,571
Trade and other receivables	5	1,423	727
Income tax refund due		-	257
Prepayments		479	484
Total current assets		<u>10,438</u>	<u>12,039</u>
Non-current assets			
Plant and equipment		460	323
Right-of-use assets	6	1,717	1,600
Intangibles	7	21,715	16,117
Deferred tax		743	649
Total non-current assets		<u>24,635</u>	<u>18,689</u>
Total assets		<u>35,073</u>	<u>30,728</u>
Liabilities			
Current liabilities			
Trade and other payables	8	9,271	6,855
Contract liabilities		412	476
Borrowings	9	547	425
Lease liabilities		606	524
Income tax		496	-
Employee benefits		1,017	895
Total current liabilities		<u>12,349</u>	<u>9,175</u>
Non-current liabilities			
Lease liabilities		1,305	1,258
Deferred tax		1,749	1,836
Total non-current liabilities		<u>3,054</u>	<u>3,094</u>
Total liabilities		<u>15,403</u>	<u>12,269</u>
Net assets		<u>19,670</u>	<u>18,459</u>
Equity			
Issued capital	10	15,648	14,841
Reserves		808	800
Retained profits		3,214	2,818
Total equity		<u>19,670</u>	<u>18,459</u>

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

Kip McGrath Education Centres Limited
Statement of changes in equity
For the half-year ended 31 December 2021



Consolidated	Issued capital \$'000	Reserves \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2020	14,457	751	2,643	17,851
Profit after income tax expense for the half-year	-	-	826	826
Other comprehensive income for the half-year, net of tax	-	(46)	-	(46)
Total comprehensive income for the half-year	-	(46)	826	780
<i>Transactions with owners in their capacity as owners:</i>				
Conversion of options	67	-	-	67
Dividends paid (note 11)	-	-	(1,036)	(1,036)
Balance at 31 December 2020	14,524	705	2,433	17,662
Consolidated	Issued capital \$'000	Reserves \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2021	14,841	800	2,818	18,459
Profit after income tax expense for the half-year	-	-	918	918
Other comprehensive income for the half-year, net of tax	-	8	-	8
Total comprehensive income for the half-year	-	8	918	926
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 10)	807	-	-	807
Dividends paid (note 11)	-	-	(522)	(522)
Balance at 31 December 2021	15,648	808	3,214	19,670

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

Kip McGrath Education Centres Limited
Statement of cash flows
For the half-year ended 31 December 2021



		Consolidated	
	Note	31/12/2021	31/12/2020
		\$'000	\$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		11,278	8,743
Payments to suppliers and employees (inclusive of GST)		(8,869)	(5,672)
		2,409	3,071
Interest received		-	13
Government grants received		-	513
Interest and other finance costs paid		(51)	(59)
Income taxes refunded/(paid)		578	(340)
Net cash from operating activities		2,936	3,198
Cash flows from investing activities			
Payment for purchase of business, net of cash acquired	13	(1,445)	-
Payments for property, plant and equipment		(229)	(96)
Payments for intangibles	7	(2,626)	(1,439)
Net cash used in investing activities		(4,300)	(1,535)
Cash flows from financing activities			
Proceeds from issue of shares	10	-	67
Proceeds from borrowings		575	-
Dividends paid	11	(522)	(1,036)
Repayment of borrowings		(453)	(476)
Repayment of lease liabilities		(271)	(224)
Net cash used in financing activities		(671)	(1,669)
Net decrease in cash and cash equivalents		(2,035)	(6)
Cash and cash equivalents at the beginning of the financial half-year		10,571	11,829
Cash and cash equivalents at the end of the financial half-year	4	8,536	11,823

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

Note 1. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2021 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2021 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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

New or amended Accounting Standards and Interpretations adopted

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

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

Note 2. Operating segments

Identification of reportable operating segments

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

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

Geographical information

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

Geographical information

	Sales to external customers		Geographical non-current assets	
	31/12/2021 \$'000	31/12/2020 \$'000	31/12/2021 \$'000	30/06/2021 \$'000
Australasia	6,138	4,346	20,355	17,264
United Kingdom and Europe	4,344	3,975	781	776
Overseas other	868	199	-	-
	<u>11,350</u>	<u>8,520</u>	<u>21,136</u>	<u>18,040</u>

Note 3. Revenue

	Consolidated	
	31/12/2021	31/12/2020
	\$'000	\$'000
<i>Revenue from contracts with customers</i>		
Franchise fees	6,817	5,678
Sale of master territories and franchisee centres	287	281
National advertising contributions ('NAC')	778	793
Direct sales	762	822
Student lessons	2,706	946
	<u>11,350</u>	<u>8,520</u>
<i>Other revenue</i>		
Other revenue	4	13
Revenue	<u>11,354</u>	<u>8,533</u>

Disaggregation of revenue

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

	Consolidated	
	31/12/2021	31/12/2020
	\$'000	\$'000
<i>Timing of revenue recognition</i>		
Services and goods transferred at a point in time	11,221	8,401
Services transferred over time	129	119
	<u>11,350</u>	<u>8,520</u>

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

Note 4. Cash and cash equivalents

	Consolidated	
	31/12/2021	30/06/2021
	\$'000	\$'000
<i>Current assets</i>		
Cash at bank	3,655	5,038
Restricted cash	4,881	5,533
	<u>8,536</u>	<u>10,571</u>

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

Note 5. Trade and other receivables

	Consolidated	
	31/12/2021	30/06/2021
	\$'000	\$'000
<i>Current assets</i>		
Trade receivables	706	853
Less: Allowance for expected credit losses	(182)	(126)
	<u>524</u>	<u>727</u>
Loan to Director (note 10)	535	-
Loans to Employees (note 10)	272	-
Other receivables	92	-
	<u>899</u>	<u>-</u>
	<u>1,423</u>	<u>727</u>

Note 6. Right-of-use assets

	Consolidated	
	31/12/2021	30/06/2021
	\$'000	\$'000
<i>Non-current assets</i>		
Land and buildings - right-of-use	3,001	2,601
Less: Accumulated depreciation	(1,284)	(1,001)
	<u>1,717</u>	<u>1,600</u>

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

Reconciliations

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

Consolidated	Land and buildings \$'000
Balance at 1 July 2021	1,600
Additions	400
Write off of assets	(28)
Depreciation expense	<u>(255)</u>
Balance at 31 December 2021	<u>1,717</u>

Note 7. Intangibles

	Consolidated	
	31/12/2021	30/06/2021
	\$'000	\$'000
<i>Non-current assets</i>		
Goodwill - at cost	4,201	-
Intellectual property - at cost	4,028	4,012
Product and overseas development costs	15,218	14,003
Less: Accumulated amortisation	(7,928)	(6,988)
	7,290	7,015
Franchise and development territories	3,674	3,674
Other intangible assets - at cost	4,986	3,574
Less: Accumulated amortisation	(2,464)	(2,158)
	2,522	1,416
	21,715	16,117

Reconciliations

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

	Goodwill	Intellectual	Product and	Franchise and	Other	Total
	\$'000	property	overseas	development	intangibles	\$'000
	\$'000	\$'000	development	territories	\$'000	\$'000
	\$'000	\$'000	costs	\$'000	\$'000	\$'000
Consolidated						
Balance at 1 July 2021	-	4,012	7,015	3,674	1,416	16,117
Additions	-	-	1,214	-	1,412	2,626
Additions through business combinations (note 13)	4,201	-	-	-	-	4,201
Exchange differences	-	16	-	-	-	16
Amortisation expense	-	-	(939)	-	(306)	(1,245)
Balance at 31 December 2021	4,201	4,028	7,290	3,674	2,522	21,715

Note 8. Trade and other payables

	Consolidated	
	31/12/2021	30/06/2021
	\$'000	\$'000
<i>Current liabilities</i>		
Trade payables	615	397
Amounts held on behalf of franchisees	4,765	5,492
Deferred consideration (note 13)	2,756	-
GST and other similar payable	187	160
Other payables and accruals	948	806
	9,271	6,855

Note 9. Borrowings

	Consolidated	
	31/12/2021 \$'000	30/06/2021 \$'000
<i>Current liabilities</i>		
Bank loans	547	425

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

At the balance date the entity had available undrawn banking facilities of \$1,205,000 (30 June 2021: \$1,750,000).

Assets pledged as security

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

Note 10. Issued capital

	Consolidated			
	31/12/2021 Shares	30/06/2021 Shares	31/12/2021 \$'000	30/06/2021 \$'000
Ordinary shares - fully paid	54,519,331	52,219,331	15,648	14,841

Movements in ordinary share capital

Details	Date	No of shares	Issue price	\$'000
Balance	1 July 2021	52,219,331		14,841
Conversion of options	29 December 2021	300,000	\$0.300	90
Conversion of options	29 December 2021	850,000	\$0.370	315
Conversion of options	29 December 2021	1,150,000	\$0.350	402
Balance	31 December 2021	54,519,331		15,648

Due to share trading restrictions the conversion of options on 29 December 2021 was facilitated through the granting of loans at commercial rates and terms to the director and relevant employees (note 5).

Note 11. Dividends

A final dividend for the year ended 30 June 2021 of 1.0 cents per ordinary share, 100% fully franked, was paid on 23 September 2021. The total distribution was \$522,193.

On 22 February 2022, the directors declared a fully franked interim dividend of 1.0 cents per ordinary share for the year ending 30 June 2022 and will be paid on 24 March 2022 to those shareholders on the register at 7pm on 10 March 2022. The total dividend is estimated to be \$565,000.

Note 12. Contingent liabilities

There were no contingent liabilities at 31 December 2021.

The consolidated entity has entered into arrangements to provide a guarantee to the lessor of the head office premises amounting to \$22,000 (30 June 2021: \$58,000), and premises in Kotara of \$51,000 (30 June 2021: \$51,000) and in Kellyville of \$21,000 (30 June 2021: \$21,000).

Note 13. Business combinations

On 1 September 2021, the company purchased a 70% stake in the US based business Tutorfly.com. ('Tutorfly') for an initial payment of US\$500,000 via its newly incorporated subsidiary, Tutorfly Holdings Inc. The company made a further payment of US\$500,000 in December 2021 when Tutorfly achieved US\$20,000 per month net revenue targets.

The company agreed a final settlement of US\$2,000,000 in February 2022 to purchase the remaining 30% stake in the business as it had achieved the US\$50,000 per month net revenue target prior to 31 December 2021. This settlement included 2,000,000 ordinary shares in the company issued on 21 February 2022 as well as a cash payment of US\$525,000. The acquisition included the Tutorfly brand, the marketplace software, and the existing customer and tutor databases.

The values identified in relation to the acquisition of Tutorfly are provisional as at 31 December 2021.

Details of the acquisition are as follows:

	Fair value \$'000
Goodwill	4,201
Acquisition-date fair value of the total consideration transferred	<u>4,201</u>
Representing:	
Cash paid or payable to vendor	1,445
Deferred consideration (note 8)	<u>2,756</u>
	<u>4,201</u>
Cash used to acquire business, net of cash acquired:	
Acquisition-date fair value of the total consideration transferred	4,201
Less: payments to be made in future periods	(724)
Less: shares issued by company as part of consideration in future periods	<u>(2,032)</u>
Net cash used	<u>1,445</u>

Note 14. Earnings per share

	Consolidated 31/12/2021 \$'000	31/12/2020 \$'000
Profit after income tax attributable to the owners of Kip McGrath Education Centres Limited	<u>918</u>	<u>826</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	52,256,831	51,941,071
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares	<u>2,000,000</u>	<u>2,300,000</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>54,256,831</u>	<u>54,241,071</u>
	Cents	Cents
Basic earnings per share	1.757	1.590
Diluted earnings per share	1.692	1.523

Note 15. Events after the reporting period

The consequences of the Coronavirus (COVID-19) pandemic are continuing to be felt around the world, and its impact on the consolidated entity, if any, has been reflected in its published results to date. Whilst it would appear that control measures and related government policies, including the roll out of the vaccine, have started to mitigate the risks caused by COVID-19, it is not possible at this time to state that the pandemic will not subsequently impact the consolidated entity's operations going forward. The consolidated entity now has experience in the swift implementation of business continuation processes should future lockdowns of the population occur, and these processes continue to evolve to minimise any operational disruption. Management continues to monitor the situation both locally and internationally.

The company agreed a final settlement of US\$2,000,000 in February 2022 to purchase the remaining 30% stake in the Tutorfly business as it had achieved the US\$50,000 per month net revenue target prior to 31 December 2021. This settlement included 2,000,000 ordinary shares in the company issued on 21 February 2022 as well as a cash payment of US\$525,000.

Apart from the above matters and the dividend declared as disclosed in note 11, no other matter or circumstance has arisen since 31 December 2021 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Kip McGrath Education Centres Limited
Directors' declaration
31 December 2021



In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2021 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

On behalf of the directors


Ian Campbell
Chairman

22 February 2022
Newcastle

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

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Kip McGrath Education Centres Limited (the company) and controlled entities (the consolidated entity), which comprises the statement of financial position as at 31 December 2021, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes, and the directors' declaration.

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

- (a) giving a true and fair view of the consolidated entity's the financial position as at 31 December 2021, and of its financial performance for the half-year ended on that date; and
- (b) complying with the Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Independence

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

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the company's financial position as at 31 December 2021 and its performance for the half year ended on that date, and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Kip McGrath Education Centres Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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



PKF



MARTIN MATTHEWS
PARTNER

22 FEBRUARY 2022
NEWCASTLE, NSW