Kip McGrath Education Centres Limited

ACN: 003 415 889

ASX Report Appendix 4E
Preliminary final report
Period Ended 30 June 2006

Kip McGrath Education Centres Limited

Appendix 4E
Preliminary final report
Period Ended 30 June 2006

Results for announcement to the market

Reporting Period

Reporting Period:	Financial Year Ended 30 June 2006
Previous Corresponding Period:	Financial Year Ended 30 June 2005

Highlights

	$'000	Movement from prior year
Revenues from ordinary activities	4,630	24.0% Increase
Profit from ordinary activities after tax attributable to members	1,059	71.6% Increase
Net profit for the period attributable to members	1,059	71.6% Increase

Dividends

Dividends paid or declared by the company to members since the end of the previous financial year were:

	Cents per share	Total Amount	Franked/ Unfranked	Date of Payment
Declared and paid during the year				
Final ordinary dividend for the year ended 30 June 2005	3.00	516,000	Franked	14 October 2005
Interim ordinary dividends for year ended 30 June 2006	2.50	430,000	Franked	7 April 2006
Declared after the end of year				
Final ordinary dividend recommended by the directors	3.25	559,000	Franked	1 October 2006

All the franked dividends paid or declared by the company since the end of the previous financial year were fully franked at 30% (refer note 24 to the Financial Statements for further information).

The record date for determining entitlements to the final dividend will be 15 September 2006 and will be paid on 1 October 2006.

* The final dividend was declared on 29 August 2006 and is therefore not provided for in the financial results for the year ended 30 June 2006.

Review and results of operations

The directors report that the number of franchisees and the group revenues have continued to grow, generating a NPAT of $1.059M and EPS of 6.2 cents per share. The Board has also declared a final dividend of 3.25 cents per share bringing the total dividend for the year to 5.75 cents per share.

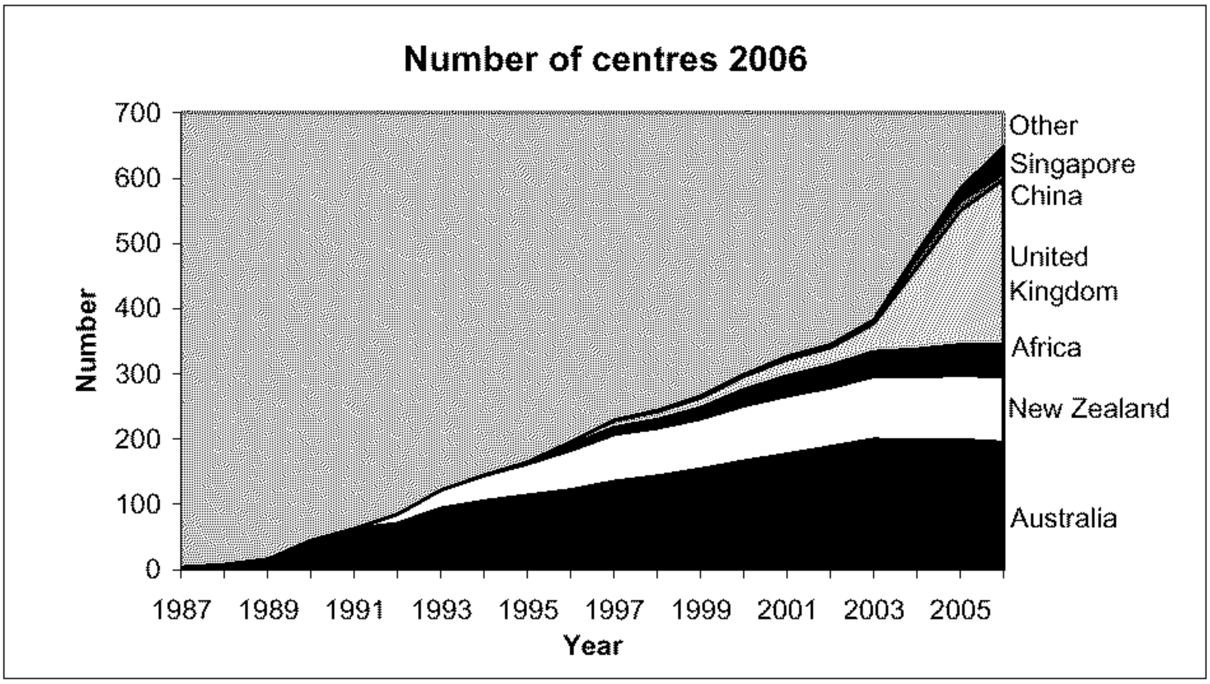
The major financial highlights for the financial year ended 30 June 2006 are summarised below:

- The consolidated revenue of the group increased 24% to $4.630M including $399,105 for the sale of our Watt Street, Newcastle building. Without the building sale, revenue increased 13% to $4.231M.

Results for announcement to the market (Cont'd)

Review and results of operations (Cont'd)

- The net profit after tax increased strongly to a record of $1.059M, an increase of 72% (2005 $0.617M).
- The operating cash flow of the business has continued to remain strong with a decrease of 11% from $1.019M to $0.906M for the year. The company has used cash to invest in company owned centres and Elevate Education to the value of $755,000.
- Final dividend for the year is 3.25 cents per share, bringing the total to 5.75 cents per share for the year. This is an increase of 4.5% over the previous year.
- The franchisee fees from existing franchisees around the world increased from $2.122M to $2.557M which reflects the growth in franchisee numbers from 590 to 663 for the year (see graph: Number of centres 2006 below). This is an increase of 20% for the major income source of the company and reflects the fact that franchise fees are a set fee, like an annuity, and rise with CPI every year. The revenue is not affected by a recession or a downturn in franchisee revenue.



- Further growth from current franchise fees is expected as franchisees do not pay the maximum fee until the third year of operation. The significant uplift in fee income that occurs in the third year of operation will be of particular importance for the UK operations, where centre numbers three years ago were only 43 compared to 243 today.
- Sales of franchises slowed for the year from 100 to 73. This is reflected in a decrease in earnings from franchise sales, with revenues dropping from $1.328M to $0.956M. This was mostly a result of slower sales in the UK and Australia, as well as zero Master franchise sales for the year. The directors believe that a realistic goal for next year is 75 sales. This should also be exceeded in following years. 2005 was considered to be an exceptional year for sales in the UK, with 80 centres being sold.

Results for announcement to the market (Cont'd)

Review and results of operations (Cont'd)

- One off expenses - The company has incurred one off expenses from a pending legal case of $60,000. While the company is hopeful of a positive outcome these costs have been expensed. The costs of the case to date are $80,000. The case is continuing and if it is not resolved this year a similar expense may be incurred. If the case is resolved in our favour this would add to profit for the year, allowing the company to write back money expensed on the case. If the company were to lose the case it could result in a total loss of up to $180,000 which includes the estimated legal costs as well as the claimed damages.

- The head office building was sold during the period for $1.2M and contributed a profit of $201,000 after tax. This cash will be used to purchase company owned centres and the master franchise business in the UK, which is due to be repurchased in September 2007.

- Company Owned Centres - The company has been franchising for nineteen years and has not owned centres itself for a number of years. It is the belief of management that going forward some centres should be owned by head office. These centres can set the standard for franchisees and be used to implement new ideas and gain feedback from global franchisees. KMEC has developed a computer program for running company owned centres which could also assist franchisees to better manage their centres. It is a normal process for a mature franchisor to own centres but it is not a significant strategy change from the franchise model.

  The company owned centres have made a loss for the year of $157,000. This is largely due to KMEC initially buying some small centres with low student enrolments, which did not perform to expectation. KMEC also invested in the recruitment of centre managers for these centres, resulting in some upfront costs. This investment is expected to start bearing fruit in the 2007 financial year.

  Going forward, the company expects to buy a few centres each year. This could approximate to five centres per year for the next five years. KMEC will only buy centres of larger than average size (i.e. about 100 student capacity) and with higher starting enrolments. The company currently owns eleven centres in the Sydney and Hunter Valley regions of NSW.

  The company owned centres as a group reached breakeven in May 2006 and we expect them to make a profit next financial year.

- China has contributed a loss for the year of $144,000 due to impairment and equity losses. KMEC believes the company can make a profit from China. KMEC management is very focussed on the operating costs. Whilst the rollout of centres in China has been below expectations, the company anticipates recording a smaller loss next financial year.

  KMEC has been in China for four years and has gained a much better understanding of that market. The company has made management changes to its Chinese operations, which are now headed by a Chinese national who has previously worked for KMEC in Australia. KMEC is in the process of relocating the Chinese Head Office to the campus of the University of Sichuan in the Chengdu province to co-brand our EFL centres with the University. If our change in direction is successful a small profit is expected.

- Elevate Education - A small profit of $30,000 was made by Elevate Education. Fifty percent of the business was purchased during the year and the management is happy with the progress made to date. We are of the belief that Elevate can add to profit and return the initial investment of $100,000 in the next three years.

Results for announcement to the market (Cont'd)

Guidance

Moving forward we see growth in the following areas:

- ***English speaking franchise centres (core business)***
  The board believes the core business will continue to grow solidly during the year with at least 75 new centres to be added during the year. Other growth will come increased franchise fees as franchisees reach the top level of their payment schedule. Growth will also come from CPI adjustments which are written into the franchise agreements. The core business is expected to return NPAT $1.4M.

- ***Company owned centres***
  Systems for running and managing company owned centres have been completed. Marketing development and testing have been completed and management is confident of a positive result next year. The board has budgeted for breakeven but any profit in company owned centres will be in addition to projected core profit.

- ***Non-English speaking franchise centres***
  The company has developed a curriculum which teaches children to speak English. This was initially developed for China. This curriculum is now also being used in Mexico, Indonesia and Malaysia. Management believes this will add to profit next year and provide significant growth over the next five years. The board has budgeted for a breakeven for ESL centres globally.

- ***Elevate Education***
  The board has budgeted for a profit for Elevate Education. This will add to projected NPAT.

Assuming 75 sales globally and the continuation of similar exchange rates, the company provides the following guidelines for consolidated profit.

NPAT	$1.4M
EPS	8.1 cents
DPS	6.5 cents fully franked

The board is of the belief that an 80% payout ratio is possible for dividends.

If company owned centres, ESL centres and Elevate Education make a profit this will add to the projected NPAT of $1.4M. Further guidance in these areas will be provided during the year.

Audit

This report is based on financial statements which are being independently audited. This independent audit is expected to be completed by Monday 11 September 2006.

Income Statement for the Financial Year Ended 30 June 2006

	Note	Consolidated 2006 $	Consolidated 2005 $	Company 2006 $	Company 2005 $
Revenue from franchise operations		3,384,890	3,499,035	3,458,989	3,499,035
Gain on sale of property		399,105	-	399,105	-
Other income		845,932	233,515	171,327	233,515
	2a	4,629,927	3,732,550	4,029,421	3,732,550
Employee expenses		(1,449,544)	(850,027)	(917,565)	(850,027)
Depreciation and amortisation expenses	2b	(133,693)	(173,734)	(124,919)	(173,734)
Borrowing costs	2b	(38,096)	(42,670)	(36,830)	(42,670)
Commission expenses		-	(59,666)	-	(59,666)
Marketing expenses		(288,797)	(323,774)	(177,383)	(323,774)
Administration expenses		(565,648)	(248,132)	(427,951)	(248,132)
Merchandising expenses		(392,388)	(483,575)	(386,420)	(483,575)
Other expenses from ordinary activities		(5,404)	(281,384)	(5,404)	(281,384)
Share of net losses of associates accounted for using equity method	9	(30,922)	(55,800)	(30,922)	(55,800)
Impairment of non-current assets	2b	(119,072)	(196,969)	(119,072)	(196,969)
Total expenses		(3,023,564)	(2,715,731)	(2,226,466)	(2,715,731)
Profit before income tax expense		1,606,363	1,016,819	1,802,955	1,016,819
Income tax expense	3a	(540,209)	(399,749)	(595,517)	(399,749)
Net profit for the period		1,066,154	617,070	1,207,438	617,070
Profit attributable to minority interest		(7,215)	-	-	-
Profit attributable to members of the parent entity	22	1,058,939	617,070	1,207,438	617,070
Earnings per share:					
Basic (cents per share)	23	6.2	3.6		
Diluted (cents per share)	23	6.2	3.6		
Earnings per share from continuing operations:					
Basic (cents per share)	23	6.2	3.6		
Diluted (cents per share)	23	6.2	3.6		

Notes to the financial statements are included on pages 9 to 54.

Balance Sheet as at 30 June 2006

		Consolidated		Company	
		2006	2005	2006	2005
	Note	$	$	$	$
Current assets					
Cash and cash equivalents	32a	1,732,515	1,734,926	1,686,012	1,734,926
Trade and other receivables	5	982,385	741,730	933,246	741,730
Inventories	6	237,772	179,673	224,682	179,673
Other current assets	7	40,502	31,556	19,004	31,556
Total current assets		2,993,174	2,687,885	2,862,944	2,687,885
Non-current assets					
Trade and other receivables	8	-	24,476	-	24,476
Investments accounted for using the equity method	9	-	30,922	-	30,922
Other financial assets	10	-	-	755,000	-
Property plant and equipment	11	537,850	1,257,949	405,460	1,257,949
Goodwill	13	46,732	-	-	-
Intangible assets	12	4,643,542	3,776,238	4,116,586	3,776,238
Deferred tax assets	3d	117,554	139,387	113,408	139,387
Total non-current assets		5,345,678	5,228,972	5,390,454	5,228,972
Total assets		8,338,852	7,916,857	8,253,398	7,916,857
Current liabilities					
Trade and other payables	15	361,580	262,911	226,554	262,911
Current tax payables	3c	199,075	163,332	252,154	163,332
Borrowings	16	55,736	47,137	50,678	47,137
Provisions	17	65,113	62,982	54,065	62,982
Total current liabilities		681,504	536,362	583,451	536,362
Non-current liabilities					
Trade and other payables	18	499,838	499,838	499,838	499,838
Deferred tax liabilities	3d	413,477	350,560	411,561	350,560
Borrowings	19	84,149	108,058	57,380	108,058
Provisions	20	48,319	30,628	48,319	30,628
Total non-current liabilities		1,045,783	989,084	1,017,098	989,084
Total liabilities		1,727,287	1,525,446	1,600,549	1,525,446
Net assets		6,611,565	6,391,411	6,652,849	6,391,411
Equity					
Issued capital	21	3,561,368	3,561,368	3,561,368	3,561,368
Retained earnings	22	2,942,982	2,830,043	3,091,481	2,830,043
Parent entity interest		6,504,350	6,391,411	6,652,849	6,391,411
Minority interest		107,215	-	-	-
Total equity		6,611,565	6,391,411	6,652,849	6,391,411

Notes to the financial statements are included on pages 9 to 54.

Cash Flow Statement for the Financial Year Ended 30 June 2006

	Note	Consolidated 2006 $	Consolidated 2005 $	Company 2006 $	Company 2005 $
Cash flows from operating activities					
Receipts from customers		4,685,564	3,638,127	4,141,737	3,638,127
Payments to suppliers and employees		(3,387,929)	(2,241,274)	(2,719,766)	(2,241,274)
Interest received		66,673	95,659	66,543	95,659
Interest and other costs of finance		(38,096)	(42,670)	(36,830)	(42,670)
Tax paid		(419,716)	(430,408)	(419,715)	(430,408)
Net cash provided by operating activities	32b	906,496	1,019,434	1,031,969	1,019,434
Cash flows from investing activities					
Advances to equity accounted investments		(113,500)	-	(113,500)	-
Proceeds from sale of property, plant & equipment		1,174,283	-	1,174,283	-
Payments for property, plant & equipment		(155,585)	(39,119)	(47,060)	(39,119)
Payment for intangible assets		(920,157)	(352,109)	(346,469)	(352,109)
Payment for investments in controlled entities		-	-	(755,000)	-
Net cash used in investing activities		(14,959)	(391,228)	(87,746)	(391,228)
Cash flows from financing activities					
Proceeds from issue of shares from minority interests		100,000	-	-	-
Proceeds from issue of shares		-	130,000	-	130,000
Transaction costs from issue of shares		-	(17,046)	-	(17,046)
Repayment of finance lease borrowing		(47,948)	(73,513)	(47,137)	(73,513)
Repayment of other borrowings		-	(500,000)	-	(500,000)
Dividends paid		(946,000)	(940,000)	(946,000)	(940,000)
Net cash provided by financing activities		(893,948)	(1,400,559)	(993,137)	(1,400,559)
Net increase/(decrease) in cash and cash equivalents		(2,411)	(772,353)	(48,914)	(772,353)
Cash and cash equivalents at the beginning of the financial year		1,734,926	2,507,279	1,734,926	2,507,279
Cash and cash equivalents at the end of the financial year	32a	1,732,515	1,734,926	1,686,012	1,734,926

Notes to the financial statements are included on pages 9 to 54.

Statement of Changes in Equity
for the Financial Year Ended 30 June 2006

	Consolidated		
	Share capital $	Retained earnings $	Total equity $
Balance at 1 July 2004	3,448,414	3,152,973	6,601,387
Shares Issued	112,954	-	112,954
Profit for the year	-	617,070	617,070
Dividends paid	-	(940,000)	(940,000)
Balance at 30 June 2005	3,561,368	2,830,043	6,391,411
Shares Issued	-	-	-
Profit for the year	-	1,058,939	1,058,939
Dividends paid	-	(946,000)	(946,000)
Balance at 30 June 2006	3,561,368	2,942,982	6,504,351

	Company		
	Share capital $	Retained earnings $	Total equity $
Balance at 1 July 2004	3,448,414	3,152,973	6,601,387
Shares Issued	112,954	-	112,954
Profit for the year	-	617,070	617,070
Dividends paid	-	(940,000)	(940,000)
Balance at 30 June 2005	3,561,368	2,830,043	6,391,411
Shares Issued	-	-	-
Profit for the year	-	1,207,438	1,207,438
Dividends paid	-	(946,000)	(946,000)
Balance at 30 June 2006	3,561,368	3,091,481	6,652,849

Notes to the financial statements are included on pages 9 to 54.

Notes to the Financial Statements for the Financial Year Ended 30 June 2006

1 Summary of accounting policies

Financial reporting framework

The financial report is a general purpose report which has been prepared in accordance with the Corporations Act 200 Australian Accounting Standards and Urgent Issues Group Interpretations, and complies with other requirements of the law. Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with A-IFRS ensures that the consolidated entity's financial statements and notes comply with Internatio Financial Reporting Standards ('IFRS'). The parent entity financial statements and notes also comply with IFRS except for the disclosure requirements in IAS 32 'Financial Instruments: Disclosure and Presentation' as the Australian equivalent Accounting Standard, AASB 132 'Financial Instruments: Disclosure and Presentation' does not require such disclosures to be presented by the parent entity where its separate financial statements are presented together with the financial statements of the consolidated entity.

The financial statements were authorised for issue by the directors on 8 September 2006.

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.

In the application of A-IFRS, 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 various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these

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.

Judgments made by management in the application of A-IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The company changed its accounting policies on 1 July 2005 to comply with A-IFRS. The transition to A-IFRS is accounted for in accordance with Accounting Standard AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards', with 1 July 2004 as the date of transition. An explanation of how the transition from superseded policies to A-IFRS has affected the company's financial position, financial performance and cash flows is discussed in note 33.

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2006, the comparative information presented in these financial statements for the year ended 30 June 2005, and in the preparation of the opening A-IFRS balance sheet at 1 July 2004, the consolidated entity's date of transition, except for the accounting policies in respect of financial instruments. The consolidated entity has not restated comparative information for financial instruments, as permitted under the first-time adoption transitional provisions. There was no impact to the consolidated entity of changes in these accounting policies on 1 July 2005, the date of transition for

Notes to the Financial Statements for the Financial Year Ended 30 June 2006

1 Summary of accounting policies (Cont'd)

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

(a) Cash and cash equivalents
Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

(b) Employee benefits
Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made 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.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured at the present value of the estimated future cash outflows to be made by the company in respect of services provided by employees up to reporting date.

(c) Financial assets
Subsequent to initial recognition, investments in subsidiaries are measured at cost. 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

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

(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

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 as operating cash flows.

Notes to the Financial Statements for the Financial Year Ended 30 June 2006

1 Summary of accounting policies (Cont'd)

(e) Impairment of assets

At each reporting date, the consolidated entity 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).

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 is estimated to be less than its carrying amount, the carrying amount of the asset reduced to its recoverable amount.

(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 comprehensive balance sheet liability method in respect of temporary differences arising from the differences between the carrying amount of assets and liabilities and the corresponding tax base of those items.

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, branches, associates and joint ventures except where the consolidated entity 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 (the 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 consolidated entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Tax consolidation legislatior

Kip McGrath Education Centres Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of 1 January 2006.

Notes to the Financial Statements for the Financial Year Ended 30 June 2006

1 Summary of accounting policies (Cont'd)

(f) Income tax (Cont'd)

The head entity, Kip McGrath Education Centres Limited, and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Kip McGrath Education Centres Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the group. Details about the tax funding agreement are disclosed in note

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

(g) Payables

Trade payables and other accounts payable are recognised when the company becomes obliged to make future payments resulting from the purchase of goods and services.

(h) Principles of consolidation

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the company (the parent entity) and the subsidiaries it controls as defined in Accounting Standard AASB 127 'Consolidated and Separate Financial Statements'. A list of subsidiaries appears in note 27 to the financial statements. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair value of identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair values of the identifiable net assets exceeds the cost of acquisition, the deficiency is credited to the profit and loss in the period of acquisition.

The consolidated financial statements include the information and results of each subsidiary from the date on which the company obtains control and until such time as the company ceases to control the entity.

In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits arising within the consolidated entity are eliminated in full.

(i) Plant and equipment

Property, 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 is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of

Notes to the Financial Statements for the Financial Year Ended 30 June 2006

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

(i) Plant and equipment (Cont'd)

The following estimated useful lives are used in the calculation of depreciation:

	2006	2005
Property, plant and equipment		
Buildings	40 - 50 years	40 - 50 years
Plant and equipment	2.5 - 17 years	8 - 12.5 years
Motor vehicles	8 - 10 years	10 years
Leased plant and equipment	5 - 10 years	10 years

(j) Provisions

Provisions are recognised when the consolidated entity has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation 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

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 recovery will be received and the amount of the receivable can be measured reliably.

(k) Receivables

Trade accounts receivable generally settled within 30 days are carried at amounts due. A provision is raised for any doubtful debts based on a review of all outstanding amounts at balance date. Bad debts are written off in the period in which they are identified.

(l) Revenue recognition

Revenues are recognised at fair value of the consideration received net of Goods and Services Tax

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

Interest revenue

Interest is recognised as it accrues.

Gain/(loss) on disposal

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).

Notes to the Financial Statements for the Financial Year Ended 30 June 2006

1 Summary of accounting policies (Cont'd)

(m) 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.

(n) Foreign currency

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at the reporting date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when fair value was determined.

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

• exchange differences which relate to assets under construction for future productive use are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings;

• 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, are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

(o) Intangible assets

All intangible assets acquired are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition.

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.

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 and amortised over the period of expected benefit. 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.

Notes to the Financial Statements for the Financial Year Ended 30 June 2006

1 Summary of accounting policies (Cont'd)

(p) 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 the majority being valued on a first in first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distributing.

(q) Leased assets
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards c ownership to the lessee. All other leases are classified as operating leases.

Consolidated entity 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. 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

Lease incentives
In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liabili 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.

(r) Joint ventures
Interests in jointly controlled entities are accounted for under the equity method in the consolidated financial statements and the cost method in the company financial statements.

(s) Share based payments
Entity-settled share-based payments granted after 7 November 2002 that were unvested as of 1 January 2005, are measured at fair value at the date of granting. Fair value is measured by use of either a Black-Scholes model or binomial model as deemed appropriate by independent valuers. 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

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 consolidated entity's estimate of shares that will eventually vest.

(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.

Notes to the Financial Statements for the Financial Year Ended 30 June 2006

2 Profit from operations

	Consolidated 2006	Consolidated 2005	Company 2006	Company 2005
	$	$	$	$
(a) Revenue				
Revenue from franchise operations:				
Domestic	1,578,876	1,726,285	1,652,975	1,726,285
Overseas	1,806,014	1,772,750	1,806,014	1,772,750
Total revenue from franchise operations:	3,384,890	3,499,035	3,458,989	3,499,035
Other income from operating activities:				
Tuition fees	223,566	-	-	-
Seminar fees	459,380	-	-	-
Seminar manuals	41,950	-	-	-
Printing fees	-	-	40,608	-
Kindy Kip software sales	7,751	105,375	7,751	105,375
Freight	-	2,099	-	2,099
Bank interest	74,047	95,659	73,917	95,659
Website advertising	24,901	23,671	25,656	23,671
Gain on sale of property	399,105	-	399,105	-
Other	14,337	6,711	23,395	6,711
Total other revenues	1,245,037	233,515	570,432	233,515
Total revenue from ordinary activities	4,629,927	3,732,550	4,029,421	3,732,550
Attributable to:				
Continuing operations	4,629,927	3,732,550	4,029,421	3,732,550
Discontinued operations	-	-	-	-
	4,629,927	3,732,550	4,029,421	3,732,550

(b) Profit before income tax

Profit before income tax has been arrived at after charging the following expenses. The line items below combine amounts attributable to both continuing and discontinued operations:

	Consolidated 2006	Consolidated 2005	Company 2006	Company 2005
Disclosure of material item expense				
Write off product development - Kindy Kip	-	196,969	-	196,969
Impairment of product development - USA	5,572	-	5,572	-
Impairment of investment - China	113,500	-	113,500	-
	119,072	196,969	119,072	196,969
Cost of sales				
Cost of Kindy Kip sale	1,383	131,111	1,383	131,111

Notes to the Financial Statements for the Financial Year Ended 30 June 2006

2 Profit from operations (Cont'd)

	Consolidated		Company	
	2006	2005	2006	2005
	$	$	$	$
Borrowing costs:				
Other parties	27,399	26,338	26,678	26,338
Finance leases	10,697	16,332	10,152	16,332
	38,096	42,670	36,830	42,670
Depreciation of non-current assets				
Buildings	7,330	14,660	7,330	14,660
Plant & equipment	68,256	52,496	59,482	52,496
	75,586	67,156	66,812	67,156
Amortisation of non-current assets				
Plant & equipment under lease	57,950	57,950	57,950	57,950
Intellectual property	-	-	-	-
Product development	157	48,628	157	48,628
Overseas development costs	-	-	-	-
	58,107	106,578	58,107	106,578
Total depreciation & amortisation	133,693	173,734	124,919	173,734
Net bad & doubtful debts expense - other entities	19,596	-	19,596	-
Net expense for movements in provision for employee entitlements	19,823	26,565	8,775	26,565
Net foreign exchange gains/(losses)	(3,173)	87,806	(3,173)	87,806
Gains attributable to:				
Continuing operations	-	87,806	-	87,806
Discontinued operations	-	-	-	-
	-	87,806	-	87,806
Losses attributable to:				
Continuing operations	(3,173)	-	(3,173)	-
Discontinued operations	-	-	-	-
	(3,173)	-	(3,173)	-
Operating lease rental expenses:				
Minimum lease payments	118,806	-	39,583	-

Notes to the Financial Statements for the Financial Year Ended 30 June 2006

3 Income taxes

	Consolidated		Company	
	2006	2005	2006	2005
	$	$	$	$
(a) Income tax recognised in profit or loss				
Tax expense/(income) comprises:				
Current tax expense/(income)	488,121	367,273	541,199	367,273
origination and reversal of temporary differences	52,088	32,476	54,318	32,476
Total tax expense/(income)	540,209	399,749	595,517	399,749
Attributable to:				
Continuing operations	540,209	399,749	595,517	399,749
Discontinued operations	-	-	-	-
	540,209	399,749	595,517	399,749
The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:				
Profit from continuing operations	1,606,361	1,016,819	1,802,955	1,016,819
Profit from discontinued operations	-	-	-	-
	1,606,361	1,016,819	1,802,955	1,016,819
Income tax expense calculated at 30%	481,908	305,046	540,887	305,046
Increase in income tax expense due to:				
Amortisation - intellectual property & product development	-	50,846	-	50,846
Donations	861	-	861	-
Non-deductible depreciation	2,199	9,170	2,199	9,170
Losses incurred by associate	9,277	16,740	9,277	16,740
Other non-deductible expenses	36,074	-	32,403	-
Sundry	9,890	2,036	9,890	2,036
Movements associated with changes in accounting policies	-	53,226	-	53,226
Timing differences	-	14,862	-	14,862
Decrease in income expense due to:				
Research & development allowance	-	(1,196)	-	(1,196)
Prospectus costs	-	(33,685)	-	(33,685)
Over provision in prior year	-	(17,296)	-	(17,296)
Income tax expense attributable to profit from ordinary activities	540,209	399,749	595,517	399,749
Income tax expense attributable to profit from ordinary activities is made up of:				
Current income tax provision	455,459	393,983	508,537	393,983
Deferred income tax provision	62,917	(10,301)	61,001	(10,301)
Deferred income tax asset	21,833	16,067	25,979	16,067
	540,209	399,749	595,517	399,749

Notes to the Financial Statements for the Financial Year Ended 30 June 2006

3 Income taxes (Cont'd)

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 tl previous reporting period.

	Consolidated 2006 $	Consolidated 2005 $	Company 2006 $	Company 2005 $
(b) Income tax recognised directly in equity				
The following current and deferred amounts were charged directly to equity during the period:				
Current tax:				
Share-issue expenses	(32,662)	(33,685)	(32,662)	(33,685)
Deferred tax:				
Share issue expenses deductible over 5 years	32,662	33,685	32,662	33,685
	-	-	-	-
(c) Current tax liabilities				
Income tax payable attributable to:				
Parent entity	252,154	163,332	252,154	163,332
Entities in the tax-consolidated group	(59,262)	-	-	-
Other	6,183	-	-	-
	199,075	163,332	252,154	163,332
(d) Deferred tax balances				
Deferred tax assets comprise:				
Temporary differences	117,554	139,387	113,408	139,387
	117,554	139,387	113,408	139,387
Deferred tax liabilities comprise:				
Temporary differences	413,477	350,560	411,561	350,560

Notes to the Financial Statements for the Financial Year Ended 30 June 2006

3 Income taxes (Cont'd)

Taxable and deductible temporary differences arise from the following:

	Consolidated			
2006	Opening balance $	Charged to income $	Charged to equity $	Closing balance $
Gross deferred tax				
Property plant and equipmen	(84,922)	81,463	-	(3,459)
Expenditure currently deductible for tax but deferred and amortised for accounting purposes:				
Research and developmen	(192,164)	(176)	-	(192,340)
Overseas developmen	(47,802)	(131,478)	-	(179,280)
Other	-	(4,137)	-	(4,137)
Trading stock	(21,718)	(7,482)	-	(29,200)
Deferred income	3,446		-	3,446
Unrealised currency	(7,400)	(1,107)	-	(8,507)
	(350,560)	(62,917)	-	(413,477)
Gross deferred tax assets:				
Deductible share issue costs	93,237	-	(32,662)	60,575
Other financial liabilities	-	9,280	-	9,280
Provisions	27,448	5,947	-	33,395
Doubtful debts and impairment losses	892	-	-	892
Unrealised currency loss	7,400	(4,398)	-	3,002
Other	10,410	-	-	10,410
	139,387	10,829	(32,662)	117,554
	(211,173)	(52,088)	(32,662)	(295,923)

Notes to the Financial Statements for the Financial Year Ended 30 June 2006

3 Income taxes (Cont'd)

	Consolidated			
2005	Opening balance $	Charged to income $	Charged to equity $	Closing balance $
Gross deferred tax				
Property plant and equipmen	3,201	(88,123)	-	(84,922)
Expenditure currently deductible for tax but deferred and amortised for accounting purposes:				
Research and developmen	(261,062)	68,898	-	(192,164)
Overseas developmen	(53,197)	5,395	-	(47,802)
Trading stock	(27,561)	5,843	-	(21,718)
Deferred income	(12,824)	16,270	-	3,446
Unrealised currency	(9,418)	2,018	-	(7,400)
	(360,861)	10,301	-	(350,560)
Gross deferred tax assets:				
Deductible share issue costs	126,922	-	(33,685)	93,237
Provisions	19,681	7,767	-	27,448
Doubtful debts and impairment losses	1,188	(296)	-	892
Unrealised currency loss	7,400	-	-	7,400
Other	263	10,147	-	10,410
	155,454	17,618	(33,685)	139,387
	(205,407)	27,919	(33,685)	(211,173)

Notes to the Financial Statements for the Financial Year Ended 30 June 2006

3 Income taxes (Cont'd)

	Company			
2006	**Opening balance $**	**Charged to income $**	**Charged to equity $**	**Closing balance $**
Gross deferred tax				
Property plant and equipmen	(84,922)	81,463	-	(3,459)
Expenditure currently deductible for tax but deferred and amortised for accounting purposes:				
Research and developmen	(192,164)	(176)	-	(192,340)
Overseas developmen	(47,802)	(131,478)	-	(179,280)
Other	-	(3,058)	-	(3,058)
Trading stock	(21,718)	(6,645)	-	(28,363)
Deferred income	3,446	-	-	3,446
Unrealised currency	(7,400)	(1,107)	-	(8,507)
	(350,560)	(61,001)	-	(411,561)
Gross deferred tax assets:				
Deductible share issue costs	93,237	-	(32,662)	60,575
Other financial liabilities	-	9,280	-	9,280
Provisions	27,448	2,632	-	30,080
Doubtful debts and impairment losses	892	-	-	892
Unrealised currency loss	7,400	(5,229)	-	2,171
Other	10,410	-	-	10,410
	139,387	6,683	(32,662)	113,408
	(211,173)	(54,318)	(32,662)	(298,153)

Notes to the Financial Statements for the Financial Year Ended 30 June 2006

3 Income taxes (Cont'd)

	Company			
2005	Opening balance $	Charged to income $	Charged to equity $	Closing balance $
Gross deferred tax				
Property plant and equipmen	3,201	(88,123)	-	(84,922)
Expenditure currently deductible for tax but deferred and amortised for accounting purposes:				
Research and developmen	(268,000)	75,836	-	(192,164)
Overseas developmen	(56,896)	9,094	-	(47,802)
Trading stock	(27,561)	5,843	-	(21,718)
Deferred income	(12,824)	16,270	-	3,446
Unrealised currency	(9,418)	2,018	-	(7,400)
	(371,498)	20,938	-	(350,560)
Gross deferred tax assets:				
Deductible share issue costs	126,922	-	(33,685)	93,237
Provisions	19,681	7,767	-	27,448
Doubtful debts and impairment losses	1,188	(296)	-	892
Unrealised currency loss	7,400	-	-	7,400
Other	263	10,147	-	10,410
	155,454	17,618	(33,685)	139,387
	(216,044)	38,556	(33,685)	(211,173)

(e) Tax consolidation legislation

Kip McGrath Education Centres Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of 1 January 2006. The accounting policy in relation to this legislation is set out in note

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Kip McGrath Education Centres Limited.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Kip McGrath Education Centres Limited for any current tax payable assumed and are compensated by Kip McGrath Education Centres Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unus tax credits that are transferred to Kip McGrath Education Centres Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments. The funding amounts are recognised as current intercompany receivables or payables.

Notes to the Financial Statements for the Financial Year Ended 30 June 2006

3 Income taxes (cont.)

Kip McGrath Education Centres Limited and its wholly-owned entities will be taxed individually for the period 1 July 2005 to 31 December 2005. The tax consolidation legislation will apply to the tax consolidated group for the first time for the period 1 January 2006 to 30 June 2006.

	Consolidated 2006 $	Consolidated 2005 $	Company 2006 $	Company 2005 $
4 Remuneration of auditors				
Audit of the financial report				
Auditors of the company				
Forsythes	51,500	-	51,500	-
Previous auditors of the company				
PricewaterhouseCoopers	41,800	36,500	41,800	36,500
KPMG	-	31,100	-	31,100
	93,300	67,600	93,300	67,600
Other non-audit services				
Auditors of the company				
Forsythes	1,950	-	1,950	-
Previous auditors of the company				
PricewaterhouseCoopers	1,000	9,683	1,000	9,683
KPMG	-	6,110	-	6,110
	2,950	15,793	2,950	15,793
	96,250	83,393	96,250	83,393
5 Current trade & other receivables				
Trade receivables	960,881	703,902	911,742	703,902
Allowance for doubtful debts	(2,972)	(2,972)	(2,972)	(2,972)
	957,909	700,930	908,770	700,930
Other receivables				
Receivable from equity accounted investment	113,500	-	113,500	-
Impairment of equity accounted investment	(113,500)	-	(113,500)	-
Other receivables	24,476	40,800	24,476	40,800
	982,385	741,730	933,246	741,730
6 Inventories				
Stores & educational materials - at cos	237,772	179,673	224,682	179,673
7 Other current assets				
Prepayments	37,427	31,556	19,004	31,556
Deposits Paid	3,075	-	-	-
	40,502	31,556	19,004	31,556

Notes to the Financial Statements for the Financial Year Ended 30 June 2006

	Consolidated 2006 $	Consolidated 2005 $	Company 2006 $	Company 2005 $
8 Non-current receivables				
Other trade receivables	-	24,476	-	24,476
9 Equity accounted investments				
Equity accounted investment at cost	86,722	86,722	86,722	86,722
Provision for impairment	-	-	(86,722)	(55,800)
Equity accounted loss on investment in associate	(86,722)	(55,800)	-	-
Investment in associates	-	30,922	-	30,922

Name of associate	Principal Activity	Country of incorporation	Ownership interest 2006 %	Ownership interest 2005 %
Huikensi Commercial & Consulting (Beijing) Pte Limited	Sale of franchises	China	45	45

	2006 $	2005 $
Summarised financial information of associates:		
Current assets	75,333	57,600
Current liabilities	(75,333)	(17,801)
Net assets	-	39,799
Revenue	48,637	113,050
Net profit/(loss)	(68,716)	(124,000)
Share of associates' loss before tax	(30,922)	(55,800)
Share of associates' tax expense	-	-
Share of associates' loss	(30,922)	(55,800)

	Consolidated 2006 $	Consolidated 2005 $	Company 2006 $	Company 2005 $
10 Other non-current financial assets				
Shares in controlled entities	-	-	755,000	-
	-	-	755,000	-

Notes to the Financial Statements for the Financial Year Ended 30 June 2006

11 Property plant and equipment

	Consolidated					
	Freehold land at valuation $	Buildings at valuation $	Plant & equipment at cost $	Equipment under finance lease at cost $	Motor vehicles at cost $	Total $
Gross carrying amount						
Balance at 1 July 2004	150,000	678,000	264,880	579,500	205,257	1,877,637
Additions	-	-	39,119	-	-	39,119
Disposals	-	-	-	-	-	-
Balance at 1 July 2005	150,000	678,000	303,999	579,500	205,257	1,916,756
Additions	-	-	155,585	-	32,638	188,223
Disposals	(150,000)	(678,000)	(48,799)	-	-	(876,799)
Transfer	-	-	38,588	-	-	38,588
Balance at 30 June 2006	-	-	449,373	579,500	237,895	1,266,768
Accumulated depreciation						
Balance at 1 July 2004	-	(58,640)	(141,841)	(251,117)	(82,103)	(533,701)
Disposals	-	-	-	-	-	-
Depreciation expense	-	(14,660)	(31,971)	(57,950)	(20,525)	(125,106)
Balance at 1 July 2005	-	(73,300)	(173,812)	(309,067)	(102,628)	(658,807)
Disposals	-	80,630	20,991	-	-	101,621
Depreciation expense	-	(7,330)	(46,965)	(57,950)	(21,291)	(133,536)
Transfer	-	-	(38,196)	-	-	(38,196)
Balance at 30 June 2006	-	-	(237,982)	(367,017)	(123,919)	(728,918)
Net book value						
As at 30 June 2005	150,000	604,700	130,187	270,433	102,629	1,257,949
As at 30 June 2006	-	-	211,391	212,483	113,976	537,850

Depreciation is recognised as an expense during the year and is included in the depreciation expense disclosed in Note 2 to the financial statements.

Notes to the Financial Statements for the Financial Year Ended 30 June 2006

11 Property plant and equipment (Cont'd)

	Company					
	Freehold land at valuation $	Buildings at valuation $	Plant & equipment at cost $	Equipment under finance lease at cost $	Motor vehicles at cost $	Total $
Gross carrying amount						
Balance at 1 July 2004	150,000	678,000	264,880	579,500	205,257	1,877,637
Additions	-	-	39,119	-	-	39,119
Disposals	-	-	-	-	-	-
Balance at 1 July 2005	150,000	678,000	303,999	579,500	205,257	1,916,756
Additions	-	-	47,060	-	-	47,060
Disposals	(150,000)	(678,000)	(48,799)	-	-	(876,799)
Transfer			38,588			38,588
Balance at 30 June 2006	-	-	340,848	579,500	205,257	1,125,605
Accumulated depreciation						
Balance at 1 July 2004	-	(58,640)	(141,841)	(251,117)	(82,103)	(533,701)
Disposals	-	-	-	-	-	-
Depreciation expense	-	(14,660)	(31,971)	(57,950)	(20,525)	(125,106)
Balance at 1 July 2005	-	(73,300)	(173,812)	(309,067)	(102,628)	(658,807)
Disposals	-	80,630	20,991	-	-	101,621
Depreciation expense	-	(7,330)	(38,957)	(57,950)	(20,526)	(124,763)
Transfer	-	-	(38,196)	-	-	(38,196)
Balance at 30 June 2006	-	-	(229,974)	(367,017)	(123,154)	(720,145)
Net book value						
As at 30 June 2005	150,000	604,700	130,187	270,433	102,629	1,257,949
As at 30 June 2006	-	-	110,874	212,483	82,103	405,460

Depreciation is recognised as an expense during the year and is included in the depreciation expense disclosed in Note 2 to the financial statements.

Notes to the Financial Statements for the Financial Year Ended 30 June 2006

12 Intangible assets

	Consolidated					
	Intellectual property $	Product development costs $	Overseas development costs $	Franchise territories $	Other intangibles $	Total $
Gross carrying amount						
Balance at 1 July 2004	2,599,276	1,074,730	230,191	-	-	3,904,197
Additions	-	259,717	92,392	-	-	352,109
Disposals	-	-	-	-	-	-
Impairment	-	(196,969)	-	-	-	(196,969)
Transfer	-	(247,255)	160,533	-	-	(86,722)
Balance at 1 July 2005	2,599,276	890,223	483,116	-	-	3,972,615
Additions	50,000	23,113	318,038	479,881	2,392	873,424
Disposals	-	(158,337)	-	-	-	(158,337)
Impairment	-	-	(5,572)	-	-	(5,572)
Transfer	-	(38,588)	-	-	-	(38,588)
Balance at 30 June 2006	2,649,276	716,411	795,582	479,881	2,392	4,643,542
Accumulated amortisation						
Balance at 1 July 2004	-	(147,749)	-	-	-	(147,749)
Amortisation expense	-	(48,628)	-	-	-	(48,628)
Balance at 1 July 2005	-	(196,377)	-	-	-	(196,377)
Disposals	-	158,338	-	-	-	158,338
Amortisation expense	-	(157)	-	-	-	(157)
Transfer	-	38,196	-	-	-	38,196
Balance at 30 June 2006	-	-	-	-	-	-
Net book value						
As at 30 June 2005	2,599,276	693,846	483,116	-	-	3,776,238
As at 30 June 2006	2,649,276	716,411	795,582	479,881	2,392	4,643,542

Notes to the Financial Statements for the Financial Year Ended 30 June 2006

12 Intangible assets (Cont'd)

	Company					
	Intellectual property $	Product development costs $	Overseas development costs $	Franchise territories $	Other intangibles $	Total $
Gross carrying amount						
Balance at 1 July 2004	2,599,276	1,074,730	230,191	-	-	3,904,197
Additions	-	259,717	92,392	-	-	352,109
Disposals	-	-	-	-	-	-
Impairment	-	(196,969)	-	-	-	(196,969)
Transfer	-	(247,255)	160,533	-	-	(86,722)
Balance at 1 July 2005	2,599,276	890,223	483,116	-	-	3,972,615
Additions	-	23,113	318,038	5,000	317	346,468
Disposals	-	(158,337)	-	-	-	(158,337)
Impairment	-	-	(5,572)	-	-	(5,572)
Transfer	-	(38,588)	-	-	-	(38,588)
Balance at 30 June 2006	2,599,276	716,411	795,582	5,000	317	4,116,586
Accumulated amortisation						
Balance at 1 July 2004	-	(147,749)	-	-	-	(147,749)
Amortisation expense	-	(48,628)	-	-	-	(48,628)
Balance at 1 July 2005	-	(196,377)	-	-	-	(196,377)
Disposals	-	158,338	-	-	-	158,338
Amortisation expense	-	(157)	-	-	-	(157)
Transfer	-	38,196	-	-	-	38,196
Balance at 30 June 2006	-	-	-	-	-	-
Net book value						
As at 30 June 2005	2,599,276	693,846	483,116	-	-	3,776,238
As at 30 June 2006	2,599,276	716,411	795,582	5,000	317	4,116,586

Notes to the Financial Statements for the Financial Year Ended 30 June 2006

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 foreign language curriculum	478,543	278,645	757,188
Pre University curriculum	119,520	2,484	122,004
USA curriculum	95,823	204,444	300,267
	693,886	485,573	1,179,459

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 China, Indonesia, Mexico, Portugal, Malaysia, and Chile. During the year ended 30 June 2006, China, Indonesia and Mexico were the main markets using the EFL product .

The completion of the master franchise sale in Mexico, the sale of three Mexican franchises and the sale of two Indonesian franchises during the year, 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 Pre University curriculum is being developed as a program to test students' application of English prior to entry into Australian Universities. The curriculum's development phase will be completed in the first half of 2006/07 and management are in negotiations with various Universities, both in Australia and overseas, regarding the adoption and implementation of the curriculum. The company has entered into Memorandums of Understanding confirming a commitment to use the curriculum as soon as it is ready for release.

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, recently approved USA franchise sales and the establishment of the master franchisee in South Korea (using the USA

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.

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.

Notes to the Financial Statements for the Financial Year Ended 30 June 2006

	Consolidated		Company	
	2006	2005	2006	2005
	$	$	$	$
13 Goodwill				
Gross carrying amount				
Balance at beginning of financial year	-	-	-	-
Additional amounts recognised from business combinations during the period	46,732	-	-	-
Balance at end of financial year	46,732	-	-	-
Accumulated impairment losses				
Balance at beginning of financial year	-	-	-	-
Impairment losses for the year	-	-	-	-
Balance at end of financial year	-	-	-	-
Net book value				
At the beginning of the financial year	-	-	-	-
At the end of the financial yea	46,732	-	-	-

Allocation of goodwill to cash-generating units

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

Notes to the Financial Statements for the Financial Year Ended 30 June 2006

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.

2006	Consolidated			Company	
	Australasia $	Total $		Australasia $	Total $
Educational Services	46,732	46,732		-	-

2005	Consolidated			Company	
	Australasia $	Total $		Australasia $	Total $
Educational Services	-	-		-	-

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.

(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. Product development costs represents the cost of developing new educational curriculum additional to the original intellectual property. Overseas product development costs represents 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.

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

Consolidated 2006	Australasia $	United Kingdom & Europe $	Africa $	Asia Pacific $	Central & Northern America $	Total $
Educational services	1,224,586	1,087,881	318,004	1,032,720	498,079	4,161,270

Notes to the Financial Statements for the Financial Year Ended 30 June 2006

14 Intangible assets - impairment testing (Cont'd)

Consolidated 2005	Australasia $	United Kingdom & Europe $	Africa $	Asia Pacific $	Central & Northern America $	Total $
Educational services	1,675,900	985,235	283,910	568,150	263,043	3,776,238

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.

(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 operate company owned centres within the territory boundaries.

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

Consolidated 2006	Australasia $	Total $
Educational services	479,881	479,881

Consolidated 2005	Australasia $	Total $
Educational services	-	-

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.

Notes to the Financial Statements for the Financial Year Ended 30 June 2006

14 Intangible assets - impairment testing (Cont'd)

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

CGU	Gross margin *		Growth rate **		Discount rate ***	
	2006 %	2005 %	2006 %	2005 %	2006 %	2005 %
Educational services:						
Goodwill	66.0	-	-	-	5.5	-
Educational curriculum****						
Australasia	81.8	80.8	7.2	6.2	5.5	5.5
United Kingdom & Europe	62.9	51.9	62.1	125.1	5.5	5.5
Africa	59.3	54.0	27.5	32.1	5.5	5.5
Asia Pacific	(42.2)	(327.9)	602.1	(89.8)	5.5	5.5
Central & North America	60.3	80.3	(0.6)	(8.5)	5.5	5.5
Weighted Average	73.8	72.7	20.5	17.6	5.5	5.5
Franchise territories	28.6	-	-	-	5.5	-

* Budgeted gross margin.
** 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 post-tax discount rates to discount the forecast future attributable post tax cash flows. The equivalent pre-tax discount rates are disclosed above. The same post-tax discount rates were applied in 2005 and 2006. The movements in the equivalent pre-tax discount rates between 2005 and 2006 reflect changes in the anticipated timing of future cash flows.

**** Value-in-use calculations for educational curriculum amounts relate to franchise fees only. The sale of new 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.

(e) Impact of possible changes in key assumptions

Management does not consider a change in any key assumptions to be reasonably possible.

(f) Impairment charge

An impairment charge of $5,572 (refer note 12) arose in the educational services CGU in the USA (included in the Central & North America segment summary) following the completion of unsuccessful negotiations with a prospective additional USA master franchisee. All costs associated with these negotiations were assessed as impaired, consistent with the Group's capitalisation policy.

Notes to the Financial Statements for the Financial Year Ended 30 June 2006

		Consolidated		Company	
		2006	2005	2006	2005
		$	$	$	$
15	**Current trade and other payables**				
	Trade payables	99,238	43,487	67,621	43,487
	Amounts payable to related parties	21,501	18,015	21,501	18,015
	GST payable	52,003	29,899	38,916	29,899
	Other payables & accruals	188,838	168,410	98,516	168,410
	Deposits in advance	-	3,100	-	3,100
		361,580	262,911	226,554	262,911
16	**Current borrowings**				
	Finance lease liabilities (i)	55,736	47,137	50,678	47,137
	(i) Secured by the assets leased				
17	**Current provisions**				
	Employee benefits	62,998	60,866	51,950	60,866
	Other	2,115	2,116	2,115	2,116
		65,113	62,982	54,065	62,982
18	**Non-current trade and other payables**				
	Amounts payable to related parties	499,838	499,838	499,838	499,838
19	**Non-current borrowings**				
	Finance lease liabilities (i)	84,149	108,058	57,380	108,058
	(i) Secured by the assets leased				
20	**Non-current provisions**				
	Employee entitlements	48,319	30,628	48,319	30,628
21	**Issued capital**				
	17,200,000 (2005: 17,200,000) fully paid ordinary shares	3,561,368	3,561,368	3,561,368	3,561,368

	2006		2005	
	No.	$	No.	$
Fully paid ordinary shares				
Balance at beginning of financial year	17,200,000	3,561,368	17,000,000	3,448,414
Issue of shares under executive share option plan (note 30)	-	-	200,000	112,954
Balance at end of financial year	17,200,000	3,561,368	17,200,000	3,561,368

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

Notes to the Financial Statements for the Financial Year Ended 30 June 2006

	Consolidated		Company	
	2006	2005	2006	2005
	$	$	$	$
22 Retained earnings				
Balance at beginning of financial year	2,830,043	3,152,973	2,830,043	3,152,973
Net profit attributable to members of the entity	1,058,939	617,070	1,207,438	617,070
Dividends paid during the year (note 24)	(946,000)	(940,000)	(946,000)	(940,000)
Balance at end of financial yeai	2,942,982	2,830,043	3,091,481	2,830,043

23 Earnings per share

	Consolidated	
	2006	2005
	Cents per share	Cents per share
Basic earnings per share:		
From continuing operations	6.2	3.6
From discontinuing operations	-	-
	6.2	3.6
Diluted earnings per share:		
From continuing operations	6.2	3.6
From discontinuing operations	-	-
	6.2	3.6

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:

	2006	2005
	$	$
Earnings	1,058,939	617,070
Earnings from continuing operations	1,058,939	617,070
Weighted average number of ordinary shares for the purposes of basic earnings per shares	17,200,000	17,000,000

Notes to the Financial Statements for the Financial Year Ended 30 June 2006

24 Dividends

	2006 Cents per share	2006 $	2005 Cents per share	2005 $
Recognised amounts				
Fully paid ordinary shares				
Final dividend: franked to 30% (2005: 30%)	3.00	516,000	3.00	510,000
Interim dividend: franked to 30% (2005: 30%)	2.50	430,000	2.50	430,000
	5.50	946,000	5.50	940,000
Unrecognised amounts				
Fully paid ordinary shares				
Final dividend: franked to 30% (2005: 30%)	3.25	559,000	3.00	516,000

	Company 2006 $	Company 2005 $
Adjusted franking account balance	899,914	885,627

25 Commitments for expenditure

Finance leases

Finance leases relate to printing equipment with a lease term of 3 years and motor vehicle with a lease term of 4 years. The consolidated entity has options to purchase the printing equipment and motor vehicle for nominal amounts at the conclusion of the lease agreements.

	Consolidated 2006 $	Consolidated 2005 $	Company 2006 $	Company 2005 $
Finance lease commitments				
Not longer than 1 year	63,921	56,863	56,863	56,863
Longer than 1 year and not longer than 5 years	89,682	116,111	59,248	116,111
Minimum lease payments	153,603	172,974	116,111	172,974
Less: future finance charges	(13,717)	(17,779)	(8,053)	(17,779)
Total lease liabilities	139,886	155,195	108,058	155,195
Representing lease liabilities:				
current (note 16)	55,736	47,137	50,678	47,137
non-current (note 19)	84,149	108,058	57,380	108,058
	139,885	155,195	108,058	155,195

Notes to the Financial Statements for the Financial Year Ended 30 June 2006

25 Commitments for expenditure (Cont'd)

Operating leases

Operating leases relate to office 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	
	2006	2005	2006	2005
	$	$	$	$
Non-cancellable operating lease payments				
Not longer than 1 year	292,387	-	95,000	-
Longer than 1 year and not longer than 5 years	466,662	-	150,417	-
Longer than 5 years	-	-	-	-
	759,049	-	245,417	-

26 Subsequent events

There has not been any other matter or circumstance that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

27 Controlled entities

Name of entity	Country of incorporation	Ownership interest 2006 %	2005 %
Parent entity			
Kip McGrath Education Centres Limited	Australia		
Controlled entities			
Kip McGrath Education Pty Limited	Australia	100	-
Elevate Education Pty Limited *	Australia	50	-
Kip McGrath Global Pty Limited	Australia	100	-

* Elevate Education Pty Limited is a controlled entity as Kip McGrath Education Centres Limited maintains effective financial and management control of the entity.

Notes to the Financial Statements for the Financial Year Ended 30 June 2006

28 Segment information

Segment revenues

	External sales		Other		Total	
	2006	2005	2006	2005	2006	2005
Geographical	$	$	$	$	$	$
Australasia	2,529,438	1,887,000	399,105	-	2,928,543	1,887,000
United Kingdom & Europe	1,235,637	1,254,798	-	-	1,235,637	1,254,798
Africa	178,323	263,501	-	-	178,323	263,501
Asia Pacific	115,200	78,529	-	-	115,200	78,529
Central & Northern America	98,685	15,207	-	-	98,685	15,207
			Total of all segments		4,556,388	3,499,035
			Unallocated		73,539	233,515
			Revenues for the period		4,629,927	3,732,550

Segment result

		Total	
		2006	2005
Geographical		$	$
Australasia		2,624,543	1,588,000
United Kingdom & Europe		979,637	1,049,798
Africa		116,323	208,501
Asia Pacific		73,200	60,529
Central & Northern America		92,685	12,207
	Total of all segments	3,886,388	2,919,035
	Unallocated	(2,280,025)	(1,902,216)
	Profit before income tax expense	1,606,363	1,016,819
	Income tax expense	(540,209)	(399,749)
	Profit for the period	1,066,154	617,070

Segment assets and liabilities

	Assets		Liabilities		Net Assets	
	2006	2005	2006	2005	2006	2005
Geographical	$	$	$	$	$	$
Australasia	4,559,013	4,998,852	(1,114,069)	(983,503)	3,444,944	4,015,349
United Kingdom & Europe	1,476,945	1,419,276	-	(11,724)	1,476,945	1,407,552
Africa	385,878	306,320	(666)	(6,547)	385,212	299,773
Asia Pacific	1,198,391	711,176	-	(9,780)	1,198,391	701,396
Central & Northern America	586,060	331,768	-	-	586,060	331,768
			Total of all segments		7,091,552	6,755,838
			Unallocated		(479,986)	(364,424)
			Net assets		6,611,566	6,391,414

Notes to the Financial Statements for the Financial Year Ended 30 June 2006

28 Segment information (Cont'd)

Other segment information assets

The only other applicable segment information required to be disclosed is the carrying value of the equity accounted investment in Asia Pacific which is $0 (2005: $30,922) - refer Note 9 for further information.

Business segment information

The company consists of one business segment being the sale of education services.

29 Key management personnel

The specified directors of Kip McGrath Education Centres Limited during the year were:
Mr Keith Lynch (Chairman, Non-executive Director)
Mr Kip McGrath (Joint Managing Director)
Mr Storm McGrath (Joint Managing Director)
Mrs Dagnija McGrath (Executive Director)
Mr Michael Seamer (Non-executive Director)

The specified executives of Kip McGrath Education Centres Limited during the year were:
Mr Matthew Pereira (Chief Financial Officer) Appointed 14 November 2005
Mrs Shirley Dalton (Chief Operating Officer)
Mr Richard Lock (Chief Financial Officer) Resigned 12 September 2005

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 additional specified executives of the consolidated entity during the year were:
Mr Douglas Barton (Managing Director - Elevate Education Pty Limited) Appointed 1 July 2005

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

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.

Notes to the Financial Statements for the Financial Year Ended 30 June 2006

29 Key management personnel remuneration (Cont'd)

Specified directors' remuneration

2006	Primary			Post employment	Equity	Other benefits	
	Salary and fees $	Bonus $	Non-monetary $	Superannuation $	Options $	Insurance premiums $	Total $
Mr Keith Lynch	22,932	-	-	2,064	*	1,772	26,768
Mr Kip McGrath	53,841	11,666	2,641	4,776	-	1,772	74,696
Mr Storm McGrath	113,216	11,666	1,262	10,074	*	1,772	137,990
Mrs Dagnija McGrath	54,272	-	6,584	4,789	-	1,772	67,417
Mr Michael Seamer	22,932	-	-	2,064	*	1,772	26,768
Total	267,193	23,332	10,487	23,767	-	8,860	333,639

* 100,000 options where issued to each director with a value of $17,611 each. No expense has been recognised as the options have not vested due to failure to satisfy a vesting condition.

2005	Primary			Post employment	Equity	Other benefits	
	Salary and fees $	Bonus $	Non-monetary $	Superannuation $	Options $	Insurance premiums $	Total $
Mr Keith Lynch	2,910	-	-	262	-	191	3,363
Mr Kip McGrath	52,323	-	3,798	4,709	-	1,661	62,491
Mr Storm McGrath	111,117	8,500	1,322	10,766	-	1,661	133,366
Mrs Dagnija McGrath	52,526	-	7,806	4,727	-	1,661	66,720
Mr Michael Seamer	13,691	-	-	1,230	-	926	15,847
Mr Lewis Ting	8,331	-	-	-	-	702	9,033
Mr Phillip Arnall	23,800	-	-	-	-	1,469	25,269
Total	264,698	8,500	12,926	21,694	-	8,271	316,089

Notes to the Financial Statements for the Financial Year Ended 30 June 2006

29 Key management personnel remuneration (Cont'd)

Specified executives' remuneration

2006	Primary			Post employment	Equity	Other benefits	
	Salary and fees $	Bonus $	Non-monetary $	Superannuation $	Options $	Insurance premiums $	Total $
Mr Matthew Pereira	58,372	-	-	5,159	-	1,110	64,641
Mrs Shirley Dalton	96,990	-	-	8,453	-	1,772	107,215
Mr Douglas Barton	56,855	-	-	5,117	-	1,772	63,744
Mr Richard Lock	25,166	-	-	2,265	-	355	27,786
Total	237,383	-	-	20,994	-	5,009	263,386

2005	Primary			Post employment	Equity	Other benefits	
	Salary and fees $	Bonus $	Non-monetary $	Superannuation $	Options $	Insurance premiums $	Total $
Mrs Shirley Dalton	92,979	-	-	8,368	-	1,661	103,008
Mr Richard Lock	34,728	-	-	3,126	-	191	38,045
Mrs Helena Dawson	18,414	-	-	1,657	-	702	20,773
Total	146,121	-	-	13,151	-	2,554	161,826

Notes to the Financial Statements for the Financial Year Ended 30 June 2006

30 Related parties

Directors
The names of all persons holding the position of director of the company at any time during the financial year are:
Mr K McGrath, Mr S McGrath, Mrs D McGrath, Mr K Lynch and Mr M Seamer.

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

Directors' holdings of shares and share options
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 below.

	2006	2005
Ordinary shares	9,553,958	9,366,000
Options over ordinary shares	700,000	400,000

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.

The company granted 300,000 options during the year which expire on 7 November 2010. 400,000 existing options expire on the 15 August 2008. Each option entitles the holder to purchase one ordinary share in the company. The val disclosed in note 29 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
Details of options over unissued shares as at beginning and ending of the reporting date and movements during the year are as follows:

Specified Directors	Held at 1 July 2005	Granted as remuneration	Exercised	Held at 30 June 2006	Vested and exercised at 30 June 2006
Mr S McGrath	400,000	100,000	-	500,000	-
Mr K Lynch	-	100,000	-	100,000	-
Mr M Seamer	-	100,000	-	100,000	-

Of the 300,000 options granted in the current year, 150,000 options have an exercise price of $2.50 and the remaining 150,000 have an exercise price of $3.50. Conditional to these options being exercised is the requirement for the consolidated entity to achieve an annual profit before tax of $2,000,000.

Notes to the Financial Statements for the Financial Year Ended 30 June 2006

30 Related parties (Cont'd)

Equity holdings and transactions

The movement during the reporting period in the number of ordinary shares of Kip McGrath Education Centres Limit held directly, indirectly or beneficially, by each specified director, including their personally-related entities is as

Specified Directors	Held at 1 July 2005	Purchases	Received on exercise of options	Sales	Held at 30 June 2006
Mrs D McGrath	4,175,000	77,986	-	-	4,252,986
Mr K McGrath	4,175,000	50,986	-	-	4,225,986
Kip McGrath Investments Pty Ltd	1,000,000	-	-	-	1,000,000
Mr S McGrath	4,000	50,986	-	-	54,986
Mr K Lynch	10,000	8,000	-	-	18,000
Mr M Seamer	2,000	-	-	-	2,000

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 entiti 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 McGrat is their son. Shares in Kip McGrath Investments Pty Ltd are held by Mr K McGratl

The aggregate of transactions recognised during the year relating to specified directors and their personally related entities were a total expense of $104,356 (2005: $157,656). Details of the transactions are as follows:

Specified Director	Transaction	Note	2006	2005
Mr S McGrath	Material purchases	(i)	104,356	157,656
Mr K & Mrs D McGrath	Loan payable	(ii)	499,838	499,838

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

(ii) Kip McGrath Education Centres Limited borrowed funds from directors of the company, Mr K McGrath and Mrs D McGrath in May 1998 for the purchase of intellectual property. During the 2006 financial year no repayments were made (2005: repayments $500,000). All interest accruing on the loan for the year was waived by the directors. The director shareholders are entitled to receive interest on the loan in accordance with the Prospectus dated 25 June 2003 at 3.5 % above Bloomberg bank bill rate. However, the directors intend to waive any interest

Notes to the Financial Statements for the Financial Year Ended 30 June 2006

31 Financial instruments

(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.

(b) Interest risk exposure

The company's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities are set out below:

		Fixed Maturity Dates			
2006	Floating interest rate	Less than 1 year	1 - 5 years	Non Interest Bearing	Total
Financial Assets					
Cash and cash equivalents	1,690,448	-	-	42,067	1,732,515
Current trade and other receivables	-	-	-	982,385	982,385
Non-current trade receivables	-	-	-	-	-
Other current assets	-	-	-	40,502	40,502
	1,690,448	-	-	1,064,954	2,755,402
Weighted average interest rate	5.30%	-	-	-	
Financial Liabilities					
Current trade and other payables	-	-	-	361,580	361,580
Non-current trade payables	-	-	-	499,838	499,838
Lease liabilities	-	55,736	84,149	-	139,885
Provisions	-	-	-	113,432	113,432
	-	55,736	84,149	974,850	1,114,735
Weighted average interest rate	-	7.60%	7.60%	-	

Notes to the Financial Statements for the Financial Year Ended 30 June 2006

31 Financial instruments (Cont'd)

2005	Floating interest rate	Fixed maturity dates: Less than 1 year	Fixed maturity dates: 1 - 5 years	Non interest bearing	Total
Financial Assets					
Cash and cash equivalents	1,652,264	-	-	82,662	1,734,926
Current trade and other receivables	-	-	-	700,931	700,931
Non-current trade receivables	-	-	-	65,276	65,276
Other current assets	-	-	-	31,556	31,556
	1,652,264	-	-	880,425	2,532,689
Weighted average interest rate	5.05%	-	-	-	
Financial Liabilities					
Trade payables	-	-	-	262,911	262,911
Non-current trade payables	-	-	-	499,838	499,838
Lease liabilities	-	47,137	108,058	-	155,195
Provisions	-	-	-	93,610	93,610
	-	47,137	108,058	856,359	1,011,554
Weighted average interest rate	-	7.60%	7.60%	-	

(c) Credit risk exposure

Credit risk represents the loss that would be recognised if franchisees and master franchisees failed to perform as

The credit risk to the financial assets of the company, which have been recognised on the balance sheet, is the carrying amount net of any provision for doubtful debts.

The company minimises concentrations of credit risk by undertaking transactions with a number of franchisees and master franchisees in various countries.

Concentration of credit risk on trade debtors exists in respect of the United Kingdom, Mexico and China business segments. As at 30 June 2006, 35% (2005: 39%) of the company's trade debts were owed by United Kingdom master franchisees, 11% (2005: 0%) by Mexico master franchisees and 10% (2005: 14%) by China master franchisees.

Other than the concentration of credit risk described above, the company is not materially exposed to any individual overseas country or individual customer.

32 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 2006 $	Consolidated 2005 $	Company 2006 $	Company 2005 $
Cash and cash equivalents	1,732,515	1,734,926	1,686,012	1,734,926

Notes to the Financial Statements for the Financial Year Ended 30 June 2006

32 Notes to the cash flow statement (Cont'd)

	Consolidated		Company	
	2006	2005	2006	2005
	$	$	$	$
(b) Reconciliation of profit for the year to net cash flows from operating activities				
Profit from ordinary activities after income tax	1,066,154	617,070	1,207,438	617,070
Add: non-cash items				
Provision for doubtful debt	-	(987)	-	(987)
Impairment of receivable from associate	113,500	-	113,500	-
Equity accounting loss in associate	30,922	55,800	30,922	55,800
Impairment of non-current asset	5,572	-	5,572	-
(Profit)/loss on sale of property, plant & equipment	(399,105)	-	(399,105)	-
Depreciation	133,693	67,156	124,919	67,156
Amortisation	-	303,548	-	303,548
Change in operating assets and liabilities:				
(Increase)/decrease in receivables	(216,179)	(39,564)	(167,040)	(39,564)
(Increase)/decrease in other current assets	(8,946)	26,590	12,552	26,590
(Increase)/decrease in inventories	(58,099)	(87,803)	(45,009)	(87,803)
(Increase)/decrease in deferred tax assets	21,833	16,067	25,979	16,067
Increase/(decrease) in payables	98,669	81,721	(36,357)	81,721
Increase/(decrease) in current tax payable	35,743	(36,426)	88,822	(36,426)
Increase/(decrease) in deferred tax liability	62,917	(10,301)	61,001	(10,301)
Increase/(decrease) in provisions	19,822	26,563	8,774	26,563
Net cash inflow from operating activities	906,496	1,019,434	1,031,968	1,019,434

(c) Businesses acquired

During the financial year one business was acquired. Details of the acquisition are as follows:

	Consolidated 2006	Consolidated 2005	Company 2006	Company 2005
Consideration				
Cash	100,000	-	100,000	-
	100,000	-	100,000	-
Fair value of assets acquired				
Non-current assets				
Plant and equipment	1,893	-	1,893	-
Intellectual property	50,000	-	50,000	-
Other intangibles	1,375	-	1,375	-
Net assets acquired	53,268	-	53,268	-
Goodwill on acquisitior	46,732	-	46,732	-

Notes to the Financial Statements for the Financial Year Ended 30 June 2006

32 Notes to the cash flow statement (Cont'd)

	Consolidated		Company	
	2006	2005	2006	2005
	$	$	$	$
Net cash outflow on acquisition				
Cash consideration	100,000	-	100,000	-
Less cash acquired	-	-	-	-
	100,000	-	100,000	-

On 12 September 2005, the consolidated entity acquired 50% of the business of Elevate Education Pty Limited. The business' principal activity is providing motivational seminars to secondary school students. The cost of the acquisition was $100,000. The holder of the other 50% in elevate Education Pty Ltd has contributed $100,000 in shareholder's equity.

33 Impacts of the adoption of Australian equivalents to International Financial Reporting Standards

The consolidated entity changed its accounting policies on 1 July 2005 to comply with Australian Equivalents to International Financial Reporting Standard (A-IFRS). The transition to A-IFRS is accounted for in accordance with the Accounting Standard AASB 1 First time adoption of Australian Equivalents International Financial Reporting Standard, with 1 July 2004 as the date of transition, except for financial instruments, including derivatives, where the date of transition is 1 July 2005 (refer to note 1).

An explanation of how the transition from superseded policies to A-IFRS has affected the company's financial position, financial performance and cash flow is set out in the following tables and notes that accompany the tables.

Effects of A-IFRS on the Balance Sheet as at 1 July 2004.

	Note	Superseded policies * $	Effect of transition to A-IFRS $	A-IFRS $
Current assets				
Cash and cash equivalents		2,507,279	-	2,507,279
Trade and other receivables		684,859	-	684,859
Inventories		91,870	-	91,870
Prepayments		17,346	-	17,346
Total current assets		3,301,354	-	3,301,354
Non-current assets				
Property, plant and equipment		1,343,936	-	1,343,936
Deferred tax assets**	33b	33,701	121,753	155,454
Intellectual property		2,599,276	-	2,599,276
Other intangible assets		1,157,172	-	1,157,172
Receivables		81,598	-	81,598
Total non-current assets		5,215,683	121,753	5,337,436
Total assets		8,517,037	121,753	8,638,790

Notes to the Financial Statements for the Financial Year Ended 30 June 2006

33 Impacts of the adoption of Australian equivalents to International Financial Reporting Standards (Cont'd)

Effects of A-IFRS on the Balance Sheet as at 1 July 2004 (Cont'd)

	Note	Superseded policies * $	Effect of transition to A-IFRS $	A-IFRS $
Current liabilities				
Trade and other payables		181,190	-	181,190
Borrowings		228,709	-	228,709
Current tax payables		199,758	-	199,758
Provisions		56,714	-	56,714
Total current liabilities		666,371	-	666,371
Non-current liabilities				
Trade and other payables		999,838	-	999,838
Borrowings		-	-	-
Deferred tax liabilities **	33b	386,564	(25,703)	360,861
Provisions		10,333	-	10,333
Total non-current liabilities		1,396,735	(25,703)	1,371,032
Total liabilities		2,063,106	(25,703)	2,037,403
Net assets		6,453,931	147,456	6,601,387
Equity				
Share capital	33d,33e	3,264,717	183,697	3,448,414
Asset revaluation reserve	33c	441,216	(441,216)	-
Retained earnings	33f	2,747,998	404,975	3,152,973
		6,453,931	147,456	6,601,387
Parent entity interest		6,453,931	147,456	6,601,387
Minority interest		-	-	-
Total equity		6,453,931	147,456	6,601,387

*Reported financial position for the financial year ended 30 June 2004.

**For the purpose of the financial reconciliation, deferred tax assets and deferred tax liabilities have not been offset against each other.

Notes to the Financial Statements for the Financial Year Ended 30 June 2006

33 Impacts of the adoption of Australian equivalents to International Financial Reporting Standards (Cont'd)

Effects of A-IFRS on the Balance Sheet as at 30 June 2005.

	Note	Superseded policies * $	Effect of transition to A-IFRS $	A-IFRS $
Current assets				
Cash and cash equivalents		1,734,926	-	1,734,926
Trade and other receivables		741,731	-	741,731
Inventories		179,673	-	179,673
Prepayments		31,556	-	31,556
Total current assets		2,687,886	-	2,687,886
Non-current assets				
Investment accounted for using the equity method		30,922	-	30,922
Property, plant and equipment		1,257,949	-	1,257,949
Deferred tax assets**	33b	38,750	100,637	139,387
Intellectual property	33a	2,434,764	164,511	2,599,275
Other intangible assets	33a	1,135,622	41,341	1,176,963
Receivables		24,476	-	24,476
Total non-current assets		4,922,483	306,489	5,228,972
Total assets		7,610,369	306,489	7,916,858
Current liabilities				
Trade and other payables		262,911	-	262,911
Borrowings		47,137	-	47,137
Current tax payables		163,332	-	163,332
Provisions		62,982	-	62,982
Total current liabilities		536,362	-	536,362
Non-current liabilities				
Trade and other payables		499,838	-	499,838
Borrowings		108,058	-	108,058
Deferred tax liabilities **	33b	282,399	68,161	350,560
Provisions		30,628	-	30,628
Total non-current liabilities		920,923	68,161	989,084
Total liabilities		1,457,285	68,161	1,525,446
Net assets		6,153,084	238,328	6,391,412

Notes to the Financial Statements for the Financial Year Ended 30 June 2006

33 Impacts of the adoption of Australian equivalents to International Financial Reporting Standards (Cont'd)

Effects of A-IFRS on the Balance Sheet as at 30 June 2005 (Cont'd)

	Note	Superseded policies * $	Effect of transition to A-IFRS $	A-IFRS $
Equity				
Share capital	33d,33e	3,377,671	183,697	3,561,368
Asset revaluation reserve	33c	441,216	(441,216)	-
Retained earnings	33f	2,334,197	495,847	2,830,043
		6,153,084	238,328	6,391,411
Parent entity interest		6,153,084	238,328	6,391,412
Minority interest		-	-	-
Total equity		6,153,084	238,328	6,391,412

*Reported financial position for the financial year ended 30 June 2005.

**For the purpose of the financial reconciliation, deferred tax assets and deferred tax liabilities have not been offset against each other.

Notes to the Financial Statements for the Financial Year Ended 30 June 2006

33 Impacts of the adoption of Australian equivalents to International Financial Reporting Standards (Cont'd)

Effects of A-IFRS on the income statement for the financial year ended 30 June 2005

		Financial year ended 30 June 2005		
	Note	Superseded policies* $	Effect of transition to A-IFRS $	A-IFRS $
Revenue		3,499,035	-	3,499,035
Other income		233,515	-	233,515
Total Income		3,732,550	-	3,732,550
Share of profits of associates and jointly controlled entities accounted for using the equity method		(55,800)	-	(55,800)
Employee expenses		(850,027)	-	(850,027)
Depreciation and amortisation expenses	33a	(379,586)	205,852	(173,734)
Borrowing expenses		(42,670)	-	(42,670)
Commission expenses		(59,666)	-	(59,666)
Marketing expenses		(323,774)	-	(323,774)
Administration expenses		(248,132)	-	(248,132)
Merchandising expenses		(483,576)	-	(483,576)
Other expenses		(281,384)	-	(281,384)
Impairment of non-current assets		(196,969)	-	(196,969)
Profit before income tax expense		810,966	205,852	1,016,818
Income tax expense	33b	(284,768)	(114,980)	(399,748)
Profit for the period		526,198	90,872	617,070
Profit attributable to minority interest		-	-	-
Profit attributable to members of the parent		526,198	90,872	617,070

*Reported financial results under previous Australian GAAP.

**For the purpose of the financial reconciliation, deferred tax assets and deferred tax liabilities have not been offset against each other.

33 Impacts of the adoption of Australian equivalents to International Financial Reporting Standards (Cont'd)

Effect of A-IFRS on the cash flow statement for the financial year ended 30 June 2005

There are no material differences between the cash flow statement presented under A-IFRS and the cash flow statement presented under the superseded policies.

Notes to the reconciliations of income and equity

(a) Goodwill, intellectual property and other intangibles

Goodwill, intellectual property and other intangibles which were amortised under superseded policies are not amortised under A-IFRS from the date of transition. The effect of the change is an increase in the carrying amount of intellectual property by $164,511, an increase in the carrying amount of other intangibles by $41,341 and an increase in net profit before tax of $205,852 for the financial year ended 30 June 2005. The tax effect of the above changes was an increase in deferred tax liability by $10,637 as at 30 June 2005.

(b) Income tax

Under superseded policies, the consolidated entity adopted tax-effect accounting principles whereby income tax expense was calculated on pre-tax accounting profits after adjustment for permanent differences. The tax-effect of timing differences, which occur when items were included or allowed for income tax purposes in a period different to that for accounting were recognised at current taxation rates as deferred tax assets and deferred tax liabilities as

Under A-IFRS, deferred tax is determined using the balance sheet liability method in respect of temporary differences between the carrying amount of assets and liabilities in the financial statements and their corresponding tax bases.

The effect of the above adjustments on the deferred tax balances are as follows:

	1 July 2004 $	30 June 2005 $
(Increase) / decrease in deferred tax liabilities	25,703	(68,161)
Increase / (decrease) in deferred tax assets	121,753	100,637
Net increase in deferred tax asset balances	147,456	32,476

The effect on consolidated profit for the financial year ended 30 June 2005 was to increase reported income tax expen by $114,980.

(c) Asset Revaluation Reserve

Under A-IFRS the consolidated entity has transferred the asset revaluation reserve of $441,216 to retained earnings as the consolidated entity has elected to adopt the values at the date of transition as deemed cost.

(d) Equity Based Payments

Share options granted after 7 November 2002 but before transition date were expensed to opening retained earnings and credited to share capital. The fair value of these payments was $25,500.

Notes to the Financial Statements for the Financial Year Ended 30 June 2006

33 Impacts of the adoption of Australian equivalents to International Financial Reporting Standards (Cont'd)

Effect of A-IFRS on the cash flow statement for the financial year ended 30 June 2005 (Cont'd)

(e) IPO Costs

The overall tax effect of IPO costs which were incurred prior to transition was $158,197. The total tax effect of these IPO costs were charged to equity on transition to A-IFRS. The unclaimed tax effect of these IPO costs was recognised as a deferred tax asset of $93,237 on transition. The tax deductions already claimed prior to transition of $64,960 were recognised as an adjustment to opening retained earnings at transition.

(f) Retained earnings

The effect of above adjustments on retained earnings is as follows:

	Note	1 July 2004 $	30 June 2005 $
Transfer from asset revaluation reserve	33c	441,216	441,216
Expensing share based payments	33d	(25,500)	(25,500)
Tax effect of IPO Costs	33e	(158,197)	(158,197)
Adjustments to deferred tax	33b	147,456	32,476
Adjustment to accumulated amortisation of intangibles	33a	-	205,852
Total adjustment to retained		404,975	495,847
Attributable to members of the parent entity		404,975	495,847
Attributable to minority interests		-	-

34 Contingent liabilities/asset

A claim has been made against the company and a director, alleging misleading and deceptive conduct. The directors are vigorously defending the claim and are of the opinion, based on legal advice, that the claim will be unsuccessful a 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

35 Watt Street
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