ANNUAL FINANCIAL REPORT.

Melbourne Business School Limited and its Controlled Entities

31 December 2012

ABN 80 007 268 233

THE UNIVERSITY OF MELBOURNE

MELBOURNE BUSINESS SCHOOL

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Contents

Directors' Report

For the year ended 31 December 2012

The directors present their report together with the consolidated financial statements of the Group comprising of Melbourne Business School Limited ("the Company") and its controlled entities, for the financial year ended 31 December 2012 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 financial year are:

Name:	Qualifications:	Experience:	Special responsibilities:
Mr. Peter Leslie Barnes	BCom (Hons), MBA (Melb)	Chairman: Melbourne Business School Foundation Ltd., Metcash Ltd. Director: Mt Eliza Graduate School of Business & Government Ltd. News Corporation. Appointed: 2010	Chairman. Member: Remuneration & Nominations Committee.
Mr. Ross Ernest Barker	BSc (Hons) (Melb) MBA (Melb) F Fin	Managing Director: Australian Foundation Investment Company Ltd., Djerriwarrh Investments Ltd., Mirrabooka Investments Ltd., Amcil Ltd. Director: Melbourne Business School Foundation Ltd. Member: Financial Reporting Council Appointed: 2011	Chairman: Investment Committee
Mr. Chee Cheong	BEng (Hons), MBA (Melb)	Chief Executive Officer: Zurich Insurance Malaysia Berhad. Appointed: 2010	
Mr. Francis John Cicutto	BCom, S.F.Fin, FAICD	Chairman: Chord Capital Pty Ltd. Director: Melbourne Business School Foundation Ltd. Appointed: 1999 Retired: April 2012	
Mr. John Christian Dahlsen	LLB, MBA (Melb)	Chairman: J. C. Dahlsen Pty Ltd. Appointed: 2009 Retired: February 2013	

Directors' Report (continued)
Directors' (continued)

Name:	Qualifications:	Experience:	Special responsibilities:
Professor Zeger Degraeve	PhD (Chicago), MBA (Katholieke Universiteit Leuven), BSc (Ghent)	Dean: Melbourne Business School Ltd. Director: Melbourne Business School Foundation Ltd, Mt Eliza Graduate School of Business and Government Ltd. Appointed: 2011	Member: Investment Committee.
Associate Professor Douglas Dow	PhD (Melb), MBA (West Ontario), BAppSc (Queen's)	Associate Professor in Strategy, Melbourne Business School Ltd. Appointed: 2011	
Dr. Jacinth Kincaid Fairley	BSc, BVSc (Hons), MBA (Melb), GAICD	Chief Executive Officer and Managing Director: Starpharma Holdings Ltd. Director: Starpharma Pty Ltd., Dendritic Nanotechnologies Inc, Michigan, USA. Member: Investment Committee, Carnegie Venture Capital. Appointed: 2010	Member: Remuneration & Nominations Committee.
Mr. Peter John Jopling, QC	LLB (Melb)	Barrister: Deputy Chair: Australian Centre for Contemporary Art. Director: Legal Services Board. Governor: Florey Neuroscience institutes. Member: Victorian Administrative & Civil Tribunal (Legal Practice Board); Board of Examiners, Supreme Court of Victoria; Victorian College of the Arts Foundation. Appointed: 2009	
Mr. David Simon Karpin AM	BCom (Hons), MBA LLD (Hon), FCPA, FAICD, FAIM, FFin, MACS	Appointed: 2004 Retired: April 2012	
Ms. Annette Kimmitt	B.Bus (Acc), FCA, AICD	Managing Partner: Ernst & Young, Director: Airservices Australia, The Committee for Melbourne Ltd., Victoria University Foundation. Chair Airservices Australia Audit & Risk Committee. Appointed: 2011	Chair: Finance, Audit & Risk Committee.

Directors' Report (continued)

Directors' (continued)

Name:	Qualifications:	Experience:	Special responsibilities:
Professor Emeritus Frank Larkins AM	BSc (Hons), DipEd MSc (Hons), Bed, Dphil, DipAdvMath (Oxon), DSc (Melb), LLD (Hon), FAA, FTSE, FRACI, FAIE, FAIP	Professor Emeritus, School of Chemistry, The University of Melbourne. Chief Scientist Energy: Victorian Department of Primary Industries. Chair: International House Council, The University of Melbourne. Appointed: 2009	Member: Remuneration & Nominations Committee.
Mr. Graeme Richard Liebelt	BEc (Hons) (Adel), FTSE, FAICD, FAIM	Former Managing Director and CEO of Orica Ltd and subsidiaries. Director: Amcor Ltd., Australian Foundation Investment Company, Carey Baptist Grammar School, The Global Foundation. Appointed: 2008	Deputy Chairman. Chairman: Remuneration & Nominations Committee. Member: Finance, Audit & Risk Committee.
Mr. Ari Mervis	BCom	Managing Director: SABMiller Asia Pacific and Chief Executive Officer, Carlton & United Breweries. Chairman: China Resources Snow Breweries. Appointed: October 2012	
Mr. David Peever	BEcon (JCU); MSc Mineral Economics (Macq)	Managing Director: Rio Tinto Australia. Appointed: October 2012	
Professor Elizabeth (Liz) Sonenberg	BSc PhD, MAICD	Pro Vice-Chancellor (Research Collaboration); Professor of Information Systems, Melbourne School of Engineering, The University of Melbourne. Director: Orygen Youth Health Research Centre. Appointed: 2009	
Mr. Michael Taylor AO	B.Ag.Sci, Dip Ag.Econ., FTSE	Chairman: Geoffrey Gardiner Dairy Foundation. Director: Public Transport Development Authority, Country Fire Authority, Bushfire Cooperative Research Centre, Foursigh Associates, Crawford Fund, Mt Eliza Graduate School of Business & Government Ltd. Appointed: 2008	Member: Finance, Audit & Risk Committee.

Directors' Report (continued)

Directors' (continued)

Name:	Qualifications:	Experience:	Special responsibilities:
Mr. Scott Matthew Tanner	B.App Sci (Math) RMIT, FAICD, MBA (Melb)	Chief Executive, Bank of Melbourne. Director: Tennis Australia Ltd, Melbourne & Olympic Parks Trust. Appointed: 2011	Member: Investment Committee.
Mr. Frank Peter Zipfinger	LLB LLM (Syd), BA Ec & Fin Studies (Macquarie), MBA (Melb), MAICD	Chairman: Aspen Group Ltd., Investor Relationship Committees, AMP Capital Wholesale Office Fund, AMP Capital Wholesale Shopping Centre Fund. Director: Galileo Japan Trust, Australian Youth Orchestra. Executive Committee, St. Joseph's College Indigenous Fund, Ambassador: Australian Indigenous Education Foundation. President: Alumni Council, Melbourne Business School. Appointed: 2009	

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, Audit & Risk Committee		Investment Committee		Remuneration & Nominations	
	A	B	A	B	A	B	A	B
Mr. P Barnes	9	9	-	-	-	-	7	7
Mr. R Barker	8	9	-	-	4	4	-	-
Mr C Cheong	4	9	-	-	-	-	-	-
Mr F J Cicutto	2	2	1	1	1	1	-	-
Mr J C Dahlsen	5	9	-	-	3	4	-	-
Mr Z Degraeve	9	9	-	-	3	4	-	-
Assoc. Prof D Dow	9	9	-	-	-	-	-	-
Dr. J Fairley	9	9	-	-	-	-	7	7
Mr P Jopling, QC	5	9	-	-	-	-	-	-
Mr D S Karpin AM	2	2	-	-	-	-	1	2
Ms. A Kimmitt	8	9	5	5	-	-	-	-
Professor Emeritus F Larkins	8	9	-	-	-	-	5	7
Mr. G Liebelt	8	9	2	2	-	-	6	7
Mr. A Mervis	1	1	-	-	-	-	-	-
Mr. D Peever	1	1	-	-	-	-	-	-
Professor L Sonenberg	9	9	-	-	-	-	-	-
Mr S M Tanner	8	9	-	-	-	2	-	-
Mr M J Taylor AO	7	9	5	5	-	-	-	-
Mr F Zipfinger	8	9	-	-	-	-	-	-

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) Mr. Cicutto retired from the Board, Finance Audit & Risk Committee and the Investment Committee on 4 April 2012.
(2) Mr. Dahlsen retired from the Board and the Investment Committee on 26 February 2013.
(3) Mr. Karpin, AM retired from the Board and the Remuneration & Nominations Committee on 4 April 2012.
(4) Mr. Liebelt was appointed to the Finance Audit & Risk Committee on 30 May 2012.
(5) Mr. Mervis was appointed to the Board on 24 October 2012.
(6) Mr. Peever was appointed to the Board on 24 October 2012.
(7) Mr.Tanner was appointed to the Investment Committee on 30 May 2012.

Company Secretary

The Company Secretary is Mr M 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 School.

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 entity's financial reporting
- Make timely and balanced disclosure of all material matters concerning the controlled entity
- 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 School and to protect the interests of all stakeholders.

To fulfil this role, the Board is responsible for the overall corporate governance of the School including: formulating strategic direction, approving and monitoring capital expenditure, setting remuneration, appointing, removing and creating 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 Board has delegated responsibility for operation and administration of the School to the Dean and Executive Management. 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, Audit & Risk Committee and a Remuneration and Nominations 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 in conjunction with 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, Audit & Risk Committee

The Charter under which the Finance, Audit & Risk Committee operates was reviewed and approved by the Board on 30 May 2012. 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 and the Chief Operating Officer, as well as the internal and external auditors are invited to attend as required.

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

Ms A Kimmitt (Chair), B.Bus (Acc), FCA, AICD
Mr F J Cicutto, BCom, S.F.Fin, FAICD (Retired April 2012)
Mr G R Liebelt, BEcon (Hons) (Adel), FTSE, FAICD, FAIM (Appointed May 2012)
Mr M Taylor AO, FTSE

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 three 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 30 May 2012. 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 Chief Operating Officer and other executive officers of the School are invited to attend as required.

The members of the Investment Committee during the year were:

Mr R E Barker, (Chair), BSc (Hons) (Melb) MBA (Melb) F Fin
Mr F J Cicutto, BCom, S.F.Fin, FAICD (Retired April 2012)
Mr J Dahlsen, LLB, MBA (Melb) (Retired February 2013)
Mr S M Tanner, B.App Sci (Math) RMIT, FAICD, MBA (Melb) (Appointed May 2012)
Professor Z Degraeve, PhD (Chicago), MBA (Katholieke Universiteit Leuven), BSc (Ghent)

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 three 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 30 May 2012. 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 and other executive officers of the School are invited to attend as required.

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

Mr G R Liebelt, (Chair), BEcon (Hons) (Adel), FTSE, FAICD, FAIM
Mr P L Barnes, BCom (Hons), MBA (Melb)
Dr J K Fairley, BSc, BVSc (Hons), MBA (Melb), GAICD
Mr D S Karpin AM, BCom (Hons), MBA LLD (Hon), FCPA, FAICD, FAIM, FFin, MACS (Retired April 2012)
Professor Emeritus F Larkins, BSc (Hons), DipEd MSc (Hons), Bed, Dphil, DipAdvMath (Oxon), DSc (Melb), LLD (Hon), FAA, FTSE, FRACI, FAIE, FAIP

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

- overall remuneration strategy;
- recruitment, remuneration, retention, succession planning, termination and training of senior appointments;
- 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.

Directors' Report (continued)

General Information

The consolidated entity consists of the Melbourne Business School Limited and its subsidiaries; the Melbourne Business School Foundation Limited, the Melbourne Business School Foundation, the Mt Eliza Graduate School of Business and Government Limited. The Melbourne Business School Limited was incorporated under the Corporations Law on 30 June 1989 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.

The Melbourne Business School Foundation Limited was incorporated under Corporations Law on 20 October 1992 as a Public Company Limited by Guarantee. Mt Eliza Graduate School of Business and Government Limited was incorporated under Corporations Law in February 1955 as a Public Company Limited by Shares and Guarantee.

Long term objective

The long term objective of the Melbourne Business School is to be the No. 1 Business School in the Asia Pacific region and the first choice for both students and faculty and of organisations looking for a business school relationship in the region.

Short term objectives

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

- Develop a distinctive academic portfolio in order to position the School to meet a range of post-graduate business educational needs.
- Build on its No.1 Asia Pacific ranking in Executive Education by improving facilities and expanding its reach into both national and international organisations.
- Build on its financially strong base, growing the current level of activity in the region and developing physical assets to better suit the School's requirements and increase returns on investments.
- Increase engagement with School alumni and with organisations to build two way value enhancing partnerships.
- Establish Melbourne Business School as the sole business graduate school of the University of Melbourne.

Strategies for achieving objectives

In 2012 management of the Melbourne Business School, with the approval of the School Board, initiated strategies to meet short and long term objectives. These include:

- A refocussing of the academic portfolio;
- Review of MBA programs;
- Expansion of client reach;
- Increase focus on corporate relations; and,
- Form a collaboration with the University of Melbourne to establish a single business graduate school for the University.

Principal Activities

The principal activities of the Melbourne Business School entity during the course of the financial year were the provision of educational services and academic research.

There were no other significant changes in the nature of activities of the consolidated entity during the year.

Principal activities assisting the objectives

The principal activities of the School 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 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.

Directors' Report (continued)

Measurement of performance

The School measures its success against 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

The Dean and School Director - Professor Zeger Degraeve.

Senior Executive Officers

Mr Marc Flipo – Chief Operating Officer

Professor Paul Dainty – Deputy Dean Executive Education

Professor Paul Kirkbride – Deputy Dean Executive Education (Retired February 2012)

Professor Jill Klein – Deputy Dean Faculty Resources (Retired July 2012)

Associate Professor Jenny George – Deputy Dean Programs (Retired July 2012)

Professor Jim Frederickson – Deputy Dean of Faculty Resources (Appointed July 2012)

Ms Laura Bell – Associate Dean Academic Programs (Appointed November 2012)

Ms Sarah Seedsman – Associate Dean External Relations (Appointed January 2013)

Register of Business Names

Melbourne Business School Alumni

Melbourne Business School Centre for Coaching

Melbourne Business School Centre for Coaching in Organizations

Melbourne Case Study Services

Melbourne School of Marketing

Melbourne Master of Business Administration

Melbourne Executive Education

Mt Eliza Executive Education

Mt Eliza Centre for Executive Education

Mt Eliza Business School

Mt Eliza International

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

The consolidated loss for the year ended 31 December 2012 was $25,768; (2011: Profit $5,451,637), including realised investment profit of $461,615 (2011: $2,661,462) and Impairment loss of Financial Assets of $569,744 (2011: $44,137) which are shown in the consolidated statement of comprehensive income.

Investments

The investment portfolio is managed by an Investment Advisory 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 2012 was $70,178,264 (including cash and cash equivalents): (2011: $59,346,641).

Dividends

Melbourne Business School Limited, Melbourne Business School Foundation Limited and Mt Eliza Graduate School of Business and Government Limited are companies limited by guarantee and 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 consolidated entity that occurred during the financial year under review not otherwise disclosed in this report or the consolidated financial statements.

Environmental Regulation

The consolidated entity's operations are subject to the general environmental regulations under either Commonwealth or State legislation. The Board believes that the consolidated entity 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 consolidated entity.

The School's OH&S policy requires the School to provide a working environment which is safe and without risks to health. The School is committed to ensuring its staff, students, visitors and all stakeholders are responsible for safety, health, welfare and rehabilitation in the workplace.

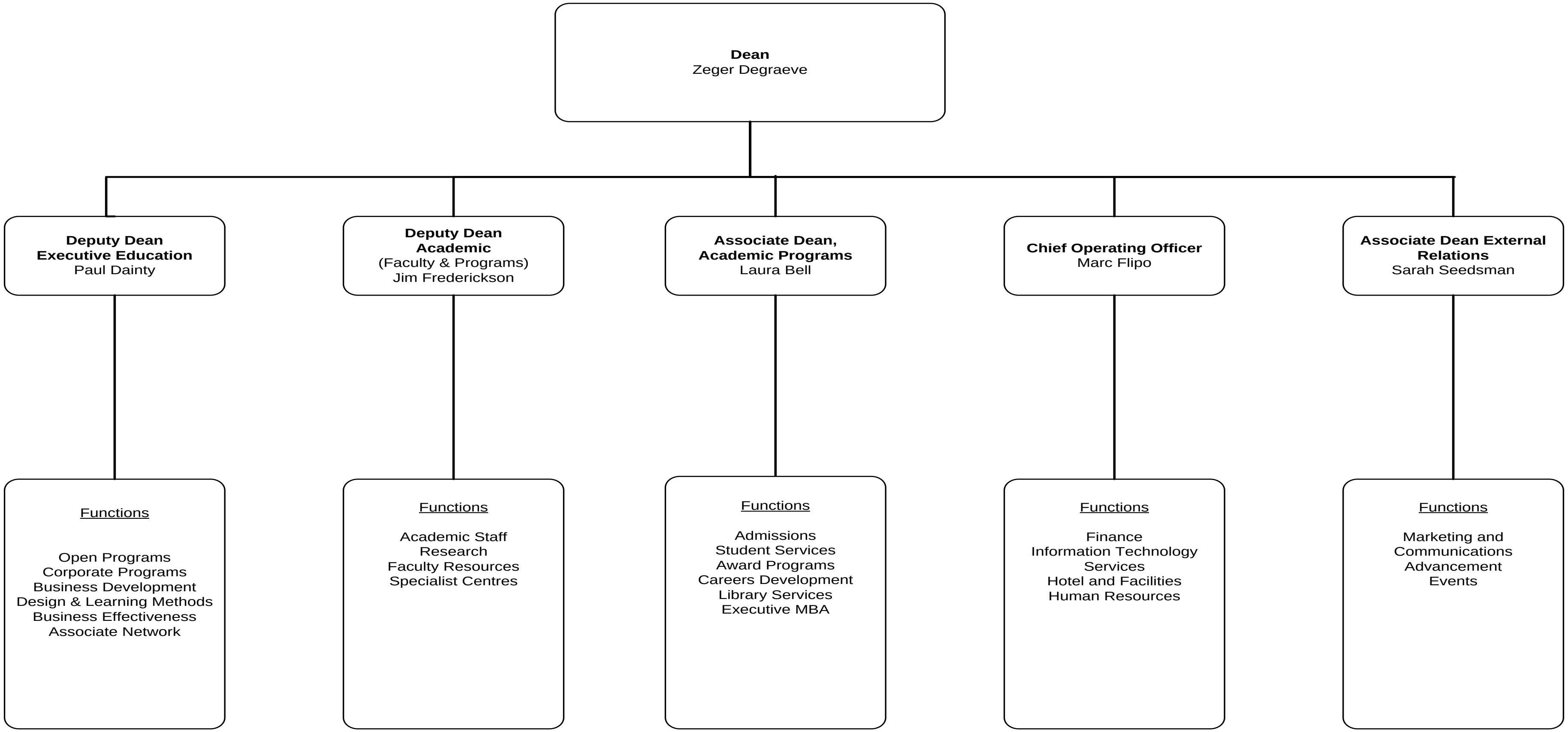
Events Subsequent to Balance Date

The School is collaborating with the University of Melbourne's Faculty of Business and Economics to establish a single business graduate school. The expected outcome is a larger portfolio of business graduate programs under the Melbourne Business School banner.

There are no other transactions or events of a material and unusual nature that occurred in the interval between the end of the year and the date of this report , likely in the opinion of the Directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future financial years.

Directors Report' (continued)

Organisational Chart



Directors' Report (continued)

Workforce Data

Staff Numbers as at 31 December	2012	2011
Full Time Equivalent		
-Academics	35	32
-General	144	140
Total	**179**	**172**
Casual Staff	43	38

Staff of the Company

The company employed 179 full time equivalent staff at 31 December 2012; (2011: 172), excluding casuals. Staff numbers increased by 7 during the financial year.

Likely Developments

The consolidated entity will continue to pursue its policy of raising program quality, increasing brand recognition and achieving continued financial strength.

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.

Consolidated Operational Performance and Financial Position

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

in thousands of dollars	**Actual 2012**	**Actual 2011**	**Actual 2010**	**Actual 2009**	**Actual 2008**	**Actual 2007**
Revenue (inclusive of investment income)	63,325	63,787	61,537	54,257	60,579	63,549
Profit on sale of investments	462	2,661	853	25	-	11,528
	63,787	66,448	62,390	54,282	60,579	75,077
Expenses						
Operating expenses (inclusive of finance expense)	63,243	60,952	58,036	60,755	63,109	58,834
Loss on sale of investments	-	-	-	-	14,807	-
	63,243	60,952	58,036	60,755	77,916	58,834
Operating results from ordinary activities	544	5,496	4,354	(6,473)	(17,337)	16,243
Impairment of financial assets	(570)	(44)	(295)	(189)	(19,292)	-
Profit/(loss) for the period	**(26)**	**5,452**	**4,059**	**(6,662)**	**(36,629)**	**16,243**
Net Assets (at year end)	162,746	144,573	148,362	145,379	134,722	166,997

Directors' Report (continued)

Consultancy Services

Payments made during the year to consultants engaged by the consolidated entity to provide services which are not held within the School, were:

Consultants costing less than $100,000	Project	Expenditure 2012	Expenditure 2011	Future expenditure
In thousands of dollars				
Payments to Consultants	Various	293	421	Unquantified

Number of consultancies engaged: 15 were engaged in 2012 (2011: 16).

Consultants costing more than $100,000	Project	Expenditure 2012	Expenditure 2011	Future expenditure
In thousands of dollars				
Nil.	-	-	-	-

The total fees payable 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 P L Barnes, R E Barker, C Cheong, P J Jopling QC, G R Liebelt, A Mervis, D Peever, S M Tanner, M J Taylor AO, F P Zipfinger, Ms A Kimmitt, Professors Z Degraeve and E Sonenberg, Associate Professor D Dow, Professor Emeritus F Larkin AM, Dr J K Fairley, former directors Messrs F J Cicutto, J C Dahlsen, D S Karpin AM, and the current Secretary of the Company, Mr M J 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 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, Professors P Dainty and J Frederickson and Associate Dean L Bell 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 consolidated entity.

Insurance Premiums

Since the end of the previous financial year, the Company has paid insurance premiums of $20,645 (2011: $18,357) 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 under Section 307C of the Corporations Act 2001

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 2012.

Rounding off

The Group is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, 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:

Peter Leslie Barnes	Date 13/3/2013
Director	
Professor Zeger Degraeve	Date 13/3/2013
Director	

KPMG

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

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 2012 there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Ralph Ferguson
Partner

Melbourne

13 March 2013

Consolidated Statement of comprehensive income

for the year ended 31 December 2012

in thousands of dollars	Note	2012	2011
Continuing operations			
Income			
Operating revenue		57,326	57,445
Non Operating revenue		348	357
Research revenue		1,465	1,616
Total Income		**59,139**	**59,418**
Expenditure			
Advertising and promotion		4,086	2,285
Catering and cleaning		1,182	1,113
Consulting and other professional		9,579	9,157
Depreciation and amortisation expenses	3	3,774	3,793
Employee expenses		28,939	28,745
Hire expenses		1,491	1,457
Information technology expenses		1,375	1,381
Library collection expenses		194	181
Other general expenses		1,924	1,413
Production and printing expenses		1,565	1,506
Raw materials and consumables used		2,393	2,543
Rent and outgoings		59	459
Repairs and maintenance expenses		1,237	1,553
Royalties		881	797
Scholarship payments		1,363	1,079
Travel expenses		2,146	2,329
Utility expenses		693	737
Total Expenditure		**62,881**	**60,528**
Results from operating activities		(3,742)	(1,110)
Finance income			
Investment income	2	4,186	4,369
Profit on sale of investments		462	2,661
		4,648	**7,030**
Finance expense			
Financial expenses		362	424
Impairment of financial assets	1(l)	570	44
		932	**468**
Net Finance income		**3,716**	**6,562**
Income tax expense	1(t)	-	-
Profit/(Loss) for the year		**(26)**	**5,452**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Net change in fair value of available-for-sale financial assets		7,189	(9,241)
Items that will not be classified to profit or loss:			
Revaluation of property, plant and equipment	8	11,010	-
Other comprehensive income for the year		18,199	(9,241)
Total comprehensive income for the year		18,173	(3,789)

The notes on pages 24 to 57 are an integral part of these consolidated financial statements.

Consolidated Statement of financial position

as at 31 December 2012

in thousands of dollars	Note	2012	2011
Assets			
Current Assets			
Cash and cash equivalents	5	16,213	23,211
Trade and other receivables	6	6,372	6,790
Inventories		49	65
Total Current Assets		**22,634**	**30,066**
Non-Current Assets			
Financial Instruments	7	59,772	41,534
Property, plant and equipment	8	102,027	91,992
Intangible assets	9	1,249	1,089
Total Non-Current Assets		**163,048**	**134,615**
Total Assets		**185,682**	**164,681**
Liabilities			
Current Liabilities			
Trade and other payables	10	8,370	8,729
Interest bearing loans and borrowings	12	916	814
Employee benefits	13	4,295	3,906
Other	14	7,749	4,972
Total Current Liabilities		**21,330**	**18,421**
Non-Current Liabilities			
Interest bearing loans and borrowings	12	1,059	1,105
Employee benefits	13	547	582
Total Non-Current liabilities		**1,606**	**1,687**
Total Liabilities		**22,936**	**20,108**
Net Assets		**162,746**	**144,573**
Equity			
Reserves		74,850	56,448
Capital donations		36,113	36,113
Contributed equity		12,339	12,339
Retained profits		39,444	39,673
Total Equity		**162,746**	**144,573**

The notes on pages 24 to 57 are an integral part of these consolidated financial statements.

Consolidated Statement of changes in equity

for the year ended 31 December 2012

in thousands of dollars	Contributed equity	Capital donations	Asset revaluation reserve fixed assets	Fair value reserve financial assets	Library reserve	Accumulated income endowment funds	Retained earnings	Total
Balance at 1 January 2011	12,339	36,113	56,140	9,129	32	23	34,586	148,362
Total comprehensive income for the year								
Profit/(Loss) for the year	-	-	-	-	-	-	5,452	5,452
Net change in fair value of available-for-sale financial assets	-	-	-	(9,241)	-	-	-	(9,241)
Change in endowment funds	-	-	-	-	-	-	-	-
Revaluation of property, plant and equipment	-	-	-	-	-	-	-	-
Transfer from retained profits	-	-	-	-	-	365	(365)	-
Total comprehensive income for the year	-	-	-	(9,241)	-	365	5,087	(3,789)
Balance as at 31 December 2011	**12,339**	**36,113**	**56,140**	**(112)**	**32**	**388**	**39,673**	**144,573**
Balance at 1 January 2012	12,339	36,113	56,140	(112)	32	388	39,673	144,573
Total comprehensive income for theyear								
Profit/(Loss) for the year	-	-	-	-	-	-	(26)	(26)
Net change in fair value of available-for-sale financial assets	-	-	-	7,189	-	-	-	7,189
Change in endowment funds	-	-	-	-	-	-	-	-
Revaluation of property, plant and equipment	-	-	11,010	-	-	-	-	11,010
Transfer to/from retained profits	-	-	-	-	-	203	(203)	-
Total comprehensive income for the year	-	-	11,010	7,189	-	203	(229)	18,173
Balance as at 31 December 2012	**12,339**	**36,113**	**67,150**	**7,077**	**32**	**591**	**39,444**	**162,746**

The notes on pages 24 to 57 are an integral part of these consolidated financial statements.

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Consolidated Statement of cash flows

for the year ended 31 December 2012

in thousands of dollars	**Note**	**2012**	**2011**
Cash flows from operating activities			
Cash receipts from customers		59,223	61,957
Cash grants received		75	25
Cash paid to suppliers and employees		(55,981)	(55,807)
Net cash from operating activities	18	3,317	6,175
Cash flows from investment activities			
Proceeds from sale of investments		6,604	58,266
Payments for investments		(17,623)	(41,950)
Interest received		819	299
Investment income		3,017	596
Payments for property, plant and equipment / intangibles		(2,090)	(1,772)
Net cash (used) in investing activities		(9,273)	15,439
Cash flows from financing activities			
Payment of finance lease liabilities		(1,042)	(775)
Net cash (used) in financing activities		(1,042)	(775)
Net increase/(decrease) in cash and cash equivalents		(6,998)	20,839
Cash and cash equivalents at 1 January		23,211	2,372
Cash and cash equivalents at 31 December	5	16,213	23,211

The notes on pages 24 to 57 are an integral part of these consolidated financial statements.

Notes to the financial statements

1. Significant accounting policies

Melbourne Business School Limited (the "Company") is a company domiciled in Australia. The consolidated financial statements of the Company for the year ended 31 December 2012 comprise the Company and its subsidiaries (together referred to as the "consolidated entity"). The registered office of the Melbourne Business School Limited is 200 Leicester Street Carlton VIC 3053.

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

(a) Statement of compliance

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 Corporations Act 2001. The Consolidated Financial Statements comply with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

The consolidated statements were authorised for issue by the directors on 13 March 2013.

(b) Basis of preparation

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

The financial report is prepared on the historical cost basis except for the following assets and liabilities.

- Financial instruments classified as available-for-sale are measured at fair value.
- Property is measured at fair value.

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell.

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and 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.

Certain comparative amounts in the consolidated statement of comprehensive income have been reclassified to conform with the current year's presentation.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised in any future periods effected.

The company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, all financial information presented in Australian dollars have been rounded off to the nearest thousand dollars, unless otherwise stated.

Notes to the financial statements

1. Significant accounting policies (continued)

(b) Basis of preparation (continued)

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are available for early adoption for annual periods beginning after 1 January 2012, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Consolidated Entity, except for AASB 9 Financial Instruments, which becomes mandatory for the Consolidated Entity's 2016 consolidated financial statements and could change the classification and measurement of financial assets. The Consolidated Entity does not plan to adopt this standard early and the extent of the impact has not been determined.

(c) Removal of parent entity financial statements

The Group has applied amendments to the Corporations Act (2001) that remove the requirement for the Group to lodge parent entity financial statements. Parent entity financial statements have been replaced by the specific disclosures in note 23.

(d) Basis of consolidation

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the consolidated entity.

(i) Consolidated Entity

The consolidated entity consists of the Melbourne Business School Limited and its subsidiaries; the Melbourne Business School Foundation Limited, the Melbourne Business School Foundation, the Mt Eliza Graduate School of Business and Government Limited. The University of Melbourne has 45% of the voting rights of members.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(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.

(e) Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Australian dollars at foreign exchange rates ruling at the dates the fair value was determined.

Notes to the financial statements

1. Significant accounting policies (continued)

(f) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are measured at cost or deemed cost less accumulated depreciation (see below) 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.

Where 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) Leased assets

Leases in terms of which the consolidated entity assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Lease payments are accounted for as described in accounting policy (r).

Other leases are operating leases; the leased assets are not recognised in the consolidated entity's statement of financial position.

(iii) Subsequent costs

The consolidated entity 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 consolidated entity and the cost of the item can be measured reliably. All other costs are recognised in the statements of comprehensive income as an expense as incurred.

(iv) Valuations

Formal revaluations of land and buildings are performed every six 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 and 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 and buildings previously recognised in profit or loss.

Notes to the financial statements

Significant accounting policies (continued)

(f) Property, plant and equipment (continued)

If the carrying amount of land and 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 and buildings. The net revaluation decrease recognised in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation reserve.

Revaluation increases and decreases relating to individual assets within a class of property, plant and equipment are offset against one another within that class but are not offset in respect of assets in different classes.

(v) 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 consolidated entity 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 significant items of property, plant and equipment are as follows:

• Buildings	28 - 33 years
• Plant and equipment	10 years
• Computer equipment	4 years
• Chattels, equipment and facilities	10 years
• Furniture and fittings	10 years
• Art works/antiques`	0 – 10 years
• Library materials	1 - 2 years
• Leasehold improvements	5 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.

(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 financial statements

1. Significant accounting policies (continued)

(h) Financial instruments

(ii) Non-derivative financial assets

The consolidated entity initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets are recognised initially on the trade date at which the consolidated entity becomes a party to the contractual provisions of the instrument.

The consolidated entity 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 on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the consolidated entity is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, the consolidated entity has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The consolidated entity has the following non-derivative financial assets: available-for-sale financial assets and loans and receivables.

(ii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any other category of financial assets. The consolidated entity's investments in equity securities, fixed interest and unit trusts are classified as available-for-sale financial assets.

Units in unit trusts, fixed interest and equities held by the consolidated entity are measured at fair value, with any resultant gain or loss being recognised directly in equity, except for impairment losses. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss.

Available-for-sale investments are recognised / derecognised by the consolidated entity on the date it commits to purchase / sell the investments.

(iii) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impaired losses.

Loans and receivables comprise trade and other receivables.

Trade and other receivables are stated at amortised cost using the effective interest method; less any impaired losses (see accounting policy (l), which approximates fair value).

Notes to the financial statements

1. Significant accounting policies (continued)

(i) Non-derivative financial liabilities

The consolidated entity initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognised initially on the trade date at which the consolidated entity becomes a party to the contractual provisions of the instrument.

The consolidated entity derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. The consolidated entity classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest rate method.

Other financial liabilities comprise trade and other payables.

(j) Inventories

Inventories are stated 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.

(k) 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 and are used by the consolidated entity in the management of its short term commitments.

(l) Impairment

(i) Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that the loss event had an impact on the estimated cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default, indications that a debtor or issuer will enter bankruptcy or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

For equity securities classified as available-for-sale financial assets, a significant or prolonged decline in the fair value of a security below its cost is considered to indicate impairment. The consolidated entity has assumed in its impairment assessment that a significant decline in fair value occurs when market value has declined by greater than 20% below historical cost, and a prolonged decline occurs when market value remains below historical cost for more than 9 months.

The consolidated entity considers evidence of impairment of financial assets at both a specific and collective level. All individually significant assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

Notes to the financial statements

1. Significant accounting policies (continued)

(l) Impairment (continued)

(i) Non-derivative financial assets (continued)

In assessing collective impairment the consolidated entity uses historical trends of the probability of default, timing of recoveries and the amount of the loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the assets original effective interest rate.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss previously recognised in profit or loss.

(ii) Non-financial assets

The carrying amounts of the consolidated entity's non-financial assets, other than inventories are reviewed at each reporting date 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.

(iii) Reversals of impairment

If, in a subsequent period, the fair value of an impaired available-for-sale equity security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, the reversal is recognised directly in other comprehensive income.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. The decrease in impairment loss is reversed through profit and 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.

(m) Share capital

(i) Dividends

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

(n) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Notes to the financial statements

1. Significant accounting policies (continued)

(o) 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 in the periods during which services are rendered by employees.

(iii) Short term benefits

Short–term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

Liabilities for employee benefits for wages, salaries, annual leave and sick leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax.

(iv) Other long-term employee benefits

The consolidated entity'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 obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to the Commonwealth Government bonds at the reporting date which have maturity dates approximating to the terms of the consolidated entity's obligations.

(p) Trade and other payables

Trade and other payables are stated at amortised cost.

(q) Revenue

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to surveys of work performed. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the costs incurred or to be incurred cannot be measured reliably, there is a risk of return of goods or there is continuing management involvement with the goods.

Government Grant income which is reciprocal in nature is recognised with reference to the percentage of completion method. The percentage of completion method is measured by reference to total expenditure incurred to date compared with the funding provided. Melbourne Business School regards the receipt of government grant income as a reciprocal transfer where the Melbourne Business School is required to provide the necessary services in return for grant funding. A liability is recognised in respect of such income which is unearned at the reporting date.

Government grants which are non-reciprocal in nature are recognised as revenue at the time of receipt.

Notes to the financial statements

1. Significant accounting policies (continued)

(r) Lease payments

(i) Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense and spread over the lease term.

(ii) Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Determining whether an arrangement contains a lease

At inception of an arrangement, the consolidated entity determines whether such an arrangement is or contains a lease. This will be the case if the following two criteria are met: the fulfilment of the arrangement is dependent on the use of that specific asset, and the arrangement conveys the right to use the asset if the arrangement conveys to the consolidated entity the right to control the use of the underlying asset. At inception or upon reassessment of the arrangement, the consolidated entity separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the consolidated entity concludes for a finance lease that it is impracticable to separate the payments reliably, as asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the consolidated entity's incremental borrowing rate.

(s) Finance income and finance costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend and trust distribution income and gains on the disposal of available-for-sale financial assets. 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 consolidated entity's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance costs comprise interest expense on borrowings, losses on disposal of available-for-sale assets and impairment losses recognised on financial assets other than trade receivables. 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 and losses are reported on a net basis.

(t) Income tax

The consolidated entity is exempt from income tax under Section 50-5 of the Income Tax Assessment Act (1997).

(u) 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.

Notes to the financial statements

1. Significant accounting policies (continued)

(v) Determination of fair values

A number of the consolidated entity's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Property

The fair value of property is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, and willingly.

(ii) Investments in units in unit trusts, equity and debt securities

The fair value of units in unit trusts classified as available-for-sale is their market unit price at the statement of financial position date, as reported by the investment manager of the unit trust.

The fair value of fixed interest securities are valued at bid price plus any interest accrued at reporting date.

The fair value of equity investments is based on quoted market prices at the statement of financial position date without any deduction for estimated future selling costs. Financial assets are priced at current bid prices.

(iii) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest.

(iv) Other non-derivative financial liabilities

Fair value, which is determined for disclosure purpose, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Notes to the financial statements

2. Investment Income

in thousands of dollars	2012	2011
Dividends	2,399	218
Distributions received	670	3,056
Interest	686	499
Franking credit refund	431	596
	4,186	4,369

3. Depreciation and Amortisation Expense

in thousands of dollars	2012	2011
Buildings and leasehold improvements	1,705	1,840
Plant and equipment, Chattels	369	336
Finance leases	860	1,016
Intangible assets	840	601
	3,774	3,793

4. Auditors' Remuneration

Audit Services

in dollars	2012	2011
Auditors of the Company		
KPMG Australia:		
Audit and review of financial statements	93,000	95,503
Other auditors - Auditor General Victoria		
Audit and review of financial statements	24,674	23,847
	117,674	119,350

Notes to the financial statements

5. Cash and Cash Equivalents

in thousands of dollars	**2012**	**2011**
Bank balances	10,423	7,911
Bank short term deposits, maturing within 90 days and paying interest at 4.00% (2011: 5.85%)	5,300	5,300
Bank short term deposits, maturing 90 + days and paying interest at 4.45% (2011: 5.70%)	490	10,000
Cash and cash equivalents	16,213	23,211

The consolidated entity's exposure to interest rate risks is disclosed in note 7.

6. Trade and Other Receivables

in thousands of dollars	**2012**	**2011**
Trade receivables	5,231	5,159
Other receivables	874	1,009
Pre-payments	267	525
Distributions receivable	-	97
	6,372	6,790

The consolidated entity's exposure to credit risk is disclosed in note 7.

Notes to the financial statements

7. Financial Instruments

Financial Risk Management

Overview

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

- Credit risk
- Liquidity risk
- Market risk

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

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

Credit Risk

Credit risk is the risk of financial loss to the consolidated entity if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the consolidated entity's receivables from customers and units in unit trusts.

Trade Receivables

The consolidated entity's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Company and the consolidated entity's customer base, including the default risk of the industry and country in which customers operate, has less of an influence on credit risk. The consolidated entity operates in the Australian region. The consolidated entity does not have a significant concentration of transactions with a single customer that would exceed 15% of total transactions.

Management has a credit policy in place and 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 consolidated entity do not require collateral in respect of financial assets.

The consolidated entity has established an allowance for impairment that represents their estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Notes to the financial statements

7. Financial Instruments (continued)

Investments

The consolidated entity limits its exposure to credit risk by only investing in liquid securities being equities and fixed interest securities and bonds.

Guarantees

The consolidated entity's policy is to provide financial guarantees only to wholly-owned subsidiaries.
The Company has guaranteed bank facilities of certain controlled entities. The maximum credit risk exposure to the Company is $2,000,000.

Liquidity risk

Liquidity risk is the risk that the consolidated entity will not be able to meet its financial obligations as they fall due. The consolidated entity's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under normal and stressed conditions, without incurring unacceptable losses or risking damage to the company or the consolidated entity's reputation.

The consolidated entity uses activity-based costing to cost services, which assists it in monitoring cash flow requirements. Typically the consolidated entity 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 consolidated entity monitors the level of expected cash inflows with expected cash outflows.

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

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 consolidated entity's income or the value of its holding of financial instruments. Further details of the consolidated entity's policies in relation to this risk are included under Other Market Price Risk below.

Currency risk

The consolidated entity is not materially exposed to any currency risk as the majority of its transactions are of a domestic nature.

Interest rate risk

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

Other market price risk

Price risk arises from investments in available-for-sale units in unit trusts and equities. The Investment Committee meets with and receives quarterly reports and advice from the Board appointed Investment Advisors.
The primary goal of the consolidated entity's investment strategy is provide attractive 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 financial statements

7. Financial Instruments (continued)

Capital management

The Board's policy is to maintain a strong capital base so as to maintain member, creditor and market confidence and to sustain future development of the consolidated entity.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. The consolidated entity maintains an insignificant level of debt.

There were no changes in the consolidated entity's approach to capital management during the year.
Neither the company nor any of its subsidiaries are subject to externally imposed capital requirements.

Financial assets available for sale

in thousands of dollars	**2012**	**2011**
Domestic equities at fair value	51,098	36,167
International equities at fair value	-	665
Fixed Interest Securities at fair value	5,878	3,743
Domestic Bonds at fair value	2,796	959
Total Available-for-sale	**59,772**	**41,534**

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices in active markets for identical assets
- Level 2: quoted prices other than active markets for identical assets
- Level 3: assets that are not based on market data

Fair value hierarchy

in thousands of dollars	**Level 1**	**Level 2**	**Level 3**	**Total**
31 December 2011				
Available-for-sale	40,575	959	-	41,534
31 December 2012				
Available-for-sale	56,976	2,796	-	59,772

Fair value versus carrying amounts

The carrying values of financial assets and liabilities approximate their fair values.

Notes to the financial statements

7. Financial Instruments (continued)

Exposure to credit risk

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

Financial Instruments

in thousands of dollars	2012	2011
Available-for-sale financial assets	59,772	41,534
Trade and other Receivables	6,372	6,790
Cash & Cash Equivalents	16,213	23,211
	82,357	**71,535**

Impairment losses

The ageing of the consolidated entity's trade receivables as at reporting date was:

in thousands of dollars	Gross 2012	Impairment 2012	Gross 2011	Impairment 2011
Not past due	2,115	-	2,377	-
Past due 0-30 days	2,139	-	1,849	-
Past due 31-60 days	270	-	664	-
Past due 61-90 days	347	66	76	-
Past due 91+ days	536	110	343	150
	5,407	**176**	**5,309**	**150**

The impairment loss of $176 thousand (2011:$150 thousand) relates to customers that are no longer contactable or are disputing the amount of payment.

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

in thousands of dollars	2012	2011
Balance at 1 January	150	225
Impairment loss recognised	26	(75)
Balance at 31 December	**176**	**150**

The ageing of the consolidated entity's other receivables was current (2011: current). There were no impairment losses with respect to other receivables.

Notes to the financial statements

7. Financial Instruments (continued)

Exposure to Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

2012

Consolidated

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
Trade and other payables	8,370	8,370	8,370	-	-	-	-
Finance Lease Liabilities	1,975	2,161	522	493	599	547	-
	10,345	**10,531**	**8,892**	**493**	**599**	**547**	**-**

2011

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
Trade and other payables	8,729	8,729	8,729	-	-	-	-
Finance Lease Liabilities	1,919	2,089	510	410	773	396	-
	10,648	**10,818**	**9,239**	**410**	**773**	**396**	**-**

Notes to the financial statements

7. Financial Instruments (continued)

Interest Rate Risk

Variable Rate Instruments

in thousands of dollars	2012	2011
Current Account	2,265	3,721
Short Term Deposit	5,790	15,300
Other Cash Acounts	8,158	4,190
	16,213	**23,211**

Cash flow sensitivity analysis for variable rate instruments

A 10 percent increase in interest rates at 31 December 2012 would have increased equity and profit by $48 thousand (2011 $103 thousand); an equal change in the opposite direction would have decreased equity and profit by $48 thousand (2011 $103 thousand).

Other market price risk

Sensitivity analysis – other price risk

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

Available-for-sale investments.

in thousands of dollars	2012	2011
Domestic equities at fair value	51,098	36,167
International equities at fair value	-	665
Fixed Interest Securities at fair value	5,878	3,743
Domestic Bonds at fair value	2,796	959
	59,772	**41,534**

A 10 percent increase in the prices of the investments at 31 December 2012 would have a $6 million increase on equity (2011 $4 million); an equal change in the opposite direction would have a $6 million decrease on equity (2011 $4 million). There would be no impact on profit as the resultant gain or loss is recognised directly in equity.

Notes to the financial statements

8. Property, Plant and Equipment

in thousands of dollars	Freehold Land	Buildings	Plant and equipment	Computer equipment	Chattels/ equipment and facilities	Leased assets	Leasehold improve-ments	Library materials	Artworks/ antiques	Work In Progress	Total
Fair value or cost											
Balance at 1 January 2011	41,600	49,808	4,117	639	3,128	4,717	60	387	343	186	104,985
Additions	-	121	276	16	308	1,187	-	47	-	386	2,341
Revaluation	-	-	-	-	-	-	-	-	-	-	-
Accumulated depreciation writeback	-	-	-	-	-	-	-	-	-	-	-
Disposals/write-off	-	(58)	(125)	(12)	(241)	(1,202)	(26)	-	(46)	-	(1,710)
Balance at 31 December 2011	41,600	49,871	4,268	643	3,195	4,702	34	434	297	572	105,616
Balance at 1 January 2012	41,600	49,871	4,268	643	3,195	4,702	34	434	297	572	105,616
Additions	-	220	377	-	62	1,767	-	30	-	401	2,857
Revaluation	4,175	6,835	-	-	-	-	-	-	-	-	11,010
Accumulated depreciation writeback	-	(5,297)	-	-	-	-	-	-	-	-	(5,297)
Disposals/write-off	-	-	(75)	(449)	(30)	(1,446)	(34)	(440)	-	-	(2,474)
Balance at 31 December 2012	45,775	51,629	4,570	194	3,227	5,023	-	24	297	973	111,712

Notes to the financial statements

8. Property, Plant and Equipment (continued)

in thousands of dollars	Freehold Land	Buildings	Plant and equipment	Computer equipment	Chattels/ equipment and facilities	Leased assets	Leasehold improve-ments	Library materials	Artworks/ antiques	Total
Depreciation and impairment losses										
Balance at 1 January 2011	-	1,825	3,944	571	2,328	2,306	18	307	36	11,335
Depreciation charge for the year	-	1,827	33	25	218	1,016	13	60	-	3,192
Transfer	-	-	-	-	-	-	-	-	-	-
Accumulated depreciation writeback	-	-	-	-	-	-	-	-	-	-
Disposals	-	(57)	(126)	(12)	(240)	(432)	(26)	-	(10)	(903)
Balance at 31 December 2011	-	3,595	3,851	584	2,306	2,890	5	367	26	13,624
Balance at 1 January 2012	-	3,595	3,851	584	2,306	2,890	5	367	26	13,624
Depreciation charge for the year	-	1,702	63	20	229	860	3	57	-	2,934
Transfer	-	-	-	-	-	-	-	-	-	-
Accumulated depreciation writeback	-	(5,297)	-	-	-	-	-	-	-	(5,297)
Disposals	-	-	(75)	(439)	(18)	(629)	(8)	(407)		(1,576)
Balance at 31 December 2012	-	-	3,839	165	2,517	3,121	-	17	26	9,685

Notes to the financial statements

8. Property, Plant and Equipment (continued)

in thousands of dollars	Freehold Land	Buildings	Plant and equipment	Computer equipment	Chattels/ equipment and facilities	Leased Assets	Leasehold improve-ments	Library materials	Artworks/ antiques	Work In Progress	Total
Carrying Amounts											
At 1 January 2011	41,600	47,983	173	68	800	2,411	42	80	307	186	93,650
At 31 December 2011	41,600	46,276	417	59	889	1,812	29	67	271	572	91,992
At 31 December 2012	45,775	51,629	731	29	710	1,902	-	7	271	973	102,027

Notes to the 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 and Mt Eliza Graduate School of Business and Government Ltd was carried out by Colliers International Consultancy and Valuation Pty Ltd as at 31 December 2012 on the basis of the open market value of the freehold land and buildings and their existing use.

Moving forward the directors review land and buildings annually to ensure that there has been no material change in the fair value of land and buildings since the previous independent revaluation.

It is the policy of the consolidated entity to revalue every 6 years in line with revaluation dates of University of Melbourne, or from time to time as determined by the Directors. The next planned independent valuation is scheduled for 2018.

Artwork and Antiques

Valuations of the artwork at the Carlton Campus and antiques at the Mt Eliza Campus were carried out during 2011 by independent valuers, AON Risk Solutions and McWilliam & Associates Pty Ltd. The directors have reviewed the carrying value at 31 December 2012 to ensure this has not materially changed.

Leased plant and machinery

The consolidated entity leases equipment under a number of finance lease agreements. At the end of each of the leases the consolidated entity has the option to purchase the equipment at a beneficial price. At 31 December 2012, the net carrying amount of leased plant and machinery was $1,902 thousand (2011: $1,812 thousand). Refer to note 12 for the leasing obligations.

Notes to the financial statements

9. Intangible Assets

in thousands of dollars	Computer Software
Cost	
Balance at 1 January 2011	2,242
Acquisitions	833
Disposals	-
Balance at 31 December 2011	3,075
Balance at 1 January 2012	3,075
Acquisitions	1,000
Disposals	(26)
Balance at 31 December 2012	4,049
Amortisation and impairment losses	
Balance at 1 January 2011	1,385
Amortisation for the year	601
Disposals	-
Balance at 31 December 2011	1,986
Balance at 1 January 2012	1,986
Amortisation for the year	840
Disposals	(26)
Balance at 31 December 2012	2,800
Carrying amounts	
At 1 January 2011	857
At 31 December 2011	1,089
At 31 December 2012	1,249

Notes to the financial statements

10. Trade and Other Payables

in thousands of dollars	2012	2011
Trade payables	3,394	3,045
Accruals	3,584	3,387
Other payables	1,392	2,297
	8,370	8,729

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

11. Loans and Borrowings

in thousands of dollars	2012	2011
Total facilities available		
Bank overdrafts	1,000	1,000
Credit card facility - limited	600	600
Revolving lease/hire purchase	500	500
Bank guarantees	565	565
	2,665	2,665
Facilities utilised at reporting date		
Bank overdrafts	-	-
Credit card facility - limited	-	-
Revolving lease/hire purchase	-	-
Bank guarantees	15	15
	15	15
Facilities not used at reporting date		
Bank overdrafts	1,000	1,000
Credit card facility - limited	600	600
Revolving lease/hire purchase	500	500
Bank guarantees	550	550
	2,650	2,650

Bank overdrafts

Interest on the overdraft of the controlled entity is secured by a cross guarantee between the Company and its subsidiary Mt Eliza Graduate School of Business and Government Limited.

Interest on the bank overdraft is charged at prevailing market rates.

Credit card facility

Interest on credit cards is charged at prevailing market rates.

Notes to the financial statements

12. Interest-bearing Loans and Borrowings – finance leases

Interest bearing loans and borrowings - finance leases

in thousands of dollars	**Minimum lease payments 2012**	**Interest 2012**	**Principal 2012**	**Minimum lease payments 2011**	**Interest 2011**	**Principal 2011**
Less than one year	1,015	99	916	921	107	814
Between one and five years	1,146	87	1,059	1,168	63	1,105
More than five years	-	-	-	-	-	-
	2,161	186	1,975	2,089	170	1,919

13. Employee Benefits

Current

in thousands of dollars	**2012**	**2011**
Liability for annual leave	1,991	1,804
Liability for long service leave	1,764	1,612
Liability for bonus payment	540	490
	4,295	3,906

Non-current

Liability for long service leave	547	582

The present values of employee entitlements not expected to be settled within twelve months of reporting date have been calculated using the following weighted averages.

	2012	**2011**
Assumed rate of increase in wage and salary rates	4%	5%
Discount rate	5%	5%
Settlement terms (years)	7-15	7-15

Defined contribution plans

The consolidated entity makes contributions to UniSuper and the Melbourne Business School Limited Superannuation Plan, and several accumulation employee superannuation plans at the rate of 9%. The amount recognised as an expense for contributions by the consolidated entity for the financial year were $1,804 thousand (2011: $1,741 thousand).

Notes to the financial statements

14. Other Liabilities

in thousands of dollars	2012	2011
Fees in advance	7,672	4,909
Conference deposits in advance	77	63
	7,749	4,972

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.

16. Operating Lease Rentals

in thousands of dollars	2012	2011
Non-cancellable operating lease rentals are payable as follows:		
Less than one year	-	40
Between one year and five years	-	-
More than five years	-	-
	-	40

17. Consolidated Entities

Parent entity		2012	2011
Melbourne Business School Limited		%	%
Significant subsidiaries			
Melbourne Business School Foundation Limited	Australia	100	100
Melbourne Business School Foundation	Australia	100	100
Mt Eliza Graduate School of Business and Government Limited	Australia	100	100

Notes to the financial statements

18. Reconciliation of Cash Flows from Operating Activities

in thousands of dollars	Note	2012	2011
Cash flows from operating activities			
Profit for the year		(26)	5,452
Adjustments for:			
(Profit)/Loss on sale of investments		(462)	(2,661)
Depreciation	3	2,934	3,192
Amortisation	3	840	601
Write-off property, plant and equipment		77	40
Bad debts		31	3
Finance lease costs		118	163
Interest received		(686)	(499)
Distributions / Dividends Reinvested		(3,500)	(3,870)
Impairment of Financial Assets		570	44
Operating profit before changes in working capital and provisions		(104)	2,465
Change in trade receivables and other receivables		418	2,251
Change in inventories		16	25
Change in trade and other payables		(144)	1,120
Change in fees in advance		2,777	263
Change in employee benefits		354	51
Net cash from operating activities		3,317	6,175

19. Reserves

Nature and purpose of reserves are as follows:

Asset revaluation reserve – fixed assets

The asset revaluation reserve – fixed assets relates to the revaluation of freehold land and buildings.

Fair value reserve – financial assets

The fair value reserve – financial assets comprises the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognised or impaired.

Library reserve

The library reserve includes donations from alumni members, the earnings from which are utilised to support the library and its associated faculties.

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.

Notes to the financial statements

20. Key management personnel disclosures

The following were specified directors of the consolidated entity at any time during the reporting period, unless otherwise indicated were directors for the entire period:

Melbourne Business School Limited

Non-Executive Directors

Mr Peter L Barnes
Mr Ross E Barker
Mr Francis J Cicutto (Retired April 2012)
Mr Chee Cheong
Mr John C Dahlsen (Retired February 2013)
Dr Jacinth K Fairley
Mr Peter P Jopling QC
Mr David S Karpin AM (Retired April 2012)
Ms Annette Kimmitt
Professor Emeritus Frank Larkins
Mr Graeme R Liebelt
Mr A Mervis (Appointed October 2012)
Mr D Peever (Appointed October 2012)
Professor Elizabeth Sonenberg
Mr Scott M Tanner
Mr Michael Taylor AO
Mr Frank Peter Zipfinger

Executive Directors

Professor Zeger Degraeve
Associate Professor Douglas Dow

Executive

Mr Marc J Flipo
Professor Paul Dainty
Professor Paul S Kirkbride (Retired February 2012)
Professor Jill Klein (Retired July 2012)
Professor Jim Frederickson (Appointed June 2012)
Associate Professor Jennifer George (Retired July 2012)
Ms Laura Bell (Appointed July 2012)
Ms Sarah Seedsman (Appointed January 2013)

Melbourne Business School Foundation Limited

Non-Executive Directors

Mr Peter L Barnes
Mr Ross E Barker (Appointed August 2012)
Mr Francis J Cicutto (Retired April 2012)

Executive Directors

Professor Zeger Degraeve

Mt Eliza Graduate School of Business and Government Limited

Non-Executive Directors

Mr Peter L Barnes
Mr David S Karpin AM (Retired April 2012)
Mr Michael Taylor AO

Executive Directors

Professor Zeger Degraeve

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

Notes to the financial statements

20. Key management personnel disclosures (continued)

Transactions with key management personnel

Executive officers remuneration

in dollars	2012	2011
Short-term employee benefits	2,281,834	2,081,359
Post-employment benefits	135,013	150,721
Other long term benefits	35,922	14,766
Termination benefits	-	147,938
	2,452,769	2,394,784

Notes to the financial statements

20. Key management personnel disclosures (continued)

Transactions with key management personnel
Executive officers remuneration (continued)

The number of executive officers, other than responsible persons, whose total remuneration falls within the specified bands

above $150,000 are:

Income Band ($)	Total Remuneration 2012	Total Remuneration 2011	Base remuneration 2012	Base remuneration 2011
$190,001 - $200,000	1	-	1	-
$200,001 - $210,000	1	-	1	-
$210,001 - $220,000	-	1	-	1
$220,001 - $230,000	1	-	1	-
$250,001 - $260,000	-	-	1	-
$260,001 - $270,000	-	-	-	1
$270,001 - $280,000	1	-	1	-
$280,001 - $290,000	-	1	-	-
$300,001 - $310,000	-	1	-	1
$320,001 - $330,000	-	2	-	-
$330,001 - $340,000	1	-	-	-
$340,001 - $350,000	-	-	-	1
$370,001 - $380,000	-	-	-	1
$410,001 - $420,000	-	-	1	-
$460,001 - $470,000	1	-	-	-
$490,001 - $500,000	-	1	-	-
$530,001 - $540,000	-	-	1	-
$660,001 - $670,000	1	-	-	-
Total numbers	7	6	7	5

Notes to the financial statements

20. Key management personnel disclosures (continued)

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

Directors' transactions with the Company or its controlled entities

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 from the Group. These purchases are on the same terms and conditions as those entered into by other Group employees or customers.

			Transaction value year ended 31 December		**Balance outstanding as at 31 December**	
in dollars		Note	**2012**	**2011**	**2012**	**2011**
Key management person	**Company**					
Mr. P L Barnes	Metcash Ltd	(i)	132,290	-	-	-
Mr. P L Barnes	News Corporation	(i)	130,089	-	92,000	-
Ms. A Kimmitt	Ernst & Young	(i)	20,746	1,575	-	1,575
Ms. A Kimmitt	Airservices Australia	(i)	552,497	-	18,555	-
Professor F Larkins	Department of Primary Industries	(i)	51,229	-	10,890	-
Mrs. G P Kelly	Westpac Banking Corp.	(iii)	-	120,000	-	-
Mr. G R Liebelt	Orica Chemicals Group	(i)	-	42,273	-	-
Professor R Wood	Desert Oak Assoc. Pty Ltd	(ii)	-	6,984	-	-
Other related parties - refer note 20						
			886,851	**170,832**	**121,445**	**1,575**

(i) The Group sold management education services to these companies noting that they had a common director. The amounts are due and payable under normal payment terms.

(ii) The Group sold facility space to Desert Oak Associates Pty Ltd. The key management person holds a directorship and significant interest in the company. The agreement was in place prior to the key management person being appointed as director of Desert Oak Associates Pty Ltd. The amounts are due and payable under normal payment terms.

(iii) The Group received funding to assist with Research in the reduction of gender discrimination. The amounts are due and payable under normal payment terms.

Notes to the financial statements

20. Key management personnel disclosures (continued)

Other related party transactions

As at the date of this report the consolidated entity 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 G R Liebelt	Amcor Ltd
Mr G R Liebelt	Australian Foundation Investment Company Ltd
Mr G R Liebelt	Orica Ltd
Mr D Peever	Rio Tinto Ltd
Mr F Zipfinger	AMP Ltd

Directors noted above did not participate in any decision with respect to the share transactions.

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.

21. Non-director and executive related parties

Other related party transactions

Subsidiaries

In 2004, the Company loaned $1,500,000 to one of its subsidiaries Mt Eliza Graduate School of Business and Government Limited. The Loan is interest free and repayable by 29 March 2013. At 31 December 2012, the amount owed to the Company was $1,500,000 (2011: $1,500,000). No funds have yet been repaid to reduce the balance of the loan.

Mt Eliza Graduate School of Business and Government Limited had an additional interest free loan of $1,766,101 at the beginning of the year. During 2012 the loan increased by $811,105 to fund building improvements. The loan was further reduced by $417,342 which represents its rental charge. The inter-company loan is interest free and repayable on demand. At 31 December 2012, the amount owed by Mt Eliza Graduate School of Business and Government Limited was $2,159,864.

Notes to the financial statements

21. 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	**2012**	**2011**
Administrative and maintenance services and goods and for the refund of expense of the Company by the University	1,148,672	605,266
Sales and charges to the University by the Company	1,728,270	1,463,950
Hire facilities to the University by the Company	189,755	175,112
Educational Management Services to the University by the Company	16,719,884	16,975,229

Associated Unincorporated Entities

The University of Melbourne previously operated a business known as Melbourne University Press. During 2002 this business was split into two businesses; the Melbourne University Bookshop, a Department of the University of Melbourne and Melbourne University Publishing Limited, now a wholly owned subsidiary of the University of Melbourne. All purchases of technical material were made from the Melbourne University Bookshop which in 2012 were to the value of $3 thousand (2011: $1 thousand) and were on normal commercial terms and conditions.

Other Related Parties

Other related parties consist of donor members. During the financial year the economic entity 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.

22. Subsequent Events

There has not arisen in the interval between the end of the financial year and the date of this report any item, any transaction or event of a material and unusual nature, likely in the opinion of the Directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future financial years.

Notes to the financial statements

23. Parent entity disclosures

As at, and throughout, the financial year ending 31 December 2011 the parent entity of the Group was Melbourne Business School Limited.

in dollars	2012	2011
Result of parent entity		
Profit (Loss) for the year	(26)	5,452
Other comprehensive income	14,871	(9,241)
Total comprehensive income for the year	14,845	(3,789)
Financial position of parent entity at year end		
Current assets	26,294	33,332
Total assets	185,682	164,681
Current liabilities	21,330	18,421
Total liabilities	22,936	20,108
Total equity of the parent entity comprising of:		
Reserves	71,523	56,448
Capital donations	29,993	29,993
Contributed equity	12,339	12,339
Retained profits	45,563	45,793
Total equity	**159,418**	**144,573**

Parent entity and Group capital commitments for acquisition of property plant and equipment

in dollars	2012	2011
Plant and equipment		
Contracted but not yet provided for and payable:	-	-
Within one year	2,884	-
	2,884	**-**

Directors' declaration

1 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 57 are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Group's financial position as at 31 December 2012 and of its performance, for the financial year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; 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.

2 The director's draw attention to Note 1(a) to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Dated at Melbourne: 13 March 2013

Signed in accordance with a resolution of the directors:

Peter Leslie Barnes	Professor Zeger Degraeve
Director	Director

Independent auditor's report to the members of Melbourne Business School Limited and its controlled entities

Report on the financial report

We have audited the accompanying financial report of Melbourne Business School Ltd (the company), which comprises the consolidated balance sheet as at 31 December 2012, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 22 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 1(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements of the Group comply with International Financial Reporting Standards.

Auditor's responsibility

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

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

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001 and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

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

KPMG

Independent auditor's report to the members of the Melbourne Business School Limited and its controlled entities (continued)

Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 31 December 2012 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1(a).

KPMG

KPMG

Ralph Ferguson
Partner

Melbourne

13 March 2013