Kaplan Higher Education Pty Ltd
ABN 85 124 217 670

Annual report
for the year ended 31 December 2017

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Annual report - 31 December 2017

Contents

Your directors present their report on the company for the year ended 31 December 2017.

Directors

The following persons were directors of Kaplan Higher Education Pty Ltd during the whole of the financial year and up to the date of this report:

Professor Murray Wells
Donald William Stammer
David Jones
Robert William Regan

Principal activities

The company's principal continuing activity during the year consisted of the provision of higher education services, comprising:

(a) an online business offering masters qualification, and
(b) Murdoch Institute of Technology, a pathways college partnered with the Murdoch University, and
(c) University of Adelaide College, providing English courses, Degree Transfer and Foundation studies as a pathways college partnered with the University of Adelaide.

Dividends

No dividends have been paid during the financial year. The directors do not recommend that a dividend be paid in respect of the financial year (2016: $nil).

Review of operations

The profit from ordinary activities after income tax amounted to $19,874,218 (2016: $1,733,618).

Significant changes in the state of affairs

There have been no significant changes in the state of affairs of the company during the year.

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 31 December 2017 that has significantly affected the company's operations, results or state of affairs, or may do so in future years.

Likely developments and expected results of operations

The directors expect that the company will continue to carry out its principal activities as detailed above. There are no other known or likely developments which the directors foresee.

Environmental regulation

The company is not affected by any significant environmental regulation in respect of its operations.

Indemnity and insurance of directors and officers

No indemnities have been given or insurance premiums paid during, or since the end of the financial year for any person who is, or has been an officer of the company. All directors and officers are covered by the ultimate parent entity's professional indemnity insurance policy.

Proceedings on behalf of the company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party, for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the *Corporations Act 2001*.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 3.

Auditor

PwC Australia continues in office in accordance with section 327 of the *Corporations Act 2001*.

This report is made in accordance with a resolution of directors.

Robert William Regan
Director

Sydney
30 April 2018

pwc

Auditor's Independence Declaration

As lead auditor for the audit of Kaplan Higher Education Pty Ltd for the year ended 31 December 2017, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

S.T. Maher

Shannon Maher
Partner
PricewaterhouseCoopers

Sydney
30 April 2018

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These financial statements cover Kaplan Higher Education Pty Ltd as an individual entity. The financial statements are presented in the Australian currency.

Kaplan Higher Education Pty Ltd is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Kaplan Higher Education Pty Ltd
Lv1-3, 132 Grenfell Street
Adelaide SA 5000

A description of the nature of the entity's operations and its principal activities is included in the directors' report on page 1, which is not part of these financial statements.

The immediate parent company is Kaplan Australia Holdings Pty Ltd. The ultimate parent company is The Graham Holdings Company, a company incorporated and domiciled in the United States of America.

The financial statements were authorised for issue by the directors on 30 April 2018. The directors have the power to amend and reissue the financial statements.

Kaplan Higher Education Pty Ltd
Statement of comprehensive income
For the year ended 31 December 2017

	Notes	2017 $	2016 $
Revenue from continuing operations	4	**38,937,967**	12,192,368
Cost of rendering services		**(17,383,312)**	(3,987,871)
Gain on write off of intercompany loans		**13,085,901**	-
Administrative expenses	5	**(8,425,111)**	(4,846,304)
Marketing expenses		**(1,346,873)**	(750,070)
Occupancy expenses		**(2,077,468)**	(286,885)
Impairment of assets		**(1,000)**	-
Profit before income tax		**22,790,104**	2,321,238
Income tax expense	6	**(2,915,886)**	(587,620)
Profit for the year		**19,874,218**	1,733,618
Other comprehensive income for the year, net of tax		**-**	-
Total comprehensive income for the year		**19,874,218**	1,733,618
Profit is attributable to:			
Owners of Kaplan Higher Education Pty Ltd		**19,874,218**	1,733,618
Total comprehensive income for the year is attributable to:			
Owners of Kaplan Higher Education Pty Ltd		**19,874,218**	1,733,618

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Kaplan Higher Education Pty Ltd
Statement of financial position
As at 31 December 2017

	Notes	2017 $	2016 $
ASSETS			
Current assets			
Cash and cash equivalents	7	**6,646,383**	2,077,296
Trade and other receivables	8	**49,713,597**	15,510,138
Total current assets		**56,359,980**	17,587,434
Non-current assets			
Investment in subsidiary	9	**7,944,967**	7,944,967
Property, plant and equipment	10	**601,317**	-
Deferred tax assets	11	**513,397**	142,313
Total non-current assets		**9,059,681**	8,087,280
Total assets		**65,419,661**	25,674,714
LIABILITIES			
Current liabilities			
Trade and other payables	12	**23,206,688**	12,412,777
Provisions	13	**1,065,810**	401,237
Unearned income		**10,232,500**	2,377,724
Total current liabilities		**34,504,998**	15,191,738
Non-current liabilities			
Provisions	14	**572,584**	15,115
Total non-current liabilities		**572,584**	15,115
Total liabilities		**35,077,582**	15,206,853
Net assets		**30,342,079**	10,467,861
EQUITY			
Contributed equity	15	**46,500,000**	46,500,000
(Accumulated losses)	16	**(16,157,921)**	(36,032,139)
Total equity		**30,342,079**	10,467,861

The above statement of financial position should be read in conjunction with the accompanying notes.

	Contributed equity $	(Accumulated losses) $	Total equity $
Balance at 1 January 2016	46,500,000	(37,765,757)	8,734,243
Profit for the year	-	1,733,618	1,733,618
Other comprehensive income	-	-	-
Total comprehensive income for the year	**-**	**1,733,618**	**1,733,618**
Balance at 31 December 2016	**46,500,000**	**(36,032,139)**	**10,467,861**
Balance at 1 January 2017	46,500,000	(36,032,139)	10,467,861
Profit for the year	-	19,874,218	19,874,218
Other comprehensive income	-	-	-
Total comprehensive income for the year	**-**	**19,874,218**	**19,874,218**
Balance at 31 December 2017	**46,500,000**	**(16,157,921)**	**30,342,079**

The above statement of changes in equity should be read in conjunction with the accompanying notes.

	Notes	**2017** $	2016 $
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**43,495,337**	13,821,626
Payments to suppliers and employees (inclusive of goods and services tax)		**(38,125,804)**	(13,848,314)
Net cash inflow (outflow) from operating activities	25	**5,369,533**	(26,688)
Cash flows from investing activities			
Payments for property, plant and equipment		**(138,602)**	-
Transfers of property, plant and equipment from subsidiary		**(661,844)**	-
Net cash (outflow) from investing activities		**(800,446)**	-
Net increase (decrease) in cash and cash equivalents		**4,569,087**	(26,688)
Cash and cash equivalents at the beginning of the financial year		**2,077,296**	2,103,984
Cash and cash equivalents at the end of the financial year	7	**6,646,383**	2,077,296

The above statement of cash flows should be read in conjunction with the accompanying notes.

Contents of the notes to the financial statements

1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. The financial statements are for Kaplan Higher Education Pty Ltd.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. Kaplan Higher Education Pty Ltd is a for-profit entity for the purpose of preparing the financial statements.

(i) Compliance with Australian Accounting Standards - Reduced Disclosure Requirements

The financial statements of Kaplan Higher Education Pty Ltd comply with Australian Accounting Standards - Reduced Disclosure Requirements as issued by the Australian Accounting Standards Board (AASB).

(ii) New and amended standards adopted by the company

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 January 2017 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

The company has not elected to apply any pronouncements to the annual reporting period beginning 1 January 2017.

(iii) Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

(iv) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the company. The company's assessment of the impact of these new standards and interpretations is set out below.

- AASB 9 *Financial Instruments* - The company does not expect any impact from the new classification, measurement and recognition rules on the company's financial assets and financial liabilities.
- AASB 15 *Revenue from Contracts with Customers* - Management is currently assessing the effects of applying the new standard on the company's financial statements and will conclude on this prior to the year end 31 December 2018.
- AASB 16 *Leases* - Management is currently assessing the effects of applying the new standard on the company's financial statements and has identified the standard will affect primarily the accounting for the company's operating leases.

(v) Going concern

The company has accumulated losses in amount of $16,157,921 (2016: $36,032,139). The directors believe the company should prepare the financial report on a going concern basis due to the existence of the Deed of Cross Guarantee described below. Further it is noted that an intermediate parent entity, Kaplan Inc., has provided a letter of support to the company and has access to sufficient funds to provide such support.

(b) Investment in subsidiary

The investment in the company's subsidiary is measured at cost less accumulated impairment.

1 Summary of significant accounting policies (continued)

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of the company are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Australian dollars, which is Kaplan Higher Education Pty Ltd's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of comprehensive income within finance costs. All other foreign exchange gains and losses are presented in the statement of comprehensive income on a net basis within other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognised in other comprehensive income.

(d) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the company's activities as described below. The company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for the major business activities as follows:

(i) Rendering of services

Revenue from the rendering of a service is recognised based on the percentage of completion of the service to the customers.

(ii) Interest income

Interest income is recognised using the effective interest method. When a receivable is impaired, the company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(iii) Unearned income

Amounts invoiced and received but not yet earned are recorded as unearned income on the statement of financial position.

1 Summary of significant accounting policies (continued)

(e) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Tax consolidation

Kaplan Australia Holdings Pty Ltd and its wholly owned subsidiaries elected to implement the tax consolidation legislation and form a tax consolidated group.

Each individual entity within the tax consolidated group accounts for its own income tax expense and deferred tax balances following the policy as above. Any current tax balance payable or receivable by the entity based on its own results are accounted for as an intercompany balance to Kaplan Australia Holdings Pty Ltd provided they are recoverable. Kaplan Australia Holdings Pty Ltd records the consolidated tax payable position of the tax consolidated group.

(f) Leases

Leases of property, plant and equipment where the company, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the company will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the company as lessee are classified as operating leases (note 20). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

1 Summary of significant accounting policies (continued)

(g) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

(h) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

(i) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 15 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

Receivables from related parties are initially recognised at fair value, carry no interest and are repayable on demand.

1 Summary of significant accounting policies (continued)

(j) Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation on assets is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives as follows:

- Leasehold improvements	5 to 8 years
- Computer equipment	2.5 to 3 years
- Library	3 years
- Office equipment	4 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

(k) Intangible assets

(i) Goodwill

Goodwill on acquisitions of trade and assets of businesses is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(ii) Intangibles

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level consistent with the methodology outlined for goodwill above. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

1 Summary of significant accounting policies (continued)

(l) Trade and other payables

These amounts represent liabilities for goods and services provided to the company prior to the end of financial year which are unpaid.

Related party payables are non-interest bearing and are carried at cost.

(m) Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(n) Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employee's services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave and accumulating sick leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

(ii) Other long-term employee benefit obligations

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

The obligations are presented as current liabilities in the statement of financial position if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

1 Summary of significant accounting policies (continued)

(o) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(p) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

2 Financial risk management

(a) Market risk

Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the company's functional currency. The company operates within Australia only, but accepts payment for services from sources outside of Australia. With the exception of management services provided from related entities, all payments received and amounts paid are denominated in Australian dollars which reduces this risk significantly.

(b) Credit risk

Credit risk arises from cash and cash equivalents, held-to-maturity investments, favourable derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables. The company is part of the Kaplan Group, whose ultimate parent is Graham Holdings Company (GHCo). The company has received confirmation from the parent, via letters of support, that the company will not call in any intercompany loans within the next 12 months and will provide support in the form of capital injections, as required.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities to meet obligations when due and to close out market positions. At the end of the reporting period the company held cash sufficient to cover its needs in the short and medium term. As the company receives the majority of payments for services in advance of performing the services, Group Treasury is confident that liquidity risk is low.

3 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

3 Critical accounting estimates and judgements (continued)

Critical accounting estimates and assumptions

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Impairment of goodwill and intangibles

The company determines whether goodwill and intangibles are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units, using a value in use discounted cash flow methodology, to which the goodwill and intangibles with indefinite useful lives are allocated.

(ii) Income taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

4 Revenue

	2017 $	2016 $
From continuing operations		
Sales revenue		
Rendering of services	**38,937,967**	12,192,368

5 Expenses

	2017 $	2016 $
Profit before income tax includes the following specific expenses:		
Administrative expense		
Bad and doubtful debts	**95,748**	3,685
Head office recharge	**225,081**	88,154
Depreciation and amortisation expense	**-**	38,864
Computer and communications	**5,480**	5,480
Wages and salaries	**6,207,164**	4,079,026
Superannuation expense	**532,690**	346,229
Other employee benefits expense	**50,770**	52,709
Other expenses	**1,308,178**	232,157
	8,425,111	4,846,304

6 Income tax expense

(a) Income tax expense

	2017 $	2016 $
Current tax		
Current tax on profits for the year	**3,286,970**	(1,395,957)
Adjustments for current tax of prior periods	**-**	-
Total current tax expense	**3,286,970**	(1,395,957)
Deferred income tax		
Decrease (increase) in deferred tax assets (note 11)	**(371,084)**	1,983,577
Total deferred tax expense/(benefit)	**(371,084)**	1,983,577
Income tax expense	**2,915,886**	587,620
Income tax expense is attributable to:		
Profit from continuing operations	**2,915,886**	587,620

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	2017 $	2016 $
Profit from continuing operations before income tax expense	**22,790,104**	2,321,238
Tax at the Australian tax rate of 30.0% (2016 - 30.0%)	**6,837,031**	696,371
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Entertainment	**4,625**	1,285
Sundry items	**(3,925,770)**	(110,036)
Income tax expense	**2,915,886**	587,620

7 Current assets - Cash and cash equivalents

	2017 $	2016 $
Cash at bank and in hand	**6,646,383**	2,077,296

8 Current assets - Trade and other receivables

	2017 $	2016 $
Trade receivables	**747,287**	683,637
Provision for impairment of receivables (a)	**(136,714)**	(6,147)
	610,573	677,490
Amount receivable from related parties	**49,017,858**	14,734,813
Other receivables	**15,704**	-
Goods and withholding tax receivable	**(73,806)**	13,208
Prepayments	**143,268**	84,627
	49,713,597	15,510,138

(a) Impaired trade receivables

Movements in the provision for impairment of trade receivables that are assessed for impairment collectively are as follows:

	2017 $	2016 $
At 1 January	**6,147**	8,133
Provision for impairment recognised during the year	**89,151**	16,124
Acquired businesses	**41,415**	-
Receivables written off during the year as uncollectible	**1**	(18,110)
At 31 December	**136,714**	6,147

Amounts recognised in profit or loss

During the year, the following gains/(losses) were recognised in profit or loss in relation to impaired receivables.

	2017 $	2016 $
Impairment losses		
- Individually impaired receivables	**1**	(18,110)
- Movement in provision for impairment	**89,151**	16,124
- Reversal of previous impairment losses	**-**	-

9 Non-current assets - Investment in subsidiary

	2017 $	2016 $
Investment in subsidiary	**7,944,967**	7,944,967

10 Non-current assets - Property, plant and equipment

	Leasehold improvements $	Total $
At 31 December 2016		
Cost	-	-
Accumulated depreciation	-	-
Net book amount	-	-
Year ended 31 December 2017		
Opening net book amount	-	-
Acquisition of subsidiary	661,844	661,844
Additions	138,602	138,602
Transfers	(199,129)	(199,129)
Closing net book amount	601,317	601,317
At 31 December 2017		
Cost	2,147,541	2,147,541
Accumulated depreciation	(1,546,224)	(1,546,224)
Net book amount	601,317	601,317

11 Non-current assets - Deferred tax assets

	2017 $	2016 $
The balance comprises temporary differences attributable to:		
Employee benefits	**513,397**	142,313
Total deferred tax assets	**513,397**	142,313
Set-off of deferred tax liabilities pursuant to set-off provisions	**-**	-
Net deferred tax assets	**513,397**	142,313

Movements	**Employee benefits** $	**Total** $
At 1 January 2016	2,125,890	2,125,890
(Charged)/credited		
- to profit or loss	(1,983,577)	(1,983,577)
At 31 December 2016	142,313	142,313
At 31 December 2016	142,313	142,313
(Charged)/credited		
- to profit or loss	371,084	371,084
At 31 December 2017	513,397	513,397

12 Current liabilities - Trade and other payables

	2017 $	2016 $
Trade payables	**-**	108,696
Amount payable to related parties	**15,939,929**	4,980,809
Related party payables - intercompany tax payable	**3,205,842**	6,600,693
Sundry creditors and accruals	**2,488,066**	241,614
Employee benefits liabilities	**1,572,851**	480,965
	23,206,688	12,412,777

13 Current liabilities - Provisions

	2017 $	2016 $
Employee benefits	**450,621**	401,237
Provision for dismantling and rent	**615,189**	-
	1,065,810	401,237

Movements in provisions

Movements in each class of provision during the financial year, other than employee benefits, are set out below:

2017	Provision for dismantling and rent $	Total $
Carrying amount at the start of the year	-	-
Acquired through business combination	636,274	636,274
Amounts used during the year	(21,085)	(21,085)
Carrying amount at end of year	615,189	615,189

14 Non-current liabilities - Provisions

	2017 $	2016 $
Employee benefits	**572,584**	15,115

15 Contributed equity

(a) Share capital

	2017 Shares	2016 Shares	2017 $	2016 $
Ordinary shares				
Fully paid	**46,500,000**	46,500,000	**46,500,000**	46,500,000

(b) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

The company does not have a limited amount of authorised capital.

16 (Accumulated losses)

Movements in (accumulated losses) were as follows:

	2017 $	2016 $
Balance 1 January	**(36,032,139)**	(37,765,757)
Net profit for the year	**19,874,218**	1,733,618
Balance 31 December	**(16,157,921)**	(36,032,139)

17 Dividends

Ordinary shares

No dividends have been paid during the financial year. The directors do not recommend that a dividend be paid in respect of the financial year (2016: $nil).

18 Remuneration of auditors

The audit fees are paid by a related entity, Kaplan Australia Pty Ltd.

19 Contingencies

The company had no contingent liabilities at 31 December 2017 (2016: $nil).

20 Commitments

The company had no commitments at 31 December 2017 (2016: $nil).

21 Related party transactions

(a) Parent entities

The immediate parent company is Kaplan Australia Holdings Pty Ltd. The ultimate parent company is The Graham Holdings Company, a company incorporated and domiciled in the United States of America.

(b) Key management personnel compensation

Compensation for the key management personnel of $4,186,875 has been borne by its related party entities Kaplan Australia Pty Ltd and Kaplan International English (Australia) Pty Ltd for the years ending 31 December 2017 and 31 December 2016.

(c) Transactions with other related parties

There were no sales and purchases transactions occurred with related parties during the year (2016: $nil).

(d) Outstanding balances arising from sales/purchases of goods and services

There were no outstanding balances arising from sales and purchases transactions with related parties as at 31 December 2017 (2016: $nil).

21 Related party transactions (continued)

(e) Loans to/from related parties

	2017 $	2016 $
Loans to other related parties		
Beginning of the year	**1,656,963**	1,393,332
Loans advanced	**214,244**	263,631
End of year	**1,871,207**	1,656,963

There is no allowance account for impaired receivables in relation to any outstanding balances, and no expense has been recognised in respect of impaired receivables due from related parties.

(f) Terms and conditions

All transactions with related parties were made on normal commercial terms and conditions and at market rates.

The loans with related parties are unsecured, interest free and repayable on demand.

22 Interests in other entities

Significant investments in subsidiaries

Name of entity	Country of incorporation	Class of shares	Equity holding ** 2017 %	Equity holding ** 2016 %
Kaplan Business School Pty Ltd	Australia	Ordinary	**100**	100

** The proportion of ownership interest is equal to the proportion of voting power held.

23 Deed of cross guarantee and going concern

Kaplan Australia Holdings Pty Ltd and the group entered into a deed of cross Guarantee on 21 September 2006. Entities included in this Deed of Guarantee at that time were Kaplan Australia Holdings Pty Ltd, Kaplan Australia Pty Ltd, Tribeca Learning Pty Ltd and Kaplan Education Pty Ltd.

On 11 November 2008 Kaplan Higher Education Pty Ltd and Kaplan Business School Australia Pty Ltd entered into the Deed of Cross Guarantee, via an Assumption Deed.

24 Events occurring after the reporting period

No matter or circumstance has occurred subsequent to year end that has significantly affected, or may significantly affect, the operations of the company, the results of those operations or the state of affairs of the company or economic entity in subsequent financial years.

25 Cash flow information

Reconciliation of profit after income tax to net cash inflow/(outflow) from operating activities

	2017 $	2016 $
Profit for the year	**19,874,218**	1,733,618
Depreciation and amortisation	-	43,522
Change in operating assets and liabilities:		
(Increase) in trade and other receivables	**(34,004,330)**	(6,132,387)
(Increase) decrease in deferred tax assets	**(371,084)**	189,671
Increase in trade and other payables	**10,793,911**	4,329,965
Increase (decrease) in other operating liabilities	**7,854,776**	(167,446)
Increase (decrease) in other provisions	**1,222,042**	(23,631)
Net cash inflow/(outflow) from operating activities	**5,369,533**	(26,688)

In the directors' opinion:

(a) the financial statements and notes set out on pages 4 to 26 are in accordance with the *Corporations Act 2001*, including:

  (i) complying with Accounting Standards - Reduced Disclosure Requirements, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and

  (ii) giving a true and fair view of the entity's financial position as at 31 December 2017 and of its performance for the financial year ended on that date, 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, and

(c) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in note 23 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 23.

This declaration is made in accordance with a resolution of directors.

Robert William Regan
Director

Sydney
30 April 2018

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Independent auditor's report

To the members of Kaplan Higher Education Pty Ltd

Our opinion

In our opinion:

The accompanying financial report of Kaplan Higher Education Pty Ltd (the Company) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Company's financial position as at 31 December 2017 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards - Reduced Disclosure Requirements and the *Corporations Regulations 2001.*

What we have audited

The financial report comprises:

- the statement of financial position as at 31 December 2017
- the statement of comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

Independence

We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report for the year ended 31 December 2017, including the directors' report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

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In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors 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 - Reduced Disclosure Requirements and *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our auditor's report.

Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report of Kaplan Higher Education Pty Ltd for the year ended 31 December 2017 included on Kaplan Australia's web site. The directors of the Company are responsible for the integrity of Kaplan Australia's web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

PricewaterhouseCoopers

Shannon Maher
Partner

Sydney
30 April 2018