





Kip McGrath Education Centres Limited

ACN: 003 415 889

**Annual Report for the
Financial Year Ended 30 June 2007**

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Chairman's Report

2007 was a very important year for Kip McGrath Education Centres Limited ("KME"). It saw several major strategic initiatives which represent a quantum shift in the outlook for the company and takes advantage of its inherent strengths – the strong and growing network of franchisees. The philosophy adopted by the board is “What is good for franchisees is good for KME”. The benefits of these developments are expected to appear in the second half of FY08 and continue to increase in following years.

The first initiative was to abandon the pilot study of company owned centres. The board determined that there is insufficient availability of suitable staff to make this strategy successful in the long term. However, the deeper insight into the present day tutoring industry has resulted in KME providing more products to our franchisees than our core remedial programmes in Maths and English.

The second initiative was to purchase a 50% share in Triple G Technology Pty Limited to gain access to its wonderful Maths teaching software, QAX. Triple G had focused on the school market but KME will make QAX available to its franchisees and also look to sell it into homes. During FY08 QAX will be enhanced to cover primary as well as secondary students and cover all Australian and most international curricula.

The third major initiative was to purchase a controlling interest in the online higher education provider, Institute of Technology Australia Pty Limited (IOTA). The attraction of this business is that it provides quality tertiary education to students globally, at an attractive price and without the cost of travel and accommodation. The major competitors in this market have the burden of expensive campuses which are factored into their pricing model. KME’s franchise network will benefit from selling these products and providing examination centres.

The fourth initiative was to take up the option to buy back the Kip McGrath National Master Franchise in the UK which was finalised in August 2007. As well as delivering better than 30% ROI immediately, this move will bring KME closer to the franchisees in this very important region. Better service and stronger growth will undoubtedly be the outcome.

The company will see a significant evolution in leadership during FY08. Kip McGrath will step down as joint Managing Director and take up the position of Executive Chairman after our AGM in November. As a consequence, Storm McGrath will assume the position of Managing Director and I will step down as chairman and external director of KME. It is anticipated that two new external directors will join the board. I am confident that this new team will continue to grow the company as one of international standing in the field of education.

Once again I would like to acknowledge the franchisees and staff of KME for their contribution to the company. Without these dedicated and hard-working people we could not achieve the hope to achieve the successful future we anticipate.



.....
Keith Lynch
Chairman

Managing Director's Report

Company Overview

The strength of the Kip McGrath Education Centres Limited ("KME") is its franchise network. It is important that these people who have put their faith in KME have a secure and prosperous future.

Kip McGrath Education Centres has been the leader in supplementary education for over 20 years and we wish to continue to be the leader. Our business now caters for over 75,000 students per annum in 20 countries and we are implementing improvements to continue to be the market leader in the world for supplementary education using qualified teachers.

Our recent innovations and acquisitions will achieve this goal by allowing our franchisees to move their businesses into the future and to tutor more children across a broader age range and subject range.

The tutoring industry has undergone changes in recent years. The two most important ones are:

- more students than ever before are being tutored in the Western World,
- students generally stay with their tutors for less time.

What we have done with our acquisitions and development work is to provide new products and new markets for franchisees. We have almost completed new relationship software that will allow franchisees to keep track of students and to keep returning to Kip McGrath centres for further help throughout their school and even their university careers.

Our traditional model taught children in mathematics and English from 6-16 years of age. The courses that centres are now able to offer are:

PRE-SCHOOL

Get Ready for School

PRIMARY SCHOOL

Maths tutoring

Literacy - reading, spelling and English

Little Learners (to prepare students for formal learning in their second year of school)

QAX Mathematics (for more able students)

Intelligence Development

English as a Second Language

SECONDARY SCHOOL

Maths tutoring

Literacy - reading, spelling, comprehension and English

QAX Mathematics

Intelligence Development

Study Skills

Essay Writing

English as a Second Language

TERTIARY STUDIES

Undergraduate Degrees and Diplomas in business and IT using IOTA

Postgraduate Degrees and Diplomas in business and IT using IOTA

Study Skills

Essay Writing

Managing Director's Report

Centres will be able to enrol students in the Institute of Technology Australia's undergraduate and postgraduate courses. One of the real advantages for Kip McGrath centres in being an enrolment agent for IOTA is that we are signalling to the market place that we can take all students, not just our traditional foundation students.

In order to help our franchisees with the new enhancements we have strengthened our marketing development and already a stream of modern, sophisticated marketing material is being made available to our franchisees.

Our IT department has developed these new programmes to the standard now required by the market. This has been done and the results are already visible.

However, Kip McGrath Education Centres is a business and as such needs to make profits. While the franchisees have been offered new programmes, there is a charge for these programmes. This charge will allow KME to recover its acquisition and development costs and to make a profit. Franchisee take-up has been excellent and has exceeded our budgets. New revenue will not happen until the second half of FY 2008.

I am delighted to have been made the Managing Director. The Founders wanted to help all children to perform to their ability and to achieve their potential. We have achieved this for almost 1 million children worldwide over the past 30 years. This was their reason for starting the company. I want to continue this good work. I believe it can only be achieved in the long term by bringing good business practices to the company.

I also believe that KME can achieve its principled objectives by providing education to students beyond Kip McGrath Centres. Some students can benefit from working online, particularly as they have the back-up of centres if they have trouble. Some students who attempt online study will immediately see the need for the help of our centres and human tutors. I think that this is a good model – online education, but if you need a tutor, come to a Kip McGrath Centre.

Triple G (QAX) acquisition

QAX school edition was released at the beginning of October and has had instant acceptance. "It is a serious maths programme," is the comment of many principals. We expect to expand the revenue of Triple G Technology (50% owned by KME) from the second half of this year. Again we see this as advantageous to our franchise network as our agreement with Triple G gives exclusive rights to Kip McGrath Education Centres to use the program in a tutoring setting. Our centres will be the only tutoring business where students can use the same program as they use at school.

UK National Master Franchise Purchase

The purchase of the UK National Master Franchise was to enable our franchisees there to get a better service through direct involvement with us. This business is also a good business decision and will start to show results from the second half of 2008. I would like to recognise the great work of Julia Newbury, the CEO of the UK, and her team is doing in the UK during this changeover phase.

IOTA acquisition

Our involvement with IOTA is already beginning to show positive signs, with increased enrolment and a decrease in expenses. We have positioned the company for growth by streamlining its method to market, corporatising its administration and accounting structures, and remodelling its marketing materials. Small signs of improved figures will show up in the second half of 2008, but real improvements will show from 2009 onward. The founder Mohamed Khadra has been instrumental in this overall strategy and the implementation of this strategy.

Managing Director's Report

These acquisitions are very important to my overall strategy for the company. We bought companies that have the potential to add a lot to KME. However, as a small company we weren't able to buy companies that were already making significant profits. We bought companies that have the potential to do so. With our expertise in education and educational marketing and our franchise network I believe that we have bought wisely. You will not see increased profits in the first half of 2008, but will begin to see these in the second half of 2008, increasing in FY2009 with further growth in FY2010 and FY2011.

The acquisitions have taken some bedding down, but this is proceeding well. We are already seeing business advantages from these, and we will see financial advantage in all of them from the second half of FY2008, although the whole company will really start to show from FY2009 onwards.

My objectives as CEO are to secure the future of our franchisees and our company by increasing the programmes available in centres, to enhance the company's standing and share value by increasing the methods to market. One of my immediate priorities is to ensure the acquisitions achieve their potential.

I would like to thank our head office staff and all of our franchisees for their support.

Finally I would like to thank our retiring chairman for the effort he has put into the company and wish him the best in the future.



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Storm McGrath
Managing Director

Board of Directors



Mr Keith Lynch
Non-Executive Chairman



Mr Storm McGrath
Managing Director



Mr Kip McGrath
Executive Director



Mrs Dagnija McGrath
Executive Director



Mr Michael Seamer
Non-Executive Director

Directors' Report

The directors of Kip McGrath Education Centres Limited (the "company") submit herewith the annual financial report for the financial year ended 30 June 2007. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

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

<i>Name and Qualification</i>	<i>Age</i>	<i>Experience and Special Responsibilities</i>
Mr Keith Lynch B Sci Technology Chairman Independent Non-Executive Director	65	Member of Audit Committee Chairman of Remuneration Committee Director since 20 May 2005 Director of NIB Health Funds Limited Director of NIB Holdings Limited Former Director of Newcastle Private Hospital Pty Ltd Former Director of Newcastle Grammar School Ltd
Mr Kip McGrath Joint Managing Director Joint Chief Executive Officer	61	Director since incorporation in 1987 As co-founder Kip has particular responsibility for strategic planning and developing "Train-the-Trainer" programs.
Mr Storm McGrath MBA Joint Managing Director Joint Chief Executive Officer	37	Director of Newcastle Plastics Pty Ltd Director since 1997 Storm is responsible for day-to-day operations, developing new centres and selling new franchises and master franchises.
Mrs Dagnija McGrath Education Director	65	Director since incorporation in 1987 As co-founder Dagnija's strengths are in organisation and being able to envisage the use of technology in the teaching process. She has particular responsibility for the development of new curriculum for overseas markets.
Mr Michael Seamer B Com (Hons) Independent Non- Executive Director	45	Chairman of Audit Committee Member Remuneration Committee Director since 9 December 2004

Directorships of other listed companies

No directors held directorships in other listed companies in the three years immediately before the end of the financial year.

Company secretary

Mr Matthew Pereira B Com, CPA	37	Certified Practising Accountant, joined Kip McGrath Education Centres Limited in 2005 and has held the Company Secretary position since 2006. Previously held secretary manager position in a seafood organisation.
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Directors' Report

Corporate structure

Kip McGrath Education Centres Limited is a company limited by shares that is incorporated and domiciled in Australia. Kip McGrath Education Centres Limited has prepared a consolidated financial report incorporating the entities that it controlled during the financial year (refer note 27 to the financial statements).

The registered office of Kip McGrath Education Centres Limited is:

35 Watt Street
Newcastle NSW 2300

Nature of operations and principal activities

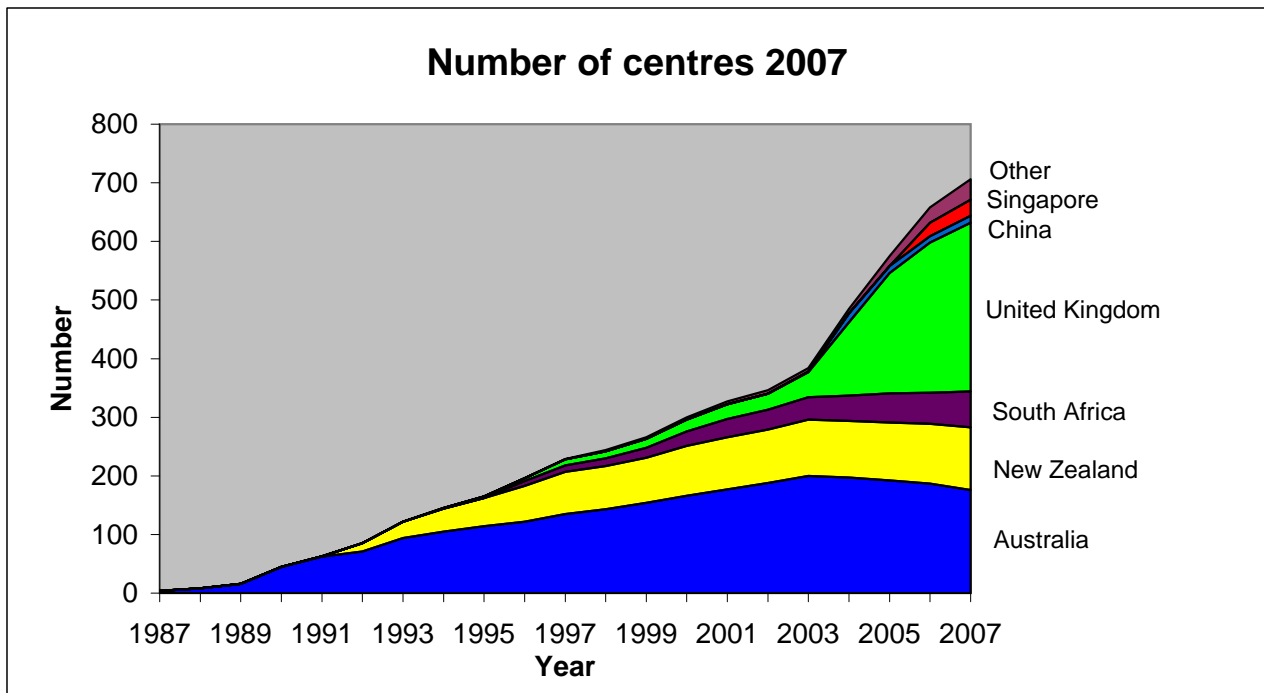
The principal activities of the company during the course of the financial year were the sale of franchises and providing services to franchisees in the education field. The company does this in Australia and in an expanding number of countries. There were no significant changes in the nature of the activities of the company during the year.

Review of operations

The directors report that the number of franchisees and the group revenues have continued to grow.

The major financial highlights for the financial year ended 30 June 2007 are summarised below:

- The franchisee fees from franchisees across the world increased from \$2.557M to \$2.941M which reflects the growth in franchise numbers from 663 to 706 for the year. This is an increase of 15% 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 as written in the contract. The 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.



- Sales of franchises slowed for the year from 73 to 53. This is reflected in a decrease in earnings from sales from \$0.956M to \$0.596M. This is due mainly to slower sales in the UK and the Australian currency strengthening during the year. The directors believe that 60 sales is a realistic goal for next year and should be exceeded in following years.

Directors' Report

Review of operations (Cont'd)

- One off expenses - The company has incurred one off expenses of a pending legal case of \$24,000. While the company is hopeful of a positive outcome these costs have been expensed. The costs of the case to date are \$105,000. The case is continuing and it is believed that a result will be forthcoming this year. If the case is resolved in our favour this would add to profit for the year. The company believes it is in a very strong position to win the case.
- Company Owned Centres - The company owned centres have made a loss for the year of \$391,000. The company has also incurred a one off impairment of assets of \$484,000.
- The China Joint Venture has been completely written off for the year with a write down of \$73,000. China was cash flow positive for the year with the sale of the Master Franchise for Beijing and revenue received from China for franchise fees.
- Final dividend for the year is 2 cents per share giving a total of 4.5 cents for the year.

KME has had a difficult two year period. The company's core business has continued to grow well but two growth strategies that management have been pursuing over the past two years have both been unsuccessful. These two growth strategies are the China Joint Venture and Company Owned Centres.

China

In September 2004 the company was pleased to announce that the pilot centre in China had proven successful and the company proceeded to sell franchises. 24 were sold in the first month. This was the fastest take up we have had in any country ever. We halted sales to get the back office in order. During the next two years the franchisees continued to find recruiting students harder than the pilot centre. As a result there are only 4 centres left. KME was funding the head office during this period and the business was cash flow negative. We have ceased Joint Venture operations and have returned to our normal business strategy of a Master Franchise. During the year a Master Franchise for Beijing was sold resulting in a cash flow positive year in China. However we have written off the last of the assets in the Joint Venture and it is reflected in discontinued operations.

Company owned centres

KME to increase earnings per centre and more ability to control growth looked at owning centres and employing teachers. The company purchased 12 centres from Newcastle, Sydney and Brisbane. KME found that it was very difficult to employ teachers who were motivated to work within a company structure. Most of the centres were either run down by the manager or were never able to grow to a sufficient level to generate sustainable profits. KME's operations into company owned centres ceased on the 30th of June 2007 and all centres which were not sold were closed. This has caused a loss of investment of \$700,000 which can be attributed to \$500,000 in operations and \$200,000 in assets.

Looking forward

During the past two years management has completed a global review of competition and operations. This review included feedback from China and from company owned centres which gave KME management an invaluable understanding of the supplementary education market. After completion of this review it became obvious to KME that it needed to concentrate on its core business of education and franchising as our method to market. Our strategy of increasing the target age group of our customers and the methods to market are proceeding well and the company is pleased with the feedback it is receiving from franchisees who have taken up the new products.

The company is also pleased to announce that the three acquisitions that it undertook during the past six months are all cash flow positive and will increase profits for the financial year 2008. KME is also pleased with the strategy of selling into schools and into homes. KME is currently recruiting a sales team for selling QAX to schools. The sales will start at the annual principals conference in October. The global release of the KME maths program will also commence in January. It is the management's belief that the programs will increase the number of students attending each centre as the students will have a better understanding of their skill levels and KME is in the unique position of being able to offer a place to go if the child needs a teacher for face to face tuition.

Directors' Report

Review of operations (Cont'd)

Guidance

The company has finished its strategic plan moving forward and it sees growth in five areas:

- **Kip McGrath franchised centres**

The company believes the core business will continue to grow solidly during the year with at least 60 new centres added during the year. Further growth will come from centres moving on to higher fees during their initial three years from starting. Growth will also come from CPI adjustments written into the franchise agreements.

- **National Master Franchise UK ("UK NMF")**

On the 1 August 2007 Kip McGrath Education Centres Limited acquired the UK NMF. It is expected that this will add significant revenue to the business going forward. This will also allow the company to better manage the company's growth and educational content delivery.

- **Kip McGrath Higher Education Franchise**

The company has released seven new products for use in centres throughout the world. These products have been developed to extend the age group centres cater to and the skill level of the student that would normally be attending. This franchise will be an added cost to franchisees. The new programs are not compulsory to franchisees but in excess of 100 centres have signed on for the new programs. The new program package is comprised of a pre-school program, little learners program, English as a foreign language, essay writing, study skills, QAX maths program and higher education programs. The centres which have been using the programs for testing are very pleased with the new programs.

- **Triple G selling to schools**

The QAX program will continue to be marketed to schools. A team of sales people is currently being developed Australia wide with a large sales push planned in the new calendar year. QAX will also be sold in New Zealand. There are over 20,000 schools in Australia and Triple G currently has 40 schools using the product.

- **Kip McGrath maths home edition**

Currently the QAX maths program is being modified for the use of students at home. The company believes this will continue to make Kip McGrath Education Centres the leader in Supplementary education. The program will be sold through centres as well as directly by the company. Students who need extra help will be referred to the nearest centre where face to face help can be delivered. Kip McGrath Education Centres are the only company who can offer both an online product and the back up and service required to help children who really need the help.

- **Institute of Technology Australia**

Student numbers for IOTA have continued to grow and the company believes that IOTA will make a profit this year. The company has over 200 separate providers for attracting students. Most of these providers are in the very early stages of recruitment. The Kip McGrath Education Centres network will be allowed to refer students starting in January next year. All education content is handled by IOTA and delivered by distance.

The company provides the following guidelines for consolidated profit:

EBIT	\$2.5 - \$2.6M
NPAT	\$1.5 - \$1.6M

The board is of the belief that an 70-80% payout ratio is possible for dividends.

The skew of the revenue and profit of the business from first half to second half will be more significant this year as all of the acquisitions have the same revenue pattern.

Directors' Report

Significant changes to state of affairs

During the financial year, the consolidated entity ceased to control Elevate Education Pty Limited and disposed of or closed nine of its twelve company owned centres. A further centre has been sold post balance date and the consolidated entity is seeking to dispose of the remaining two centres, in order to focus its operations as a provider of supplementary education materials with multiple methods to market. The consolidated entity acquired a controlling interest in two companies, as outlined in note 28, as part of the above focus.

Other than the above, there was no significant change in the state of affairs of the consolidated entity during the financial year.

Significant events after the balance date

The consolidated entity finalised the acquisition of the rights to the United Kingdom National Master Franchise and the South West Master Franchise Territory in the UK on 1 August 2007. The consolidated entity has purchased a wholly owned subsidiary, Lanevista Limited, to manage these businesses on the Group's behalf. For further details refer to note 26.

Future developments

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

Environmental regulations and performance

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

Dividends

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
<i>Declared and paid during the year</i>				
Final ordinary dividend for the year ended 30 June 2006	3.25	559,000	Franked	3 October 2006
Interim ordinary dividends for year ended 30 June 2007	2.50	430,000	Franked	30 March 2007
<i>Declared after the end of year</i>				
Final ordinary dividend recommended by the directors	2.00	395,600	Franked	17 October 2007

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).

Directors' Report

Shares under options

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

Date options granted	Expiry date	Issue price of shares	Number under option
19 June 2003	15 August 2008	\$0.60	200,000
19 June 2003	15 August 2008	\$0.70	200,000
7 November 2005	7 November 2010	\$2.50	150,000
7 November 2005	7 November 2010	\$3.50	150,000
			700,000

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

Shares issued on the exercise of options

No ordinary shares of Kip McGrath Education Centres Limited were issued during or since the year ended 30 June 2007 on the exercise of options granted under the Directors Share Option Plan.

Directors' shareholdings

The relevant interest of each director in the shares, and rights or options over such instruments issued by the company, as notified by the directors to the Australian Stock Exchange in accordance with s205G(1) of the Corporations Act 2001, as at 30 June 2007 is as follows:

Directors	Ordinary Shares	Options over Ordinary Shares	Exercise Price \$	Grant Date
Mrs D McGrath	4,252,986	-	-	-
Mr K McGrath	4,225,986	-	-	-
Kip McGrath Investments Pty Ltd *	1,000,000	-	-	-
Mr S McGrath	54,986	200,000	0.60	19 June 2003
Mr S McGrath	-	200,000	0.70	19 June 2003
Mr S McGrath	-	50,000	2.50	7 November 2005 **
Mr S McGrath	-	50,000	3.50	7 November 2005 **
Mr K Lynch	23,000	50,000	2.50	7 November 2005 **
Mr K Lynch	-	50,000	3.50	7 November 2005 **
Mr M Seamer	7,000	50,000	2.50	7 November 2005 **
Mr M Seamer	-	50,000	3.50	7 November 2005 **
	9,563,958	700,000		

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

** Conditional to the 300,000 options granted being exercised is the requirement for the consolidated entity to achieve an annual profit before tax of \$2,000,000.

Directors' Report

Meetings of directors

The number of meetings of the company's board of directors and each board committee held during the year ended 30 June 2007, and the number of meetings attended by each director were:

Director	Board Meetings		Audit Committee		Remuneration	
	Held	Attended	Held	Attended	Held	Attended
Mr K Lynch	12	12	4	4	1	1
Mr K McGrath	12	11	**	**	**	**
Mr S McGrath	12	12	4*	4*	**	**
Mrs D McGrath	12	11	**	**	**	**
Mr M Seamer	12	12	4	4	1	1

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

** = Not a member of the relevant committee

Indemnification of officers and auditors

During the financial year, Kip McGrath Education Centres Limited paid a premium of \$11,442 to insure the directors, secretary and officers of the company and its Australian-based controlled entities.

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

Remuneration report

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

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

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

Non-Executive Directors

Fees and payments to non-executive directors reflect the responsibilities of, and the demands made upon the directors. Non-executive directors' fees and payments are reviewed by the committee and recommended to the board if changes are required. Fees for each non-executive director were set when the company listed in 2003 at \$25,000 pa. The total remuneration for non-executive directors is not to exceed \$100,000.

Directors' Report

Remuneration report (Cont'd)

Joint Managing Directors

The remuneration package of the Joint Managing Directors are set by the committee having regard to their performance and the performance of the company as measured against agreed criteria. In addition to the Joint Managing Directors' fixed salary (inclusive of superannuation) their remuneration packages contain a proportion relating to specific performance targets for the company (refer Remuneration report (c)). These targets will be reviewed annually by the committee. The targets are currently focussed on the company's performance, measured against annual pre-tax profit. No equity based remuneration has been received by the Joint Managing Directors in the year ended 30 June 2007.

Executives

The remuneration packages of executives, including proportions linked to performance targets for their areas of specific responsibility, and the company overall, are set by the Joint Chief Executive Officer and will be reviewed in consultation with the committee.

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

The reward structure aligns the interests of executives with shareholders' interests as it has profit and growth drivers as core components of the plan's design to attract and retain high calibre executives. The plan rewards competence and experience, reflects competitive reward for contribution to growth in shareholder wealth, provides a clear structure for earning rewards and provides recognition for contribution. The framework provides a mix of fixed pay and short-term incentives. The executive pay and reward framework has two components: base pay and benefits, and short-term performance incentives (refer Remuneration report (c)). Base pay is reviewed annually to ensure the executive's pay is competitive with the market. Pay is also reviewed on promotion. The base salary of executives increases annually in accordance with the Consumer Price Index (CPI).

(b) Details of remuneration

Details of the remuneration of the directors and the key management personnel (as defined in AASB 124 *Related Party Disclosures*) of Kip McGrath Education Centres Limited and the consolidated entity are set out in the following tables.

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

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)
- Mrs Shirley Dalton (Chief Operating Officer) Resigned 12 October 2006

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.

Directors' Report

Remuneration report (Cont'd)

The additional specified executives of the consolidated entity during the year were:

Mr Douglas Barton (Managing Director - Elevate Education Pty Limited) Ceased 3 November 2006

Mr Gregory Geise (Director - Triple G Technology Pty Limited) Commenced 1 March 2007

Prof Mohamed Khadra (Managing Director - Institute of Technology Australia Pty Limited) Commenced 1 May 2007

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

(b) Details of remuneration (Cont'd)

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.

The directors and the identified company executives and group executives received the following amounts as compensation for their services as directors and executives of the company and/or the Group during the year:

Key management personnel of Kip McGrath Education Centres Limited

2007	Primary			Post employ ment	Share- based payments	Other benefits	Total
	Salary and fees \$	Cash Bonus ** \$	Non- monetary \$	Super- annuation \$	Options \$	Insurance premiums \$	
<i>Directors</i>							
Mr Keith Lynch	22,932	-	-	2,064	-	1,606	26,602
Mr Storm McGrath	123,705	-	2,396	9,972	-	1,606	137,679
Mr Kip McGrath	99,372	-	1,224	7,745	-	1,606	109,947
Mrs Dagnija McGrath	55,933	-	4,445	4,924	-	1,606	66,908
Mr Michael Seamer	22,932	-	-	2,064	-	1,606	26,602
Sub-total directors	324,874	-	8,065	26,769	-	8,030	367,738
<i>Other key management personnel</i>							
Mr Matthew Pereira	95,058	-	-	8,312	-	1,606	104,976
Mrs Shirley Dalton	31,244	-	-	2,695	-	458	34,397
<i>From 1/7/2006 - 12/10/2006</i>							
Sub-total other	126,302	-	-	11,007	-	2,064	139,373
Total	451,176	-	8,065	37,776	-	10,094	507,111

Directors' Report

Remuneration report (Cont'd)

(b) Details of remuneration (Cont'd)

Key management personnel of the consolidated entity

2007	Primary			Post employ ment	Share- based payments	Other benefits	Total
	Salary and fees \$	Cash Bonus ** \$	Non- monetary \$	Super- annuation \$	Options \$	Insurance premiums \$	
<i>Directors</i>							
Mr Keith Lynch	22,932	-	-	2,064	-	1,606	26,602
Mr Kip McGrath	123,705	-	2,396	9,972	-	1,606	137,679
Mr Storm McGrath	99,372	-	1,224	7,745	-	1,606	109,947
Mrs Dagnija McGrath	55,933	-	4,445	4,924	-	1,606	66,908
Mr Michael Seamer	22,932	-	-	2,064	-	1,606	26,602
Sub-total directors	324,874	-	8,065	26,769	-	8,030	367,738
<i>Other key management personnel</i>							
Mr Matthew Pereira	95,058	-	-	8,312	-	1,606	104,976
Mrs Shirley Dalton	31,244	-	-	2,695	-	458	34,397
<i>From 1/7/2006 - 12/10/2006</i>							
Mr Douglas Barton	16,599	-	-	1,494	-	541	18,634
<i>From 1/7/2006 - 3/11/2006</i>							
Prof Mohamed Khadra	13,232	-	-	1,191	-	268	14,691
<i>From 1/5/2007 - 30/6/2007</i>							
Mr Gregory Geise	-	-	-	-	-	537	537
<i>From 1/3/2007 - 30/6/2007</i>							
Sub-total other	156,133	-	-	13,692	-	3,410	173,235
Total	481,007	-	8,065	40,461	-	11,440	540,973

Directors' Report

Remuneration report (Cont'd)

(b) Details of remuneration (Cont'd)

Key management personnel of Kip McGrath Education Centres Limited

2006	Primary			Post employ ment	Share- based payments	Other benefits	Total
	Salary and fees \$	Cash Bonus ** \$	Non- monetary \$	Super- annuation \$	Options \$	Insurance premiums \$	
<i>Directors</i>							
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
Sub-total directors	267,193	23,332	10,487	23,767	-	8,860	333,639
<i>Other key management personnel</i>							
Mr Matthew Pereira	58,372	-	-	5,159	-	1,110	64,641
<i>From 14/11/2005 - 30/6/2006</i>							
Mrs Shirley Dalton	96,990	-	-	8,453	-	1,772	107,215
Mr Richard Lock	25,166	-	-	2,265	-	355	27,786
<i>From 1/7/2005 - 12/9/2005</i>							
Sub-total other	180,528	-	-	15,877	-	3,237	199,642
Total	447,721	23,332	10,487	39,644	-	12,097	533,281

* 100,000 options were 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. The fair value of these options was calculated using a binomial model.

** The cash bonuses were unpaid at the end of the financial year and have since been paid in full to Mr Kip McGrath and Mr Storm McGrath as they have met the requirements of the bonus payments. Bonuses are paid annually based on meeting the performance criteria for that financial year. The bonuses paid were in respect to ordinary earnings before tax which is in line with their responsibilities as Joint Managing Directors.

Directors' Report

Remuneration report (Cont'd)

(b) Details of remuneration (Cont'd)

Key management personnel of the consolidated entity

2006	Primary			Post employ ment	Share- based payments	Other benefits	Total
	Salary and fees \$	Cash Bonus ** \$	Non- monetary \$	Super- annuation \$	Options \$	Insurance premiums \$	
<i>Directors</i>							
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
Sub-total directors	267,193	23,332	10,487	23,767	-	8,860	333,639
<i>Other key management personnel</i>							
Mr Matthew Pereira	58,372	-	-	5,159	-	1,110	64,641
<i>From 14/11/2005 - 30/6/2006</i>							
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
<i>From 1/7/2005 - 12/9/2005</i>							
Sub-total other	237,383	-	-	20,994	-	5,009	263,386
Total	504,576	23,332	10,487	44,761	-	13,869	597,025

* 100,000 options were 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. The fair value of these options was calculated using a binomial model.

** The cash bonuses were unpaid at the end of the financial year and have since been paid in full to Mr Kip McGrath and Mr Storm McGrath as they have met the requirements of the bonus payments. Bonuses are paid annually based on meeting the performance criteria for that financial year. The bonuses paid were in respect to ordinary earnings before tax which is in line with their responsibilities as Joint Managing Directors.

Directors' Report

Remuneration report (Cont'd)

(c) Service agreements (Cont'd)

The base salary of each executive will increase annually in accordance with CPI. Specific performance linked remuneration structures as detailed in the ESA are as follows:

Mr K McGrath

Mr K McGrath is entitled to a bonus of 2.5% of the company's annual pre-tax profit in excess of \$1 million.

Mr S McGrath

Mr S McGrath is entitled to a bonus of 2.5% of the company's annual pre-tax profit in excess of \$1 million.

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

Total remuneration for all non-executive directors, as detailed in the prospectus and approved at the 2003 AGM, is not to exceed \$100,000 per annum. Directors' base fees are presently up to \$50,000 per annum. Directors' fees cover all main board activities and membership of committees.

The tables in (b) above provide details of all directors of the company and the consolidated entity and the executives of the entity and the consolidated entity and the nature and amount of the elements of their remuneration for the year ended 30 June 2007 with comparatives for the year ended 30 June 2006.

(d) Share-based compensation

Options

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

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

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

Grant date	Expiry date	Exercise price	Value per option at grant date	Date exercisable
19 June 2003	15 August 2008	\$0.60	\$0.05	On or after 15 August 2003
19 June 2003	15 August 2008	\$0.70	\$0.03	On or after 15 August 2003
7 November 2005	7 November 2010	\$2.50	\$0.22	On or after 7 November 2005 *
7 November 2005	7 November 2010	\$3.50	\$0.13	On or after 7 November 2005 *

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

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

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

Directors' Report

Remuneration report (Cont'd)

(d) Share-based compensation (Cont'd)

Details of options over ordinary shares in the company provided as remuneration to directors of Kip McGrath Education Centres Limited are set out below. When exercisable, each option is convertible into one ordinary share of Kip McGrath Education Centres Limited. Further information on the options is set out in note 32 to the financial statements.

Name	Number of options granted during the year		Number of options vested during the year	
	2007	2006	2007	2006
<i>Directors of Kip McGrath Education Centres Limited</i>				
Mr S McGrath	-	100,000	-	-
Mr K Lynch	-	100,000	-	-
Mr M Seamer	-	100,000	-	-

Of the 300,000 options granted in the previous 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.

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

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

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

Shares provided on exercise of remuneration options

No remuneration options were exercised during the year.

Interests in contracts or proposed contracts with the company

With the exception of those disclosed in note 32 Related Parties, no director has during or since the end of the financial year had any interest in a contract or proposed contract with the company being an interest, the nature of which has been declared in accordance with section 300(11)(d) of the Corporations Act 2001.

Corporate governance report

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of Kip McGrath Education Centres Limited support the ASX Principles of Corporate Governance. The company's Corporate Governance Statement follows this Directors' Report.

Directors' Report

Proceedings on behalf of the company

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 and no provision is required. In the directors' opinion, disclosure of any further information about the above matter would be prejudicial to the interest of the company.

Non-audit services

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

The board of directors has considered the position and, in accordance with the advice received from the audit committee is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the provision of non-audit services by the auditor, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

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

A copy of the auditor's declaration of independence as required under section 307C of the Corporations Act is set out on page 27.

Details of the amounts paid to the auditor of the company, Forsythes, and its related practices for audit and non-audit services provided during the period are set out below. In addition, amounts paid to other auditors for the statutory audit have been disclosed.

	Consolidated	
	2007	2006
	\$	\$
Statutory audit services		
Auditors of the company:		
Forsythes		
Audit and review of financial reports and other audit work under the Corporations Act 2001	78,000	51,500
Previous auditors of the company:		
PricewaterhouseCoopers		
Audit and review of financial reports and other audit work under the Corporations Act 2001	-	41,800
	<u>78,000</u>	<u>93,300</u>
Services other than statutory audit		
Auditors of the company:		
Forsythes		
Temporary labour services	13,782	1,950
Previous auditors of the company:		
PricewaterhouseCoopers		
Taxation compliance services	6,300	1,000
	<u>20,082</u>	<u>2,950</u>
	<u>98,082</u>	<u>96,250</u>

Directors' Report

Auditor's independence declaration

The auditor's independence declaration is included on page 27 of the financial report.

Auditor

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

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

On behalf of the Directors



.....
Keith Lynch
Chairman



.....
Storm McGrath
Director

Newcastle,
28 September 2007

Corporate Governance Statement

This statement outlines the main corporate governance practices that were in place throughout the financial year. These practices comply with the ASX Corporate Governance Council recommendations of March 2003, unless otherwise stated. The adoption of a formal Corporate Governance Code, applicable to the company, was approved by directors on the 29th May 2007. Where the adoption of the Code resulted in alteration of the company's corporate governance practices, that alteration is noted below.

Board of Directors

Role of the board

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

Board processes

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

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

Director education and access to independent advice

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

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

Composition of the board

Details of the directors of the company in office at the date of this report are set out in the Directors' Report. The number of meetings of the company's board of directors and of each board committee held during the year ended 30 June 2007, and the numbers of meetings attended by each director are also set out in the Directors' Report.

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

The company expects all its employees (including the board) to display appropriate ethical conduct. These expectations were formalized with the adoption of a Code of Conduct by the board on 29 May 2007.

The board undertakes annual reviews of its own performance.

Director nomination

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

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

Corporate Governance Statement

Remuneration Committee

The committee comprises the following members, both of whom are independent directors: Keith Lynch (Chairman) and Michael Seamer.

The committee will review remuneration packages and policies applicable to the Joint Managing Directors and senior executives. This may include share schemes, incentive performance packages, superannuation entitlements, retirement and termination entitlements, fringe benefit policies and professional indemnity and liability insurance policies. External advice is sought as appropriate. Further details of directors' and executives' remuneration, superannuation and retirement payments are set out in the remuneration report which forms part of the Directors' Report and note 31 to the financial statements. The Joint Managing Directors are invited to committee meetings, as required, to discuss management performance and remuneration packages.

Audit and Risk Committee

A charter sets out the role and responsibilities of the committee which comprises the following members, both of whom are independent directors: Michael Seamer (Chairman) and Keith Lynch. The Chairman has a Bachelor of Commerce degree, lectures in accounting at the University of Newcastle and has considerable financial experience as an accountant.

The responsibilities of the committee include:

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

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

Internal control framework

The board acknowledges that it is responsible for the overall internal control framework, but recognises that no cost effective control system will preclude all errors and irregularities. The board is of the opinion that the size of the company does not warrant the appointment of an internal auditor. To assist in discharging its responsibility, the board has instigated an internal control framework which includes:

Financial reporting

There is a comprehensive budgeting system with an annual budget approved by the directors. Monthly actual results are reported against budget and revised forecasts for the year are prepared regularly. The company reports to the Australian Stock Exchange (ASX) on a half yearly basis - see "Continuous disclosure" below.

Business risks

The board requires reports on major risks affecting the company and requires management to develop strategies to mitigate these risks. Major business risks may arise from such matters as action by competitors; government policy changes and changes in foreign exchange rates. Other risks are event risks, where an event occurring in a centre which may not be under the direct control of the company could impact on the brand and system failure.

Continuous disclosure

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

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

Corporate Governance Statement

Code of conduct

The company formally adopted a written code of conduct for employees and directors on 29 May 2007. It provides a framework of ethical principles for conducting business and dealing with customers, employees and other stakeholders. The code sets out the responsibilities of employees to the company and requires employees to avoid conflicts of interest, the misuse of company property and the acceptance or offering of inappropriate gifts.

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

Directors and Senior Management employees are restricted when trading in the company's securities by the company's Code of Practice Buying and Selling Securities, which was formally adopted by the board on 29 May 2007. Under the Code directors and Senior Executive employees are prohibited from dealing in the company's shares to take advantage of short term fluctuations in the company's share price, when in possession of unpublished price sensitive information regarding the company or during "closed periods". "Closed Periods" include the six week period immediately preceding the announcement of full-year or half-year results and other periods declared by the Chairman.

Shareholder communication

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

ASX Corporate Governance Council best practice recommendations

In March 2003, the ASX Corporate Governance Council issued a paper entitled 'Principles of Good Corporate Governance and Best Practice Recommendations'.

In accordance with the ASX listing rules, the extent to which the company has followed these recommendations is summarised below:

Recommendation 1.1: Formalize and disclose the functions reserved to the board and those delegated to management.

The board has adopted a charter setting out its roles and responsibilities. Key terms and conditions relating to the appointment of non executive directors appointed after the recommendations became effective will be set out in formal engagement letters. The Joint Chief Executive Officers and Chief Financial Officer are employed pursuant to engagement agreements. The company's Corporate Governance Code adopted on 29th May 2007 formalizes the role, powers and responsibilities of the board.

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

The board has adopted the recommended definition of an independent director and has addressed the issue of materiality. The Chairman and all non executive directors are independent. While a majority of the board is not independent, the company is satisfied that the board is structured to achieve an optimal mix of experience and oversight.

Recommendation 2.2: The Chairperson should be an independent director.

The Chairman, Keith Lynch is an independent director.

Recommendation 2.3: The roles of Chairperson and Chief Executive Officer should not be exercised by the same individual.

The roles of the Chairman and Joint Managing Directors are separate.

Recommendation 2.4: The board should establish a nomination committee.

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

Corporate Governance Statement

ASX Corporate Governance Council best practice recommendations (Cont'd)

Recommendation 3.1: *Establish a code of conduct to guide the directors, the chief executive officer, the chief financial officer and any other key executives as to:*

3.1.1 *the practices necessary to maintain confidence in the company's integrity*

3.1.2 *the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.*

The board adopted a formal code of conduct for directors and employees on 29 May 2007. It provides a framework of ethical principles for conducting business and dealing with customers, employees and other stakeholders. The code sets out the responsibilities of employees to the company and requires employees to avoid conflicts of interest, the misuse of company property and the acceptance or offering of inappropriate gifts. The code also contains requirements for the reporting of breaches of the code and protection of employees reporting such breaches.

Recommendation 3.2: *Disclose the policy concerning trading in company securities by directors, officers and employees.*

The company adopted a formal "Code of Practice: Buying and Selling Securities" on 29 May 2007. Details of the requirements of the code are contained elsewhere in this report.

Recommendation 4.1: *Require the Chief Executive Officer and the Chief Financial Officer to state in writing to the board that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards.*

The board requires the Joint Chief Executive Officers and Chief Financial Officer to state in writing to it that the company's financial reports represent a true and fair view, in all material respects, of the company's financial condition and operational results in accordance with the relevant accounting standards.

Recommendation 4.2 and 4.3 and 4.4: *Establish an audit committee with a formal charter. The committee should consist only of non-executives, have a majority of independent directors, an independent chairperson who is not board chair and have at least three members.*

The board has established the Audit, Risk and Compliance committee that consists only of independent directors. The chairperson, Michael Seamer, is not board chair and has significant professional and academic experience in financial accounting. While the committee consists of less than the three recommended members, the board is satisfied the experience of the two independent members makes for an effective committee.

Recommendation 5.1: *Establish written policies and procedures to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance.*

The board has adopted a formal continuous disclosure policy.

Recommendation 6.1 and 6.2: *Design a communication strategy to promote effective communications with shareholders and encourage effective participation at general meetings. The external auditor should attend the annual general meeting.*

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

Recommendation 7.1 and 7.2: *The board or appropriate committee should establish policies on risk management and oversight.*

The board's system of internal control framework and risk management is discussed earlier in this report. The Joint Managing Directors are required to state in writing to the board that the risk management and internal compliance and control systems are operating effectively and efficiently in all material respects.

Corporate Governance Statement

ASX Corporate Governance Council best practice recommendations (Cont'd)

Recommendation 8.1: Disclose the process for performance evaluation of the board, its committees and individual directors and key executives.

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

Recommendation 9.1: Disclosure of the company's remuneration policy.

The board's remuneration policy and the structure of the remuneration committee are discussed earlier in this statement.

Recommendation 9.2: The board should establish a remuneration committee.

The company has a formally constituted remuneration committee. Details of the committee, its charter and operation are included elsewhere in this report.

Recommendation 9.3: Clearly distinguish the structure of non-executive directors' remuneration from that of executives.

Non-executive directors do not receive incentive payments or retirement benefits (other than statutory superannuation).

Recommendation 9.4: Ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders.

Equity-based remuneration is not a standard component of executive remuneration agreements. Any future equity issued to executives as remuneration will be approved at the annual general meeting of shareholders.

Recommendation 10: Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders.

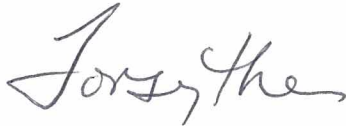
The board formally adopted a code of conduct for all directors and employees on 29 May 2007. Details of the code are discussed elsewhere in this report.

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

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

As lead audit partner for the audit of Kip McGrath Education Centres Limited financial statements for the year ended 30 June 2007, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

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



FORSYTHES



MJ Matthews
Partner
Chartered Accountants
Newcastle, 28 September 2007

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

We have audited the accompanying financial report of Kip McGrath Education Centres Limited, which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

Independence

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

Auditor's opinion

In our opinion:

- (a) the financial report of Kip McGrath Education Centres Limited is in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.



FORSYTHES



MJ Matthews
Partner

Newcastle, 28 September 2007

Directors' Declaration

The directors declare that:

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

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

On behalf of the Directors



.....
Keith Lynch
Chairman



.....
Storm McGrath
Director

Newcastle,
28 September 2007

Income Statement for the Financial Year Ended 30 June 2007

	Note	Consolidated		Company	
		2007	2006	2007	2006
		\$	\$	\$	\$
Continuing Operations					
Revenue		3,902,807	3,382,873	3,668,449	3,458,989
Other income		285,938	140,963	83,168	171,327
	2a	4,188,745	3,523,836	3,751,617	3,630,316
Employee expenses		(1,082,902)	(917,565)	(1,012,709)	(917,565)
Depreciation and amortisation expenses		(123,416)	(124,919)	(116,383)	(124,919)
Borrowing costs		(147,287)	(36,830)	(146,304)	(36,830)
Marketing expenses		(177,540)	(177,383)	(168,240)	(177,383)
Administration expenses		(531,232)	(427,951)	(494,178)	(427,951)
Merchandising expenses		(426,887)	(345,812)	(421,733)	(386,420)
Other expenses from ordinary activities		(60,531)	-	(3,521)	(5,404)
Share of net profits of associates accounted for using equity method	9	31,797	(30,922)	31,797	-
Impairment of non-current assets	2b	(1,574)	(119,072)	(1,574)	(149,994)
Total expenses		(2,519,572)	(2,180,454)	(2,332,845)	(2,226,466)
Profit before income tax expense		1,669,173	1,343,382	1,418,772	1,403,850
Income tax expense from continuing operations	3a	(415,318)	(341,935)	(406,984)	(397,243)
Profit for the period from continuing operations		1,253,855	1,001,447	1,011,788	1,006,607
Discontinued operations					
Loss on disposal of subsidiary		(52,132)	-	-	-
Loss for the period from discontinued operations		(454,162)	(136,124)	(73,292)	-
Impairment of investment in subsidiary		-	-	(1,052)	-
Impairment of non current receivables		-	-	(484,433)	-
Gain on sale of property	2a	-	399,105	-	399,105
Income tax benefit/(expense) relating to discontinued operations	3a	69,021	(198,274)	167,633	(198,274)
Net profit for the period		816,582	1,066,154	620,644	1,207,438
Profit attributable to minority interest		(103,435)	(7,215)	-	-
Profit attributable to members of the parent entity	22	713,147	1,058,939	620,644	1,207,438
Earnings per share					
From continuing and discontinued operations:					
Basic (cents per share)	23	4.1	6.2		
Diluted (cents per share)	23	4.1	6.2		
From continuing operations:					
Basic (cents per share)	23	6.5	5.8		
Diluted (cents per share)	23	6.5	5.8		

Notes to the financial statements are included on pages 35 to 81.

Balance Sheet as at 30 June 2007

	Note	Consolidated		Company	
		2007	2006	2007	2006
		\$	\$	\$	\$
Current assets					
Cash and cash equivalents	34a	2,197,469	1,732,515	1,457,188	1,686,012
Trade and other receivables	5	1,096,059	982,385	672,209	933,246
Inventories	6	263,565	237,772	262,909	224,682
Other current assets	7	102,200	40,502	63,266	19,004
Current tax assets	3c	133,715	-	-	-
Total current assets		3,793,008	2,993,174	2,455,572	2,862,944
Non-current assets					
Trade and other receivables	8	102,242	-	662,661	-
Investments accounted for using the equity method	9	131,797	-	131,797	-
Other financial assets	10	-	-	4,960,500	755,000
Property plant and equipment	11	445,146	537,850	337,787	405,460
Intangible assets	12	9,628,639	4,643,542	4,417,991	4,116,586
Goodwill	13	3,370,978	46,732	-	-
Deferred tax assets	3d	81,560	117,554	212,359	113,408
Total non-current assets		13,760,362	5,345,678	10,723,095	5,390,454
Total assets		17,553,370	8,338,852	13,178,667	8,253,398
Current liabilities					
Trade and other payables	15	380,060	361,580	206,457	226,554
Current tax payables	3c	-	199,075	28,368	252,154
Borrowings	16	2,806,136	55,736	2,783,295	50,678
Provisions	17	94,950	65,113	46,208	54,065
Total current liabilities		3,281,146	681,504	3,064,328	583,451
Non-current liabilities					
Trade and other payables	18	-	499,838	-	499,838
Deferred tax liabilities	3d	1,999,614	413,477	506,735	411,561
Borrowings	19	1,280,775	84,149	-	57,380
Provisions	20	55,364	48,319	55,364	48,319
Total non-current liabilities		3,335,753	1,045,783	562,099	1,017,098
Total liabilities		6,616,899	1,727,287	3,626,427	1,600,549
Net assets		10,936,471	6,611,565	9,552,240	6,652,849
Equity					
Issued capital	21	6,829,115	3,561,368	6,829,115	3,561,368
Retained earnings	22	2,667,129	2,942,982	2,723,125	3,091,481
Parent entity interest		9,496,244	6,504,350	9,552,240	6,652,849
Minority interest		1,440,227	107,215	-	-
Total equity		10,936,471	6,611,565	9,552,240	6,652,849

Notes to the financial statements are included on pages 35 to 81.

Statement of Changes in Equity for the Financial Year Ended 30 June 2007

Consolidated	Share capital	Retained earnings	Attributable to equity holders of the parent	Minority interest	Total equity
	\$	\$	\$	\$	\$
Balance at 1 July 2005	3,561,368	2,830,043	6,391,411	-	6,391,411
Shares issued	-	-	-	100,000	100,000
Profit for the year	-	1,058,939	1,058,939	7,215	1,066,154
Dividends paid	-	(946,000)	(946,000)	-	(946,000)
Balance at 30 June 2006	3,561,368	2,942,982	6,504,350	107,215	6,611,565
Shares issued	3,267,747	-	3,267,747	-	3,267,747
Minority interest on acquisition of business	-	-	-	1,336,792	1,336,792
Minority interest on disposal of business	-	-	-	(107,215)	(107,215)
Profit for the year	-	713,147	713,147	103,435	816,582
Dividends paid	-	(989,000)	(989,000)	-	(989,000)
Balance at 30 June 2007	6,829,115	2,667,129	9,496,244	1,440,227	10,936,471

Company	Share capital	Retained earnings	Attributable to equity holders of the parent	Minority interest	Total equity
	\$	\$	\$	\$	\$
Balance at 1 July 2005	3,561,368	2,830,043	6,391,411	-	6,391,411
Shares issued	-	-	-	-	-
Profit for the year	-	1,207,438	1,207,438	-	1,207,438
Dividends paid	-	(946,000)	(946,000)	-	(946,000)
Balance at 30 June 2006	3,561,368	3,091,481	6,652,849	-	6,652,849
Shares issued	3,267,747	-	3,267,747	-	3,267,747
Profit for the year	-	620,644	620,644	-	620,644
Dividends paid	-	(989,000)	(989,000)	-	(989,000)
Balance at 30 June 2007	6,829,115	2,723,125	9,552,240	-	9,552,240

Notes to the financial statements are included on pages 35 to 81.

Cash Flow Statement for the Financial Year Ended 30 June 2007

	Note	Consolidated		Company	
		2007	2006	2007	2006
		\$	\$	\$	\$
<u>Cash flows from operating activities</u>					
Receipts from customers		5,020,105	4,685,564	4,331,985	4,141,737
Payments to suppliers and employees		(4,252,188)	(3,387,929)	(2,652,613)	(2,719,766)
Interest received		49,214	66,673	47,514	66,543
Interest and other costs of finance paid		(147,287)	(38,096)	(146,304)	(36,830)
Income tax paid		(466,914)	(419,716)	(466,914)	(419,715)
Net cash provided by operating activities	34b	<u>202,930</u>	<u>906,496</u>	<u>1,113,668</u>	<u>1,031,969</u>
<u>Cash flows from investing activities</u>					
Payments for equity accounted investments		-	(113,500)	-	(113,500)
Net outflow on disposal of controlled entity		(10,324)	-	-	-
Payment for investments in controlled entities		-	-	(3,200,000)	(755,000)
Proceeds from sale of property, plant & equipment		659	1,174,283	-	1,174,283
Payments for property, plant & equipment		(78,510)	(155,585)	(49,012)	(47,060)
Proceeds from sale of intangible assets		245,000	-	-	-
Payment for intangible assets		(430,907)	(920,157)	(302,979)	(346,469)
Net payment for businesses		(2,169,579)	-	-	-
Net cash used in investing activities		<u>(2,443,661)</u>	<u>(14,959)</u>	<u>(3,551,991)</u>	<u>(87,746)</u>
<u>Cash flows from financing activities</u>					
Amounts advanced to controlled entities		-	-	(494,647)	-
Proceeds from issue of shares from minority interests		-	100,000	-	-
Proceeds from issue of shares		1,517,747	-	1,517,747	-
Proceeds from borrowings		2,750,400	-	2,732,617	-
Repayment of borrowings		(73,624)	(47,948)	(57,380)	(47,137)
Repayment of other borrowings & non current payables		(499,838)	-	(499,838)	-
Dividends paid		(989,000)	(946,000)	(989,000)	(946,000)
Net cash provided by/(used in) financing activities		<u>2,705,685</u>	<u>(893,948)</u>	<u>2,209,499</u>	<u>(993,137)</u>
Net increase/(decrease) in cash and cash equivalents		<u>464,954</u>	<u>(2,411)</u>	<u>(228,824)</u>	<u>(48,914)</u>
Cash and cash equivalents at the beginning of the financial year		<u>1,732,515</u>	<u>1,734,926</u>	<u>1,686,012</u>	<u>1,734,926</u>
Cash and cash equivalents at the end of the financial year	34a	<u>2,197,469</u>	<u>1,732,515</u>	<u>1,457,188</u>	<u>1,686,012</u>

Notes to the financial statements are included on pages 35 to 81.

Notes to the Financial Statements for the Financial Year Ended 30 June 2007

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 2001, Australian Accounting Standards and 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 International 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 28 September 2007.

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 estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

(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.

Notes to the Financial Statements for the Financial Year Ended 30 June 2007

1 Summary of accounting policies (Cont'd)

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 recognition.

Held-to-maturity investments

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

Loans and receivables

Trade receivables, loans, and other receivables are recorded at amortised cost less impairment.

(d) Goods and services tax

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

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

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

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

(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 is reduced to its recoverable amount.

Notes to the Financial Statements for the Financial Year Ended 30 June 2007

1 Summary of accounting policies (Cont'd)

(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 goodwill.

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 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 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 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 3.

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.

Notes to the Financial Statements for the Financial Year Ended 30 June 2007

1 Summary of accounting policies (Cont'd)

(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 each annual reporting period.

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

	<u>2007</u>	<u>2006</u>
Property, plant and equipment		
Buildings	-	40 - 50 years
Plant and equipment	2.5 - 17 years	2.5 - 17 years
Motor vehicles	8 - 10 years	8 - 10 years
Leased plant and equipment	5 - 10 years	5 - 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 at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

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

Notes to the Financial Statements for the Financial Year Ended 30 June 2007

1 Summary of accounting policies (Cont'd)

(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 (GST).

Franchise fees

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

Franchise sales

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

Educational material

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

Interest revenue

Interest 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).

(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.

Notes to the Financial Statements for the Financial Year Ended 30 June 2007

1 Summary of accounting policies (Cont'd)

(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.

All costs recognised as intangible assets have been assessed as having indefinite useful lives.

Product development

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

(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 of 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 consumed.

Notes to the Financial Statements for the Financial Year Ended 30 June 2007

1 Summary of accounting policies (Cont'd)

(q) Leased assets (Cont'd)

Lease incentives

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

(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 considerations.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the 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.

(u) Adoption of new and revised Accounting Standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. The adoption of these new and revised Standards and Interpretations has not resulted in any changes to the Group's accounting policies.

The adoption of these new and revised Standards and Interpretations has resulted in a change to the Group's accounting policies in relation to business combinations involving entities under common control. Such business combinations were formerly within the scope of AASB 3 'Business Combinations', but are now scoped out of that Standard by AASB 2005-6 'Amendments to Australian Accounting Standards'.

The impact of these changes in accounting policies is discussed in detail later in this note.

At the date of authorisation of the financial report, the following Standards and Interpretations were in issue but not yet effective:

- AASB 7 'Financial Instruments: Disclosures' and consequential amendments to other accounting standards resulting from its issue Effective for annual reporting periods beginning on or after 1 January 2007
- AASB 101 'Presentation of Financial Statements' - revised standard Effective for annual reporting periods beginning on or after 1 January 2007
- Interpretation 10 'Interim Financial Reporting and Impairment' Effective for annual reporting periods beginning on or after 1 November 2006

Notes to the Financial Statements for the Financial Year Ended 30 June 2007

1 Summary of accounting policies (Cont'd)

(u) Adoption of new and revised Accounting Standards (Cont'd)

The directors anticipate that the adoption of these Standards and Interpretations in future period will have no material financial impact on the financial statements of the company or the Group. The circumstances addressed by Interpretation 10, which prohibits the reversal of certain impairment losses, do not affect either the company's or the Group's previously reported results and accordingly, there will be no impact to these financial statements on adoption of the Interpretation.

The application of AASB 101 (revised), AASB 7 and AASB 2005-10 will not affect any of the amounts recognised in the financial statements, but will change the disclosures presently made in relation to the company's and the Group's financial instruments and the objectives, policies and processes for managing capital.

These Standards and Interpretations will be first applied in the financial report of the Group that relates to the annual reporting period beginning after the effective date of each pronouncement, which will be the company's annual reporting period beginning on 1 July 2007.

Accounting for business combinations involving entities or businesses under common control

The AASB released AASB 2005-6 'Amendments to Australian Accounting Standards' in June 2006. AASB 2005-6 amends AASB 3 'Business Combinations' by removing business combinations involving entities or business under common control from its scope. The effect of the scope amendment is that there is no longer any explicit guidance under Accounting Standards as to how to account for these types of business combinations.

Due to the requirements of AASB 1 'First-time adoption of Australian Equivalents to International Financial Reporting Standards' permitting the non-restatement of pre-transition business combinations, the amendment has no effect on the financial statements of the company or Group for the current or prior reporting periods. However, future transactions involving entities under common control will be affected. Details of the entity's accounting policies in relation to common control transactions are outlined in note 1(h).

Notes to the Financial Statements for the Financial Year Ended 30 June 2007

2 Profit from operations

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
(a) Revenue				
<i>Revenue from franchise operations:</i>				
Domestic	1,643,369	1,578,876	1,738,060	1,652,975
Overseas	1,930,389	1,806,014	1,930,389	1,806,014
<i>Total revenue from franchise operations:</i>	<u>3,573,758</u>	<u>3,384,890</u>	<u>3,668,449</u>	<u>3,458,989</u>
<i>Other income from operating activities:</i>				
Tuition fees	852,116	223,566	-	-
QAX Secondary Maths software sales	146,483	-	-	-
Seminar fees	19,633	459,380	-	-
Seminar manuals	8,358	41,950	-	-
Printing fees	3,425	-	3,425	40,608
Kindy Kip software sales	5,456	7,751	5,456	7,751
Bank interest	55,660	74,047	53,960	73,917
Website advertising	27,320	24,901	30,125	25,656
Gain on sale of property	-	399,105	-	399,105
Other	205,909	41,194	(9,798)	23,395
<i>Total other revenues</i>	<u>1,324,360</u>	<u>1,271,894</u>	<u>83,168</u>	<u>570,432</u>
Total revenue from ordinary activities	<u>4,898,118</u>	<u>4,656,784</u>	<u>3,751,617</u>	<u>4,029,421</u>
Attributable to:				
Continuing operations	4,188,745	3,523,836	3,751,617	3,630,316
Discontinued operations	709,373	1,132,948	-	399,105
	<u>4,898,118</u>	<u>4,656,784</u>	<u>3,751,617</u>	<u>4,029,421</u>
(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:				
<i>Disclosure of material item expense</i>				
Impairment of product development - USA	-	5,572	-	5,572
Impairment of product development - Chile	1,574	-	1,574	-
Impairment of investment - China	-	-	-	30,922
Loss on disposal of plant & equipment	47,139	-	302	-
Impairment of investment in subsidiary	-	-	1,052	-
Impairment of non current receivables (i)	-	-	484,433	-
Impairment of receivables - China	-	113,500	-	113,500
	<u>48,713</u>	<u>119,072</u>	<u>487,361</u>	<u>149,994</u>
Cost of sales				
Cost of Kindy Kip sale	-	1,383	-	1,383

- (i) The company recorded an impairment loss associated with its receivable owing from its wholly owned subsidiary, Kip McGrath Education Pty Limited, due to its net liability position and inability to repay the company.

Notes to the Financial Statements for the Financial Year Ended 30 June 2007

2 Profit from operations (Cont'd)

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Borrowing costs:				
Interest on bank loans	71,927	-	71,927	-
Interest on obligations under finance leases	8,916	10,697	6,612	10,152
Other parties	71,509	27,399	67,765	26,678
	<u>152,352</u>	<u>38,096</u>	<u>146,304</u>	<u>36,830</u>
Depreciation of non-current assets				
Buildings	-	7,330	-	7,330
Plant & equipment	94,025	68,256	58,433	59,482
	<u>94,025</u>	<u>75,586</u>	<u>58,433</u>	<u>66,812</u>
Amortisation of non-current assets				
Plant & equipment under lease	57,950	57,950	57,950	57,950
Product development	-	157	-	157
	<u>57,950</u>	<u>58,107</u>	<u>57,950</u>	<u>58,107</u>
Total depreciation & amortisation	<u>151,975</u>	<u>133,693</u>	<u>116,383</u>	<u>124,919</u>
Net bad & doubtful debts expense - other entities	83,564	19,596	83,564	19,596
Net expense for movements in provision for employee entitlements	(2,632)	19,823	1,048	8,775
Net foreign exchange gains/(losses) - continuing operations	<u>(22,933)</u>	<u>(3,173)</u>	<u>(22,933)</u>	<u>(3,173)</u>
Operating lease rental expenses:				
Minimum lease payments	331,758	118,806	96,465	39,583

Notes to the Financial Statements for the Financial Year Ended 30 June 2007

3 Income taxes

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
(a) Income tax recognised in profit or loss				
Tax expense/(income) comprises:				
Current tax expense/(income)	163,306	488,121	298,158	541,199
Deferred tax expense/(income) relating to origination and reversal of temporary differences	178,756	52,088	(3,779)	54,318
Under/over provision from previous years	4,235	-	(55,028)	-
Total tax expense/(income)	346,297	540,209	239,351	595,517
Attributable to:				
Continuing operations	415,318	341,935	406,984	397,243
Discontinued operations	(69,021)	198,274	(167,633)	198,274
	346,297	540,209	239,351	595,517
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	1,669,173	1,343,380	1,418,772	1,403,850
Profit from discontinued operations	(506,294)	262,981	(558,777)	399,105
	1,162,879	1,606,361	859,995	1,802,955
Income tax expense calculated at 30%	348,864	481,908	257,999	540,887
Increase in income tax expense due to:				
Amortisation of leases	17,385	-	17,385	-
Luxury motor vehicle	17,789	-	17,789	-
Donations	-	861	-	861
Non-deductible depreciation	-	2,199	-	2,199
Losses incurred by associate	-	9,277	-	9,277
Lease interest	1,983	-	1,983	-
Overseas research expenses	965	-	965	-
Other non-deductible expenses	971	36,074	963	32,403
Sundry	15,182	9,890	15,656	9,890
Decrease in income expense due to:				
Lease payments (deductible)	(17,059)	-	(17,059)	-
Other	(28,378)	-	(1,302)	-
Accounting loss on deconsolidation of subsidiary	(15,640)	-	-	-
Over provision in prior year	4,235	-	(55,028)	-
Income tax expense attributable to profit from ordinary activities	346,297	540,209	239,351	595,517
The applicable weighted average effective tax rates are as follows:	30%	34%	28%	33%

Notes to the Financial Statements for the Financial Year Ended 30 June 2007

3 Income taxes (Cont'd)

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Income tax expense attributable to profit from ordinary activities is made up of:				
Current income tax liability	(1,275,834)	455,459	243,128	508,537
Deferred income tax liability	1,586,137	62,917	95,174	61,001
Deferred income tax asset	35,994	21,833	(98,951)	25,979
	<u>346,297</u>	<u>540,209</u>	<u>239,351</u>	<u>595,517</u>

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

(b) 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)	-	(32,662)
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Deferred tax:

Share issue expenses deductible over 5 years	-	32,662	-	32,662
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	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
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(c) Current tax liabilities/(assets)

Income tax payable/(receivable) attributable to:

Parent entity	(102,145)	252,154	(102,145)	252,154
Entities in the tax-consolidated group	(31,570)	(59,262)	130,513	-
Other	-	6,183	-	-
	<u>(133,715)</u>	<u>199,075</u>	<u>28,368</u>	<u>252,154</u>

(d) Deferred tax balances

Deferred tax assets comprise:

Temporary differences	81,560	117,554	212,359	113,408
	<u>81,560</u>	<u>117,554</u>	<u>212,359</u>	<u>113,408</u>

Deferred tax liabilities comprise:

Temporary differences	1,999,614	413,477	506,735	411,561
	<u>1,999,614</u>	<u>413,477</u>	<u>506,735</u>	<u>411,561</u>

Notes to the Financial Statements for the Financial Year Ended 30 June 2007

3 Income taxes (Cont'd)

Taxable and deductible temporary differences arise from the following:

2007	Consolidated				
	Opening balance \$	Charged to income \$	Acquisitions/ disposals \$	Charged to equity \$	Closing balance \$
Gross deferred tax liabilities:					
Expenditure currently deductible for tax but deferred for accounting purposes:					
Research and development	(192,340)	(116,178)	-	-	(308,518)
Overseas development	(179,280)	(22,311)	-	-	(201,591)
Other	(4,137)	1,288	-	-	(2,849)
Trading stock	(29,200)	(4,544)	-	-	(33,744)
Deferred income	3,446	(3,446)	-	-	-
Receivable from equity accounted investment	-	(9,539)	-	-	(9,539)
Education licence	-	-	(600,000)	-	(600,000)
Intellectual property	-	-	(602,942)	-	(602,942)
Product development	-	-	(240,431)	-	(240,431)
	(401,511)	(154,730)	(1,443,373)	-	(1,999,614)
Gross deferred tax assets:					
Property plant and equipment / deductible share issue costs	57,116	(43,629)	-	-	13,487
Accruals	19,690	(3,851)	-	-	15,839
Provisions	33,395	11,042	-	-	44,437
Doubtful debts	892	3,000	-	-	3,892
Foreign currency receivables	(8,507)	11,192	-	-	2,685
Unrealised currency loss	3,002	(1,782)	-	-	1,220
	105,588	(24,028)	-	-	81,560
	(295,923)	(178,758)	(1,443,373)	-	(1,918,054)

Notes to the Financial Statements for the Financial Year Ended 30 June 2007

3 Income taxes (Cont'd)

2006	Consolidated				
	Opening balance \$	Charged to income \$	Acquisitions/ disposals \$	Charged to equity \$	Closing balance \$
Gross deferred tax liabilities:					
Property plant and equipment	(84,922)	81,463	-	-	(3,459)
Expenditure currently deductible for tax but deferred for accounting purposes:					
Research and development	(192,164)	(176)	-	-	(192,340)
Overseas development	(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 differences	(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 2007

3 Income taxes (Cont'd)

2007	Company				Closing balance \$
	Opening balance \$	Charged to income \$	Acquisitions/ disposals \$	Charged to equity \$	
Gross deferred tax liabilities:					
Expenditure currently deductible for tax but deferred for accounting purposes:					
Research and development	(192,340)	(66,672)	-	-	(259,012)
Overseas development	(179,280)	(22,311)	-	-	(201,591)
Other	(3,058)	211	-	-	(2,847)
Trading stock	(28,363)	(5,383)	-	-	(33,746)
Deferred income	3,446	(3,446)	-	-	-
Receivable from equity accounted investment	-	(9,539)	-	-	(9,539)
	(399,595)	(107,140)	-	-	(506,735)
Gross deferred tax assets:					
Property plant and equipment / deductible share issue costs	57,116	(43,629)	-	-	13,487
Accruals	19,690	(4,075)	-	-	15,615
Provisions	30,080	(265)	-	-	29,815
Doubtful debts	892	3,000	-	-	3,892
Impairment losses	-	145,646	-	-	145,646
Foreign currency receivables	(8,507)	11,192	-	-	2,685
Unrealised currency loss	2,171	(952)	-	-	1,219
	101,442	110,917	-	-	212,359
	(298,153)	3,777	-	-	(294,376)

Notes to the Financial Statements for the Financial Year Ended 30 June 2007

3 Income taxes (Cont'd)

2006	Company				
	Opening balance \$	Charged to income \$	Acquisitions/ disposals \$	Charged to equity \$	Closing balance \$
Gross deferred tax liabilities:					
Property plant and equipment	(84,922)	81,463	-	-	(3,459)
Expenditure currently deductible for tax but deferred for accounting purposes:					
Research and development	(192,164)	(176)	-	-	(192,340)
Overseas development	(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 differences	(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)

(e) Tax consolidation legislation

Kip McGrath Education Centres Limited and its wholly-owned entities have formed a tax-consolidated group with effect from 1 January 2006 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Kip McGrath Education Centres Limited. The members of the tax-consolidated group are identified at note 27.

Entities within the tax-consolidated group have 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 unused 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 statements.

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 2007

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
4 Remuneration of auditors				
Audit & half year review of the financial report				
Auditors of the company				
Forsythes	78,000	51,500	78,000	51,500
Previous auditors of the company				
PricewaterhouseCoopers	-	41,800	-	41,800
	<u>78,000</u>	<u>93,300</u>	<u>78,000</u>	<u>93,300</u>
Other non-audit services				
Auditors of the company				
Forsythes	13,782	1,950	13,782	1,950
Previous auditors of the company				
PricewaterhouseCoopers	6,300	1,000	6,300	1,000
	<u>20,082</u>	<u>2,950</u>	<u>20,082</u>	<u>2,950</u>
	<u><u>98,082</u></u>	<u><u>96,250</u></u>	<u><u>98,082</u></u>	<u><u>96,250</u></u>
5 Current trade & other receivables				
Trade receivables	1,109,031	960,881	685,181	911,742
Allowance for doubtful debts	(12,972)	(2,972)	(12,972)	(2,972)
	<u>1,096,059</u>	<u>957,909</u>	<u>672,209</u>	<u>908,770</u>
Other receivables				
Receivable from equity accounted investment	113,500	113,500	113,500	113,500
Impairment of receivable from equity accounted investment	(113,500)	(113,500)	(113,500)	(113,500)
Other receivables	-	24,476	-	24,476
	<u>1,096,059</u>	<u>982,385</u>	<u>672,209</u>	<u>933,246</u>
6 Inventories				
Stores & educational materials - at cost	<u>263,565</u>	<u>237,772</u>	<u>262,909</u>	<u>224,682</u>
7 Other current assets				
Prepayments	82,048	37,427	63,266	19,004
Deposits Paid	20,152	3,075	-	-
	<u>102,200</u>	<u>40,502</u>	<u>63,266</u>	<u>19,004</u>
8 Non-current receivables				
Other trade receivables	<u>102,242</u>	<u>-</u>	<u>662,661</u>	<u>-</u>

Notes to the Financial Statements for the Financial Year Ended 30 June 2007

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
9 Equity accounted investments				
Equity accounted investment at cost	100,000	86,722	100,000	86,722
Provision for impairment	-	-	-	(86,722)
Equity accounted gain/(loss) on investment in associate	31,797	(86,722)	31,797	-
Investment in associates	<u>131,797</u>	<u>-</u>	<u>131,797</u>	<u>-</u>

Name of associate	Principal activity	Country of incorporation	Ownership interest	
			2007 %	2006 %
Huikensi Commercial & Consulting (Beijing) Pte Limited	Sale of franchises	China	-	45

	2007 \$	2006 \$
Summarised financial information of associate:		
Current assets	-	75,333
Current liabilities	-	(75,333)
Net assets	<u>-</u>	<u>-</u>
Revenue	<u>-</u>	<u>48,637</u>
Net profit/(loss)	<u>-</u>	<u>(68,716)</u>
Share of associate's loss before tax	-	(30,922)
Share of associate's tax expense	-	-
Share of associate's loss	<u>-</u>	<u>(30,922)</u>

Elevate Education Pty Limited	Educational Seminar Provider	Australia	50	-
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	2007 \$	2006 \$
Summarised financial information of associate		
Current assets	243,224	-
Current liabilities	(85,144)	-
Net assets	<u>158,080</u>	<u>-</u>
Revenue	<u>397,391</u>	<u>-</u>
Net profit/(loss)	<u>90,849</u>	<u>-</u>
Share of associate's profit before tax	45,425	-
Share of associate's income tax expense	(13,628)	-
Share of associate's profit	<u>31,797</u>	<u>-</u>

Notes to the Financial Statements for the Financial Year Ended 30 June 2007

10 Other non-current financial assets

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Shares in controlled entities	-	-	4,960,500	755,000
	-	-	4,960,500	755,000

Notes to the Financial Statements for the Financial Year Ended 30 June 2007

11 Property plant and equipment

	Consolidated					Total \$
	Freehold land at valuation \$	Buildings at valuation \$	Plant & equipment at cost \$	Equipment under finance lease at cost \$	Motor vehicles at cost \$	
Gross carrying amount						
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 1 July 2006	-	-	449,373	579,500	237,895	1,266,768
Additions	-	-	78,510	-	-	78,510
Disposals	-	-	(109,463)	-	-	(109,463)
Acquisitions through business combinations	-	-	90,074	60,717	13,200	163,991
Balance at 30 June 2007	-	-	508,494	640,217	251,095	1,399,806
Accumulated depreciation						
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 1 July 2006	-	-	(237,982)	(367,017)	(123,919)	(728,918)
Disposals	-	-	22,528	-	-	22,528
Depreciation expense	-	-	(64,282)	(60,487)	(27,206)	(151,975)
Acquisitions through business combinations	-	-	(40,663)	(52,290)	(3,342)	(96,295)
Balance at 30 June 2007	-	-	(320,399)	(479,794)	(154,467)	(954,660)
Net book value						
As at 30 June 2006	-	-	211,391	212,483	113,976	537,850
As at 30 June 2007	-	-	188,095	160,423	96,628	445,146

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 2007

11 Property plant and equipment (Cont'd)

	Company					Total
	Freehold land at valuation \$	Buildings at valuation \$	Plant & equipment at cost \$	Equipment under finance lease at cost \$	Motor vehicles at cost \$	
Gross carrying amount						
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 1 July 2006	-	-	340,848	579,500	205,257	1,125,605
Additions	-	-	49,012	-	-	49,012
Disposals	-	-	(931)	-	-	(931)
Balance at 30 June 2007	-	-	388,929	579,500	205,257	1,173,686
Accumulated depreciation						
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 1 July 2006	-	-	(229,974)	(367,017)	(123,154)	(720,145)
Disposals	-	-	629	-	-	629
Depreciation expense	-	-	(37,907)	(57,950)	(20,526)	(116,383)
Balance at 30 June 2007	-	-	(267,252)	(424,967)	(143,680)	(835,899)
Net book value						
As at 30 June 2006	-	-	110,874	212,483	82,103	405,460
As at 30 June 2007	-	-	121,677	154,533	61,577	337,787

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 2007

12 Intangible assets

	Consolidated						Total \$
	Intellectual property \$	Education licence \$	Product develop- ment costs \$	Overseas develop- ment costs \$	Franchise territories \$	Other intangibles \$	
Gross carrying amount							
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 1 July 2006	2,649,276	-	716,411	795,582	479,881	2,392	4,643,542
Additions	-	-	272,754	85,228	67,400	5,525	430,907
Disposals	(50,000)	-	-	-	(202,681)	(2,800)	(255,481)
Impairment	-	-	-	(1,574)	-	-	(1,574)
Acquisitions through business combinations	2,009,805	2,000,000	801,440	-	-	-	4,811,245
Balance at 30 June 2007	4,609,081	2,000,000	1,790,605	879,236	344,600	5,117	9,628,639
Accumulated amortisation							
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 1 July 2006	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-
Amortisation expense	-	-	-	-	-	-	-
Balance at 30 June 2007	-	-	-	-	-	-	-
Net book value							
As at 30 June 2006	2,649,276	-	716,411	795,582	479,881	2,392	4,643,542
As at 30 June 2007	4,609,081	2,000,000	1,790,605	879,236	344,600	5,117	9,628,639

Notes to the Financial Statements for the Financial Year Ended 30 June 2007

12 Intangible assets (Cont'd)

	Company					Total \$
	Intellectual property \$	Product develop -ment costs \$	Overseas develop -ment costs \$	Franchise territories \$	Other intangibles \$	
Gross carrying amount						
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 1 July 2006	2,599,276	716,411	795,582	5,000	317	4,116,586
Additions	-	222,241	75,938	-	4,800	302,979
Disposals	-	-	-	-	-	-
Impairment	-	-	(1,574)	-	-	(1,574)
Balance at 30 June 2007	2,599,276	938,652	869,946	5,000	5,117	4,417,991
Accumulated amortisation						
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 1 July 2006	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Amortisation expense	-	-	-	-	-	-
Balance at 30 June 2007	-	-	-	-	-	-
Net book value						
As at 30 June 2006	2,599,276	716,411	795,582	5,000	317	4,116,586
As at 30 June 2007	2,599,276	938,652	869,946	5,000	5,117	4,417,991

Notes to the Financial Statements for the Financial Year Ended 30 June 2007

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	297,493	776,036
Pre University curriculum	119,520	2,484	122,004
EFL/Pre University curriculum link	98,240	-	98,240
USA curriculum	95,823	206,069	301,892
Kip McGrath higher education curriculum	72,492	-	72,492
Tertiary education curriculum	573,206	-	573,206
Other	352,781	373,190	725,971
	1,790,605	879,236	2,669,841

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 2007, China, Indonesia and Mexico were the main markets using the EFL product.

The sale of ten Mexican franchises since year end and the sale of two Chinese 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 enhance students' English levels prior to entry into Australian Universities. The curriculum's development phase is to be completed in the first half of 2007/08 and management are in negotiations with various Universities and other tertiary education providers, 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. It is management's intention that the Group's controlled tertiary education provider will utilise this curriculum.

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 EFL/Pre-Uni curriculum link is being developed to further enhance the existing EFL and Pre University curriculum by creating structured and measurable English attainment levels within the existing curriculum to ensure overseas students are English ready prior to entry into Australian Universities. The curriculum's development phase is to be completed in the first half of 2007/08 and management are in negotiations with various Universities and other tertiary education providers, both in Australia and overseas, regarding the adoption and implementation of the curriculum. It is management's intention that the Group's controlled tertiary education provider will utilise this curriculum.

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

Notes to the Financial Statements for the Financial Year Ended 30 June 2007

12 Intangible assets (Cont'd)

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

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

Kip McGrath higher education curriculum is the development of a range of new education programs packaged as a single unit. This curriculum will be distributed as an additional franchise licence to new and existing franchisees. We currently have 100 existing franchisees in Australia, New Zealand and Singapore contracted to use the new curriculum and will be rolling the package out into other markets later in the year.

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

Tertiary education curriculum is the carrying value of tertiary course content developed to provide tertiary education to students of the Group's tertiary education provider, Institute of Technology Australia Pty Ltd. This value has been derived by a combination of the capitalisation of internally generated development costs and an assessment of the fair value of course content at the date of acquisition.

The directors consider that the carrying value of Tertiary education curriculum is appropriate and recoverable. Whilst no recoverable amounts test has been undertaken due to the short period of time between acquisition and balance date, the directors believe that current and anticipated student numbers justify the carrying amounts as accounted.

Allocation of indefinite life intangible assets to cash-generating units

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

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
13 Goodwill				
<i>Gross carrying amount</i>				
Balance at beginning of financial year	46,732	-	-	-
Additional amounts recognised from business combinations during the period	3,370,978	46,732	-	-
Amounts derecognised on discontinued operations	(46,732)			
Balance at end of financial year	<u>3,370,978</u>	<u>46,732</u>	<u>-</u>	<u>-</u>
<i>Accumulated impairment losses</i>				
Balance at beginning of financial year	-	-	-	-
Impairment losses for the year	-	-	-	-
Balance at end of financial year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Net book value</i>				
At the beginning of the financial year	46,732	-	-	-
At the end of the financial year	<u>3,370,978</u>	<u>46,732</u>	<u>-</u>	<u>-</u>

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 2007

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.

2007	Consolidated			Company	
	Australasia \$	Total \$		Australasia \$	Total \$
Educational Services	3,370,978	3,370,978		-	-

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

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 2007	Australasia \$	United Kingdom & Europe \$	Africa \$	Asia Pacific \$	Central & Northern America \$	Total \$
Educational services	3,848,923	1,070,910	434,708	1,418,096	506,285	7,278,922

Notes to the Financial Statements for the Financial Year Ended 30 June 2007

14 Intangible assets - impairment testing (Cont'd)

Consolidated 2006	Australasia \$	United Kingdom & Europe \$	Africa \$	Asia Pacific \$	Central & Northern America \$	Total \$
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Educational services	1,224,586	1,087,881	318,004	1,032,720	498,079	4,161,270
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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 2007	Australasia \$	Total \$
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Educational services	344,600	344,600
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Consolidated 2006	Australasia \$	Total \$
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Educational services	479,881	479,881
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The recoverable amount of a CGU is determined based on value-in-use calculations and any potential future sales of these franchise territories.

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

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

Education licence represent the tertiary education licence the Group acquired as part of the acquisition of Institute of Technology Australia Pty Ltd.

Notes to the Financial Statements for the Financial Year Ended 30 June 2007

14 Intangible assets - impairment testing (Cont'd)

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

Consolidated 2007	Australasia \$	Total \$
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Educational services	2,000,000	2,000,000
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Consolidated 2006	Australasia \$	Total \$
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Educational services	-	-
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No value-in-use calculation for education licence was carried out in the current year as the carrying value of education licence relates to a recent acquisition and the Board is confident that no material impairment has resulted between the acquisition date and balance date. Refer to note 28 for further details regarding acquisitions.

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

CGU	Gross margin *		Growth rate **		Discount rate ***	
	2007 %	2006 %	2007 %	2006 %	2007 %	2006 %

Educational services:

Goodwill*****	-	66.0	-	-	6.5	5.5
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Educational curriculum*****

Australasia	84.1	81.8	4.9	7.2	6.5	5.5
United Kingdom & Europe	67.7	62.9	29.3	62.1	6.5	5.5
Africa	50.0	59.3	6.3	27.5	6.5	5.5
Asia Pacific	57.3	(42.2)	312.3	602.1	6.5	5.5
Central & North America	58.1	60.3	(5.3)	(0.6)	6.5	5.5
Weighted Average	76.0	73.8	15.0	20.5	6.5	5.5

Franchise territories	34.0	28.6	-	-	6.5	5.5
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Education licence*****	-	-	-	-	-	-
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* 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 post-tax discount rate applied in 2007 was 6.5% (2006: 5.5%). The movements in the equivalent pre-tax discount rates between 2006 and 2007 reflect changes in the anticipated timing of future cash flows.

Notes to the Financial Statements for the Financial Year Ended 30 June 2007

14 Intangible assets - impairment testing (Cont'd)

**** 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.

***** No value-in-use calculation for goodwill or education licence were carried out in the current year as the carrying value of goodwill and education licence relate to recent acquisitions and the Board is confident that no material impairment has resulted between the acquisition dates and balance date. Refer to note 28 for further details regarding acquisitions.

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

(f) Impairment charge

An impairment charge of \$1,574 (2006: \$5,572) (refer note 12) arose in the educational services CGU in Chile (2006: USA) (included in the Central & North America segment summary) following the completion of unsuccessful negotiations with a prospective Chilean master franchisee (2006: USA additional 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 2007

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
15 Current trade and other payables				
Trade payables	147,173	99,238	101,674	67,621
Amounts payable to related parties	17,431	21,501	17,431	21,501
GST payable	2,990	52,003	10,474	38,916
Other payables & accruals	212,466	188,838	76,878	98,516
	380,060	361,580	206,457	226,554
16 Current borrowings				
Finance lease liabilities (i)	80,221	55,736	57,380	50,678
Bank bills (ii)	2,725,915	-	2,725,915	-
	2,806,136	55,736	2,783,295	50,678
(i) Secured by the assets leased				
(ii) Secured by fixed & floating charge over assets of Kip McGrath Education Centres Limited				
17 Current provisions				
Employee benefits	58,554	62,998	44,018	51,950
Onerous rental leases	34,206	-	-	-
Other	2,190	2,115	2,190	2,115
	94,950	65,113	46,208	54,065
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)	21,358	84,149	-	57,380
Bank bills (ii)	-	-	-	-
Convertible notes (iii) (iv) (v) (vi)	719,417	-	-	-
Redeemable preference shares (vii)	540,000	-	-	-
	1,280,775	84,149	-	57,380

(i) Secured by the assets leased

(ii) Secured by fixed & floating charge over assets of Kip McGrath Education Centres Limited

(iii) 100 convertible notes were issued on 14 June 2005 at an issue price of \$500 per note. Each note entitles the holder to convert to ordinary shares at the prevailing share value. Conversion may occur on the day immediately following the Annual Meeting of the Institute of Technology Australia Pty Ltd. Unconverted notes mature at \$500 on 13 June 2010.

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

(v) 200,000 convertible notes were issued on 14 June 2006 by the Institute of Technology Australia Pty Ltd at an issue price of \$1.00 per note. Each note entitles the holder to convert to one and one third ordinary shares at a cost of \$0.75 cents per ordinary share rounded to the next whole share. Conversion may occur at any time between 14 June 2006 and 14 June 2008. Unconverted notes mature at \$1.00 on 14 June 2008.

Notes to the Financial Statements for the Financial Year Ended 30 June 2007

19 Non-current borrowings (Cont'd)

- (vi) 150,000 convertible notes were issued on 14 December 2006 by the Institute of Technology Australia Pty Ltd at an issue price of \$1.00 per note. Each note entitles the holder to convert to one and one third ordinary shares at a cost of \$0.75 cents per ordinary share rounded to the next whole share. Conversion may occur at any time between 14 December 2006 and 14 December 2008. Unconverted notes mature at \$1.00 on 14 December 2008.
- (vii) 1,080,000 redeemable preference shares were issued on 20 March 2006 by the Institute of Technology Australia Pty Ltd at an issue price of \$0.50 per share. The shares are redeemable on 20 March 2008 at \$0.50 per share. Unredeemed shares automatically convert to ordinary shares at the prevailing ordinary share value on 20 March 2013.

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
20 Non-current provisions				
Employee entitlements	55,364	48,319	55,364	48,319

21 Issued capital

19,780,000 (2006: 17,200,000) fully paid ordinary shares

	6,829,115	3,561,368	6,829,115	3,561,368
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	2007		2006	
	No.	\$	No.	\$
Fully paid ordinary shares*				
Balance at beginning of financial year	17,200,000	3,561,368	17,200,000	3,561,368
Issue of shares as part consideration for acquisition of business**	1,250,000	1,743,975	-	-
Issue of shares under share placement***	1,330,000	1,523,772	-	-
Balance at end of financial year	19,780,000	6,829,115	17,200,000	3,561,368

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

** On 30 April 2007 the Board of Directors issued shares as part consideration for the acquisition of a business. Refer to note 28 for further details. These shares are subject to voluntary escrow for a period of six months from date of issue.

*** On 15 May 2007 the Board of Directors raised funds through an off-market share placement managed by ABN AMRO Morgans. Shares were placed at a price of \$1.20 per ordinary share. The net cash inflow from the share placement was \$1,523,772 after deducting share issue costs of \$72,228.

22 Retained earnings

Balance at beginning of financial year	2,942,982	2,830,043	3,091,481	2,830,043
Net profit attributable to members of the entity	713,147	1,058,939	620,644	1,207,438
Dividends paid during the year (note 24)	(989,000)	(946,000)	(989,000)	(946,000)
Balance at end of financial year	2,667,129	2,942,982	2,723,125	3,091,481

Notes to the Financial Statements for the Financial Year Ended 30 June 2007

23 Earnings per share

	Consolidated	
	2007	2006
	Cents per share	Cents per share
Basic earnings per share:		
From continuing operations	6.5	5.8
From discontinuing operations	(2.5)	0.4
	4.1	6.2
Diluted earnings per share:		
From continuing operations	6.5	5.8
From discontinuing operations	(2.5)	0.4
	4.1	6.2

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:

	2007	2006
	\$	\$
Net profit	713,147	1,058,939
Earnings used in the calculation of basic EPS	713,147	1,058,939
Adjustments to exclude loss/(profit) for the period from discontinued operations	437,273	(64,707)
Earnings used in the calculation of basic EPS from continuing operations	1,150,420	994,232
	2007	2006
	No.	No.
Weighted average number of ordinary shares for the purposes of basic earnings per shares	17,580,164	17,200,000

24 Dividends

	2007		2006	
	Cents per	\$	Cents per	\$
<u>Recognised amounts</u>				
Fully paid ordinary shares				
Final dividend: franked to 30% (2006: 30%)	3.25	559,000	3.00	516,000
Interim dividend: franked to 30% (2006: 30%)	2.50	430,000	2.50	430,000
	5.75	989,000	5.50	946,000
<u>Unrecognised amounts</u>				
Fully paid ordinary shares				
Final dividend: franked to 30% (2006: 30%)	2.00	395,600	3.25	559,000

	Company	
	2007	2006
	\$	\$
Adjusted franking account balance	716,460	899,914
Impact on franking account balance of dividends not recognised	(169,543)	(239,571)

Notes to the Financial Statements for the Financial Year Ended 30 June 2007

25 Commitments for expenditure

Finance leases

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

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Finance lease commitments				
Not longer than 1 year	84,247	63,921	59,248	56,863
Longer than 1 year and not longer than 5 years	23,376	89,682	-	59,248
Minimum lease payments	107,623	153,603	59,248	116,111
Less: future finance charges	(6,044)	(13,717)	(1,868)	(8,053)
Total lease liabilities	101,579	139,886	57,380	108,058
Representing lease liabilities:				
current (note 16)	80,221	55,736	57,380	50,678
non-current (note 19)	21,358	84,149	-	57,380
	101,579	139,885	57,380	108,058

Operating leases

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

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Non-cancellable operating lease payments				
Not longer than 1 year	296,898	292,387	98,515	95,000
Longer than 1 year and not longer than 5 years	224,105	466,662	57,467	150,417
Longer than 5 years	-	-	-	-
	521,003	759,049	155,982	245,417

26 Subsequent events

The consolidated entity finalised the acquisition of the rights to the United Kingdom National Master Franchise (UK NMF) on 1 August 2007. The acquisition price was £370,164. The South West Master Franchise Territory in the UK was acquired at the same time for £50,000. The consolidated entity has purchased a wholly owned subsidiary, Lanevista Limited, to manage the UK NMF on the Group's behalf. Lanevista Limited is incorporated in the United Kingdom.

Notes to the Financial Statements for the Financial Year Ended 30 June 2007

27 Controlled entities

Name of entity	Country of incorporation	Ownership interest	
		2007 %	2006 %
<i>Parent entity</i>			
Kip McGrath Education Centres Limited (i)	Australia		
<i>Controlled entities</i>			
Kip McGrath Education Pty Limited (ii)	Australia	100	100
Elevate Education Pty Limited (iii)	Australia	-	50
Kip McGrath Global Pty Limited (ii)	Australia	100	100
Triple G Technology Pty Limited (iv)	Australia	50	-
Institute of Technology Australia Pty Limited	Australia	64	-
Institute for Advanced Knowledge (Australia) Pty Limited	Australia	64	-

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

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

(iii) Elevate Education Pty Limited ceased to be a controlled entity on 3 November 2006 as Kip McGrath Education Centres Limited no longer maintains effective financial and management control of the entity.

(iv) Triple G Technology Pty Limited is a controlled entity as Kip McGrath Education Centres Limited maintains effective financial and management control.

Notes to the Financial Statements for the Financial Year Ended 30 June 2007

28 Acquisition of businesses

Names of businesses acquired	Principal activity	Date of acquisition	Proportion of shares acquired (%)	Cost of acquisition \$
2007				
Triple G Technology Pty Limited	Educational software	1/03/2007	50	2,700,000
Institute of Technology Australia Pty Ltd	Tertiary education	30/04/2007	64	2,260,500
				4,960,500
2006				
Elevate Education Pty Ltd	Education seminars	1/07/2005	50	100,000
				100,000

	Triple G Technology Pty Ltd			Institute of Technology Australia Pty Ltd			Total fair value on acquisition \$
	Book value \$	Fair value adjustment \$	Fair value on acquisition \$	Book value \$	Fair value adjustment \$	Fair value on acquisition \$	
Net assets acquired							
Current assets							
Cash & cash equivalents	415,194	-	415,194	625,727	-	625,727	1,040,921
Trade & other receivables	21,432	-	21,432	38,742	-	38,742	60,174
Non-current assets							
Plant & equipment	27,628	-	27,628	40,069	-	40,069	67,697
Intangible assets	244,497	2,009,805	2,254,302	56,943	2,500,000	2,556,943	4,811,245
Deferred tax asset	-	-	-	27,233	-	27,233	27,233
Current Liabilities							
Trade & other payables	(18,556)	-	(18,556)	(312,824)	-	(312,824)	(331,380)
Borrowings	-	-	-	(18,365)	-	(18,365)	(18,365)
Non-current							
Borrowings	-	-	-	(1,287,838)	-	(1,287,838)	(1,287,838)
Deferred tax liability	-	(676,290)	(676,290)	-	(767,083)	(767,083)	(1,443,373)
	690,195	1,333,515	2,023,710	(830,313)	1,732,917	902,604	2,926,314
Minority interest			(1,011,855)			(324,937)	(1,336,792)
Goodwill on acquisition			1,688,145			1,682,833	3,370,978
Consideration			2,700,000			2,260,500	4,960,500

The cost of the acquisitions comprises cash for all of the acquisitions except for the acquisition of Institute of Technology Australia Pty Ltd (IOTA), which comprises cash of \$500,000 and 1,250,000 ordinary shares in Kip McGrath Education Centres Ltd with a fair value of \$1,750,000. In each acquisition, the Group has paid a premium for the acquiree as it believes each acquisition will create synergistic benefits to its existing operations.

Goodwill arose because the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of IOTA. These benefits are not recognised separately from goodwill as the future economic benefits arising from them cannot be reliably measured.

The Group also acquired the customer lists and customer relationships of IOTA as part of the acquisition. These assets were not capable of being separated from the Group and sold, transferred, licensed, rented or exchanged, either individually or together with any related contracts.

Notes to the Financial Statements for the Financial Year Ended 30 June 2007

29 Discontinued operations

Disposal of Elevate Education Pty Ltd

On 3 November 2006, the Board of Directors agreed to relinquish effective control of Elevate Education Pty Ltd. As such the financial statements of Elevate Education Pty Ltd until this date are included in the consolidated statements. As at 3 November 2006 Elevate Education Pty Ltd has been deconsolidated from the consolidated entity. The consolidated entity has maintained its 50% share of the issued voting shares of Elevate Education Pty Ltd as an equity accounted investment.

Disposal of Company Owned Centres

On 27 February 2007, the Board of Directors announced a plan to dispose of the Group's company owned centres (COC), which provide after school tutoring to school students. These disposals are consistent with the Group's long-term policy to focus its activities as a provider of supplementary education materials with multiple methods to market. The Group has actively sought buyers for its COC and as at 30 June 2007 had sold 5 centres with a further centre being sold post 30 June 2007. A further four centres were closed on 29 June 2007. The group is continuing to operate two Sydney centres whilst buyers are sought.

The Group has not recognised any impairment losses for COC as additional saleable vacant franchise territories have been split from the COC territories sold and when combined with the two remaining centres, the Board has assessed that the future saleable value of these intangible assets exceeds their carrying value.

The COC business has been classified and accounted for at 30 June 2007 as a discontinued business.

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

	Consolidated	
	2007	2006
	\$	\$
Profit from discontinued operations:		
Revenue (note 2)	697,541	726,913
Other income (note 2)	11,832	6,930
	709,373	733,843
Expenses		
Employee expenses	(661,481)	(531,979)
Depreciation and amortisation expenses	(28,559)	(8,774)
Borrowing costs	(5,065)	(1,266)
Marketing expenses	(82,817)	(111,414)
Administration expenses	(371,164)	(137,697)
Merchandising expenses	(14,449)	(46,576)
Other expenses from ordinary activities	-	(32,261)
	(1,163,535)	(869,967)
Loss before tax	(454,162)	(136,124)
Attributable income tax benefit	69,021	-
	(385,141)	(136,124)
Loss on disposal of operation	(52,132)	-
Gain on sale of property	-	399,105
Attributable income tax expense	-	(198,274)
	(52,132)	200,831
Profit/(Loss) for the year from discontinued operations	(437,273)	64,707
Cash flows from discontinued business:		
Net cash flows from operating activities	(699,753)	(65,004)
Net cash flows from investing activities	209,540	1,186,602
Net cash flows from financing activities	456,588	99,189
Net cash flows	(33,625)	1,220,787

Notes to the Financial Statements for the Financial Year Ended 30 June 2007

30 Segment information

Segment revenues

Geographical	External sales		Other		Total	
	2007	2006	2007	2006	2007	2006
	\$	\$	\$	\$	\$	\$
Continuing operations						
Australasia	2,251,063	2,529,438	-	-	2,251,063	2,529,438
United Kingdom & Europe	1,285,912	1,235,637	-	-	1,285,912	1,235,637
Africa	244,001	178,323	-	-	244,001	178,323
Asia Pacific	202,375	115,200	-	-	202,375	115,200
Central & Northern America	14,306	98,685	-	-	14,306	98,685
	Total of continuing operation segments				3,997,657	4,157,283
	Discontinued operations				709,373	399,105
	Total of all segments				4,707,030	4,556,388
	Unallocated				191,088	(633,447)
	Consolidated revenues for the period				4,898,118	3,922,941

Segment result

Geographical	Total	
	2007	2006
	\$	\$
Australasia	2,938,881	2,225,438
United Kingdom & Europe	882,712	979,637
Africa	130,601	116,323
Asia Pacific	129,575	73,200
Central & Northern America	5,906	92,685
	Total of continuing operation segments	4,087,675
	Discontinued operations	(506,294)
	Total of all segments	3,581,381
	Unallocated	(2,521,937)
	Profit before income tax expense	1,059,444
	Income tax expense	(346,297)
	Consolidated profit for the period	713,147

Segment assets and liabilities

Geographical	Assets		Liabilities		Net Assets	
	2007	2006	2007	2006	2007	2006
	\$	\$	\$	\$	\$	\$
Australasia	11,208,221	4,559,013	(5,328,044)	(1,114,069)	5,880,177	3,444,944
United Kingdom & Europe	1,595,904	1,476,945	-	-	1,595,904	1,476,945
Africa	970,312	385,878	-	(666)	970,312	385,212
Asia Pacific	2,383,263	1,198,391	-	-	2,383,263	1,198,391
Central & Northern America	576,841	586,060	-	-	576,841	586,060
	Total of continuing operation segments				11,406,497	7,091,552
	Discontinued operations				(485,485)	-
	Total of all segments				10,921,012	7,091,552
	Unallocated				15,459	(479,987)
	Net assets				10,936,471	6,611,565

Notes to the Financial Statements for the Financial Year Ended 30 June 2007

30 Segment information (Cont'd)

Other segment information

Geographical 2007	Australasia \$	Asia Pacific \$	Total \$
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Carrying value of investments accounted for using the equity method	131,797	-	131,797
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* Refer to note 9 for more information.

Geographical 2006	Australasia \$	Asia Pacific \$	Total \$
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Carrying value of investments accounted for using the equity	-	-	-
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* Refer to note 9 for more information.

Business segment information

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

Notes to the Financial Statements for the Financial Year Ended 30 June 2007

31 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)
Mrs Shirley Dalton (Chief Operating Officer) Resigned 12 October 2006

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) Ceased on 3 November 2006 due to change to controlled entity status.
Mr Gregory Geise (Director - Triple G Technology Pty Ltd) Commenced on 1 March 2007 due to change to controlled entity status.
Prof Mohamed Khadra (Managing Director - Institute of Technology Australia Pty Limited) Commenced on 1 May 2007 due to change to controlled entity status.

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 2007

31 Key management personnel remuneration (Cont'd)

Specified directors' remuneration 2007	Primary				Post employment		Equity		Other benefits		Total \$
	Salary and fees \$	Bonus \$	Non-monetary \$	Superannuation \$	Options \$	Insurance premiums \$					
						Options \$	Insurance premiums \$				
Mr Keith Lynch	22,932	-	-	2,064	-	-	1,606	-	1,606	26,602	
Mr Storm McGrath	123,705	-	2,396	9,972	-	-	1,606	-	1,606	137,679	
Mr Kip McGrath	99,372	-	1,224	7,745	-	-	1,606	-	1,606	109,947	
Mrs Dagnija McGrath	55,933	-	4,445	4,924	-	-	1,606	-	1,606	66,908	
Mr Michael Seamer	22,932	-	-	2,064	-	-	1,606	-	1,606	26,602	
Total	324,874	-	8,065	26,769	-	-	8,030	-	8,030	367,738	

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

* 100,000 options were 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.

Notes to the Financial Statements for the Financial Year Ended 30 June 2007

31 Key management personnel remuneration (Cont'd)

Specified executives' remuneration	2007						Total \$
	Primary		Post employment Superannuation \$	Equity Options \$	Other benefits		
	Salary and fees \$	Bonus \$			Non-monetary \$	Insurance premiums \$	
Mr Matthew Pereira	95,058	-	8,312	-	1,606	104,976	
Mrs Shirley Dalton	31,244	-	2,695	-	458	34,397	
Mr Douglas Barton	16,599	-	1,494	-	541	18,634	
Mr Gregory Geise	-	-	-	-	537	537	
Prof Mohamed Khadra	13,232	-	1,191	-	268	14,691	
Total	156,133	-	13,692	-	3,410	173,235	

Specified executives' remuneration	2006						Total \$
	Primary		Post employment Superannuation \$	Equity Options \$	Other benefits		
	Salary and fees \$	Bonus \$			Non-monetary \$	Insurance premiums \$	
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	

Notes to the Financial Statements for the Financial Year Ended 30 June 2007

32 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 end.

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.

	2007	2006
Ordinary shares	9,563,958	9,553,958
Options over ordinary shares	700,000	700,000

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.

There were no options granted during the current year. 400,000 existing options expire on the 15 August 2008. 300,000 existing options expire on 7 November 2010. Each option entitles the holder to purchase one ordinary share in the company. The value disclosed in note 31 is calculated at the date of grant.

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

Summary of options over unissued ordinary shares

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 2006	Granted as remuner -ation	Exercised	Held at 30 June 2007	Vested and exercised at 30 June 2007
Mr S McGrath	500,000	-	-	500,000	-
Mr K Lynch	100,000	-	-	100,000	-
Mr M Seamer	100,000	-	-	100,000	-

Notes to the Financial Statements for the Financial Year Ended 30 June 2007

32 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 Limited held directly, indirectly or beneficially, by each specified director, including their personally-related entities is as follows:

Specified Directors	Held at 1 July 2006	Purchases	Received on exercise of options	Sales	Held at 30 June 2007
Mrs D McGrath	4,252,986	-	-	-	4,252,986
Mr K McGrath	4,225,986	-	-	-	4,225,986
Kip McGrath Investments Pty Ltd	1,000,000	-	-	-	1,000,000
Mr S McGrath	54,986	-	-	-	54,986
Mr K Lynch	18,000	5,000	-	-	23,000
Mr M Seamer	2,000	5,000	-	-	7,000

Directors' transactions with the company

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

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

The aggregate of transactions recognised during the year relating to specified directors and their personally related entities were a total expense of \$150,437 (2006: \$104,356) and loan repayments of \$500,000 (2006: \$0). Details of the transactions are as follows:

Specified Director	Transaction	Note	2007	2006
Mr S McGrath	Material purchases	(i)	150,437	104,356
Mr K & Mrs D McGrath	Loan payable	(ii)	-	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 were 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 2007 financial year repayments of \$500,000 were made (2006: \$0). Interest totalling \$162 was paid to the directors for the year. The director shareholders were 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 waived their rights to any additional interest. The final loan repayment was made on 6 November 2006.

Notes to the Financial Statements for the Financial Year Ended 30 June 2007

33 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:

2007	Floating interest rate	Fixed Maturity Dates		Non Interest Bearing	Total
		Less than 1 year	1 - 5 years		
Financial assets					
Cash and cash equivalents	2,123,835	-	-	73,634	2,197,469
Current trade and other receivables	-	-	-	1,096,059	1,096,059
Non-current trade receivables	-	-	-	102,242	102,242
Other current assets	-	-	-	102,200	102,200
	2,123,835	-	-	1,374,135	3,497,970
Weighted average interest rate	5.00%	-	-	-	
Financial liabilities					
Current trade and other payables	-	-	-	380,060	380,060
Non-current trade payables	-	-	-	-	-
Bank bills	2,725,915	-	-	-	2,725,915
Lease liabilities	-	80,221	21,358	-	101,579
Convertible notes	-	-	-	719,417	719,417
Redeemable preference shares	-	-	-	540,000	540,000
Provisions	-	-	-	150,314	150,314
	2,725,915	80,221	21,358	1,789,791	4,617,285
Weighted average interest rate	-	7.72%	7.72%	-	

Notes to the Financial Statements for the Financial Year Ended 30 June 2007

33 Financial instruments (Cont'd)

2006	Floating interest rate	Fixed maturity dates		Non interest bearing	Total
		Less than 1 year	1 - 5 years		
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					
Trade 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%	-	

(c) Credit risk exposure

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

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 business segment. As at 30 June 2007, 29% (2006: 35%) of the company's trade debts were owed by United Kingdom 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.

(d) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, who has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Notes to the Financial Statements for the Financial Year Ended 30 June 2007

34 Notes to the cash flow statement

(a) Reconciliation of cash and cash equivalents

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

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Cash and cash equivalents	2,197,469	1,732,515	1,457,188	1,686,012

(b) Reconciliation of profit for the year to net cash flows from operating activities

Profit from ordinary activities after income tax	816,582	1,066,154	620,644	1,207,438
Impairment of receivable from associate	-	113,500	-	113,500
Equity accounting (profit)/loss from associate	(31,797)	30,922	(31,797)	-
Impairment of non-current assets	1,574	5,572	1,574	36,494
Impairment of non-current receivable	-	-	485,485	-
Impairment of investment in subsidiary	-	-	1,052	-
Loss on disposal of subsidiary	52,132	-	-	-
(Profit)/loss on sale of property, plant & equipment	47,139	(399,105)	302	(399,105)
(Profit)/loss on sale of intangibles	(42,317)	-	-	-
Depreciation & amortisation	151,975	133,693	116,383	124,919
Change in operating assets and liabilities:				
(Increase)/decrease in receivables	(214,851)	(216,179)	250,986	(167,040)
(Increase)/decrease in other current assets	(57,548)	(8,946)	(44,262)	12,552
(Increase)/decrease in inventories	(36,093)	(58,099)	(38,227)	(45,009)
(Increase)/decrease in current tax assets	(133,715)	-	-	-
(Increase)/decrease in deferred tax assets	35,994	21,833	(98,950)	25,980
Increase/(decrease) in payables	(394,896)	98,669	(20,097)	(36,357)
Increase/(decrease) in current tax payable	(165,660)	35,743	(223,786)	88,822
Increase/(decrease) in deferred tax liability	142,764	62,917	95,174	61,001
Increase/(decrease) in provisions	31,647	19,822	(812)	8,774
Net cash inflow from operating activities	202,930	906,496	1,113,668	1,031,969

(c) Businesses acquired

During the financial year, the Group acquired two businesses. The net cash outflow on acquisition is detailed below. Refer note 28 for further details of these acquisitions.

Net cash outflow on acquisition

Cash consideration	3,200,000	100,000	3,200,000	100,000
Less cash acquired	(1,030,421)	-	-	-
	2,169,579	100,000	3,200,000	100,000

Notes to the Financial Statements for the Financial Year Ended 30 June 2007

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

(d) Businesses disposed

During the financial year, the Group disposed of Elevate Education Pty Ltd. Details of the disposals are as follows:

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Consideration				
Cash and cash equivalents	-	-	-	-
Book value of net assets sold				
<u>Current assets</u>				
Cash and cash equivalents	10,324	-	-	-
Trade and other receivables	47,632	-	-	-
Inventory	10,300	-	-	-
Other current assets	2,481	-	-	-
<u>Non-current assets</u>				
Property, plant and equipment	41,355	-	-	-
Intangible assets	50,000	-	-	-
Goodwill on consolidation	49,532	-	-	-
<u>Current liabilities</u>				
Trade and other payables	(98,963)	-	-	-
Provisions	(2,213)	-	-	-
Current tax liabilities	(6,183)	-	-	-
Net assets disposed	104,265	-	-	-
Minority interest	(52,133)	-	-	-
Loss on disposal	(52,132)	-	-	-
	-	-	-	-
Net cash outflow on disposal				
Cash and cash equivalents consideration	-	-	-	-
Less cash and cash equivalent balances disposed of	(10,324)	-	-	-
	(10,324)	-	-	-

(e) Non-cash financing and investing activities

As noted in Note 28, the acquisition of the Institute of Technology Australia Pty Limited was part-financed through the issuance of 1,250,000 ordinary shares with a fair value of \$1,750,000.

35 Contingent liabilities

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 as 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.

36 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

Newcastle NSW 2300

Tel: (02) 4929 6711

Additional ASX Information

Substantial shareholders

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

Shareholder	Number of ordinary shares
Mrs D McGrath	4,252,986
Mr K McGrath	4,225,986
Kip McGrath Investments Pty Limited	1,000,000

Voting rights

Ordinary shares

Refer note 21 to financial statements

Options

Refer note 32 to financial statements

Distribution of equity security holders

Category	Number of equity security holders	
	Ordinary shares	Options
1-1,000	132	-
1,001 - 5,000	401	-
5,001 - 10,000	177	-
10,001 - 100,000	148	2
100,001 and over	13	1
Total	871	3

There were 29 shareholders with unmarketable (less than \$500) parcels of ordinary shares.

On-market buy-back

There is no current on-market buy-back.

Additional ASX Information

Twenty Largest shareholders as at 7 September 2007

Name	Number of ordinary shares held	Percentage of capital held
Mrs Dagnija McGrath	4,175,000	21.11
Mr Kip McGrath	4,175,000	21.11
Kip McGrath Investments Pty Ltd	1,000,000	5.06
Dr Michelle Milligan (Samak Trust)	975,000	4.93
Queensland Investment Corporation	921,402	4.66
ANZ Nominees Limited	503,413	2.55
National Nominees Limited	480,119	2.43
Liberty Consolidated Holdings Pty Ltd	250,000	1.26
Citicorp Nominees Pty Limited (CFSIL Commonwealth Small Company 1 Account)	243,934	1.23
J P Morgan Nominees Australia Limited	169,821	0.86
KMEC Superannuation Pty Limited	152,959	0.77
Citicorp Nominees Pty Limited (CFSIL Commonwealth Small Company 7)	146,949	0.74
H Cunnold Pty Ltd	115,000	0.58
SMP Dawson Pty Ltd	110,000	0.56
Budberth Pty Ltd	99,725	0.50
EDM Transport Pty Limited	80,000	0.40
Steve Napier Limited	80,000	0.40
Mipegu Pty Limited	70,000	0.35
Dr Mahomed Essa Rasool + Mrs Yasmon Rasool	54,000	0.27
Mr Phan Luong + Mrs Tieu Luong	52,634	0.27
Total	13,854,956	70.04

Directory

Board of Directors

Mr Keith Lynch – Chairman
Mr Storm McGrath – Managing Director
Mr Kip McGrath – Executive Director
Mrs Dagnija McGrath – Executive Director
Mr Michael Seamer – Non-Executive Director

Registered Office

35 Watt Street
NEWCASTLE NSW 2300
Telephone: (02) 4929 6711
Facsimile: (02) 4929 6338

Company Secretary

Mr Matthew Pereira

Auditors

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

Share Registry

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

Bankers

Commonwealth Bank Australia
Newcastle Branch
136 Hunter Street
NEWCASTLE NSW 2300

National Australia Bank Limited
Hamilton Branch
31 Beaumont Street
HAMILTON NSW 2303

Stock Exchange

The company is listed on the Australian Stock Exchange. The Home Exchange is Sydney.

Other information

Kip McGrath Education Centres Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.



Kip McGrath Education Centres Limited

Head Office

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2007