Kip McGrath Education Centres Limited

ACN 003 415 889

ASX Report Appendix 4D for the Half-Year Ended 31 December 2006

Kip McGrath Education Centres Limited

Appendix 4D Half-Year Report
for the Period Ended 31 December 2006

Reporting period	Financial Half-Year Ended 31 December 2006
Previous corresponding period	Financial Half-Year Ended 31 December 2005

Results for announcement to the market

	$'000	Movement from prior year
Revenue from ordinary activities	2,260	5.7% Increase
Profit from ordinary activities after tax attributable to members	366	32.8% Decrease
Net profit for the period attributable to members	366	32.8% Decrease

Dividends (distributions)

	Amount per security	Franked amount per security
Interim dividend*	2.5 cents	2.5 cents
Previous corresponding period	2.5 cents	2.5 cents

Record date for determining entitlements to the dividend	16 March 2007 to be paid on 30 March 2007

* The interim dividend was declared on 13 February 2007 and is therefore not provided for in the financial results for the half-year ended 31 December 2006.

Net tangible assets

	Current Period	Previous Corresponding Period
Net tangible assets per security	9.0 cents	13.7 cents

Details of controlled entities

Name of entity:	Elevate Education Pty Ltd
Date of loss of control:	3 November 2006

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Commentary on results for the period

The directors report that the number of franchisees and royalty fees have continued to grow. This has resulted in:

- **Consolidated NPAT of $0.366 which is an adjusted 6% increase on last year when removing last years sale of our Head Office Building ($200,634).**
- **Company NPAT of $0.525M - a 46% increase on last year.**

This is an outstanding result as second half profit is traditionally higher than first half. As signalled in the 2006 full year report, the company owned centre strategy has not been a success. This was the major contributor to losses of $159,000 for controlled entities for the half. We have moved rapidly to correct this situation by selling the centres back to franchisees. Two centres have already been sold and we plan to sell the rest within the next 12 months. While they have given us valuable insight into the market conditions franchisees are experiencing, our core competencies do not include running retail education centres. When these centres are sold back into the market we expect a small profit to result.

The highlights for the half ended 31 December 2006 are summarised below:

- The core business of global franchising net profit after tax increased strongly to a record of $0.525M, an increase of 46% (2005 $0.359M).
- The cash flow of the business without one-offs has continued to be strong. Kip and Dugnija McGrath received their final $500,000 payment in relation to the company's 2003 float. This has reduced cash flow by that amount.
- Interim dividend for the year is 2.5 cents per share declared. Payment date will be 30 March 2007.
- The global fees from franchisees increased from $1.5M to $1.7M which reflects the growth in franchise numbers from 663 to 692 for the year. This is an increase of 14.5% for the major income source of the company. This reflects the fact that franchise fees are a set fee, like an annuity, and rise with CPI every year. This revenue is not affected by a recession or a downturn in franchise revenue. Further growth from current franchisees is expected as franchisees do not reach the maximum fee until the third year of operation.
- The acquisition of 50% of Triple G Technology Pty Ltd and its QAX program will be completed in February 2007. The company is expecting the acquisition to make a small contribution to profit this year, with significant increases in subsequent years. The QAX program has been developed by one of our most successful franchisees and it is expected that franchisees will use the program to enhance their businesses and increase the number of students attending the centres. This program will add to the revenue received from franchisees globally.
- The QAX program is currently being used in 42 schools in Queensland and the company will begin selling the program in other Australian states from March 2007.
- A Master Franchise for South Korea was sold during the half and the pilot centre commenced operations in December 2006.
- The directors believe that the company is on track to meet its budgeted worldwide centre sales of 75 centres for this year.
- One-off expenses: The company has continued to incur a one-off expense for a pending legal case. While the company expects a positive outcome these costs have continued to be expensed. The costs of this case for the half were $5400.
- Company Owned Centres: The company owned centres have made a pre-tax loss for the half of $128,500. Company owned centres will be sold back into the market.

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- Our China operations have been changed to the Master Franchise strategy which has proven to be highly successful for the company over the past 14 years. The company sold the Master Franchise
- Elevate Education Pty Ltd has been deconsolidated from our accounts as a result of the company rescinding effective control of this entity to concentrate on its core business.

2006-2007 Guidance

- The company still believes that its profit will be in line with previous guidance.
- Company owned centre losses will be off-set by the profit resulting from QAX.
- We are expecting a NPAT of $1.4 million to $1.5 million.