MELBOURNE BUSINESS SCHOOL LIMITED

ABN: 80 007 268 233

ANNUAL FINANCIAL REPORT

31 DECEMBER 2019

Contents

Directors' Report

For the year ended 31 December 2019

The Directors present their report together with the consolidated financial statements of the Group comprising of Melbourne Business School Limited ("the Company") and its subsidiaries, for the year ended 31 December 2019 and the auditor's report thereon.

Directors' qualifications, experience and special responsibilities

The Directors of the Company at any time during or since the end of the year are:

Name:	Qualifications:	Experience:	Special responsibilities:
Mr. Ross Ernest Barker	BSc (Hons) (Melb) MBA (Melb) F Fin	Director: Australian Foundation Investment Company, Mirrabooka Investments Ltd., Amcil Ltd., Southern Cross Ceramics Pty Ltd., William Buckland Foundation. Member: Faculty of Business and Economics Advisory Board, The University of Melbourne. Appointed: 2011	Chairman. Member: Investment Committee; Properties & Facilities Committee; Remuneration & Nominations Committee.
Mr. Anthony Ray Burgess	BCom (Hons) (Melb), MBA (Distinction), Harvard. CPA F Fin	Chairman: Flagstaff Partners Pty Ltd. Director: Diversified United Investment Ltd., Gandel Group Pty Ltd., The Ian Potter Foundation Limited Chairman: Melbourne Foundation for Business & Economics, University of Melbourne Member: Faculty of Business and Economics Advisory Board, The University of Melbourne. Member: Board of Management of Melbourne Theatre Company, a Department of the University of Melbourne. Appointed: 2013	Chair: Investment Committee. Member: Finance, Risk & Audit Committee.
Mr. Jan Craps	M Business Engineering (KU Leuven)	CEO & Executive Director: Budweiser Brewing Company APAC President APAC Zone: AB InBev Chairman: Carlton & United Breweries Appointed: 2018	

Directors' Report (continued)

Directors' qualifications, experience and special responsibilities (continued)

Name:	Qualifications:	Experience:	Special responsibilities:
Professor Douglas Dow	PhD (Melb), MBA (West Ontario), BAppSc (Queen's)	Professor in Business Strategy, Melbourne Business School Ltd. Appointed: 2011	
Dr. Jacinth Kincaid Fairley	BSc, BVSc (Hons), MBA (Melb), GAICD, FTSE	Chief Executive Officer and Managing Director: Starpharma Holdings Ltd. Director: Starpharma Pty Ltd., Mirrabooka Investments Ltd. Member: Investment Committee, Carnegie Innovation Fund. Fellow: Australian Academy of Technological Sciences and Engineering Appointed: 2010	Chair: Remuneration & Nominations Committee.
Professor Ian Harper	B Econ (Hons) (Qld), M Econ, PhD (ANU), FASSA, FAICD	Dean: Melbourne Business School Ltd. Dean: Faculty of Business & Economics: The University of Melbourne. Director: Ridley College Limited Board Member: Reserve Bank of Australia Fellow: AICD, Australian Academy of Social Sciences Member: CEDA Research and Policy Council Appointed: 2018	Member: Investment Committee; Properties & Facilities Committee
Mr. Dean Ireland	MMkt (Melb) B Com (Melb)	Partner: Egon Zehnder. Director: Opportunity International Appointed: 2018	Member: Remuneration & Nominations Committee.

Directors' Report (continued)

Directors' qualifications, experience and special responsibilities (continued)

Name:	Qualifications:	Experience:	Special responsibilities:
Mr. Robert Johanson	BA, LLM (Melb), MBA (Harvard)	Director: Grant Samuel Group Pty. Ltd., Neuclone Ltd., Robert Salzer Foundation. Appointed: 2017	Member: Finance, Risk & Audit Committee; Investment Committee
Ms. Antoinette Kimmitt	BBus (Acc), FCA, AICD	Chief Executive Officer & Managing Partner, Minter Ellison Director: Balbec Pty. Ltd., Contrac Holdings Pty Ltd., Emesco Agents Pty Ltd., Emesco Canberra Pty. Ltd., ME Consulting (Holding) Pty Ltd., M E Leasing Pty Ltd., Minter Ellison Administration Pty Ltd., Minter Ellison Agency Pty Ltd., Minter Ellison Consultants Pty Ltd., Minter Ellison Foundation Pty Ltd. Appointed: 2018	Chair: Finance, Risk & Audit Committee.
Professor Paul Kofman	PhD (Erasmus Universiteit Rotterdam), B Ec (Erasmus Universiteit Rotterdam)	Dean: Faculty of Business and Economics, The University of Melbourne. Appointed: 2013	
Mr. Cameron Leitch	MBA (Melb)	Partner: McKinsey & Company Appointed: 2017	
Dr. Xiaoling Liu	PhD (Imperial College London), BEng (Chongqing University), FTSE, GAICD	Director: Iluka Resources Ltd., Newcrest Mining Ltd., South 32 Ltd. Appointed: 2016 Retired: October 2019	Member: Finance, Risk & Audit Committee; Remuneration & Nominations Committee.

Directors' Report (continued)

Directors' qualifications, experience and special responsibilities (continued)

Name:	Qualifications:	Experience:	Special responsibilities:
Mr. Geoffrey Frederick Lord	B Econ (Hons), MBA (Distinction), ASSA, FAICD	Director: Judo Capita, Judo Bank. Chairman: Belgravia Group, Tesserent Ltd. Appointed: 2015	Member: Finance, Risk & Audit Committee; Properties & Facilities Committee.
Professor Duncan Maskell	MA, PhD, FMedSci, Hon Assoc RSVC	Vice-Chancellor and Principal: The University of Melbourne. Appointed: 2018	
Mr. Scott Matthew Tanner	B App Sci (Math) RMIT, MBA (Melb) FAICD	Chairman: Committee for Melbourne, GrowthOps Appointed: 2011	Member: Investment Committee; Remuneration & Nominations Committee.
Mr. Frank Peter Zipfinger	LLB LLM (Syd), BA Ec & Fin Studies (Macquarie), MBA (Melb), MAICD	Director: Buchan Architects, Vecor Limited, Macquarie University Council, The Northcare Foundation, Teter Mek Foundation, ONELAND Programs Ltd. Executive Committee: St. Joseph's College Indigenous Fund. Member: St Joseph's College Foundation. Ambassador: Australian Indigenous Education Foundation. Consultant: King & Wood Mallesons. Appointed: 2009	Chair: Properties & Facilities Committee.

Directors' Report (continued)

Directors' meetings

The number of Directors' meetings (including meetings of sub-committees of Directors) and the number of meetings attended by each of the Directors of the Company during the financial year were:

	Board		Finance, Risk & Audit Committee		Investment Committee		Remuneration & Nominations Committee		Properties & Facilities Committee	
	A	B	A	B	A	B	A	B	A	B
Mr. R Barker	4	4	-	-	3	4	2	2	4	5
Mr. A Burgess	4	4	4	4	4	4	-	-	-	-
Mr. J Craps	3	4	-	-	-	-	-	-	-	-
Professor D Dow	4	4	-	-	-	-	-	-	-	-
Dr. J Fairley	3	4	-	-	-	-	2	2	-	-
Professor I Harper	4	4	-	-	4	4	-	-	3	4
Mr. D Ireland	2	4	-	-	-	-	2	2	-	-
Mr. R Johanson	3	4	3	4	3	4	-	-	-	-
Ms. A Kimmitt	3	4	3	4	-	-	-	-	-	-
Professor P Kofman	3	4	-	-	-	-	-	-	-	-
Mr. C Leitch	2	4	-	-	-	-	-	-	-	-
Dr. X Liu	2	3	3	3	-	-	1	1	-	-
Mr. G Lord	4	4	1	4	-	-	-	-	4	5
Professor D Maskell	2	4	-	-	-	-	-	-	-	-
Mr. S M Tanner	3	4	-	-	3	4	2	2	-	-
Mr. F Zipfinger	4	4	-	-	-	-	-	-	5	5

Column A – indicates the number of meetings attended during the period the Director was a member of the Board and/or Committee.
Column B – indicates the number of meetings held during the period the Director was a member of the Board and/or Committee.

(1) Dr. Liu retired from the Board, Finance, Risk & Audit Committee and Remuneration & Nominations Committee on 11 October 2019.

Company Secretary

The Company Secretary is Mr. M J Flipo B.Bus (Acctg), ACA, FAICD, ASIC.

Directors' Report (continued)

Corporate Governance

The corporate objective of the Melbourne Business School is to provide education, training and research. Good corporate governance is a fundamental part of the culture and business practices of the Company.

Melbourne Business School corporate governance incorporates those principles outlined below:

- Lay solid foundation for management oversight
- Have a Board of effective composition, size and commitment to adequately discharge its responsibilities
- Promote ethical and responsible decision making
- Have a structure to independently verify and safeguard the integrity of the controlled entities' financial reporting
- Make timely and balanced disclosure of all material matters concerning the controlled entities
- Recognise and manage risk
- Fairly review and actively encourage enhanced Board and management performance
- Recognise the legitimate interests of all stakeholders

Role of the Board

The primary role of the Board is to set and review strategic and operating objectives; enhance the reputation of the Company and to protect the interests of all stakeholders.

To fulfil this role, the Board is responsible for the overall corporate governance of the Company including: formulating strategic direction, approving and monitoring capital expenditure, setting remuneration, appointing, removing and reviewing succession policies for Directors and senior executives, establishing and monitoring the achievement of management's goals, and ensuring the integrity of internal control and management systems. It is also responsible for approving and monitoring financial and other reporting.

The Constitution of the Company limits the number of Board members to 17, including 3 members appointed by University of Melbourne, and the University of Melbourne Vice-Chancellor.

The Board has delegated responsibility for operation and administration of the Company to the Dean. Responsibilities are delineated by formal authority delegations.

Board processes

To assist in the execution of its responsibilities, the Board has established a number of Board Committees including an Investment Committee, Finance, Risk & Audit Committee, Remuneration & Nominations Committee and a Properties and Facilities Committee. These Committees have charters which are reviewed on a regular basis.

The full Board currently holds four scheduled meetings each year, plus an Annual General Meeting, and any additional meetings as may be necessary to address any specific significant matters that may arise.

The agenda for meetings is prepared by the Chair, Dean and Company Secretary. Standing items include; Dean's Report, Financial Report, OH&S, strategic matters, governance and compliance. Submissions are circulated in advance. Executives are regularly involved in Board discussions and Directors have other opportunities, including visits to the School campuses, for contact with a wider group of employees.

Directors' Report (continued)

Finance, Risk & Audit Committee

The Charter under which the Finance, Risk & Audit Committee operates was reviewed and approved by the Board on 29 May 2017.

The Committee comprises not less than three non-executive Directors, appointed by the Board. The Chair is appointed by the Board.

The MBS Board Chair, the Dean, Deputy Dean and the Chief Operating Officer, as well as the external auditors are invited to attend as required.

The members of the Finance, Risk & Audit Committee during the year were:

Mr A R Burgess, BCom (Hons) (Melb), MBA (Distinction), Harvard. CPA FFin
Mr R Johanson, BA, LLM (Melb), MBA (Harvard)
Ms A Kimmitt (Chair), B.Bus (Acc), FCA, AICD
Dr X Liu, PhD, BEng, FTSE, GAICD (Retired: October 2019)
Mr G Lord, BEco (Hons), MBA (Distinction), ASSA, FAICD

The Committee assists the Board of Directors to fulfil its responsibilities in overseeing financial, accounting and risk management together with audit and compliance within legislative requirements.

The Committee meets at least four times a year and provides a report at each subsequent Board Meeting.

Investment Committee

The Charter under which the Investment Committee operates was reviewed and approved by the Board on 29 November 2019. The Committee comprises not less than three non-executive Directors appointed by the Board and the Dean. The Chair is appointed by the Board.

The Deputy Dean, Chief Operating Officer and other executive officers of the Company are invited to attend as required.

The members of the Investment Committee during the year were:

Mr R E Barker, BSc (Hons) (Melb) MBA (Melb) F Fin
Mr A R Burgess (Chair), BCom (Hons) (Melb), MBA (Distinction), Harvard. CPA FFin
Professor I Harper, B Econ (Hons) (Qld), M Econ, PhD (ANU), FASSA, FAICD
Mr R Johanson, BA, LLM (Melb), MBA (Harvard)
Mr S M Tanner, B.App Sci (Math) RMIT, MBA (Melb), FAICD

The Committee recommends, reviews, and reports to the Board on:

- Overall investment objectives and strategy;
- Appointment, management and review of the investment advisor; and
- Performance of the portfolio.

The Committee meets at least four times a year and provides a report at each subsequent Board meeting.

Directors' Report (continued)

Remuneration and Nominations Committee

The Charter under which the Remuneration and Nominations Committee operates was reviewed and approved by the Board on 15 March 2018. The Committee comprises not less than two and no more than five members, all of whom shall be non-executive Directors appointed by the Board. The Chair is appointed by the Chair of the Board.

The Dean, Deputy Dean and other executive officers of the Company are invited to attend as required.

The members of the Remuneration and Nominations Committee during the year were:

Mr R E Barker, BSc (Hons) (Melb) MBA (Melb) F Fin
Dr J K Fairley (Chair), BSc, BVSc (Hons), MBA (Melb), GAICD, FTSE
Mr D Ireland, MMkt (Melb), BCom (Melb)
Dr X Liu, PhD, BEng, FTSE, GAICD (Retired: October 2019)
Mr S M Tanner, B.App Sci (Math) RMIT, MBA (Melb), FAICD

The Committee recommends, reviews, and reports to the Board on:

- Overall remuneration strategy;
- Dean's performance incentives and hurdles; and
- Board structure, membership, tenure and succession planning.

The Committee meets at least twice per year and provides a report at each subsequent Board meeting.

Properties and Facilities Committee

The charter under which the Properties and Facilities Committee operates was reviewed and approved by the Board on 14 March 2019. The Committee was formed to review and advise the Board on matters pertaining to the properties and facilities owned by the Company.

The Committee comprises not less than two and no more than five members, all of whom shall be non-executive Directors appointed by the Board. The Chair is appointed by the Board.

The Deputy Dean and other executive officers of the Company and the University of Melbourne are invited to attend as required.

The members of the Properties and Facilities Committee during the year were:

Mr R E Barker, BSc (Hons) (Melb) MBA (Melb) F Fin
Mr F P Zipfinger, (Chair), LLB LLM (Syd), BA Ec & Fin Studies (Macquarie), MBA (Melb), MAICD
Mr G Lord BEco (Hons), MBA (Distinction), ASSA, FAICD
Professor I Harper, B Econ (Hons) (Qld), M Econ, PhD (ANU), FASSA, FAICD

The Committee assists the Board to manage the School's properties and facilities to meet the School's overall strategy while:

- Maximising the usage of the physical assets;
- Collaborating with the University of Melbourne to maximise the usage of physical resources;
- Deriving income where possible from surplus assets;
- Maintaining the state of the asset and property; and
- Complying with statutory requirements.

The Committee meets at least once per year and provides a report at each subsequent Board meeting.

Directors' Report (continued)

General information

The Group consists of the Melbourne Business School Limited and its subsidiaries; Mt Eliza Graduate School of Business and Government Limited and MBS Management Development (Malaysia) Sdn Bhd. The Melbourne Business School Limited was incorporated under the Corporations Law on 19 October 1987 as a Public Company Limited by Guarantee. Every member of the Company undertakes to contribute to the property of the Company, in the event of the Company being wound up while they are a member, or within one year after they cease to be a member, for payment of the debts and liabilities of the Company (contracted before they cease to be a member) and of the costs, charges and expenses of winding up and for the adjustment of the rights of the contributories among themselves, such amount as may be required, not exceeding $100.

Mt Eliza Graduate School of Business and Government Limited was incorporated under the Corporations Law on 21 February 1955 as a Public Company Limited by Shares and Guarantee. MBS Management Development (Malaysia) Sdn Bhd was incorporated under the Malaysian Companies Act, 1965 as a Private Company on 5 February 2015.

Long term objective

The long-term objective of the Melbourne Business School is to be among the top-ranked providers of business education within its region (Asia-Pacific). In addition, the Melbourne Business School aims to be the first choice of students and clients seeking business education experiences in its region and esteemed globally as a leading supplier of academic and business-relevant research.

Short term objectives

In the short term the Company's objectives are to:

- To grow its distinctive academic award portfolio in order to position Melbourne Business School to meet a range of post-graduate business educational needs;
- To grow its high-quality offering in Executive Education and expand its reach into both national and international organisations;
- Increase engagement with Melbourne Business School alumni and with organisations to build two-way value enhancing partnerships; and
- Build on its financially strong base, growing the current level of activity and developing physical assets to better suit Melbourne Business School's requirements and increase returns on investments.

Strategies for achieving objectives

In 2019 management of the Melbourne Business School, with the approval of the Board, initiated strategies to meet short and long term objectives. These included:

- Introduction of new academic programs;
- Review of MBA program formats;
- Expansion of client reach;
- Increase focus on corporate relations;
- Collaborate with the University of Melbourne;
- Developing a compelling brand proposition; and
- Initiating the development of new business school facilities.

Principal activities

The principal activities of the Melbourne Business School during the course of the financial year were the provision of educational services, academic research and engagement with Alumni and organisations.
There were no significant changes in the nature of activities of the Group during the year.

Directors' Report (continued)

Principal activities assisting the objectives

The principal activities of the Company are, in the main, the dissemination of the knowledge of business and management to students and executives and the development of ongoing relationships with these stakeholders. The income derived from these activities provides the finances to further invest in educational services, research and to improve the variety of offerings to students and participants. Educational services are closely measured by student and participant surveys. These surveys give a clear indication of how the School is tracking against its objectives and provides valuable feedback on its activities.

Measurement of performance

The Company measures its success against local and international business school rankings and historical performance. The targets are measurable and objective and are monitored by the School Board on a regular basis throughout the year.

Chief Executive Officer

Professor Ian Harper – Dean and School Director

Senior Executive Officers

Professor Caron Beaton-Wells – Deputy Dean (Appointed: 24 February 2020)
Ms Laura Bell – Academic Registrar
Professor Boğaçhan Çelen – Associate Dean (Faculty) (Appointed: December 2019)
Professor Paul Dainty – Deputy Dean (Retired: December 2019)
Mr Marc Flipo – Chief Operating Officer
Ms Sally Forrester – Executive Director Marketing
Associate Professor Andrew John – Head of Department of Business Administration (Retired: September 2019)
Professor Ujwal Kayande – Associate Dean (Academic)
Ms Theoni Parthimos – Executive Director People & Culture
Mr Eddie Tritton – Executive Director Commercial

Register of Business Names

MBS Sydney
Melbourne Business School Centre for Coaching
Melbourne Business School Centre for Coaching In Organizations
Melbourne Executive Education
Melbourne Master of Business Administration
Mt Eliza Executive Education
Mt Eliza Centre for Executive Education
Mt Eliza Business School
Melbourne Case Study Services
Melbourne School of Marketing
Melbourne Business School Foundation

Registered Address

The registered office of the Melbourne Business School Limited is 200 Leicester Street Carlton VIC 3053.

Directors' Report (continued)

Review and Results of Operations

The Group continued to operate post-graduate award courses, management/executive education programs and conduct research in the field of business during the year. In addition, the Group continued to hire out its facilities for educational purposes throughout the year.

The consolidated loss for the year ended 31 December 2019 was $501,161 (2018: consolidated loss of $683,276).

Investments

The investment portfolio is managed by the Investment Committee comprising of members who have expertise in financial markets. The portfolio is managed to a long-term investment horizon. The value of the portfolio, after funding School operations, as at 31 December 2019 was $127,038,266 (including relevant cash and cash equivalents) (2018: $105,170,142). The average earnings rate of the portfolio was 4.5% (2018: 6.4%), excluding changes in the fair value of investments.

Dividends

Melbourne Business School Limited is a company limited by guarantee and Mt Eliza Graduate School of Business and Government Limited is a company limited by shares and guarantee, and both companies are prohibited by their respective Memoranda of Association from paying a dividend to their members.

State of affairs

In the opinion of the directors there were no significant changes in the state of affairs of the Group that occurred during the financial year under review not otherwise disclosed in this report or the consolidated financial statements.

Environmental regulation

The Group's operations are subject to the general environmental regulations under both Commonwealth and State legislation. The Board believes that the Group has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the Group.

The Company's OH&S policy requires the company to provide a working environment which is safe and to minimise risks to health. The Company is committed to ensuring the safety, health, welfare and rehabilitation of its staff, students, visitors and all stakeholders.

Events subsequent to Reporting Date

The spread of the coronoavirus COVID-19 in early 2020 has had a material impact on the market value of the School's investments, with an unrealised decline in value of 16.7% noted at as the date of the Directors' Report. There is also likely to be an impact on the School's operations as a result of COVID-19. At the date of signing the Directors' Report, the financial impact cannot be quantified accurately but Directors do not believe it will affect the School's capacity to remain a going concern for the foreseeable future.

Other than the above development, no other item, transaction or event of a material and unusual nature has occurred since 31 December 2019 which is likely, in the opinion of the directors of the company, to affect significantly the operations of the group, the results of those operations, or the state of affairs of the group, in future financial years.

Directors' Report (continued)

Workforce data

Staff numbers as at 31 December	2019	2018
Full Time Equivalent		
- Academics	38	39
- General	127	145
Total	**165**	**184**
Casual Staff	40	46

Staff of the Company

The Company employed 165 full time equivalent staff at 31 December 2019 (2018: 184), excluding casuals. Staff numbers decreased by 19 during the year. This arose due to an organisational restructure undertaken in the second half of 2019.

Likely developments

The Group will continue to pursue its policy of raising program quality, increasing brand recognition, maintaining financial strength and offering high quality services and facilities.

Equal Opportunity Policy

The Company has in place an Equal Opportunity Policy, which includes policies relating to anti-discrimination, equal employment opportunity, harassment and victimisation.

Code of Conduct Policy

The Company has in place a Code of Conduct Policy, which includes policies relating to conflict of interest, whistle blower protection and personal and professional behaviour standards.

Whistleblower Policy

The Company has in place a Whistleblower Policy to encourage and protect those involved in identifying and calling out misconduct and harm to staff, students and stakeholders.

Directors' Report (continued)

Consolidated Operational Performance and Financial Position

The following table presents the financial results with comparative information on the Group's operating performance and financial position over the previous five (5) years:

in thousands of dollars	**Actual 2019**	**Actual 2018**	**Actual 2017**	**Actual 2016**	**Actual 2015**
Revenue (inclusive of investment income)	70,081	70,567	66,755	69,165	66,731
Profit on sale of property	-	-	9,066	-	-
	70,081	70,567	75,821	69,165	66,731
Expenses					
Operating expenses (inclusive of finance expense)	70,582	71,250	69,900	69,826	66,717
	70,582	71,250	69,900	69,826	66,717
Operating results from ordinary activities	(501)	(683)	5,921	(661)	14
Impairment of financial assets	-	-	-	-	-
Income tax expense	-	-	(46)	-	-
Profit/(loss) for the year	**(501)**	**(683)**	**5,875**	**(661)**	**14**
Net Assets (at year end)	263,073	214,955	214,029	193,181	188,401

Directors' Report (continued)

Consultancy Services

Payments made during the year to consultants engaged by the Group to provide services for which the skill set are not held within the Company, were:

Consultants costing less than $100,000	**Project**	**Expenditure 2019**	**Expenditure 2018**	**Future expenditure**
In thousands of dollars				
Payments to Consultants	Various	722	592	Unquantified

Key services provided include legal advice, project management, architecture, planning and general consulting services.

Consultants costing more than $100,000	**Project**	**Expenditure 2019**	**Expenditure 2018**	**Future expenditure**
In thousands of dollars				
Sandrick Project Directions	Pelham Street Development	125	-	Unquantified
Forethought	Market Research	150	-	Unquantified
Woods Bagot	Pelham Street Development	643	-	Unquantified
King & Wood Mallesons	Pelham Street Development	-	132	Unquantified
PricewaterhouseCoopers	MBS-FBE strategy review 2018	-	600	Unquantified

Number of consultants engaged: 38 were engaged in 2019 (2018: 33).

The total fees paid to the consultants do not include GST.

Directors’ Report (continued)

Indemnification and Insurance of Officers and Auditors

Indemnification

The Company has agreed to indemnify the following current Directors of the Company, Messrs R E Barker, A R Burgess, J Craps, D Ireland, R Johanson, C Leitch, G F Lord, S M Tanner, F P Zipfinger, Ms A Kimmitt, Professors D Dow, I Harper, P Kofman, D Maskell, Dr J K Fairley, former Director Dr X Liu and the current Secretary of the Company, Mr M Flipo against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as Directors or Secretary of the Company and its controlled entities, except where the liability arises out of a lack of good faith. The agreement stipulates that the Company will meet the full amount of such liabilities, including costs and expenses.

The Company has also agreed to indemnify the current Directors, Mr S Bevis, Mr M Flipo, Professor C Beaton-Wells, and Mr S Tze-Wei and Secretary of its controlled entities for all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as Directors and Secretary of the Company and its controlled entities, except where the liability arises out of a lack of good faith. The agreement stipulates that the Company will meet the full amount of such liabilities, including costs and expenses.

The Company has agreed to indemnify the Senior Executive Officers, Professor C Beaton-Wells, Ms L Bell, Professor B Çelen, Ms S Forrester, Professor U Kayande, Ms T Parthimos and Mr E Tritton and former Senior Executive Officers Professor P Dainty and Associate Professor A John for all liabilities to another person (other than the Company or related body corporate) that may arise from their position, except where the liability arises out of conduct involving lack of good faith. The agreement stipulates that the Company will meet the full amount of such liabilities, including costs and expenses.

Since the end of the previous year, the Company has not indemnified or made any relevant agreement for indemnifying against a liability of any person who is or has been an auditor of any entities included in the Group.

Insurance Premiums

Since the end of the previous financial year, the Company has paid insurance premiums of $27,378 (2018: $25,000) in respect of the Directors’ and Officers’ liability and legal expenses’ insurance contracts, for current and former Directors and officers, including executive officers of the Company and Directors. The insurance premiums relate to:

- Costs and expenses incurred by the relevant officers in defending proceedings whether civil or criminal and whatever their outcome; and
- Other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage.

Directors' Report (continued)

Lead Auditor's Independence Declaration

The lead auditor's independence declaration is set out on page 19 and forms part of the Directors' report for the year ended 31 December 2019.

Rounding off

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and, in accordance with that instrument, all amounts in the consolidated financial statements and Directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of the Directors:

Ross Ernest Barker
Director
16 March 2020

Professor Ian Harper
Director
16 March 2020

Auditor's Independence Declaration under subdivision 60-C section 60-40 of Australian Charities and Not-for-profits Commission Act 2012

To: the Directors of Melbourne Business School Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 December 2019 there have been:

i. no contraventions of the auditor independence requirements as set out in the Australian Charities and Not-for-profits Commission Act 2012 in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Tony Batsakis
Partner

Melbourne
16 March 2020

MELBOURNE BUSINESS SCHOOL LIMITED

Consolidated income statement

for the year ended 31 December 2019

in thousands of dollars	Note	2019	2018
Continuing operations			
Revenue			
Award programs		34,426	34,576
Corporate programs		26,289	24,920
Conferences		1,260	1,069
Corporate memberships and sponsorships		1,005	826
Fundraising		623	548
Research		98	104
Other operating revenue		1,127	1,596
Total Revenue		**64,828**	**63,639**
Expenditure			
Advertising and promotion		2,094	2,632
Catering and cleaning		1,875	1,873
Consulting and other professional		2,407	1,882
Depreciation and amortisation	4(a)	3,606	3,674
Employee benefits		34,015	34,256
External teaching and facilitation		10,924	10,651
Hire		1,552	1,939
Information technology		1,490	1,304
Library collection		160	118
Other general		1,510	1,537
Production and printing		1,298	1,085
Raw materials and consumables used		1,264	1,239
Rent and outgoings		156	176
Repairs and maintenance		537	643
Research		934	869
Royalties		1,480	1,395
Scholarship payments		2,744	3,033
Travel		1,680	2,140
Utilities		716	682
Total Expenditure		**70,442**	**71,128**
Results from operating activities		(5,614)	(7,489)
Finance income			
Investment income	3	5,253	6,928
		5,253	**6,928**
Finance expense			
Financial expenses		140	122
		140	**122**
Net finance income		**5,113**	**6,806**
Income tax expense	1(q)	-	-
Surplus/(Deficit)		**(501)**	**(683)**

The notes on pages 25 to 72 are an integral part of these consolidated financial statements.

Consolidated statement of other comprehensive income (OCI)

for the year ended 31 December 2019

in thousands of dollars	**Note**	**2019**	**2018**
(Loss)/Profit		**(501)**	**(683)**
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Foreign operations - foreign currency translation differences		(13)	(184)
Items that will not be classified to profit or loss:			
Net change in fair value of investments at FVOCI		19,862	(5,081)
Revaluation of property, plant and equipment	8	28,770	6,874
Other comprehensive income		48,619	1,609
Total comprehensive income		**48,118**	**926**

The notes on pages 25 to 72 are an integral part of these consolidated financial statements.

MELBOURNE BUSINESS SCHOOL LIMITED

Consolidated statement of financial position

as at 31 December 2019

in thousands of dollars	Note	2019	2018
Assets			
Current Assets			
Cash and cash equivalents	5	6,664	5,447
Trade and other receivables	6	4,686	5,812
Inventories		57	12
Total Current Assets		**11,407**	**11,271**
Non-Current Assets			
Investments	7	120,859	101,629
Property, plant and equipment	8	149,257	123,351
Intangible assets	9	1,183	715
Total Non-Current Assets		**271,299**	**225,695**
Total Assets		**282,706**	**236,966**
Liabilities			
Current Liabilities			
Trade and other payables	10	6,306	8,770
Loans and borrowings	12	502	871
Employee benefits	13	6,458	5,713
Deferred income	14	5,105	4,996
Total Current Liabilities		**18,371**	**20,350**
Non-Current Liabilities			
Loans and borrowings	12	883	1,208
Employee benefits	13	379	453
Total Non-Current liabilities		**1,262**	**1,661**
Total Liabilities		**19,633**	**22,011**
Net Assets		**263,073**	**214,955**
Equity			
Reserves	18	155,422	106,627
Capital donations		24,873	24,873
Contributed equity		12,339	12,339
Retained earnings		70,439	71,116
Total Equity		**263,073**	**214,955**

The notes on pages 25 to 72 are an integral part of these consolidated financial statements.

MELBOURNE BUSINESS SCHOOL LIMITED

Consolidated statement of changes in equity

for the year ended 31 December 2019

in thousands of dollars	Contributed equity	Capital donations	Translation Reserve	Asset revaluation reserve	Fair value reserve	Realised capital gains	Library reserve	Accumulated income endowment funds	Retained earnings	Total equity
Balance at 1 January 2018	12,339	36,113	9	81,012	21,071	1,984	32	557	60,912	214,029
Total comprehensive income										
Surplus/(Deficit)	-	-	-	-	-	-	-	-	(683)	(683)
Other comprehensive income	-	-	(184)	6,874	(5,081)	-	-	353	(353)	1,609
Transfers on realisation of assets	-	(11,240)	-	-	(1,109)	1,109	-	-	11,240	-
Total comprehensive income	-	(11,240)	(184)	6,874	(6,190)	1,109	-	353	10,204	926
Balance as at 31 December 2018	**12,339**	**24,873**	**(175)**	**87,886**	**14,881**	**3,093**	**32**	**910**	**71,116**	**214,955**
Balance at 1 January 2019	12,339	24,873	(175)	87,886	14,881	3,093	32	910	71,116	214,955
Total comprehensive income										
Surplus/(Deficit)	-	-	-	-	-	-	-	-	(501)	(501)
Other comprehensive income	-	-	(13)	28,770	19,862	-	-	208	(208)	48,619
Transfers on realisation of assets	-	-	-	-	(2,098)	2,098	(32)	-	32	-
Total comprehensive income	-	-	(13)	28,770	17,764	2,098	(32)	208	(677)	48,118
Balance as at 31 December 2019	**12,339**	**24,873**	**(188)**	**116,656**	**32,645**	**5,191**	**-**	**1,118**	**70,439**	**263,073**

The notes on pages 25 to 72 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

for the year ended 31 December 2019

in thousands of dollars	Note	2019	2018
Cash flows from operating activities			
Cash receipts from customers		70,881	70,477
Cash paid to suppliers and employees		(73,538)	(71,248)
Net cash from/(used in) operating activities	17	(2,657)	(771)
Cash flows from investing activities			
Proceeds from sale of investments		14,118	11,112
Payments for investments		(13,619)	(12,614)
Interest received		73	235
Investment income		5,844	6,299
Payments for property, plant and equipment / intangibles		(1,376)	(6,714)
Net cash from/(used in) investing activities		5,040	(1,682)
Cash flows from financing activities			
Net proceeds from borrowings		(255)	245
Payment of finance lease liabilities		-	(738)
Payment of lease liabilities		(1,015)	-
Net cash used in financing activities		(1,270)	(493)
Net increase/(decrease) in cash and cash equivalents		1,113	(2,946)
Cash and cash equivalents at 1 January		5,447	8,659
Effect of movements in exchange rates on cash held		104	(266)
Cash and cash equivalents at 31 December	5	6,664	5,447

The notes on pages 25 to 72 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1. Significant accounting policies

(a) (i) Reporting entity

Melbourne Business School Limited (the "Company") is domiciled in Australia. These consolidated financial statements of the Company for the year ended 31 December 2019 comprise the Company and its subsidiaries (together referred to as the "Group"). The registered office of the Melbourne Business School Limited is 200 Leicester Street Carlton VIC 3053.

The Melbourne Business School Limited and its Australian-domiciled controlled entities are not-for-profit entities and are primarily involved in the provision of educational services and academic research.

The Company's Malaysian subsidiary, MBS Management Development (Malaysia) Sd. Bhd., is a for-profit entity established under the Companies Act 2016 in Malaysia. This company is principally engaged in the provision of management education.

(ii) Basis of accounting

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Australian Charities and Not-for-profits Commission Act 2012 (ACNC).

Certain comparative amounts in the consolidated statement of profit or loss and other comprehensive income have been reclassified to conform to the current year's presentation.

The consolidated financial statements were authorised for issue by the Directors on 16 March 2020.

Net current asset deficiency

The Group is expected to generate sufficient cash inflows to meet its near-term operating cashflow needs and to fund the payment of its current liabilities, which include non-cash deferred income liability amounts that mainly comprise fees received in advance. Refer to note 7(c)(iii).

(b) Basis of preparation

(i) Functional and presentation currency

The financial report is presented in Australian dollars which is the Company's functional currency.

(ii) Rounding

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and, in accordance with that instrument, amounts in the consolidated financial statements and Directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Notes to the consolidated financial statements

1. Significant accounting policies (continued)

The accounting policies set out below have been applied consistently by the Group to all periods presented in these consolidated financial statements. Certain comparative amounts have been reclassified to conform with the current year's presentation.

(c) Basis of consolidation

(i) Group

The Group consists of the Melbourne Business School Limited and its subsidiaries; Mt Eliza Graduate School of Business and Government Limited and MBS Management Development (Malaysia) Sdn Bhd.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Investments in subsidiaries are measured at fair value, having due regard to the net assets of the subsidiaries.

(iii) Transactions eliminated on consolidation

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

(d) Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to Australian dollars at the exchange rate at the reporting date. Foreign currency differences arising from translation are generally recognised in profit or loss. Non-monetary assets and liabilities that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to Australian dollars at the exchange rates when the fair value was determined.

(e) Foreign Operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into Australian dollars at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into Australian dollars at exchange rates at the end of the month in which the transactions occurred. Foreign currency differences are recognised in OCI and accumulated in the translation reserve.

When a foreign operation is disposed of in its entirety or partially such that control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to OCI.

Notes to the consolidated financial statements

1. Significant accounting policies (continued)

(f) Property, plant and equipment

(i) Owned assets

Items of plant and equipment are measured at cost less accumulated depreciation and impairment losses. Land and buildings are measured at fair value less accumulated depreciation and impairment losses.
Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within other income in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

(ii) Subsequent costs

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the statement of comprehensive income as an expense as incurred.

(iii) Valuations

Formal revaluations of land and buildings are performed every three years, or from time to time as determined by the Directors. The fair value of land and buildings is determined from market-based evidence by appraisal that is undertaken by independent professional qualified valuers. The Directors review the carrying value of land and buildings at each balance date to assess whether there has been a material change in valuation of land and buildings that is required to be recorded in the financial statements.

If the carrying amount of land or buildings has increased as a result of a revaluation, the net revaluation increase is recognised in other comprehensive income and accumulated in equity under the heading of revaluation reserve. However, the net revaluation increase is recognised in profit or loss to the extent that it reverses a net revaluation decrease of the land or buildings previously recognised in profit or loss.

Notes to the consolidated financial statements

1. Significant accounting policies (continued)

(f) Property, plant and equipment (continued)

(iii) Valuations (continued)

If the carrying amount of land or buildings has decreased as a result of a revaluation, the net revaluation decrease is recognised in profit and loss. However, the net revaluation decrease is recognised in other comprehensive income to the extent of any credit balance existing in the revaluation reserve in respect of land or buildings. The net revaluation decrease recognised in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation reserve.

Land and buildings are individually separate classes of property, plant and equipment.

(iv) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives in the current and comparative years of items of property, plant and equipment are as follows:

• Buildings	15 - 40 years
• Plant and equipment	10 years
• Computer equipment	3 years
• Chattels, equipment and facilities	10 years
• Furniture and fittings	10 years
• Leasehold improvements	3 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(g) Intangible assets

Intangible assets relate to computer software. Computer software is stated at cost less accumulated amortisation and impairment loss.

Amortisation is calculated over the cost of the software, or other amount substituted for cost, less its residual value. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful life of computer software for the current and comparative periods is three (3) years; this is reviewed at each reporting period and adjusted if appropriate.

(i) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

Notes to the consolidated financial statements

1. Significant accounting policies (continued)

(h) Financial instruments

(i) Financial assets– Recognition and initial measurement

The Group initially recognises loans and receivables and debt securities on the date that they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transactions costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control of the financial asset.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value. On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid is recognised in profit or loss.

(iii) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Notes to the consolidated financial statements

1. Significant accounting policies (continued)

(h) Financial instruments (continued)

(iv) Classification and subsequent measurement

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL. Financial assets are not reclassified subsequent to the initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model. On initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVOCI. Designation at FVOCI is not permitted if the equity investment is held for trading.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial instruments not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL.

Investments in equity instruments at FVOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investments revaluation reserve. The cumulative gain or loss will never be reclassified to profit or loss.

Financial assets – Business model assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning long-term capital returns or contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed.

Notes to the consolidated financial statements

1. Significant accounting policies (continued)

(h) Financial instruments (continued)

(iv) Classification and subsequent measurement (continued)

Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest

For the purpose of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk an administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

Financial assets – Subsequent measurement and gains and losses

Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest rate method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income is calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity instruments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

(i) Inventories

Inventories comprise of souvenirs and consumables and are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of other inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

Notes to the consolidated financial statements

1. Significant accounting policies (continued)

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of 3 months or less from the acquisition date that are subject to an insignificant risk of change in their fair value.

(k) Impairment

(i) Non-derivative financial assets

Financial instruments

The Group recognises loss allowances for Expected Credit Losses (ECLs) on financial assets measured at amortised cost and debt investment measured at FVOCI.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

The Group considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- The financial asset is more than 90 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is les that 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Loss allowances for trade receivables are always recognised at an amount equal to lifetime ECLs.

Debt securities are determined to have low credit risk at the reporting date and are measured at 12-month ECLs.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Notes to the consolidated financial statements

1. Significant accounting policies (continued)

(k) Impairment (continued)

(i) Non-derivative financial assets (continued)

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or being more than 90 days past due;
- The restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- It is probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for a security because of financial difficulties; or
- Investment grades for debt securities reduce below 'BBB'.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognised in OCI.

Write-off

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Group has a policy of writing off the gross carrying amount when the financial asset is 180 days past due based on historical experience of recoveries of similar assets. For corporate customers, the Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

(ii) Non-financial assets

At each reporting date the Group reviews the carrying amounts of its non-financial assets (other than inventories) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Impairment losses are recognised in profit or loss.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. The decrease in impairment loss is reversed through profit and loss.

(l) Dividends

Dividends are prohibited from being paid out of the Company and its controlled entities.

Notes to the consolidated financial statements

1. Significant accounting policies (continued)

(m) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss as the related service is provided.

(ii) Short term benefits

Short–term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(iii) Other long-term employee benefits

The Group's net obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The benefit is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted to determine its present value. Remeasurements are recognised in profit or loss in the period in which they arise.

(iv) Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the reporting date, then they are discounted.

(n) Revenue

Revenue is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when:

- It transfers control over a good or service to a customer;
- Services provided are volunteer services;
- Assets are acquired for which the consideration provided is significantly less than fair value and the asset enables the Group to further its objectives;
- The contract does not contain enforceable rights and obligations and does not create sufficiently specific performance obligations.

Notes to the consolidated financial statements

1. Significant accounting policies (continued)

(n) Revenue (continued)

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of service	Nature and timing of performance obligations, including significant payment terms	Revenue recognition under AASB 15 or AASB 1058 (applicable from 1 January 2019)	Revenue recognition under AASB 118 (applicable before 1 January 2019)
Award programs	Award Program fees are primarily collected from students by the University of Melbourne (UoM). Fees are invoiced by the Group to UoM as follows: MBA programs: 75% at commencement of term; balance upon passing of subject census date. Other programs: upon passing of module census date. Invoices are payable within 14 days.	Revenue is recognised over time on a per subject/module basis, as the services are provided.	Revenue was recognised on a per subject/module basis, as the services were provided.
Corporate programs	Corporate program fees are invoiced prior to the commencement of the delivery of the programs and are usually payable within 30 days.	Revenue is recognised over time as the services are provided, with reference to modules delivered.	Revenue from educational services rendered was recognised in the income statement in proportion to the stage of completion at the reporting date. The stage of completion was assessed by reference to modules delivered.
Conferences	The Group hires out its facilities on an ad hoc basis to corporate customer. Fees are invoiced prior to the commencement of the delivery and are usually payable within 30 days.	Revenue is recognised at a point in time upon completion of the conference.	Revenue was recognised upon completion of the conference.
Corporate memberships & sponsorships	Arrangements with corporate partners for Centre memberships or event sponsorships are invoiced on signing and are usually payable within 30 days.	Revenue is recognised over time as the services are provided.	Revenue was recognised upon invoicing.
Fundraising	Donations, including endowments gifted to the Group, are generally not subject to significant performance obligations.	Revenue is recognised at a point in time when the donation becomes receivable.	Revenue was recognised upon receipt.

Notes to the consolidated financial statements

1. Significant accounting policies (continued)

(n) Revenue (continued)

Type of service	Nature and timing of performance obligations, including significant payment terms	Revenue recognition under AASB 15 or AASB 1058 (applicable from 1 January 2019)	Revenue recognition under AASB 118 (applicable before 1 January 2019)
Research	Funding for research initiatives may be received from corporate donors or Government agencies. The timing of receipt of funding is generally subject to agreement with the funding party.	Where the funding arrangement does not contain enforceable rights and obligations, including benefits provided to the grantor or the research has an alternative use and the Group has a right to payment for the research performed to date, revenue is recognised upon receipt, being at a point in time. For all other projects, revenue is recognised over time as the services are provided.	Research income which was reciprocal in nature was recognised with reference to the percentage of completion method. The percentage of completion method was measured by reference to total expenditure incurred to date compared with the funding provided. A liability was recognised in respect of such income which is unearned at the reporting date.

(o) Leases

The Group has applied AASB 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under AASB 117 and IFRIC 4.

Policy applicable from 1 January 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in AASB 16.

This policy is applied to contracts entered into, on or after 1 January 2019.

(i) As a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for any leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

Notes to the consolidated financial statements

1. Significant accounting policies (continued)

(o) Leases (continued)

(i) As a lessee (continued)

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the statement of financial position.

Notes to the consolidated financial statements

1. Significant accounting policies (continued)

(o) Leases (continued)

(ii) As a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of ‘other revenue’.

Generally, the accounting policies applicable to the Group as a lessor in the comparative period were not different from AASB 16.

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the Group determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
  - the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
  - the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
  - facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

Notes to the consolidated financial statements

1. Significant accounting policies (continued)

(o) Leases (continued)

Policy applicable before 1 January 2019 (continued)

(i) As a lessee

In the comparative period, as a lessee the Group classified leases that transferred substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognised in the Group's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

(ii) As a lessor

When the Group acted as a lessor, it determined at lease inception whether each lease was a finance lease or an operating lease.

To classify each lease, the Group made an overall assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset. If this was the case, then the lease was a finance lease; if not, then it was an operating lease. As part of this assessment, the Group considered certain indicators such as whether the lease was for the major part of the economic life of the asset.

(p) Finance income and finance costs

Finance income comprises interest income on funds invested, dividend and trust distribution income. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance costs comprise bank charges and interest expense on borrowings. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains or losses on financial assets and financial liabilities are reported on a net basis.

The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments to:

- The gross carrying amount of the financial asset; or
- The amortised cost of the financial liabilities.

Notes to the consolidated financial statements

1. Significant accounting policies (continued)

(q) Income tax

The Australian-incorporated entities of the Group are exempt from income tax under Section 50-5 of the Income Tax Assessment Act (1997).

MBS Management Development (Malaysia) Sdn Bhd is subject to taxation under the Malaysian Income Tax Act (1967). Income Tax expense of $nil has been recognised in 2019 (2018: $nil Income Tax Expense). No deferred tax balances have been recognised as the deferred tax assets and deferred tax liabilities offset, and recovery of the net deferred tax asset is not probable.

(r) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from or payable to the ATO is included as a current asset or liability in the balance sheet.

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

(s) Provisions

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(t) Use of judgements and estimates

(i) Judgements and estimates

In preparing these consolidated financial statements, management has made judgements and estimates that affect the application of the Group's accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

(ii) Measurement of fair values

The financial report is prepared on the historical cost basis except for the following items which are measured on an alternative basis on each reporting date:

- Debt and equity securities at FVOCI are measured at fair value.
- Land and Buildings are measured at fair value.

Notes to the consolidated financial statements

1. Significant accounting policies (continued)

(t) Use of judgements and estimates (continued)

(ii) Measurement of fair values (continued)

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

The Group has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for all significant fair value measurements, including Level 3 fair values, and reports directly to the Chief Operating Officer (COO). The valuation team utilises pricing information provided by the Group's external advisor, Evans and Partners, in respect of the measurement of fair values for equity instruments and debt investments.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of the Standards, including the level in the fair value hierarchy in which such valuations should be classified.

Significant valuation issues are reported to the Finance, Risk & Audit Committee.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Notes to the consolidated financial statements

1. Significant accounting policies (continued)

(t) Use of judgements and estimates (continued)

(ii) Measurement of fair values (continued)

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 7 – financial instruments;
- Note 8 – property, plant and equipment.

(u) Standards issued but not yet effective

A number of new standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.

- Amendments to References to Conceptual Framework in IFRS Standards.
- Definition of a Business (Amendments to IFRS 3).
- Definition of Material (Amendments to IAS 1 and IAS 8).

2. Changes in significant accounting policies

The Group has initially applied AASB 15 and AASB 1058 (see A) and AASB 16 Leases (see B) from 1 January 2019. A number of other new standards are also effective from 1 January 2019 but they do not have a material effect on the Group's financial statements.

Due to transition methods chosen by the Group in applying these standards, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standards.

Notes to the consolidated financial statements

2. Changes in significant accounting policies (continued)

A. AASB 15 – Revenue from Contracts with Customers and AASB 1058 Income of Not-for-Profit Entities

AASB 15 and AASB 1058 establish a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced AASB 118 *Revenue*, AASB 111 *Construction Contracts* and related interpretations. Under AASB 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

Under AASB 1058, income is recognised in profit or loss when:

- Services provided are volunteer services;
- Assets are acquired for which the consideration provided is significantly less than fair value and the asset enables the Group to further its objectives;
- The contract does not contain enforceable rights and obligations and does not create sufficiently specific performance obligations.

The Group has adopted AASB 15 and AASB 1058 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2019). Accordingly, the information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under AASB 118, AASB 111 and related interpretations. Additionally, the disclosure requirements in AASB 15 and AASB 1058 have not generally been applied to comparative information.

There was no material impact on retained earnings at 1 January 2019, the consolidated statement of financial position or the Group's statement of cash flows as a result of adopting AASB 15 and AASB 1058.

Refer to note 1(n) on the Group's accounting policies with respect to revenue.

B. AASB 16 - Leases

The Group applied AASB 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under AASB 117 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in AASB 16 have not generally been applied to comparative information

a) Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining whether an Arrangement contains a Lease. The Group now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 1(o).

On transition to AASB 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied AASB 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under AASB 117 and IFRIC 4 were not reassessed for whether there is a lease under AASB 16. Therefore, the definition of a lease under AASB 16 was applied only to contracts entered into or changed on or after 1 January 2019.

Notes to the consolidated financial statements

2. Changes in significant accounting policies (continued)

B. AASB 16 – Leases (continued)

b) As a lessee

As a lessee, the Group leases IT equipment. The Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under AASB 16, the Group recognises right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

(i) Leases classified as operating leases under AASB 117

Previously, the Group classified property leases as operating leases under AASB 117. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at either:

- their carrying amount as if AASB 16 had been applied since the commencement date, discounted using the Group's incremental borrowing rate at the date of initial application; or
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Group has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The Group used one of a number of practical expedients available when applying AASB 16 to leases previously classified as operating leases under AASB 117. In particular, the Group:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application.

There were no such lease arrangements on transition.

(ii) Leases classified as finance leases under AASB 117

The Group leases a number of items of IT equipment. These leases were classified as finance leases under AASB 117. For these finance leases, the carrying amount of the right-of-use asset and the lease liability at 1 January 2019 were determined at the carrying amount of the lease asset and lease liability under AASB 117 immediately before that date.

c) As a lessor

The Group leases out its own property. The Group has classified these leases as operating leases.

The Group is not required to make any adjustments on transition to AASB 16 for leases in which it acts as a lessor.

Notes to the consolidated financial statements

2. Changes in significant accounting policies (continued)

B. AASB 16 – Leases (continued)

d) Impact on financial statements

There was no material impact on retained earnings at 1 January 2019, the consolidated statement of financial position or the Group's statement of cash flows as a result of adopting AASB 16.

Classification impact: right-of-use assets

In thousands of dollars	**1 January 2019**	
Leased assets – property, plant and equipment as at 31 December 2018	1,810	
Right-of-use assets – property, plant and equipment	1,810	Note 8

Classification impact: lease liabilities

In thousands of dollars	**1 January 2019**	
Finance lease liabilities recognised as at 31 December 2018	1,831	
Lease liabilities recognised as at 1 January 2019	1,831	Note 12

Refer to note 1(o) on the Group's accounting policies for leases.

Notes to the consolidated financial statements

3. Investment income

in thousands of dollars	2019	2018
Dividends	2,031	4,037
Distributions received	1,337	1,691
Interest	73	105
Franking credit refund	1,812	1,095
	5,253	6,928

4a. Depreciation and amortisation expense

in thousands of dollars	2019	2018
Buildings and leasehold improvements	1,815	1,714
Plant and equipment, chattels	624	590
Leased assets	-	709
Right-of-use assets	567	-
Intangible assets	600	661
	3,606	3,674

4b. Auditors' remuneration

in dollars	2019	2018
Auditors of the Company		
KPMG Australia:		
Audit and review of financial statements	102,000	102,485
KPMG Malaysia:		
Audit and review of financial statements	9,417	9,537
Other auditors - Auditor General Victoria		
Audit and review of financial statements	15,315	12,000
	126,732	124,022

Notes to the consolidated financial statements

5. Cash and cash equivalents

in thousands of dollars	2019	2018
Bank balances	6,794	5,447
Bank overdraft	(130)	-
Cash and cash equivalents in the statement of cash flows	6,664	5,447

The Group's exposure to credit risk and interest rate risk is disclosed in note 7.

6. Trade and other receivables

in thousands of dollars	2019	2018
Trade receivables	2,632	2,860
Other receivables	1,241	2,228
Prepayments	813	724
	4,686	5,812

The Group's exposure to credit risk, market risk and impairment losses for trade and other receivables is disclosed in note 7.

Notes to the consolidated financial statements

7. Financial instruments – Fair values and risk management

(a) Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

31 December 2019		**Carrying amount**				**Fair value**			
In thousands of dollars	***Note***	**Amortised Cost**	**Fair Value Through OCI**	**Other financial liabilities**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value									
Equity securities	*7(c)*	-	111,263	-	**111,263**	111,263	-	-	**111,263**
Corporate debt securities	*7(c)*	-	9,596	-	**9,596**	9,596	-	-	**9,596**
		-	**120,859**	**-**	**120,859**	**120,859**	**-**	**-**	**120,859**
Financial assets not measured at fair value	***(i)***								
Cash and cash equivalents	*5*	6,664	-	-	**6,664**	-	-	-	-
Trade and other receivables	*6*	3,873	-	-	**3,873**	-	-	-	-
		10,537	**-**	**-**	**10,537**	**-**	**-**	**-**	**-**
Financial liabilities not measured at fair value	***(i)***								
Trade payables	*10*	-	-	6,306	**6,306**	-	-	-	-
Lease liabilities	*12*	-	-	1,385	**1,385**	-	-	-	-
		-	**-**	**7,691**	**7,691**	**-**	**-**	**-**	**-**

(i) The Group has not disclosed the fair values for financial instruments such as cash and cash equivalents, short term trade receivables, trade payables and finance lease liabilities, because their carrying amounts are a reasonable approximation of fair values.

Notes to the consolidated financial statements

7. Financial instruments – Fair values and risk management (continued)

(a) Accounting classifications and fair values (continued)

31 December 2018		Carrying amount				Fair value			
In thousands of dollars	***Note***	**Amortised Cost**	**Fair Value Through OCI**	**Other financial liabilities**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value									
Equity securities	*7(c)*	-	92,332	-	**92,332**	92,332	-	-	**92,332**
Corporate debt securities	*7(c)*	-	9,297	-	**9,297**	9,297	-	-	**9,297**
		-	**101,629**	**-**	**101,629**	**101,629**	**-**	**-**	**101,629**
Financial assets not measured at fair value	***(i)***								
Cash and cash equivalents	*5*	5,447	-	-	**5,447**	-	-	-	-
Trade and other receivables	*6*	5,088	-	-	**5,088**	-	-	-	-
		10,535	**-**	**-**	**10,535**	**-**	**-**	**-**	**-**
Financial liabilities not measured at fair value	***(i)***								
Trade payables	*10*	-	-	8,770	**8,770**	-	-	-	-
Insurance premium funding	*12*	-	-	248	**248**	-	-	-	-
Finance lease liabilities	*12*	-	-	1,831	**1,831**	-	-	-	-
		-	**-**	**10,849**	**10,849**	**-**	**-**	**-**	**-**

(i) The Group has not disclosed the fair values for financial instruments such as cash and cash equivalents, short term trade receivables, trade payables and finance lease liabilities, because their carrying amounts are a reasonable approximation of fair values.

Notes to the consolidated financial statements

7. Financial instruments – Fair values and risk management (continued)

(b) Measurement of fair values

(i) Valuation techniques and significant unobservable inputs

The group had no Level 2 fair value financial instruments as at 31 December 2019 (2018: nil).

Financial instruments not measured at fair value

Type	Valuation technique	Significant unobservable inputs
Trade and other receivables, and Other financial liabilities*	Discounted cash flows	Not applicable

*Other financial liabilities include lease liabilities

(ii) Transfers between Level 1 and 2

There were no transfers between level 1 and 2 in either direction in the year ended 31 December 2019 or 2018.

(iii) Level 3 fair values

The Group had no Level 3 fair value financial instruments at 31 December 2019 (2018: nil). There were no transfers to or from Level 3 in 2019 or 2018.

Notes to the consolidated financial statements

7. Financial instruments – Fair values and risk management (continued)

(c) Financial risk management

The Group has exposure to the following risks from their use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Group's exposure to each of the above risks and their objectives, policies and processes for measuring and managing risk.

(i) Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board has established the Finance, Risk & Audit Committee, which is responsible for developing and monitoring risk management policies. The Committee reports regularly to the Board of Directors on its activities.

The Finance, Risk & Audit Committee regularly reviews the risk management framework and risk register, monitors risk management action plans and assesses the effectiveness of management's control system, policy and procedures in areas of significant risk.

(ii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers, cash and investments.

The carrying amount of financial assets represents the maximum exposure risk.

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group primarily operates in the Australian region. The Group does not have a significant concentration of transactions with a single customer that would exceed 5% of total transactions, with the exception of its associated entity, the University of Melbourne.

The Finance, Risk & Audit Committee has established a credit policy under which the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The Company and the Group do not require collateral in respect of financial assets.

Notes to the consolidated financial statements

7. Financial instruments – Fair values and risk management (continued)

(c) Financial risk management (continued)

(ii) Credit risk (continued)

Exposure to credit risk

The carrying amount of the Group's financial assets represents the maximum credit exposure. The Group's maximum exposure to credit risk at the reporting date was:

in thousands of dollars	**2019**	**2018**
Cash and cash equivalents	6,664	5,447
Trade and other receivables	3,873	5,088
Investments	120,859	101,629
	131,396	**112,164**

Trade and other receivables

The ageing of the Group's trade receivables as at the reporting date w as:

in thousands of dollars	**Gross 2019**	**Impairment 2019**	**Gross 2018**	**Impairment 2018**
Not past due	1,617	-	1,529	-
Current	817	-	1,020	
Past due 31-60 days	59	-	133	-
Past due 61-90 days	37	-	30	-
Past due 91+ days	102	-	148	-
	2,632	**-**	**2,860**	**-**

There is no expected credit loss for 2019 (2018: $nil). Management believes that the credit quality of trade and other receivables that are not past due or impaired are not of a high risk. Management also believes that the unimpaired amounts that are past due by more than 30 days are still collectible in full, based on historic payment and customer behaviour.

As at 31 December 2019, the Group's most significant debtor, being the Department of Defence, accounted for $1,087,978 (2018: $888,876) of the trade receivables carrying amount.

Expected credit loss assessment

The Group historically has had a very low rate of debtor defaults. The credit risk grading by two debtor types, being the University of Melbourne and Others, based on historical data and applying historical trends is between 0% to 2%.

Notes to the consolidated financial statements

7. Financial instruments – Fair values and risk management (continued)

(c) Financial risk management (continued)

(ii) Credit risk (continued)

Trade and other receivables (continued)

The loss rate by ageing category based on actual credit loss over the past 2 years is set out as follows:

in thousands of dollars	2019 Gross Carrying Amount	2019 Weighted Average Loss Rate	2018 Gross Carrying Amount	2018 Weighted Average Loss Rate
Not past due	1,617	0%	1,529	0%
Past due 0-30 days	817	0%	1,020	0%
Past due 31-60 days	59	0%	133	0%
Past due 61-90 days	37	0%	30	0%
Past due 91+ days	102	13%	148	9%
	2,632		**2,860**	

Based on the above, the Group has no significant expected credit loss exposure.

The movement in the allowance for impairment in respect of receivables during the year was as follows:

in thousands of dollars	**2019**	**2018**
Balance at 1 January	-	-
Impairment loss recognised	-	-
Amounts written off	-	-
Balance at 31 December	**-**	**-**

The ageing of the Group's other receivables was current (2018: current). There were no impairment losses with respect to other receivables.

Debt securities

The Group limits its exposure to credit risk by only investing in liquid debt securities and only with counterparties that have a credit rating of at least 'BBB', based on rating agency Standard & Poor's ratings. The Group did not have any significant loss allowances for debt securities.

The Group did not have any debt securities that were past due but not impaired at 31 December 2019 (2018: Nil).

Notes to the consolidated financial statements

7. Financial instruments – Fair values and risk management (continued)

(c) Financial risk management (continued)

(ii) Credit risk (continued)

Cash and cash equivalents

The cash and cash equivalents are held with bank and financial institution counter parties, which are rated 'AA-', based on rating agency Standard & Poor's ratings.

Impairment on cash and cash equivalents have been measured on a 12-month expected credit loss basis and reflects the short maturity of the exposures. The Group considers its cash and cash equivalents have low credit risk based on external credit ratings of the counterparties. The Group does not have any significant loss allowance for cash and cash equivalents,

Guarantees

The Group's policy is to provide financial guarantees only to wholly owned subsidiaries.
The Company has guaranteed bank facilities with a maximum credit risk exposure to the Company of $565,000.

(iii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company or the Group's reputation.

The Group uses activity-based costing to cost services, which assists it in monitoring cash flow requirements and optimising its cash return on investments. Typically, the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 30 days, including the servicing of financial obligations. The Group monitors the level of expected cash inflows with expected cash outflows.

The Group maintains a $1 million overdraft facility that is secured. Interest would be payable at the current market rate.

Notes to the consolidated financial statements

7. Financial instruments – Fair values and risk management (continued)

(c) Financial risk management (continued)

(iii) Liquidity risk (continued)

Exposure to liquidity risk

The following are the remaining contractual maturities of financial liabilities; the amounts are gross and undiscounted, and include contractual interest payments and exclude the impact of netting agreements:

2019

in thousands of dollars	Carrying Amount	Contractual cash flows	6 mths or less	6-12 months	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities							
Trade and other payables	6,306	6,306	6,306	-	-	-	-
Loans and borrowings	1,385	1,472	303	241	402	526	-
	7,691	**7,778**	**6,609**	**241**	**402**	**526**	**-**

2018

in thousands of dollars	Carrying Amount	Contractual cash flows	6 mths or less	6-12 months	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities							
Trade and other payables	8,770	8,770	8,770	-	-	-	-
Loans and borrowings	2,079	2,207	603	328	547	729	-
	10,849	**10,977**	**9,373**	**328**	**547**	**729**	**-**

Notes to the consolidated financial statements

7. Financial instruments – Fair values and risk management (continued)

(c) Financial risk management (continued)

(iv) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holding of financial instruments. Further details of the Group's policies in relation to this risk are included under Other Market Price Risk below.

Currency risk

The Group's exposure to foreign currency risk largely relates to equity instruments, which are generally held via managed investment schemes controlled by experienced fund managers. The Group does not directly hedge against foreign currency movements.

The Investment Committee monitors the Group's exposure to foreign currency risk on a regular basis.

Interest rate risk

The Group's exposure to interest rate risk largely relates to cash and cash equivalents and variable interest securities. Investments in equity securities and short-term receivables and payables are not directly exposed to interest rate risk.

The interest rate profile of the Group's interest-bearing financial instruments as reported to management is as follows:

in thousands of dollars	**2019**	**2018**
Cash and cash equivalents	6,664	5,447
Corporate debt securities	9,596	9,297
	16,260	**14,744**

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at 31 December 2019 would have increased or decreased equity and profit by $162,600 (2018: $147,440).

Other market price risk

Price risk arises from equity price risk. The Investment Committee meets with and receives quarterly reports and advice from the Board appointed Investment Advisors.

The primary goal of the Group's investment strategy is to maximise total investment returns over the medium to long term maintaining an appropriately diversified portfolio and to effectively control investment risk. The Committee is assisted by external and internal advisors in this regard.

Notes to the consolidated financial statements

7. Financial instruments – Fair values and risk management (continued)

(c) Financial risk management (continued)

(iv) Market risk (continued)

Other market price risk (continued)

Sensitivity analysis – other price risk

The Group's exposure to other price risk arises from the following investments:

in thousands of dollars	**2019**	**2018**
Domestic equities at fair value	68,754	58,852
International equities at fair value	42,509	33,480
Corporate debt securities at fair value	9,596	9,297
	120,859	**101,629**

An increase of 100 basis points in the value of the investments at 31 December 2019 would have a $1,208,590 increase in equity (2018: $1,016,290); an equal change in the opposite direction would have a $1,208,590 decrease in equity (2018: $1,016,290). There would be no impact on profit or loss as the resultant increment/decrement is recognised directly in equity.

MELBOURNE BUSINESS SCHOOL LIMITED

Notes to the consolidated financial statements

8. Property, plant and equipment

in thousands of dollars	Freehold land	Buildings	Plant and equipment	Computer equipment	Chattels/ equipment and facilities	Right-of-use assets (2018: Leased assets)	Leasehold Improvements	Library materials	Artworks/ antiques	Work In progress	Total
Fair value or cost											
Balance at 1 January 2018	56,990	45,090	5,868	142	3,636	2,480	76	24	142	5,473	119,921
Additions	-	797	11	-	-	1,767	-	-	-	4,872	7,447
Transfers	-	6,233	1,752	33	1,219	-	-	-	-	(9,237)	-
Revaluation	3,050	3,824	-	-	-	-	-	-	-	-	6,874
Accumulated depreciation w riteback	-	(1,694)	-	-	-	-	-	-	-	-	(1,694)
Disposals/w rite-offs	-	-	-	-	-	(626)	-	-	-	(43)	(669)
Balance at 31 December 2018	60,040	54,250	7,631	175	4,855	3,621	76	24	142	1,065	131,879
Balance at 1 January 2019	60,040	54,250	7,631	175	4,855	3,621	76	24	142	1,065	131,879
Additions	-	-	17	-	20	512	-	-	-	1,339	1,888
Transfers	-	85	318	-	6	-	-	-	-	(1,477)	(1,068)
Revaluation	27,510	1,260	-	-	-	-	-	-	-	-	28,770
Accumulated depreciation w riteback	-	(1,815)	-	-	-	-	-	-	(26)	-	(1,841)
Disposals/w rite-offs	-	-	(3,491)	(15)	(1,391)	(1,587)	-	(24)	-	(277)	(6,785)
Balance at 31 December 2019	87,550	53,780	4,475	160	3,490	2,546	76	-	116	650	152,843

Notes to the consolidated financial statements

8. Property, plant and equipment (continued)

in thousands of dollars	Freehold land	Buildings	Plant and equipment	Computer equipment	Chattels/ equipment and facilities	Right-of-use assets (2018: Leased assets)	Leasehold Improvements	Library materials	Artworks/ antiques	Total
Accumulated depreciation and impairment losses										
Balance at 1 January 2018	-	-	4,024	104	1,872	1,728	55	24	26	7,833
Depreciation	-	1,694	237	29	325	709	21	-	-	3,015
Transfers	-	-	-	-	-	-	-	-	-	-
Revaluation	-	-	-	-	-	-	-	-	-	-
Accumulated depreciation writeback	-	(1,694)	-	-	-	-	-	-	-	(1,694)
Disposals/write-offs	-	-	-	-	-	(626)	-	-	-	(626)
Balance at 31 December 2018	-	-	4,261	133	2,197	1,811	76	24	26	8,528
Balance at 1 January 2019	-	-	4,261	133	2,197	1,811	76	24	26	8,528
Depreciation	-	1,815	267	27	330	567	-	-	-	3,006
Transfers	-	-	-	-	-	-	-	-	-	-
Revaluation	-	-	-	-	-	-	-	-	-	-
Accumulated depreciation writeback	-	(1,815)	-	-	-	-	-	-	(26)	(1,841)
Disposals/write-offs	-	-	(3,491)	(15)	(1,391)	(1,186)	-	(24)	-	(6,107)
Balance at 31 December 2019	-	-	1,037	145	1,136	1,192	76	-	-	3,586

Notes to the consolidated financial statements

8. Property, plant and equipment (continued)

in thousands of dollars	Freehold land	Buildings	Plant and equipment	Computer equipment	Chattels/ equipment and facilities	Right-of-use assets (2018: Leased assets)	Leasehold Improvements	Library materials	Artworks/ antiques	Work In Progress	Total
Carrying amounts											
At 1 January 2018	56,990	45,090	1,844	38	1,764	752	21	-	116	5,473	112,088
At 31 December 2018	60,040	54,250	3,370	42	2,658	1,810	-	-	116	1,065	123,351
At 31 December 2019	87,550	53,780	3,438	15	2,354	1,354	-	-	116	650	149,257

Notes to the consolidated financial statements

8. Property, plant and equipment (continued)

Freehold land and buildings

Freehold land and buildings are valued at fair value, being the amount for which the assets could be exchanged between knowledgeable and willing parties in an arm's length transaction, having regard to the highest and best use of the asset for which other parties are willing to pay.

The method used for determining the fair value of these non-current assets is based on independent valuations which approximates fair value.

An independent valuation of freehold land and buildings held by Melbourne Business School Limited was carried out by Colliers International Consultancy and Valuation Pty Ltd as at 31 December 2019 on the basis of the open market value of the freehold land and its existing use.

It is the general policy of the Group to revalue every 3 years in line with revaluation dates of the University of Melbourne, or from time to time as determined by the Directors. The next planned independent valuation is scheduled for 2023.

Measurement of fair value

The valuations are based on the highest and best use of land and buildings being educational facilities. The land valuation is categorised as a level 2 fair value based on the inputs to the valuation technique used, being the market approach. The key observable input for the land valuation is the prices of comparable assets sold within a reasonable timeframe of the valuation date. The fair value of the land increases/(decreases) as the comparable land sales value increases/(decreases).

In the current year, a gain of $27,510,000 was recognised in OCI with respect to land fair value measurement (2018: $3,050,000)

The buildings valuation is categorised as a level 3 fair value based on the inputs to the valuation technique used, being the current replacement cost approach. The cost approach considers the current replacement costs of the buildings. The key unobservable input to the building component is the replacement costs per square metre. The fair value of the buildings increases/(decreases) as the estimated replacement costs per square metre increases/(decreases).

In the current year, a gain of $1,260,000 was recognised in OCI with respect to buildings fair value measurement (2018: $3,824,000). Total additions to buildings in the current year amounted to $85,000 (2018: $7,030,000). There were no transfers into or out of level 3 inputs for buildings valuations during the year (2018: nil).

Artwork and antiques

The Directors have reviewed the carrying value of the artwork at the Carlton campus and assessed this has not materially changed.

Notes to the consolidated financial statements

9. Intangible assets

in thousands of dollars	Computer Software
Cost	
Balance at 1 January 2018	6,280
Acquisitions	359
Disposals	-
Balance at 31 December 2018	6,639
Balance at 1 January 2019	6,639
Acquisitions - transfers from WIP	1,068
Disposals	(4,854)
Balance at 31 December 2019	2,853
Accumulated amortisation and impairment losses	
Balance at 1 January 2018	5,263
Amortisation	661
Disposals	-
Balance at 31 December 2018	5,924
Balance at 1 January 2019	5,924
Amortisation	600
Disposals	(4,854)
Balance at 31 December 2019	1,670
Carrying amounts	
At 1 January 2018	1,017
At 31 December 2018	715
At 31 December 2019	1,183

Notes to the consolidated financial statements

10. Trade and other payables

in thousands of dollars	2019	2018
Trade payables	2,238	4,032
Accruals	4,047	4,612
Other payables	21	126
	6,306	8,770

The Group's exposure to liquidity risk is disclosed in note 7.

11. Financing facilities

in thousands of dollars	2019	2018
Total facilities available		
Bank overdrafts	1,000	1,000
Credit card facility - limited	600	600
Bank guarantees	565	565
	2,165	2,165
Facilities utilised at reporting date		
Bank overdrafts	130	-
Credit card facility - limited	-	-
Bank guarantees	165	75
	295	75
Facilities not used at reporting date		
Bank overdrafts	870	1,000
Credit card facility - limited	600	600
Bank guarantees	400	490
	1,870	2,090

Credit card facility

Interest on credit cards is charged at prevailing market rates.

Bank overdrafts

Interest on the bank overdraft is charged at prevailing market rates. There was a bank overdraft of $130,000 at year end; refer to note 5.

All banking facilities are secured against the general position of the Company by way of a negative pledge.

Notes to the consolidated financial statements

12. Loans and borrowings

(a) Leases

Lease liabilities (2018: Finance lease liabilities)

in thousands of dollars	**2019** Face Value	**2019** Carrying Amount	**2018** Face Value	**2018** Carrying Amount
Current	545	502	683	623
Non-current	927	883	1,276	1,208
	1,472	1,385	1,959	1,831

Reconciliation of movements of liabilities to cashflows arising from leases:

in thousands of dollars	**2019**	**2018**
Opening balance	1,831	756
Repayment of borrowings	(1,015)	(738)
New leases	512	1,767
Interest expense	57	46
	1,385	1,831

(b) Insurance Premium Funding

in thousands of dollars	**2019**	**2018**
Current	-	248
	-	248

Notes to the consolidated financial statements

13. Employee benefits

Current

in thousands of dollars	**2019**	**2018**
Liability for annual leave	2,323	2,328
Liability for long service leave	3,464	3,120
Liability for bonuses	356	265
Liability for termination payments	315	-
	6,458	5,713

Non-current

in thousands of dollars		
Liability for long service leave	379	453

Defined contribution plans

The Group makes contributions to UniSuper and several employee accumulation superannuation plans at the rate of 9.5%. The amount recognised as an expense for contributions by the Group for the year was $2,328,356 (2018: $2,332,824).

14. Deferred income

in thousands of dollars	**2019**	**2018**
Corporate fees in advance	2,612	3,245
Student fees	1,669	1,208
Scholarship funding	700	414
Research grants	124	129
	5,105	4,996

The deferred income liabilities primarily relate to advance consideration received from students and corporates for modules for which revenue is recognised over time. Deferred income is substantially recognised as revenue within twelve months of each balance date.

15. Company limited by guarantee

The Company is a company limited by guarantee. Every member of the Company undertakes to contribute to the property of the Company, in the event of the Company being wound up while they are a member, or within one year after they cease to be a member, for payment of the debts and liabilities of the Company (contracted before they cease to be a member) and of the costs, charges and expenses of winding up and for the adjustment of the rights of the contributories among themselves, such amount as may be required, not exceeding $100.

Notes to the consolidated financial statements

16. Consolidated Entities

		Ownership interest	
Parent entity	**Country of**	**2019**	**2018**
Melbourne Business School Limited	**incorporation**	**%**	**%**
Subsidiaries			
Melbourne Business School Foundation Limited*	Australia	-	100
Mt Eliza Graduate School of Business and Government Limited	Australia	100	100
MBS Management Development (Malaysia) Sdn Bhd	Malaysia	100	100

*This entity was deregistered by ASIC on 21 February 2019

17. Reconciliation of cash flows from operating activities

in thousands of dollars	Note	2019	2018
Cash flows from operating activities			
Surplus/(Deficit) for the year		(501)	(683)
Adjustments for:			
Depreciation and amortisation	4(a)	3,606	3,674
Write-off property, plant and equipment		678	43
Bad debts		22	30
Leased asset costs		57	46
Interest received	3(b)	(73)	(105)
Investment income	3(b)	(5,180)	(6,823)
Income tax expense		-	-
Operating loss		(1,391)	(3,818)
Changes in:			
Trade receivables and other receivables		462	1,032
Inventories		(44)	4
Trade and other payables		(2,464)	1,408
Deferred income		109	267
Employee benefits		671	336
Net cash from/(used) operating activities		(2,657)	(771)

18. Reserves

Nature and purpose of reserves are as follows:

Capital donations reserve

The capital donations reserve comprises the funds provided by donor members upon establishment of the Company.

Realised capital gains reserve

The realised capital gains reserve comprises the cumulative gain or loss arising from the disposal of equity instruments.

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Notes to the consolidated financial statements

18. Reserves (continued)

Asset revaluation reserve

The asset revaluation reserve relates to the revaluation of existing freehold land and buildings.

Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of equity instruments and debt securities designated at FVOCI.

Library reserve

The library reserve includes donations from alumni members, the earnings from which were utilised to support the library and its associated faculties. As the School no longer maintains library facilities this reserve has been allocated to retained earnings.

Accumulated income endowment funds

The accumulated income endowment funds reserve reflects earnings from specific endowments and donations which can only be used to support restricted purposes.

19. Key management personnel disclosures

The following were specified Directors of the Group at any time during the reporting period, and unless otherwise indicated were Directors for the entire period:

Melbourne Business School Limited

Non-Executive Directors

Mr. Ross Ernest Barker
Mr. Anthony Ray Burgess
Mr. Jan Craps
Dr. Jacinth Kincaid Fairley
Mr. Dean Ireland
Mr. Robert Johanson
Ms. Antoinette Kimmitt
Professor Paul Kofman
Mr. Cameron Leitch
Dr. Xiaoling Liu (Retired: October 2019)
Mr. Geoffrey Frederick Lord
Professor Duncan Maskell
Mr. Scott Matthew Tanner
Mr. Frank Peter Zipfinger

Executive Directors

Professor Douglas Dow
Professor Ian Harper

Executives

Ms. Laura Bell
Professor Boğaçhan Çelen (Appointed: December 2019)
Professor Paul Dainty (Retired: December 2019)
Mr. Marc Flipo
Ms. Sally Forrester
Associate Professor Andrew John (Retired: September 2019)
Professor Ujwal Kayande
Ms. Theoni Parthimos
Mr. Eddie Tritton

Mt Eliza Graduate School of Business and Government Limited

Executive Directors

Mr Marc Flipo
Mr Steven Bevis

Notes to the consolidated financial statements

19. Key management personnel disclosures (continued)

MBS Management Development (Malaysia) Sdn Bhd

Executive Directors

Professor Paul Dainty (Retired: December 2019)

Mr Marc Flipo

Mr Steven Bevis

Mr Soong Tze Wei

Non-Executive Directors did not receive any remuneration in relation to their role as Director.

The remuneration received or receivable by the Accountable officer during the period was in the range $650,000 to $660,000 (2018: $510,000 - $520,000).

Transactions with key management personnel

(i) Executive officers remuneration

in dollars	**2019**	**2018**
Short-term employee benefits	3,692,348	3,793,569
Post-employment benefits	225,152	235,508
Other long term benefits	134,797	105,218
Termination benefits	315,000	453,825
	4,367,297	4,588,120
Total number of executive officers	11	14
Total annualised employee equivalent (AEE)	9.8	10.3

(ii) Directors' transactions with the Company or its Controlled Entities

No Director has entered into a material contract with the Company or the Group since the end of the previous financial year and there were no material contracts involving Directors' interests existing at year-end.

There were no Directors or other members of key management personnel that had control or joint control over the Company or the Group.

A number of 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 these entities.

A number of these entities transacted with the Group in the reporting period. The terms and conditions of the transactions with key management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

From time to time, Directors of the Group may purchase goods and services from the Group. These purchases are on the same terms and conditions as those entered into by other Group employees or customers.

Notes to the consolidated financial statements

19. Key management personnel disclosures (continued)

(iii) Other related party transactions

As at the balance date of this report the Group held shares in the following companies that shared common Directors with the Consolidated Entities:

Director:	**Shareholding:**
Mr R E Barker	Australian Foundation Investment Company Ltd
Mr R E Barker	Mirrabooka Investments Ltd
Mr A R Burgess	Diversified United Investment Ltd
Dr J K Fairley	Mirrabooka Investments Ltd

Directors noted above did not participate in any decision with respect to the share transactions in which they have an interest.

From time to time, the Directors provide donations to the Company. These donations are non-reciprocal transfers and are provided on an arm's length basis.

20. Non-director and executive related parties

Other related party transactions

Subsidiaries

The Company had an interest free loan to one of its subsidiaries Mt Eliza Graduate School of Business and Government Limited that was repaid in 2018. There were no loans in 2019.

in thousands of dollars	**2019**	**2018**
Opening balance	-	150
Additional loans	-	-
Repayments	-	(150)
	-	-

Notes to the consolidated financial statements

20. Non-director and executive related parties (continued)

University of Melbourne

The University of Melbourne ('University') has 45% of the voting rights of members of Melbourne Business School Ltd. The University and its controlled entities are therefore related parties.

in dollars	**2019**	**2018**
Revenue/(expense)		
Administrative and maintenance services and goods from the University to the Company	(872,266)	(512,322)
Sales and charges to the University by the Company	995,211	1,029,995
Hire facilities to the University by the Company	138,153	186,423
Educational Management Services to the University by the Company	30,250,496	29,665,361
Amounts owed to the University by the Company	(354,052)	(442,385)
Amounts owed to the Company by the University	23,521	23,592

Donor members

Other related parties consist of donor members. During the financial year the Group provided educational services to staff of donor members under normal commercial terms and conditions. It is not practical to quantify the value of services provided during the financial year.

During the financial year, all transactions between the Company and other related parties were in the ordinary course of business and on normal arm's length commercial terms and conditions.

21. Leases

A. Leases as lessee (AASB 16)

The Group leases IT equipment with contract terms of one to five years. These leases also include short-term and/or leases of low-value items. The Group has elected to recognise right-of-use assets and lease liabilities for these leases.

Information about leases for which the lessee is presented below.

(i) Right-of-use assets

Leases for IT equipment were classified as finance leases under AASB 117. The carrying amount of the right-of-use asset and the lease liability at 1 January 2019 is the carrying amount of the lease asset and lease liability immediately before 1 January 2019 which has been measured applying AASB 117.

Notes to the consolidated financial statements

21. Leases (continued)

A. Leases as lessee (AASB 16) (continued)

(ii) Amounts recognised in profit or loss

In thousands of dollars	**2019**	
2019 – Leases under AASB 16		
Interest on lease liabilities	57	Note 12
Expenses relating to short-term leases – rent and outgoings	156	
2018 – Operating leases under AASB 117		
Rent and outgoings	176	

(iii) Amounts recognised in statement of cash flow

In thousands of dollars	**2019**	
Total cash outflow for leases	1,015	Note 12

B. Leases as lessor

(i) Operating lease

The Group leases out its property on a short-term lease. The Group has classified these leases as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets.

Rental income recognised by the Group during 2019 was $243,000 (2018: $382,000).

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Notes to the consolidated financial statements

22. Commitments and contingencies

Commitments amounted to $nil (2018: $nil).

Contingencies amounted to $nil (2018: $nil).

23. Subsequent events

The spread of the coronoavirus COVID-19 in early 2020 has had a material impact on the market value of the School's investments, with an unrealised decline in value of 16.7% noted at as the date of the Directors' Report. There is also likely to be an impact on the School's operations as a result of COVID-19. At the date of signing the Directors' Report, the financial impact cannot be quantified accurately but Directors do not believe it will affect the School's capacity to remain a going concern for the foreseeable future.

Other than the above development, no other item, transaction or event of a material and unusual nature has occurred since 31 December 2019 which is likely, in the opinion of the directors of the company, to affect significantly the operations of the group, the results of those operations, or the state of affairs of the group, in future financial years.

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24. Parent entity disclosures

As at, and throughout, the financial year ended 31 December 2019 the parent entity of the Group was Melbourne Business School Limited.

in thousands of dollars	**2019**	**2018**
Result of parent entity		
Profit/(loss) for the year	(2,267)	(2,230)
Other comprehensive income	49,773	2,959
Total comprehensive income for the year	47,506	729
Financial position of parent entity at year end		
Current assets	11,101	11,179
Total assets	282,998	237,552
Current liabilities	18,201	19,614
Total liabilities	19,463	21,523
Total equity of the parent entity comprising of:		
Reserves	183,708	133,759
Capital donations	29,993	29,993
Contributed equity	12,339	12,339
Retained profits	37,495	39,938
Total equity	**263,535**	**216,029**

Parent entity contingent liabilities amounted to $nil (2018: $nil).

Directors' declaration

In the opinion of the Directors of Melbourne Business School Ltd ("the Company"):

a) the consolidated financial statements and notes that are set out on pages 20 to 72 are in accordance with the Australian Charities and Not-for profits Commission Act 2012, including:

   (i) giving a true and fair view of the Group's financial position as at 31 December 2019 and of its performance, for the financial year ended on that date;

   (ii) complying with Australian Accounting Standards and the Australian Charities and Not-for-profits Commission Regulation 2013; and

b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Melbourne

Signed in accordance with a resolution of the Directors:

Ross Ernest Barker
Director
16 March 2020

Professor Ian Harper
Director
16 March 2020

Independent Auditor's Report

To the Directors of Melbourne Business School Limited

Opinion

We have audited the ***Financial Report*** of Melbourne Business School Limited (the Group). The Group consists of the Company and its controlled entities at year end and from time to time during the year.

In our opinion, the accompanying ***Financial Report*** of the Group is in accordance with Division 60 of the *Australian Charities and Not-for-profits Commission (ACNC) Act 2012*, including:

(i) giving a true and fair view of the Group's financial position as at 31 December 2019, and of its financial performance and its cash flows for the year ended on that date; and

(ii) complying with *Australian Accounting Standards* and Division 60 of the *Australian Charities and Not-for-profits Commission Regulation 2013*.

The ***Financial Report*** comprises the:

(i) Consolidated statement of financial position as at 31 December 2019.

(ii) Consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the year then ended.

(iii) Notes including a summary of significant accounting policies.

(iv) Directors' Declaration.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with the auditor independence requirements of the *ACNC Act 2012* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Other information

Other Information is financial and non-financial information in Melbourne Business School Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. This includes the Directors' Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

(i) Preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *ACNC*.

(ii) Implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

(iii) Assessing the Group's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

(i) to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and

(ii) to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

As part of an audit in accordance with *Australian Auditing Standards*, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

(i) Identify and assess the risks of material misstatement of the Financial Report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

(ii) Obtain an understanding of internal control relevant to the Audit 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 registered Group's internal control.

(iii) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

(iv) Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the registered Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our Auditor's Report to the related disclosures in the Financial Report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our Auditor's Report. However, future events or conditions may cause the registered Group to cease to continue as a going concern.

(v) Evaluate the overall presentation, structure and content of the Financial Report, including the disclosures, and whether the Financial Report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Directors of the registered Group regarding, among other matters, the planned scope and timing of the audit and significant findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG

KPMG

Tony Batsakis
Partner

Melbourne

16 March 2020