# Vocation Limited

**ABN 95 166 631 330**

## Annual Report - 30 June 2014

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|---|---|
| Directors | John Dawkins AO - Chairman<br>Mark Hutchinson<br>Steve Tucker<br>Michelle Tredenick<br>Douglas Halley |
| Company secretary | Manvinder Gréwal |
| Notice of annual general meeting | The details of the annual general meeting of Vocation Limited are:<br>AGL Theatre, Museum of Sydney<br>Corner of Phillip and Bridge Streets<br>Sydney, NSW 2000<br>2:00pm on Thursday 16 October 2014 |
| Registered office | Suite 1<br>31 Chessell Street<br>South Melbourne VIC 3205<br>Head office telephone: (+61) 03 9907 1900 |
| Share register | Link Market Services Limited<br>Level 12<br>680 George Street<br>Sydney, NSW 2000<br>Share registry telephone: 1300 554 474 |
| Auditor | PricewaterhouseCoopers<br>Darling Park Tower 2<br>201 Sussex Street<br>Sydney, NSW 2000 |
| Solicitors | Johnson Winter & Slattery<br>Level 25<br>20 Bond Street<br>Sydney, NSW 2000 |
| Bankers | ANZ - Level 1C, 833 Collins St, Docklands, VIC, 3008<br>CBA - Level 9, 201 Sussex St, Sydney, NSW, 2000<br>Westpac - Level 9, 55 Market St, Sydney, NSW, 2000<br>NAB - Level 18, 255 George St, Sydney, NSW 2000 |
| Stock exchange listing | Vocation Limited shares are listed on the Australian Securities Exchange (ASX code: VET) |
| Website | www.vocation.com.au |

It gives me pleasure to present Vocation's maiden Operating and Financial Review as an ASX listed company.

**Operations overview**

Vocation is one of Australia's largest dual sector vocational and higher education training providers that offers a flexible education delivery model for large enterprises and individuals.

Vocation has an integrated national footprint complemented by an established online platform with a diversified offering across industry sectors including; health and wellness, manufacturing, trades, hospitality and tourism. Vocation is focused on providing high quality and relevant course content for students that reflects the current requirements of employers.

Vocation's education offer enables the group to deliver a complete student lifecycle from Certificate 1 through to Masters degrees.

**Operations – FY14**

FY14 has been a transformational first year for the business, with the pro forma results exceeding the IPO prospectus forecasts and several operational milestones being achieved, including completing the integration of the three founding companies.

Vocation has also made significant progress towards diversifying its revenue channels with the acquisition of three high quality education providers at attractive multiples in 2014.

These acquisitions have enabled Vocation to enhance the student experience and course offerings, while substantially expanding its addressable market into Higher Education and International students.

**Pro forma consolidated income statements: Financial year ended 30 June 2014 compared to financial year ended 30 June 2013**

The pro forma consolidated income statement for the year ended 30 June 2014 has been prepared on the same basis as the pro forma consolidated income statement for the year ended 30 June 2013 published in the Vocation Limited IPO prospectus issued in November 2013 and adjusted to exclude the impact of acquisitions since IPO.

The table below sets out the pro forma consolidated income statement for the financial year ended 30 June 2014 compared to the pro forma consolidated income statement for the financial year ended 30 June 2013 and the pro forma forecast for the year ended 30 June 2014, which were both included in the Prospectus.

| **$m** | **FY14 Pro forma actual** | **FY13 Pro forma actual** | **Change** | **FY 14 Pro forma forecast** |
|---|---|---|---|---|
| Enterprise | 50.2 | 18.4 | *2.7x* | 44.9 |
| Direct | 25.5 | 6.8 | *3.7x* | 22.3 |
| Solutions | 61.5 | 34.0 | *1.8x* | 51.1 |
| **Total Revenue** | **137.2** | **59.2** | ***2.3x*** | **118.3** |
| Staff and contractor costs | (39.9) | (16.7) | *2.4x* | (33.6) |
| Course delivery costs | (42.4) | (20.0) | *2.1x* | (32.1) |
| External student acquisition costs | (4.8) | (0.7) | *6.9x* | (4.7) |
| Other expenses | (14.0) | (9.5) | *1.5x* | (13.0) |
| **Total Expenses** | **(101.1)** | **(46.9)** | ***2.2x*** | **(83.4)** |
| **EBITA** | **36.1** | **12.3** | ***2.9x*** | **34.9** |

| | | | | |
|---|---|---|---|---|
| Amortisation of acquired intangibles | (4.9) | (5.1) | *1.0x* | (5.1) |
| **EBIT** | **31.2** | **7.2** | ***4.3x*** | **29.8** |
| Net interest income | 0.4 | 0.4 | *1.0x* | 0.4 |
| Profit before tax | 31.6 | 7.6 | *4.2x* | 30.2 |
| Income tax expense | (9.5) | (3.8) | *2.5x* | (10.6) |
| **NPAT** | **22.1** | **3.8** | ***5.8x*** | **19.6** |
| **NPATA** | **25.5** | **8.9** | ***2.9x*** | **24.7** |

Vocation significantly expanded its operations over the course of FY14 achieving organic growth across each of its three revenue channels.

On a pro forma basis revenue increased by 132% to $137.2 million (pro forma FY13 revenue $59.2 million) and pro forma EBITA increased by 193% to $36.1 million (pro forma FY13 EBITA $12.3 million) for the year ended 30 June 2014.

Statutory sales revenue in FY14 was $128.4 million. Statements of pro forma adjustments to the statutory income statements are set out later in this review.

The Enterprise business, which delivers education and training services to corporate and government employees, grew significantly through the commencement of several new clients and growth in existing clients to deliver pro forma revenue of $50.2 million.

The Direct channel, which caters to individual students, delivered pro forma revenue of $25.5 million compared to $6.8 million in FY13. The growth reflects the introduction of a number of new programs in FY14 as well as some positive momentum from online enrolments in the year.

Vocation's Solutions business, which delivers services and industry consulting to third-party providers, performed ahead of expectations over the course of the year driven by strong growth in both existing and new clients, delivering pro forma revenue of $61.5 million in FY14 compared to $34.0 million in FY13.

Pro forma Earnings Before Interest Tax and Amortisation ('EBITA') margins of 26.2% (Prospectus forecast: 29.5%) reflected the revenue mix achieved for the three business channels and investment made in the business to support FY15 growth and longer term sustainable margins.

The effective tax rate on operating earnings for the year ended 30 June 2014 was broadly in line with the statutory tax rate of 30%.

Strong levels of cash conversion were achieved in FY14.

The Australian Vocational sector is undergoing an unprecedented level of change with the demand driven model being implemented by Western Australia and Queensland in 2014 with New South Wales following in 2015. This vocational organic growth opportunity in addition to the significant increase in the addressable market now open to Vocation from its recent acquisitions means that management needs to be selective in its growth strategy.

### *Statutory results*

The statutory sales revenue was $128.4 million and statutory net profit after tax was $8.3 million.

The statutory results reflect the impact of the merger of the founding companies (AVANA, BAWM and CSIA), the IPO transaction costs, the ACAE/ASM and Real Institute acquisitions (and related transaction costs), which completed on 30 April 2014 and 31 May 2014 respectively and the transaction costs in relation to the acquisition of the Endeavour College of Natural Health, which completed on 1 July 2014.

Statements of pro forma adjustments to the statutory income statement are set out below.

***Pro forma adjustments to the statutory income statement***

The table below sets out the adjustment to the statutory results for FY14 to primarily reflect the full year impact of the capital and operating structure that is in place following the completion of the IPO, as if it was in place on 1 July 2013 and ignores the impact of the subsequent acquisitions made by Vocation post IPO. These adjustments are summarised below:

| **$m** | **FY14** |
|---|---|
| **Statutory sales revenue** | **128.4** |
| Pro forma impact of the merger[1] | 12.8 |
| Revenue from acquisitions[2] | (4.0) |
| **Pro forma revenue** | **137.2** |
| | |
| **Statutory NPAT** | **8.3** |
| Pro forma impact of the merger[1] | 2.7 |
| Impact of acquisitions[2] | (1.4) |
| Public company costs[3] | (0.5) |
| IPO costs[4] | 13.4 |
| Acquisitions related costs[5] | 7.2 |
| Amortisation of intangibles[6] | (2.3) |
| Net interest income[7] | 0.4 |
| Income tax effect[8] | (5.7) |
| **Pro forma NPAT** | **22.1** |

**Notes:**

1. **Pro forma impact of the merger** – the unaudited income statements of the founding companies* and the ancillary businesses** (excluding BAWM Pty Ltd) have been adjusted to eliminate non-recurring items or items not relevant to the operations of these entities and businesses post their acquisition by Vocation.
2. **Impact of acquisitions** – an adjustment has been made to the pro forma results to eliminate the revenue and net profit after tax of acquisitions (ACAE/ASM and Real Institute) during the year reported in the income statement.
3. **Public company costs** – an adjustment has been made to include the pro forma estimate of annualised costs Vocation has incurred as a listed public company. These costs include director and executive remuneration, additional audit and tax costs, listing fees, and share registry fees.
4. **IPO costs** – include IPO transaction costs of $12.4 million ($8.7 million net of tax) that have been expensed and other IPO related costs of $1.0 million. A further $9.1 million of IPO transaction costs were directly attributable to the issue of shares and hence were offset against equity raised in the IPO Offer.
5. **Acquisition related costs** – Include transaction costs of $6.7 million in relation to the ACAE/ASM, the Real Institute and Endeavour acquisitions and $0.5 million of other acquisition related costs.
6. **Amortisation of intangibles** – reflects annualisation of the amortisation expense incurred in respect of the identified intangible assets recognised following completion of the merger. This value of identified intangible assets is based on a provisional purchase price allocation exercise conducted by Vocation. Vocation has 12 months from the completion of the merger in which to finalise this provisional purchase price allocation.
7. **Net interest income** – reflects the inclusion of interest income of $0.4 million.
8. **Income tax effect** – the forecast income tax rate applicable to Vocation is approximately 30%. This tax rate has been applied in calculating the tax impact of the above adjustments.

* Founding companies are defined as AVANA Group Pty Ltd and its subsidiaries, BAWM Pty Ltd, Aspin Pty Ltd, Customer Service Institute of Australia Pty Ltd and its subsidiaries and CSIA Education Services Pty Ltd

**Ancillary businesses collectively refers to the entities or businesses that were acquired by Vocation Limited or the founding companies either prior to, or contemporaneously with, the acquisition of AVANA Group Pty Ltd and its subsidiaries and Customer Service Institute of Australia Pty Ltd and its subsidiaries by Vocation, and includes Student Hub Pty Ltd, OzSoft Solutions Pty Ltd, Antenna Strategic Insights Pty Ltd and TTS-100 Pty Ltd.

**Financial position**

The table below sets out the statutory consolidated net assets at 30 June 2014 compared to the pro forma consolidated net assets as at 30 June 2013 set out in the Prospectus published in November 2013.

| $m | 30 June 2014 Statutory actual net assets | 30 June 2013 Pro forma net assets |
|---|---|---|
| Cash & cash equivalents | 21.7 | 11.5 |
| Receivables | 44.0 | 10.9 |
| Goodwill & other Intangibles | 253.8 | 190.7 |
| Property, plant & equipment | 2.3 | 0.8 |
| Deferred Tax Assets | 7.8 | 6.5 |
| Other assets | - | 1.7 |
| **Total assets** | **329.6** | **222.1** |
| Payables | (46.4) | (7.0) |
| Provisions | (1.3) | (0.9) |
| Current tax liabilities | (3.6) | (1.4) |
| Borrowings and derivative financial instruments | (45.0) | - |
| Deferred tax liabilities | (9.6) | (0.1) |
| **Total liabilities** | **(105.9)** | **(9.4)** |
| **Net assets** | **223.7** | **212.7** |

The significant increase in the receivables and payables reflects a combination of the organic growth experienced in the business as well as the impact of the acquisitions (Real Institute and ACAE/ASM). The increase in goodwill and other intangibles reflects ACAE/ASM and Real acquisitions, but not Endeavour, which completed on 1 July 2014.

Net debt as at 30 June 2014 was $20.9 million.

Vocation entered into a new $123 million loan facility (on 30 May 2014, amended on 6 June 2014) with Commonwealth Bank of Australia, National Australia Bank and Westpac Banking Corporation which comprises the following:

- $120 million Facility A – Three year cash advance facility
- $3 million Facility B – Three year bank guarantee facility

As at 30 June 2014, Facility A was drawn to $42.6 million. Facility B was undrawn as at 30 June 2014. Vocation completed the acquisition of Endeavour on 1 July 2014 and the undrawn component of the $120 million debt facility was fully drawn then.

LTM FY14 gearing (net debt to EBITDA) adjusted to include Endeavour is 1.9x. The facilities are governed by two covenants, which are tested twice a year as follows:

- Net leverage ratio to be not greater than 2.75:1
- Interest cover ratio to be equal to or greater than 3

Vocation comfortably met these covenants at the first testing point of 30 June 2014.

**Risks**
The Key risks that may impact Vocation's ability to deliver on its strategy and Vocation's ability to manage these risks are set out below:

Regulatory and government funding – Vocation operates in a highly regulated sector and a significant proportion of Vocation's revenue is derived from Commonwealth, State and Territory government funding. Funding from various Governments accounted for approximately 80% of Vocation's pro forma consolidated revenue in FY13 with a similar percentage in FY14. Vocation continues to actively engage with the various regulatory and funding bodies that are relevant to its operations to manage any changes to policy. Vocation has also made significant progress towards diversifying its revenue channels away from government funding since IPO.

Growth strategy execution – Vocation operates in a rapidly consolidating sector, with opportunities to grow through acquisition, which are not without related risks (including integration risks). Vocation has a disciplined approach to acquisitions and each potential acquisition is carefully considered by management, in conjunction with the Board Investment Committee. Vocation has successfully managed the integration of the founding companies and is using these insights to integrate the acquisitions made post IPO. The implementation of the demand driven funding model in Western Australia, Queensland and New South Wales brings significant organic growth opportunities with the related risk of being able to effectively harness these growth opportunities. Vocation has physical presence in each of these States and local regulatory and market expertise.

Damage to the Vocation and underlying brands – The success of Vocation is dependent on its reputation and branding. Vocation will be investing significantly in its two key brands – Vocation and Endeavour. Maintaining the strength of these brands is one factor which could impact on Vocation's ability to recruit students, maintain the registrations of its RTOs, receive government funding, maintain corporate and government relationships and successfully implement its business strategy. Management actively monitors student feedback and promotes the student centric model internally within the business with a strong focus on graduation rates and job outcomes.

Loss of key management personnel – The loss of key management personnel and other senior executives could cause a material disruption to Vocation's activities in the short to medium term. Key management personnel and senior executives are locked into contracts to December 2016 and have equity incentives to align their interests with Vocation's future performance. Vocation has successfully acquired new talent as part of the acquisitions made since IPO which has allowed Vocation to strengthen its executive committee and release certain management from the business.

**Likely developments and the expected results of operations**
The acquisitions Vocation has made since listing in December 2013 has secured new licences, accelerated geographic expansion and established a position of scale in the higher education market. The acquired businesses are each leaders in their fields adding complementary course offerings to the portfolio as well as significant management expertise.

As a result of these acquisitions Vocation has significantly diversified its revenue base, increased its exposure to fee-for-service students and substantially expanded its addressable market from approximately $8 billion in FY14 to over $30 billion going forward.

Vocation gained valuable insights and a robust methodology for combining highly regulated education businesses through the successful integration of its founding companies in FY14. These learnings are now being applied to the integration of Real Institute that has been accelerated and is expected to complete in September 2014. Endeavour requires minimal integration as the consolidated entity's new Higher Education pillar.

Vocation has made strong progress in FY14 implementing the strategy set out in the prospectus, which has evolved following the three acquisitions made since IPO (Endeavour was acquired 1 July 2014). Vocation's strategy is to become the leading dual sector education brand in Australia. To achieve this management will focus on the following initiatives:

- implementation and substantial investment in MyVocation Careers, linking students to job outcomes, which are a critical success factor in the modern education sector;
- continued focus on Enterprise national delivery though a significantly strengthened team, following the Real Institute acquisition;
- development of pathway programs that link Vocational courses to Higher Education programs, bolstered by new University relationships;
- consolidation and further investment in Vocation's digital ecosystem to increase student online environment as part of a blended learning offering;
- stakeholder engagement with Government as the macroeconomic factors and policy settings underpinning the sector continue to be favourable and are particularly supportive for providers of scale such as Vocation;
- gain market share in Queensland, Western Australia and New South Wales as the demand driven VET model becomes established in these states;
- continue to invest in high quality course content that delivers positive student outcomes; and
- continue to evaluate high quality acquisition opportunities and maintain a disciplined approach to consolidation anticipated in the education and training sector in FY15.

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Vocation Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2014.

**Directors**
The following persons were directors of Vocation Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

John Dawkins AO - Chairman (appointed on 6 November 2013)
Mark Hutchinson (appointed on 6 November 2013)
Steve Tucker (appointed on 6 November 2013)
Michelle Tredenick (appointed on 6 November 2013)
Douglas Halley (appointed on 6 November 2013)

**Principal activities**
During the financial year the principal continuing activity of the consolidated entity was that of a full-service private vocational education and training service ('VET') provider, operating across all levels of the VET sector value chain including front-end student recruitment, education and training delivery and back-end student management. The consolidated entity is organised into three business channels:
- Enterprise – delivery of education and training services to employees of Australian corporate and government clients;
- Direct – delivery of education and training services to individual students; and
- Solutions – provides outsourced managed services and other ancillary services to third party VET providers, learning and development businesses and industry specialists in Australia.

**Dividends**
On 30 October 2013, the directors of BAWM Pty Limited declared a Pre-IPO fully franked dividend for the year ended 30 June 2014 of $792,500 per ordinary share.

In addition to the above dividend, since year end the directors have recommended the payment of a fully franked final dividend of 3.2 cents per fully paid ordinary share on 10 October 2014, to shareholders registered on 1 September 2014.

**Review of operations**
The profit for the consolidated entity after providing for income tax amounted to $8,272,000 (30 June 2013: $4,737,000).

Refer to operational and financial review section for a detailed commentary on the review of operations.

*Business objectives being met*
The consolidated entity has used cash and cash equivalents generated at the timing of listing in a way consistent with its stated business objectives.

**Significant changes in the state of affairs**
Significant changes in the state of affairs of the consolidated entity during the financial year were as follows.

*Group Reorganisation and acquisition of founding and ancillary businesses*
Prior to the initial public offering (IPO), a 100% owned subsidiary of Vocation Limited, BAWM Pty Ltd (BAWM) undertook a reorganisation such that Vocation Limited was established as BAWM's parent/holding entity. Details of the reorganisation are disclosed in the basis of preparation in Note 1 of the financial statements.

The formation of Vocation has brought together under common ownership leading Australian private VET Providers. Vocation acquired 100% of Avana Group Pty Ltd ('AVANA') and its controlled entities, CSIA Pty Ltd ('CSIA') and its controlled entities, Aspin Pty Ltd and Student Hub Pty Ltd on 6 December 2013 which completed the group reorganisation. Details of these acquisitions are disclosed in Note 32 of the financial statements.

*Listing on ASX*
On 9 December 2013, Vocation listed on the Australian Securities Exchange (ASX code: VET). Contributed equity increased by $143,272,000 as the result of the issue of shares net of transaction costs and tax. The cash received from the issue of new share capital was used primarily as part consideration for the acquisition of the businesses described above and to pay transaction costs.

Contributed equity also increased by $1,685,000 as a result of shares issued in the group reorganisation described above, by $73,244,000 as a result of shares issued as part of consideration to acquire businesses and by $3,241,000 on exercise of performance rights granted to directors and management in connection with the IPO.

Details of all movements in contributed equity are disclosed in Note 20 of the financial statements.

*Acquisition of Australian College of Applied Education Pty Ltd (ACAE) and Australian School of Management Pty Ltd (ASM)*
On 30 April 2014, Vocation acquired 100% of the issued share capital of the ACAE based in Western Australia. Vocation also acquired 50% of the issued capital of the ASM, an associated higher education provider, with an option to acquire the remaining 50%.

The acquisitions are highly consistent with the consolidated entity's stated strategy of diversification, and will accelerate entry into new geographies and student cohorts by leveraging licences held by ACAE and ASM across Vocation's existing platform.

*Acquisition of Oil Group Holdings Pty Limited (Real Institute) and its controlled entities*
On 31 May 2014 the parent entity acquired 100% of the issued share capital of the Real Institute, a national and multi-award winning education and training provider with a strong presence in Queensland, New South Wales and Western Australia. It offers courses across multiple industries, with a particular focus on the logistics industry and the labour hire market, where it provides industry-based training that allows students to be placed directly into sustainable employment after completing their qualifications.

The acquisition is highly complementary, providing additional scale, geographic and industry diversification, and exposure to new sources of revenue and new enterprise clients.

Details of the acquisitions above are disclosed in Note 32 of the financial statements.

*Borrowing Facility*
Vocation entered into a debt facility on 30 May 2014, which was amended on 6 June 2014 with the Commonwealth Bank of Australia, National Australia Bank and Westpac Banking Corporation ('lenders') and others. The lenders provided a $123 million three year loan facility to Vocation, which has been used to partly finance the Real acquisition described above and finance the Endeavour transaction described below.

Details of the borrowing facility are disclosed in Note 17 of the financial statements.

There were no other significant changes in the state of affairs of the consolidated entity during the financial year.

## Matters subsequent to the end of the financial year

On 1 July 2014, the parent entity acquired 100% of the issued share capital of Endeavour College of Natural Health ('Endeavour'), one of Australia's leading providers of higher education and vocational training in the health and wellness sector.

The acquisition will significantly diversify the consolidated entity's revenue sources as Endeavour currently attracts no state or federal funding. The acquisition also significantly strengthens the consolidated entity's position in the higher education market, broadens its educational offering by providing further exposure in the growing health and wellness sector, and delivers an established and high quality national campus footprint which significantly improves the consolidated entity's overall geographic exposure.

The financial effects of this transaction have not been brought to account at 30 June 2014. The operating results, assets and liabilities of the company will be consolidated from 1 July 2014.

*Acquisition related costs*
Acquisition related costs of $3,316,000 are included in transaction costs in profit or loss and in operating cash flows in the statement of cash flows.

Apart from the dividend declared as discussed above, no other matter or circumstance has arisen since 30 June 2014 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

## Likely developments and expected results of operations

Likely developments in the operations of the consolidated entity and expected results of those operations are contained in the operational and financial review section.

## Environmental regulation

The consolidated entity is not subject to any significant environmental regulation under Australian Commonwealth or State law.

## Information on directors

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|---|---|
| Name: | John Dawkins AO |
| Title: | Chairman |
| Experience and expertise: | As Minister for Employment, Education and Training (1987-1991) he oversaw considerable reform of the higher education sector and in vocational education and training. Following his career in government, John has served on the boards of a number of listed and unlisted companies such as Elders Rural Bank and Asgard Capital Management and for 10 years served on the board of the Fred Hollows Foundation. He is a member of the Trustee Board of Cbus Super. Among other company appointments, he is currently Chair of Sovereign Gold Ltd and will shortly conclude his Chairmanship of ILH Group. He has advised governments around the world on education issues and for over three years advised Commonwealth, state and territory ministers as Chairman of the National Skills Standards Council (NSSC) on developing and maintaining the national standards for the regulation of the Vocational Education and Training (VET) industry in Australia. Recently John concluded his term as Chair of the Australian Qualification Framework Council. |
| Other current directorships: | Chair of ILH Group Limited and Sovereign Gold Company Limited and is a member of the Trustee Board of Cbus Super, among other company appointments |
| Former directorships (last 3 years): | Former director of Archer Exploration and Australian Bauxite. |
| Special responsibilities: | Member of the Nomination and Remuneration and Audit and Risk Committees. |
| Interests in shares: | 529,101 ordinary shares |

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| Name: | Mark Hutchinson |
| Title: | Managing Director and Chief Executive Officer |
| Qualifications: | Masters of Business Administration (INSEAD) and a Bachelor of Economics (The University of Sydney). |
| Experience and expertise: | Mark founded Avana Group Pty Ltd ('AVANA'), one of the consolidated entity's founding companies. Since inception in 2011, AVANA has experienced strong growth and established a reputation for high-quality, effective learning solutions in service-based industries across Australia. Mark has considerable management and entrepreneurial experience in the tourism and VET sectors. He previously founded Untamed in 2002, a nature-based tourism and training company that was successfully sold in 2011. He launched a registered training organisation in 2007 that provided tourism training and eventually served as the seed asset for what is now AVANA. He has over six years experience in the VET sector. |
| Other current directorships: | None |
| Former directorships (last 3 years): | None |
| Special responsibilities: | Member of the Nomination and Remuneration, Audit and Risk and Investment Committees. |
| Interests in shares: | 6,085,700 ordinary shares |

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| Name: | Steve Tucker |
| Title: | Non-Executive Director |
| Qualifications: | Bachelor of Economics (The University of Western Australia) |
| Experience and expertise: | Steve was the CEO of MLC from 2004 until 2013 and was a Group Executive of National Australia Bank (NAB) Wealth division from 2010 to 2013, as well as a member of the NAB Group Executive Committee. As CEO, he had responsibility for MLC, NAB Private Wealth and JBWere. Steve joined MLC in 1988 and held a number of senior roles including leading MLC's retail investment and advice businesses. Steve has been involved with one of the Founding Companies of Vocation, AVANA, as a minority shareholder since 2011. |
| Other current directorships: | None |
| Former directorships (last 3 years): | Former director on a number of NAB Group Boards including MLC Ltd, MLC Investments Ltd, JBWere and National Wealth Management Holdings |
| Special responsibilities: | Chairman of the Investment Committee and member of the Nomination and Remuneration, Audit and Risk Committees. |
| Interests in shares: | 347,465 ordinary shares |

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| Name: | Michelle Tredenick |
| Title: | Non-Executive Director |
| Qualifications: | Bachelor of Science from University of Queensland and is a Fellow of the Australian Institute of Company Directors. |
| Experience and expertise: | Michelle is an experienced company director and corporate advisor with over 30 years' experience in leading Australian businesses. She is currently a Director of Bank of Queensland Limited, Canstar Pty Ltd and is Chairman of IAG NRMA Corporate Superannuation Trustee Board. She is a member of the Senate of the University of Queensland as well as sitting on the board of St James Ethics Centre. She also has her own consulting business advising Boards and CEOs on strategy and technology and the successful management of large investment and transformation programs. Her executive career included roles on the group executive teams of a number of Australia's largest companies including NAB, MLC and Suncorp. Her experience spans time as CIO with all of these companies as well as Head of Strategy and Marketing and divisional profit and loss roles in Corporate Superannuation, Insurance and Funds Management. She has twice been awarded Banking and Finance CIO of the year. |
| Other current directorships: | Bank of Queensland Limited and subsidiaries |
| Former directorships (last 3 years): | None |
| Special responsibilities: | Chairman of the Nomination and Remuneration Committee and member of the Audit and Risk Committee. |
| Interests in shares: | 258,730 ordinary shares |

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| Name: | Douglas Halley |
| Title: | Non-Executive Director |
| Qualifications: | Bachelor of Commerce, Masters of Business Administration and is a Fellow of the Australian Institute of Company Directors. |
| Experience and expertise: | Doug's career has encompassed accounting and audit, treasury management and broader financial and general management responsibilities. For 30 years he held CFO and CEO positions with major organisations in a diversity of industries including banking (Rothschild and Hill Samuel (now Macquarie Bank)), media (Fairfax Media and Television & Media Services), computer services (IBM), information services and online and print publishing (Fairfax Media and Thomson Legal & Regulatory). For the past seven years, Doug has held non-executive positions in a variety of listed, private and not-for-profit organisations. He is currently Chairman of DUET Group and Foyson Resources Limited. He is a founding investor and Director of Print & Digital Publishing which produces "Time Out". |
| Other current directorships: | Chairman of DUET Group and Foyson Resources Ltd |
| Former directorships (last 3 years): | Former director of Fairfax, Corum Group, Kollakorn Corporation, Television and Media Services and Australian Enterprise Holdings. |
| Special responsibilities: | Chairman of the Audit and Risk Committee and member of the Nomination and Remuneration and Investment Committees. |
| Interests in shares: | 408,730 ordinary shares |

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

**Company secretary**
Manvinder Gréwal, Chief Financial Officer and Company Secretary, holds a Bachelor of Arts (Hons) in Accounting and Financial Management (University of Sheffield) and is a Chartered Accountant. Manvinder had an 18 year audit and advisory career with KPMG UK and PwC Australia, which included working with a number of businesses across a range of sectors including education, consumer, media, services and infrastructure companies. Manvinder was also a principal of Absolute Partners, a boutique management advisory firm, and worked with several companies in strategic CFO roles.

**Meetings of directors**
The number of meetings of the company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2014, and the number of meetings attended by each director were:

| | Full Board | | Nomination and Remuneration Committee | | Audit and Risk Committee | |
|---|---|---|---|---|---|---|
| | **Attended** | **Held** | **Attended** | **Held** | **Attended** | **Held** |
| John Dawkins AO | 12 | 13 | 5 | 5 | 3 | 3 |
| Mark Hutchinson | 13 | 13 | 5 | 5 | 3 | 3 |
| Steve Tucker | 13 | 13 | 5 | 5 | 3 | 3 |
| Michelle Tredenick | 13 | 13 | 5 | 5 | 3 | 3 |
| Douglas Halley | 13 | 13 | 5 | 5 | 3 | 3 |

| | Investment Committee | |
|---|---|---|
| | **Attended** | **Held** |
| Mark Hutchinson | 5 | 5 |
| Steve Tucker | 5 | 5 |
| Douglas Halley | 5 | 5 |

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee.

**Remuneration report (audited)**
This remuneration report, sets out the consolidated entity's remuneration arrangements for its Key Management Personnel ('KMP') in accordance with the requirements of the Corporations Act 2001 and its Regulations. KMP comprises all directors (executive and non-executive) and those members of the senior executive team who have authority and responsibility for planning, directing, and controlling the activities of the consolidated entity.

The remuneration report has been audited as required by section 308(3C) of the Corporations Act 2001.

The remuneration report is set out under the following main headings:
- Remuneration governance and principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation and performance rights
- Additional disclosures relating to KMP

***Remuneration governance and principles used to determine the nature and amount of remuneration***

*Remuneration governance*
The Board of Directors (the 'Board') objective for the consolidated entity's remuneration strategy is that it aligns executive remuneration with the achievement of strategic objectives, drives performance and the right behaviours and delivers the creation of value for shareholders.

Importantly, the Board is focussed on delivering a remuneration framework that attracts and retains the right executive team to develop and deliver the consolidated entity's strategy and that their remuneration arrangements support achievement of that strategy and growth in shareholder value.

The Board has formed a Nomination and Remuneration Committee ('NRC'), comprising solely of non-executive independent directors to make recommendations to the Board.

The members of the NRC during the financial year ended 30 June 2014 were:
Michelle Tredenick (Chair)
John Dawkins
Douglas Halley
Steve Tucker

Refer to 'Meetings of directors' for number of NRC meetings held during the financial year and those who attended.

The Board has a formal Nomination and Remuneration Committee Charter which sets out the responsibilities, composition and meeting rules of the NRC. The NRC is responsible for reviewing and making recommendations in relation to director and executive remuneration that support the remuneration strategy and the performance conditions that underpin it.

Further information on the NRC's role and responsibilities is contained in its Charter which is available on the company's website at www.vocation.com.au/investors.

To assist in performing its duties and making recommendations to the Board, the NRC seeks independent advice directly from external consultants on various remuneration related matters. The NRC follows protocols around the engagements and use of external consultants to ensure compliance with the relevant executive remuneration legislation.

The Chair of the NRC has approved the engagement of PricewaterhouseCoopers ('PwC') to provide information and market practice regarding remuneration benchmarking and incentive plan design to take effect in FY2015.

During the year ended 30 June 2014, PwC did not make any 'remuneration recommendations' in relation to KMP remuneration as defined in the Corporations Act. No other remuneration consultant was engaged to make any remuneration recommendations.

In accordance with best practice corporate governance, the structure of non-executive directors and executive remunerations are separate.

*Non-executive directors' remuneration*
The Board seeks to set fees for non–executive directors at a level which provides the consolidated entity with the ability to attract and retain directors of a high calibre, whilst incurring a cost which is acceptable to shareholders. Non-executive director remuneration consists only of fixed fees (inclusive of superannuation).

To preserve independence and impartiality, non-executive directors do not receive any performance related compensation.

Fees for non-executive directors are reviewed annually and are set and approved by the Board based on independent advice received from external remuneration consultants, via the NRC.

ASX listing rules require the aggregate non-executive directors remuneration be determined periodically by a general meeting. Under the company's Constitution and as set out in the IPO Prospectus, total aggregate remuneration available to non-executive directors is set currently at $1,000,000 per annum, excluding share-based payments. The current fee policy is set out as follows:

| **Role** | **Fee** |
|---|---|
| Chairman fee | $200,000 |
| Director base fee | $100,000 |
| Committee Chair (Nomination and Remuneration Committee, Audit and Risk Committee and Investment Committee) | $20,000 |

*Executive remuneration*
The remuneration arrangements for executives for FY2014 were disclosed in the IPO Prospectus, issued at the time of listing and remained unchanged throughout the financial year ended 30 June 2014.

The executives all received fixed remuneration and only two executives had an additional short-term incentive based component of their remuneration (the Executive Director and CEO, and the Chief Financial Officer). No executive had any long term incentives. All executive KMPs have a substantial shareholding in the company as detailed in 'Additional disclosures relating to KMP' section below, in this report.

1. Fixed remuneration
Fixed Remuneration consists of base compensation and statutory superannuation contributions. Executives are able to elect to have other benefits provided out of their fixed remuneration, including additional superannuation and the provision of a motor vehicle allowance.

Fixed remuneration will be reviewed on an annual basis going forward in line with individual and consolidated entity's performance and with aligned to market remuneration levels.

2. Short Term Incentive ('STI')
Two executives had an STI in place (the Managing Director and CEO, and the Chief Financial Officer) for the year ended 30 June 2014. This incentive was detailed in the IPO prospectus and had a single financial measure which was intended to ensure focus on achieving the FY2014 forecast Earnings Before Interest Tax and Amortisation (‘EBITA’).

Both executives had a target opportunity to earn 30% of their annual fixed remuneration (excluding superannuation) if the IPO prospectus forecast of EBITA was achieved. The consolidated entity's performance in FY2014 was pro-forma EBITA of $36,100,000 which exceeded the IPO prospectus pro-forma forecasts of $34,900,000. Notwithstanding this outcome, the Board took the opportunity to review performance more broadly in assessing executives performance for the year under review.

The STIs paid and forfeited were:

| **Executive** | **STI paid/forfeited during the financial year** |
|---|---|
| Mark Hutchinson | STI paid: $103,201 (90%) / STI forfeited $11,467 (10%) |
| Manvinder Grèwal | STI Paid: $96,451 (90%) / STI forfeited $10,717 (10%) |

This incentive will be discontinued for FY 2015.

Under the new proposed remuneration framework for FY2015, the Performance Equity Plan ('PEP') will be introduced to replace a traditional Short Term and Long Term Incentive and will have a broad set of KPI measures.

***Details of remuneration***
Given the launch of the company on 9 December 2013, all KMP acted in their roles for approximately seven months.

The KMP of the consolidated entity consisted of the following directors of Vocation Limited:
- John Dawkins AO - Non-Executive and Independent Chairman (appointed 6 November 2013)
- Mark Hutchinson - Executive Director and CEO (appointed as Executive Director and CEO on 6 November 2013)
- Steve Tucker - Independent Non-Executive Director (appointed 6 November 2013)
- Michelle Tredenick - Independent Non-Executive Director (appointed 6 November 2013)
- Douglas Halley - Independent Non-Executive Director (appointed 6 November 2013)

And the following executive leadership team:
- Manvinder Gréwal - Chief Financial Officer and Company Secretary (appointed as Company Secretary and as KMP 6 November 2013)
- Wendy Bonnici* - Chief Operating Officer (appointed 9 December 2013)
- Michael Langtree* - Chief Information Officer (appointed 9 December 2013)

* KMP of BAWM Pty Limited prior to IPO on 9 December 2013.

The table below provides the statutory remuneration disclosures for the directors and other KMP for the seven months ended 30 June 2014. Due to the ASX listing occurring in December 2013, no prior year comparatives are presented.

| | Short-term benefits | | | Post-employment benefits | Long-term benefits | Share-based payments | |
|---|---|---|---|---|---|---|---|
| **2014** | **Cash salary and fees $** | **Bonus $** | **Non-monetary $** | **Super-annuation $** | **Long service leave $** | **Performance rights $** | **Total $** |
| **Non-Executive Directors:** | | | | | | | |
| John Dawkins AO | 98,580 | - | - | 9,117 | - | 750,000 | 857,697 |
| Steve Tucker | 54,149 | - | - | 5,009 | - | 225,000 | 284,158 |
| Michelle Tredenick | 59,148 | - | - | 5,471 | - | 225,000 | 289,619 |
| Douglas Halley | 59,148 | - | - | 5,471 | - | 225,000 | 289,619 |
| **Executive Directors:** | | | | | | | |
| Mark Hutchinson | 214,242 | 103,201 | 16,397 | 10,903 | 3,441 | - | 348,184 |
| **Other Key Management Personnel:** | | | | | | | |
| Manvinder Gréwal | 193,039 | 96,451 | 10,721 | 10,720 | 3,216 | 1,603,774 | 1,917,921 |
| Wendy Bonnici* | 96,619 | - | 1,645 | 8,244 | 4,887 | - | 111,395 |
| Michael Langtree* | 96,619 | - | 2,158 | 8,244 | 3,587 | - | 110,608 |
| | 871,544 | 199,652 | 30,921 | 63,179 | 15,131 | 3,028,774 | 4,209,201 |

* Total remuneration for Wendy Bonnici and Michael Langtree as KMPs of BAWM Pty Limited for the period from 1 July 2013 to 9 December 2013 was $69,014 each.

***Service agreements***

The details below sets out the main terms and conditions of the employment contracts of the CEO and executives.

| | |
|---|---|
| Name: | Mark Hutchinson |
| Title: | Managing Director and Chief Executive Officer |
| Term of agreement: | To 31 December 2016 |
| Details: | Annual remuneration of $400,000; Notice period 6 months by the company (or payment in lieu) |

| | |
|---|---|
| Name: | Manvinder Gréwal |
| Title: | Chief Financial Officer and Company Secretary |
| Term of agreement: | To 31 December 2016 |
| Details: | Annual remuneration of $375,000; Notice period 6 months by the company (or payment in lieu) |

| | |
|---|---|
| Name: | Wendy Bonnici |
| Title: | Chief Operating Officer |
| Agreement commenced: | To 31 December 2016 |
| Term of agreement: | Annual remuneration of $178,875; Notice period 6 months by the company (or payment in lieu) |

| | |
|---|---|
| Name: | Michael Langtree |
| Title: | Chief Information Officer |
| Term of agreement: | To 31 December 2016 |
| Details: | Annual remuneration of $178,875; Notice period 6 months by the company (or payment in lieu) |

The company may terminate the employment contract in writing prior to 31 December 2016 by giving six months' notice or payment in lieu of notice. After this date either party may terminate the employment contract on giving six months' notice or, in the company's case, payment in lieu of notice. The company may terminate the employment contract immediately and without payment for notice or payment in lieu of notice in the event of serious misconduct or other specified circumstances.

***Share-based compensation and performance rights***

*Issue of shares*

There were no shares issued to directors and other KMP as part of compensation during the year ended 30 June 2014.

*Options*

There were no options over ordinary shares issued to directors and other KMP as part of compensation that were outstanding as at 30 June 2014.

There were no options over ordinary shares granted to or vested by directors and other KMP as part of compensation during the year ended 30 June 2014.

*Performance rights*

There were no performance rights over ordinary shares issued to directors and other KMP as part of compensation that were outstanding as at 30 June 2014.

The number of performance rights over ordinary shares granted to and vested by directors and other KMP during the year ended 30 June 2014 are set out below:

| Name | Number of rights granted * during the year 2014 | Number of rights vested during the year 2014 |
|---|---|---|
| John Dawkins AO | 529,101 | 529,101 |
| Steve Tucker | 158,730 | 158,730 |
| Michelle Tredenick | 158,730 | 158,730 |
| Douglas Halley | 158,730 | 158,730 |
| Manvinder Gréwal | 998,303 | 998,303 |

* Granted at date of IPO

The non-executive directors and Manvinder Grèwal were granted Performance Rights at the time of IPO which were converted to ordinary shares prior to listing on the ASX. For Manvinder Grèwal 50% of those shares are escrowed until the first anniversary of the IPO and 50% until the first business day after Vocation's FY15 results are released. For the non-executive directors 50% of these shares are escrowed until the first business day after the release of the FY15 results and 50% until the first business day after the release of the FY16 results.

The fair value of the performance rights was calculated using the share price at IPO, discounted for the impact of the escrow periods on the marketability of the shares.

***Additional disclosures relating to KMP***
In accordance with Class Order 14/632, issued by the Australian Securities and Investments Commission, relating to 'Key management personnel equity instrument disclosures', the following disclosures relates only to equity instruments in the company or its subsidiaries.

*Shareholding*
The number of shares in the company held during the financial year by each director and other KMP of the consolidated entity, including their personally related parties, is set out below:

| Ordinary shares | Balance at the start of the year | Issued as part of settlement of business | Received on vesting of performance rights | Other Changes | Balance at the end of the year |
|---|---|---|---|---|---|
| John Dawkins AO | - | - | 529,101 | - | 529,101 |
| Mark Hutchinson | - | 6,085,700 | - | - | 6,085,700 |
| Steve Tucker | - | 188,735 | 158,730 | - | 347,465 |
| Michelle Tredenick | - | - | 158,730 | 100,000 | 258,730 |
| Douglas Halley | - | - | 158,730 | 250,000 | 408,730 |
| Manvinder Gréwal | - | - | 998,303 | 78,704 | 1,077,007 |
| Wendy Bonnici | - | 980,482 | - | 5,789,324 | 6,769,806 |
| Michael Langtree | - | 980,482 | - | 5,789,324 | 6,769,806 |
| | - | 8,235,399 | 2,003,594 | 12,007,352 | 22,246,345 |

*Other transactions*
Mark Hutchinson and Steve Tucker were shareholders in Avana Group Pty Limited ('Avana'). Wendy Bonnici and Michael Langtree were shareholders in Aspin Pty Limited ('Aspin') and Student Hub Pty Limited ('Student Hub'). On 6 December 2013 the company acquired 100% of the issued share capital of Avana, Aspin and Student Hub.

Wendy Bonnici and Michael Langtree were KMPs and shareholders of BAWM Pty Limited ('BAWM') prior to the reorganisation and as such also received dividends.

Wendy Bonnici is also a director of Create & Communicate 2C who provided office amenities to BAWM to the period until 31 October 2013.

Michael Langtree's personal secretary was employed by BAWM on a part-time basis until 31 October 2013.

The amount recognised as net assets within business combinations (for non-executive directors) was $1,553,175
The amount recognised as net assets within business combinations (for other KMPs) was $34,460,984
The amount recognised as other expenses in profit and loss was $37,826
The amount recognised as dividends from retained profits pre IPO was $3,804,000.

All the above transactions were made on normal commercial terms and conditions and at market rates.

***This concludes the remuneration report, which has been audited.***

**Loans to directors and executives**
No loans were made to directors and executives of the consolidated entity including their close family and entities related to them during the year.

**Shares under option**
There were no unissued ordinary shares of Vocation Limited under option outstanding at the date of this report.

**Shares under performance rights**
There were no unissued ordinary shares of Vocation Limited under performance rights outstanding at the date of this report.

**Shares issued on the exercise of options**
There were no ordinary shares of Vocation Limited issued on the exercise of options during the year ended 30 June 2014 and up to the date of this report.

**Shares issued on the exercise of performance rights**
The following ordinary shares of Vocation Limited were issued during the year ended 30 June 2014 and up to the date of this report on the exercise of performance rights granted:

| Date performance rights granted | Exercise price | Number of shares issued |
|---|---|---|
| The non-executive directors and Manvinder Gréwal were granted Performance Rights at the time of IPO which were converted to ordinary shares prior to listing on the ASX | $1.89 | 2,003,594 |

**Indemnity and insurance of officers**
The company has indemnified the directors and executives of the company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the company paid a premium in respect of a contract to insure the directors and executives of the company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of liability and the amount of the premium.

**Indemnity and insurance of auditor**
The company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

During the financial year, the company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

**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.

**Non-audit services**
Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 27 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 27 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:
- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

**Officers of the company who are former audit partners of PricewaterhouseCoopers**
There are no officers of the company who are former audit partners of PricewaterhouseCoopers.

**Rounding of amounts**
The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

**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 the following page.

**Auditor**
PricewaterhouseCoopers was appointed on 4 December 2013 and continues in office in accordance with section 327 of the Corporations Act 2001.

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

On behalf of the directors

John Dawkins AO
Chairman

2 September 2014
South Melbourne

pwc

# Auditor's Independence Declaration

As lead auditor for the audit of Vocation Limited for the year ended 30 June 2014, 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.

This declaration is in respect of Vocation Limited and the entities it controlled during the period.

Steve Bourke
Partner
PricewaterhouseCoopers

Sydney
2 September 2014

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The Board of Directors (the 'Board') is responsible for the overall corporate governance of Vocation Limited (the 'company' or 'Vocation'), including adopting appropriate policies and procedures designed to ensure that Vocation is properly managed to protect and enhance shareholder interests and to ensure that directors, management and employees fulfil their functions effectively and responsibly.

Vocation listed on the Australian Securities Exchange ('ASX') in December 2013, and as it is in its first year of operation, the Board has determined it will not early adopt the 3rd edition of the ASX Corporate Governance Council Principles and Recommendations ('ASX Principles'), released on 27 March 2014.

This Corporate Governance Statement reports against the 2nd edition of the ASX Principles.

**Principle 1: The Board lays solid foundations for management and oversight**

*Role and responsibilities of the Board and management*
The Board is responsible for the overall direction of Vocation with oversight and review of the management, administration and overall governance of the company.

The Board's role and responsibilities include:
- protecting shareholders' interests;
- authorising policies and overseeing the strategic direction of the company;
- appointing and removing the Chief Executive Officer ('CEO') and Company Secretary;
- review of succession planning;
- approving corporate strategy and goals and reviewing performance against those goals;
- monitoring the integrity and consistency of management's control of risk; and
- approving and monitoring financial and other reporting.

The Board has established the following committees to assist it in discharging its functions:
- Audit and Risk Committee;
- Nomination and Remuneration Committee; and
- Investment Committee.

The Board's responsibilities are set out in the Board Charter which is available on the Vocation website under "About" then "Corporate Governance".

The CEO is responsible for the day-to-day management of the company with the authority to exercise all necessary powers, discretions and delegations authorised from time to time by the Board. The CEO's responsibilities are set out in the Board Charter which is available on the Vocation website under "About" then "Corporate Governance". The CEO is supported by his executive management team, all of whom are listed on the Vocation website under "About" then "Management".

*Board meetings*
The Board holds regular meetings and is expected to meet at least eight times per calendar year or as frequently as may otherwise be required to deal with urgent matters, which might arise between the scheduled meetings.

For details of the current directors, their qualifications, skills and experience, refer to 'Information on directors' in the Directors' report. For details of directors attendance at Board and Committee Meetings for the year ended 30 June 2014, refer to 'Meetings of directors' in the Directors' report.

Newly appointed non-executive directors receive formal letters of appointment setting out the key terms, conditions, responsibilities and expectations of their appointment. Additionally, the company enters into employment contracts with each newly employed executive management member.

*Performance Review of Executive Management*
Executive management members' ('executives') key performance indicators are set annually in collaboration with the CEO and individual executive. Annually, the CEO conducts one-on-one performance evaluations with individual executives to assess whether they have met their key performance indicators set in the preceding year.

During the year ended 30 June 2014 a performance evaluation for executives was undertaken and conducted in accordance with the process outlined above.

The Board, via the Nominations and Remuneration Committee, sets key performance indicators for the CEO and formally evaluates the achievement of those objectives. This process was followed during the year ended 30 June 2014 and clear objectives have been set for the financial year ending 30 June 2015.

**Principle 2: The Board is structured to add value**

*Composition of the Board and details of directors*
Vocation currently has five directors, one of whom is an executive director, Mark Hutchinson who is the CEO. The remaining four directors are considered by the Board to be independent non-executive directors, comprising John Dawkins AO (Chairman of the Board), Steve Tucker, Michelle Tredenick and Douglas Halley, forming a majority of a Board of independent directors.

The Chairman is an independent non-executive director and there is a clear division of responsibility between the Chairman and the CEO. The role of the Chairman and CEO may not be exercised by the same individual.

In appointing directors, the Board ensures that any candidate has the appropriate range of skills, experience and expertise that will best complement the existing Board. Vocation recognises the importance of non-executive directors and the external perspective and advice that non-executive directors can offer. It is the approach and attitude of each non-executive director which is critical to determining independence and this is considered in relation to each director, while taking into account all other relevant factors, including materiality thresholds, as set out in the Board Charter which is available on the Vocation website under "About" then "Corporate Governance".

If a director is or becomes aware of any information, facts or circumstances that will or may affect his or her independence, the director must immediately disclose all relevant details in writing to the Company Secretary and the Chairman.

All the directors of Vocation were appointed on 15 November 2013 and have served on the Board for a length of seven months as at 30 June 2014.

For details of the current directors, their qualifications, skills and experience refer to 'Information on directors' in the Directors' report.

*Nomination and Remuneration Committee*
The Nomination and Remuneration Committee:
- has four members who are independent non-executive directors;
- is chaired by Michelle Tredenick;
- has a Charter which is available on the Vocation website under "About" then "Corporate Governance";
- meets at least twice a year and otherwise as required; and
- in its function as a nominations committee assists the Board in fulfilling its corporate governance responsibilities in regard to:
  - Board appointments, re-elections and performance;
  - Board and Committee membership;
  - Directors' induction and continuing development;
  - succession planning; and
  - strategies to address Board diversity.

The Committee may obtain information from, and consult with, Management and external advisers, as it considers appropriate.

For details of number of Nomination and Remuneration Committee meetings and the attendance at those meetings for the year ended 30 June 2014, refer to 'Meetings of directors' in the Directors' report.

*Appointment and re-election of directors*
When appointing new directors, the Board and the Nomination and Remuneration Committee looks to ensure that an appropriate mix of skills, expertise, experience and diversity is maintained.

At commencement of the director selection process, the company undertakes appropriate checks on potential candidates to consider their suitability to fill a casual vacancy on the Board or for election as a director. Appropriate checks were undertaken for each non-executive director as part of the process of listing on the ASX in December 2013.

Prior to appointment, candidates are required to provide the Chairman with details of other commitments and an indication of time involved, and to acknowledge that they will have adequate time to fulfil his or her responsibilities as a non-executive director of Vocation.

Directors available for re-election at a general meeting are reviewed by the Nomination and Remuneration Committee and recommended to the Board. Directors are re-elected in accordance with the company's Constitution and the ASX Listing Rules.

There have been no new directors appointed since listing on the ASX, however this process will be followed as the need arises. All directors will be submitted to shareholders for election at the 2014 Annual General Meeting ('AGM'), the first AGM for Vocation. Shareholders will be provided with details about each director in the Notice of Meeting for the AGM to enable them to make a decision on election.

*Performance review of the Board*
The Nomination and Remuneration Committee is responsible for establishing the processes for reviewing the performance of individual directors, the Board as a whole and Committees.

The Board and Committees will periodically self-assess their performance against a range of set criteria developed annually by the Nomination and Remuneration Committee.

Post the IPO on 9 December 2013, the Board conducted a review of the Board, Committees and Chairman's performance, which included a full Board discussion on Board processes, director contribution, committee operation and governance. The review included management feedback. An informal peer review of each director was undertaken to be able to recommend that shareholders elect each director at the AGM.

*Induction and education*
The Nominations and Remuneration Committee is responsible for implementing an effective training and education program for all new and existing directors. The Committee is required to regularly review the effectiveness of the program to ensure directors maintain the skills and knowledge required to perform their role effectively.

Any new directors undergo a formal induction program in which they are given a full briefing on Vocation, its operations and the industry in which it operates. Where possible, this includes meetings with key executives, tours of premises, provision of a due diligence package and presentations from management. Furthermore to achieve continuing improvement in Board performance, all directors are encouraged to undergo continual professional development. During the year ended 30 June 2014 the directors participated in a strategy planning session with senior management and received presentations from the management team from businesses newly acquired during the year.

Each director was provided with a thorough induction program through their involvement in the due diligence process as part of listing on the ASX.

*Access to information and independent professional advice*
Each director has the right of access to seek any information he or she requires from management, the external auditor and external advisers.

The Board collectively is able to seek independent professional advice at Vocation's expense, as necessary, to assist in fulfilling the performance of its duties. Individual directors who wish to obtain independent professional advice are required to seek approval from the Chairman and are entitled to reimbursement of all reasonable costs in obtaining such advice.

*Company Secretary*
All directors have direct access to the Company Secretary who is responsible to the Board through the Chairman on all matters relating to the conduct and functions of the Board and Committees. The Company Secretary's responsibilities are set out in the Board Charter which is available on the Vocation website under "About" then "Corporate Governance".

**Principle 3: The Board promotes ethical and responsible decision-making**

*Code of Conduct*
Vocation is committed to operating ethically, honestly, responsibly and legally in all its business dealings. Accordingly, Vocation requires employees to act in the company's best interests in a professional, honest and ethical manner, and in full compliance with the law, both within and on behalf of Vocation.

The Board has adopted a formal Code of Conduct which forms the foundation for the way in which Vocation undertakes business. The Code applies to all directors and employees of Vocation and all consultants and contractors are required to be aware of the company's expectations set out in the Code.

The Code covers the following areas:
- compliance with laws and regulations;
- fair dealing;
- conflicts of interest;
- improper use or theft of Vocation property and assets;
- confidentiality;
- privacy;
- continuous disclosure and public communications;
- employment;
- politics and community; and
- environment and social responsibility.

If an employee is aware of, or suspects a breach of the Code or other inappropriate behaviour they are encouraged to promptly report any breaches of the Code. Employees have the benefit of protections applicable under legislation in relation to whistle-blowing.

A copy of the Code is given to all directors, employees and relevant personnel. The Code of Conduct is available on the Vocation website under "About" then "Corporate Governance".

*Securities Trading Policy*
Vocation has adopted a Securities Trading Policy that applies to all Personnel (directors, employees, contractors and consultants) of the company and its subsidiaries. The Securities Trading Policy prohibits Personnel from dealing in Vocation's securities while in possession of inside information as defined under section 1043A of the Corporations Act 2001.

In addition, Designated Persons (directors, executive management and their direct reports) may deal in Vocation's securities by following the 'notice of intent to deal' procedures but are prohibited from dealing in Vocation's securities (subject to exceptional circumstances) during the following "blackout periods":
- for a period of two weeks before the public release by the company of its annual and half year results to the ASX, up to the commencement of the first trading day after such release;
- for a period of two weeks before the company's AGM up to the commencement of the first trading day after the AGM;
- for a period of two weeks before the issue of a disclosure document (e.g. prospectus), up to the commencement of the first trading day after such release; and
- such other periods the Chairman and CEO may notify from time to time.

Designated Persons are also prohibited from entering into any hedging or margin lending arrangement or otherwise permitting a grant of a charge over Vocation securities.

The Securities Trading Policy is available on the Vocation website under "About" then "Corporate Governance".

*Diversity*
Vocation is committed to providing an environment in which all employees are treated with fairness and respect and have equal access to workplace opportunities. Vocation's vision for diversity incorporates a number of factors, including gender, ethnicity, disability, age, and business and education experience. For this purpose, Vocation has adopted a Diversity Policy which is available on the Vocation website under "About" then "Corporate Governance".

As Vocation only formed in December 2013 there are no prior year comparisons against set measurable objectives.

As part of the alignment process of the businesses and achievement of a workforce that is reflective of the community that has high levels of female participation due consideration was given to new structures and operating models, policies and procedures that have been introduced provide a balanced workplace.

For the FY15 year the following diversity-related measurable objectives supporting gender diversity have been developed by the Board:

- Continue to maintain or improve Vocation's high level of female participation across all levels of business, with particular focus at the leadership levels.
- Conduct a gender pay gap analysis across all employment groups, monitoring pay equity and responding to any trends requiring action.
- Review the current flexibility arrangements within the business to ensure suitable opportunities are offered at all levels including Senior Leadership and Management levels.
- Review the opportunity to introduce paid maternity leave and provide support programs to encourage women returning to the workplace.

The following diversity statistics from the 2013/14 annual review are detailed below:

**Proportion of female employees**

| Vocation | Board | Non-Executive Board Directors | Group Executive | Senior Leadership Team | Employee |
|---|---|---|---|---|---|
| Female | 20% | 25% | 43% | 41% | 61% |
| Male | 80% | 75% | 57% | 59% | 39% |

**Principle 4: The Board safeguards integrity in financial reporting**

*Audit and Risk Committee*
The Audit and Risk Committee:

- has four members, each who are independent non-executive directors;
- is Chaired by Douglas Halley, who has significant experience in accounting, audit, treasury and financial management;
- has a Charter which is available on the Vocation website under "About" then "Corporate Governance";
- meets at least four times a year and otherwise as required; and
- in its function as an audit committee assists the Board in fulfilling its corporate governance responsibilities in regard to:
  - Vocation's half year and annual financial reporting obligations;
  - oversight of the independence of the external auditor; and
  - compliance with legal and regulatory obligations.

The Committee may obtain information from, and consult with, management, the external auditor and external advisers, as it considers appropriate. The Committee also has access to the external auditor to discuss matters without management present.

For details of number of Audit and Risk Committee meetings and the attendance at those meetings for the year ended 30 June 2014, refer to 'Meetings of directors' in the Directors' report.

*Selection and rotation of the external auditor*
The Audit and Risk Committee is responsible for recommending to the Board the appointment, removal or replacement of the external auditor and its engagement partner, the terms of appointment, any re-appointment and fees. The Committee is responsible for recommending procedures for the rotation of external audit engagement partners and annually reviewing the external auditor's performance and independence.

**Principle 5: The Board makes timely and balanced disclosure**

Vocation has adopted a Continuous Disclosure Policy to ensure compliance with its disclosure obligations under the Corporations Act 2001 and ASX Listing Rules.

The Board has designated the Company Secretary as the person responsible for overseeing and co-ordinating disclosure of information to the ASX and communicating with the ASX. The Board has designated the Chairman and CEO as the persons authorised to issue statements and communicate with media on behalf of Vocation. The Chief Financial Officer ('CFO') is only authorised to speak to analysts and proxy advisers regarding matters specific to the financial reports of Vocation.

The Continuous Disclosure Policy is available on the Vocation website under "About" then "Corporate Governance".

**Principle 6: The Board respects the rights of shareholders**

Vocation respects the rights of its shareholders and to facilitate the effective exercise of those rights, Vocation has established a Shareholder Communications Policy which is contained in the Continuous Disclosure Policy available on the Vocation website under "About" then "Corporate Governance".

*Company website*
Vocation's website is at www.vocation.com.au and is regularly kept up-to-date to maintain effective communication with shareholders and stakeholders.

The following information is available on the website:
- company profile and businesses;
- Board and executive management profiles;
- Corporate Governance Charters and Policies;
- company announcements and investor briefings;
- annual reports and notices of meeting;
- details of Vocation's corporate social responsibility; and
- contact details.

Alternatively, company announcements can be accessed from the "Announcements" section of the ASX website (ASX code: VET).

*Shareholder engagement and participation*
The contact details of Vocation and its Share Registry (see below under 'Electronic Communications') are available to shareholders to address and facilitate any shareholder-related enquiries. Vocation will be holding its first AGM on 16 October 2014 and leading up to the meeting will be an opportunity for Vocation and shareholders to participate in active engagement between one another.

To encourage shareholder engagement and participation at the AGM, shareholders have the opportunity to attend the AGM, ask questions on the floor, participate in voting and meet the Board and executive management in person.

Shareholders who are unable to attend the AGM are encouraged to vote on the proposed motions by appointing a proxy via the proxy form accompanying the Notice of Meeting or online through the Share Registry's website. Shareholders have the opportunity to submit written questions to the company and external auditor, or make comments on the management of the company and access AGM presentations and speeches made by the Chairman and CEO prior to the commencement of the meeting. The company will publish results of the meeting to the ASX and on its website following the conclusion of the AGM.

*Electronic communications*
The company's contact details are available on the Vocation website under "Contact". Shareholders can submit an electronic query to the company via the website, email the Company at ask@vocation.com.au or contact its Share Registry, Link Market Services.

Available to shareholders is the option to receive all shareholder communications (including notification that the Annual Report is available to view, Notices of Meeting and Payment Statements) by email. Electronic communications have the added advantage of being more timely and cost effective, which benefits all shareholders.

**Principle 7: The Board recognises and manages risk**

*Audit and Risk Committee*
In its function as a risk committee, the Audit and Risk Committee assists the Board in fulfilling its corporate governance responsibilities in regard to oversight of the company's risk management system and internal control systems.

Details of the Audit and Risk Committee are contained in the disclosure under Principle 4.

*Risk management policy*
Vocation's Risk Management Policy sets out the requirements, roles and responsibilities for managing risks across the organisation. The Risk Management Policy is available on the Vocation website under "About" then "Corporate Governance".

The risk management procedure covers the key activities or stages within risk management:

***Identify***: identify a risk (threats or opportunities) and ensure it is captured by the risk register owner and reviewed at the monthly meeting which reviews the risk register.

Assess: the primary goal is to document the net effect of all identified threats and opportunities, by assessing:
- likelihood of threats and opportunities (risks);
- impact of each risk;
- proximity of threats; and
- prioritisation based on scales.

***Plan:*** preparation of management responses to mitigate threats and maximise opportunities.

***Implement:*** ensure risk responses are actioned.

***Monitor and review:*** monitor and review the performance of the risk management system and changes to business initiatives.

***Communicate:*** provide regular reports to management team / board at agreed times.

The Vocation Corporate Risk Register is used for tracking and management of all strategic and operational level risks and is used to generate reporting to senior management and the Audit and Risk Committee.

Risk management brainstorming sessions are held to identify any new risks at set times during the year, at the outset of any significant business changes such as mergers and acquisitions and during large scale business change projects.

Each risk has an owner, who is a senior manager in the relevant functional or business unit. In addition each risk is assigned to an employee, a person with the right skills, knowledge and a member of the functional area responsible to track probability and impact as well as define and implement risk response plans.

Management are responsible for identifying and evaluating risks within their area of responsibility, implementing agreed actions to manage risk and for reporting as well as monitoring any activity or circumstance that may give rise to new or changed risks.

In addition, all employees have a general duty of care and are responsible for complying with requests from management in connection with the application of the policy.

The key risk areas for Vocation are:

- state and federal funding;
- loss or delay of contract;
- regulatory;
- growth execution;
- competition / market;
- loss of key personnel;
- student recruitment;
- litigation;
- brand damage; and
- technology.

During the financial year ended 30 June 2014, the Audit and Risk Committee commenced a review of Vocation's risk management framework and management has reported that the management of Vocation's material business risks is effective.

*Chief Executive Officer and Chief Financial Officer declaration*
Prior to Board approval of Vocation's half year and annual financial reports, the CEO and CFO must provide the Board with declarations required under section 295A of the Corporations Act 2001 and Recommendation 732 of the ASX Principles.

For the financial year ended 30 June 2014, the CEO and CFO made a declaration in accordance with section 295A of the Corporations Act 2001. The declaration was formed on the basis of a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

*Auditor at AGM*
At Vocation's AGMs, the external auditor will be present and available to answer shareholder questions on:

- the conduct of the audit;
- the preparation and content of the Auditor's report;
- the accounting policies adopted by Vocation in relation to the preparation of the financial statements; and
- the independence of the auditor in relation to the conduct of the audit.

*Corporate social responsibility*
Vocation has a Corporate Social Responsibility Statement available on the Vocation website under "About" then "Corporate Governance". The Corporate Social Responsibility Statement outlines Vocation's exposure to environmental risks and its management of those risks.

Vocation has a program named "Vocation Forest" that combines the company's environmental initiative with its long-term commitment to growing sustainable partnerships with its stakeholders. Information about "Vocation Forest" is available on the Vocation website under "About" then "Vocation Forest".

**Principle 8: The Board remunerates fairly and responsibly**

*Nomination and Remuneration Committee*
The Nomination and Remuneration Committee:

- has four members each who are independent non-executive directors;
- is Chaired by Michelle Tredenick;
- has a Charter which is available on the Vocation website under "About" then "Corporate Governance";
- meets at least twice a year and otherwise as required; and
- in its function as a remuneration committee, the Nomination and Remuneration Committee assists the Board in fulfilling its corporate governance responsibilities in regard to:
  - determining remuneration policies for non-executive directors and executives; and
  - reviewing and approving all equity based incentive plans.

Further details of the Nomination and Remuneration Committee are contained in the disclosure under Principle 2.

*Remuneration report and remuneration policies*
In relation to remuneration issues, the Board (with the assistance of the Remuneration and Nomination Committee) has established a remuneration philosophy to ensure that it remunerates fairly and responsibly. The remuneration philosophy of the Board is designed to ensure that the level and composition of remuneration is competitive, reasonable and appropriate for the results delivered and to attract and maintain talented and motivated Directors and employees.

Details about Vocation's remuneration philosophy, policies and practices are provided within the Remuneration report, which is part of the Director's report. As detailed in the Remuneration report, the structure of non-executive directors' remuneration and that of executives is clearly distinguished. Non-executive directors receive fees, which do not include any incentive payments. Executives participate in incentive plans as detailed in the Remuneration report. There are also no retirement schemes for non-executive directors, other than superannuation.

*Equity-based remuneration scheme*
Vocation has established the Vocation Limited Performance Rights Plan (the 'Plan') under which eligible participants will be granted rights ('Rights') to receive Vocation shares at a future date provided that certain performance conditions are met.

The Plan may be used to make annual grants to executives that may form the long term incentive component of their total remuneration package. This will further align executives' interests with those of shareholders and is reflective of market practice of listed companies.

Under the Plan and also the Securities Trading Policy, participants must not enter into any arrangement for the purpose of hedging their economic exposure to a Right that has been granted to them. The Terms and Conditions of the Plan are available on the "Announcements" section of the ASX website for "VET" lodged on 6 December 2013. The Securities Trading Policy is available on the Vocation website under "About" then "Corporate Governance".

## Contents



## General information

The financial statements cover Vocation Limited as a consolidated entity consisting of Vocation Limited and its subsidiaries. The financial statements are presented in Australian dollars, which is Vocation Limited's functional and presentation currency.

Vocation Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Suite 1, 31 Chessell Street
South Melbourne, VIC 3205

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 2 September 2014. The directors have the power to amend and reissue the financial statements.

**Vocation Limited**
**Statement of profit or loss and other comprehensive income**
**For the year ended 30 June 2014**

| | Note | Consolidated 2014 $'000 | Consolidated 2013 $'000 |
|---|---|---|---|
| **Revenue** | 4 | 128,575 | 37,162 |
| **Expenses** | | | |
| Staff and contractor costs | | (36,433) | (7,120) |
| Course delivery costs | | (40,216) | (19,631) |
| Depreciation and amortisation expense | 5 | (3,715) | (474) |
| External student acquisition costs | | (5,246) | (639) |
| Occupancy costs | | (2,571) | (855) |
| IPO and transactions costs | | (15,430) | - |
| Share-based payments | | (3,706) | - |
| Other expenses | | (9,031) | (1,675) |
| Finance costs | 5 | (181) | (1) |
| **Profit before income tax expense** | | 12,046 | 6,767 |
| Income tax expense | 6 | (3,774) | (2,030) |
| **Profit after income tax expense for the year attributable to the owners of Vocation Limited** | 22 | 8,272 | 4,737 |
| Other comprehensive income for the year, net of tax | | - | - |
| **Total comprehensive income for the year attributable to the owners of Vocation Limited** | | 8,272 | 4,737 |
| | | **Cents** | **Cents** |
| Basic earnings per share | 37 | 5.52 | 5.66 |
| Diluted earnings per share | 37 | 5.51 | 5.66 |

*The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes*

**Vocation Limited**
**Statement of financial position**
**As at 30 June 2014**

| | Note | Consolidated 2014 $'000 | Consolidated 2013 $'000 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 7 | 21,745 | 729 |
| Trade and other receivables | 8 | 44,029 | 6,791 |
| Total current assets | | 65,774 | 7,520 |
| **Non-current assets** | | | |
| Property, plant and equipment | 9 | 2,340 | 554 |
| Intangibles | 10 | 253,792 | 821 |
| Other | | - | 105 |
| Total non-current assets | | 256,132 | 1,480 |
| **Total assets** | | 321,906 | 9,000 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 11 | 43,429 | 3,526 |
| Borrowings | 12 | 72 | - |
| Income tax | 13 | 3,630 | 460 |
| Employee benefits | 14 | 1,296 | 154 |
| Provisions | 15 | 23 | - |
| Deferred revenue | 16 | 2,776 | - |
| Total current liabilities | | 51,226 | 4,140 |
| **Non-current liabilities** | | | |
| Borrowings | 17 | 42,593 | - |
| Derivative financial instruments | 18 | 2,460 | - |
| Deferred tax | 19 | 1,906 | 123 |
| Total non-current liabilities | | 46,959 | 123 |
| **Total liabilities** | | 98,185 | 4,263 |
| **Net assets** | | 223,721 | 4,737 |
| **Equity** | | | |
| Issued capital | 20 | 221,442 | - |
| Reserves | 21 | (1,220) | - |
| Retained profits | 22 | 3,499 | 4,737 |
| **Total equity** | | 223,721 | 4,737 |

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

**Vocation Limited**
**Statement of changes in equity**
**For the year ended 30 June 2014**

| **Consolidated** | **Issued capital $'000** | **Reserves $'000** | **Retained profits $'000** | **Total equity $'000** |
|---|---|---|---|---|
| Balance at 1 July 2012 | - | - | 4,509 | 4,509 |
| Profit after income tax expense for the year | - | - | 4,737 | 4,737 |
| Other comprehensive income for the year, net of tax | - | - | - | - |
| Total comprehensive income for the year | - | - | 4,737 | 4,737 |
| **Transactions with owners in their capacity as owners:** | | | | |
| Dividends paid (note 23) | - | - | (4,509) | (4,509) |
| Balance at 30 June 2013 | - | - | 4,737 | 4,737 |

| **Consolidated** | **Issued capital $'000** | **Reserves $'000** | **Retained profits $'000** | **Total equity $'000** |
|---|---|---|---|---|
| Balance at 1 July 2013 | - | - | 4,737 | 4,737 |
| Profit after income tax expense for the year | - | - | 8,272 | 8,272 |
| Other comprehensive income for the year, net of tax | - | - | - | - |
| Total comprehensive income for the year | - | - | 8,272 | 8,272 |
| **Transactions with owners in their capacity as owners:** | | | | |
| IPO and capital re-organisation (note 20) | 221,442 | (1,685) | - | 219,757 |
| Share-based payments | - | 465 | - | 465 |
| Dividends paid (note 23) | - | - | (9,510) | (9,510) |
| Balance at 30 June 2014 | 221,442 | (1,220) | 3,499 | 223,721 |

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

| | Note | Consolidated 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers (inclusive of GST) | | 116,414 | 38,403 |
| Payments to suppliers and employees (inclusive of GST) | | (98,142) | (32,390) |
| | | 18,272 | 6,013 |
| Interest received | | 151 | 66 |
| Interest and other finance costs paid | | (22) | (1) |
| Income taxes paid | | (4,459) | (2,520) |
| Net cash from operating activities | 36 | 13,942 | 3,558 |
| **Cash flows from investing activities** | | | |
| Payment for purchase of business, net of cash acquired | 32 | (163,330) | - |
| Payments for property, plant and equipment | 9 | (1,151) | (473) |
| Payments for intangibles | 10 | (1,982) | (896) |
| Proceeds from sale of property, plant and equipment | | - | 13 |
| Net cash used in investing activities | | (166,463) | (1,356) |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of shares | 20 | 149,675 | - |
| Payment of transaction costs incurred in relation to IPO | | (9,147) | - |
| Net proceeds from borrowings | | 42,519 | 2,511 |
| Pre-IPO dividends paid | 23 | (9,510) | (4,509) |
| Net cash from/(used in) financing activities | | 173,537 | (1,998) |
| Net increase in cash and cash equivalents | | 21,016 | 204 |
| Cash and cash equivalents at the beginning of the financial year | | 729 | 525 |
| Cash and cash equivalents at the end of the financial year | 7 | 21,745 | 729 |

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

## Note 1. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The consolidated entity has adopted all of the Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

**Adoption of AASB 1 'First time adoption of Australian Accounting Standards'**
As a non-reporting entity the acquired company has historically prepared 'special purpose financial statements' for the purposes of satisfying the directors reporting requirements under Corporations Act 2001. As a disclosing entity the consolidated entity is now required to prepare an IFRS compliant 'general purpose financial statements' for the first time for the year ended 30 June 2014. In accordance with AASB 1 'First time adoption of Australian Accounting Standards' the consolidated entity has adopted all relevant IFRS standards with effect from the beginning of the comparative period, 1 July 2012. The adoption of AASB 1 has not resulted in any changes in recognition or measurement of amounts in the financial statements.

**Basis of preparation**
During the year, an internal restructure took place in preparation of the listing of the group on the Australian Securities Exchange ('ASX'). This resulted in a newly incorporated company, Vocation Limited, becoming the legal parent of the group. The internal restructure was not conditional on the listing of the group on the ASX.

Vocation Limited has determined that this internal restructure, that resulted in the company acquiring BAWM Pty Limited ('BAWM') (former parent entity), represented a common control transaction rather than a business combination. The appropriate accounting treatment for recognising the new group structure is on the basis that the transaction is a form of capital reconstruction and group reorganisation. Therefore, the financial information has been prepared using the principles of a reverse acquisition by the existing group of Vocation Limited.

As a result the consolidated financial statements have been prepared as a continuation of the financial statements of the existing group, BAWM.

For presentation purposes, the comparative figures presented in these consolidated financial statements represent those of BAWM consolidated entity for the entire 2013 financial year. The figures for the current financial year are BAWM for the entire year and Vocation Limited from the date Vocation Limited legally acquired BAWM.

On completion of the listing of the group on the ASX the group acquired Avana, Aspin, Student Hub and CSIA. The acquisition of these businesses has been accounted for as business combinations. The consideration paid has been allocated to the identifiable assets and liabilities at acquisition date. The results of Avana, Aspin, Student Hub and CSIA have been consolidated from the date of control.

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

*Historical cost convention*
The financial statements have been prepared under the historical cost convention except for the revaluation of derivative financial instruments.

*Critical accounting estimates*
The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

**Note 1. Significant accounting policies (continued)**

**Parent entity information**
In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 31.

**Principles of consolidation**
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Vocation Limited ('company' or 'parent entity') as at 30 June 2014 and the results of all subsidiaries for the year then ended. Vocation Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity' except for the continuation accounting described in the basis of preparation.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

The company has formed a trust to administer the consolidated entity’s employee share schemes. This trust is consolidated, as the substance of the relationships is that the trust is controlled by the consolidated entity.

Shares held by the employee share trust are disclosed as treasury shares and deducted from contributed equity.

**Operating segments**
Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Maker ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance. The CODM has been identified as the Executive Committee.

**Revenue recognition**
Revenue is recognised when it is probable that the economic benefit will flow to the consolidated entity and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

*Rendering of services*
Revenue from services is recognised in the accounting period in which the services are rendered. For contracts, revenue is recognised under the percentage of completion method, based on the actual service provided as a proportion of the total services to be provided.

If circumstances arise that may change the original estimates of revenues, costs or extent of progress toward completion, estimates are revised. These revisions may result in increases or decreases in estimated revenues or costs and are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

**Note 1. Significant accounting policies (continued)**

**Income tax**
The income tax expense or benefit for the period is the tax payable on that 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, unused tax losses and the adjustment recognised for prior periods, where applicable.Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the taxation authorities.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:
- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle 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.

Vocation Limited (the 'head entity') and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. The head entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'stand-alone taxpayer' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in the tax consolidated group.

The wholly-owned entities fully compensate the company for any current tax payable assumed and are compensated by the company for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to the company under the tax consolidation legislation. These amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

Assets or liabilities arising with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated group. This ensures that the intercompany charge equals the current tax liability or benefit of each tax consolidated group member.

**Current and non-current classification**
Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is current when: it is expected to be realised or intended to be sold or consumed in normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

**Note 1. Significant accounting policies (continued)**

A liability is current when: it is expected to be settled in normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

**Cash and cash equivalents**
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.

**Trade and other receivables**
Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the consolidated entity 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 60 days overdue) are considered indicators that the trade receivable may be 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.

Other receivables are recognised at amortised cost, less any provision for impairment.

**Derivative financial instruments**
Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Derivatives are classified as current or non-current depending on the expected period of realisation or settlement.

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

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment over their expected useful lives as follows:

| | |
|---|---|
| Leasehold improvements | 3-5 years |
| Plant and equipment | 3-7 years |
| Motor vehicles | 2-5 years |
| Computer equipment | 2-5 years |

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

Leasehold improvements and plant and equipment under lease are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

**Note 1. Significant accounting policies (continued)**

**Leases**
Leases in which a significant portion of the risks and rewards of ownership are not transferred to the consolidated entity as lessee are classified as operating leases. 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.

**Intangible assets**
Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

*Goodwill*
Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed. 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, identified according to operating segments.

*Intellectual property*
Significant costs associated with intellectual property are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite useful life of five years.

*Customer contracts and relationships*
Customer contracts and relationships acquired in a business combination are amortised on a straight-line basis over the period of their expected benefit, being their estimated useful life of five years.

*Software and licence fees*
Costs incurred in developing products or systems and costs incurred in acquiring software and licences that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software and systems. Costs capitalised include external direct costs of materials and service and direct payroll and payroll related costs of employees' time spent on the project.

Significant costs associated with software are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite useful lives of between three to five years.

IT development costs include only those costs directly attributable to the development phase and are only recognised following completion of technical feasibility and where the consolidated entity has an intention and ability to use the asset.

*Curriculum - course material development costs*
Costs relating to developing curriculum and other materials for specific training courses that will contribute to future period financial benefits through revenue generation, are capitalised and amortised over an average of five years. The curriculum and other materials for specific training courses do not have physical substance as they represent materials that are housed electronically for reproduction in the future in the way of course materials.

**Impairment of non-financial assets**
Goodwill and other 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 non-financial assets are reviewed 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.

**Note 1. Significant accounting policies (continued)**

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

**Trade and other payables**
These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

**Borrowings**
Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

**Put/call options**
During the financial year, the consolidated entity acquired 50% interest in Australian School of Management Pty Ltd. The shareholders of the other 50% held a put option and the consolidated entity has a call option. The consolidated entity did not record a non-controlling interest in accordance with AASB 10 ‘Consolidated Financial Statements’, but rather recorded the put option as a financial liability in accordance with AASB 132 'Financial Instruments: Presentation', measured at the estimated net present value of the expected exercise price of the put option, with subsequent changes in the recognised value recorded in the profit or loss. The call options had nominal value and have not been recognised.

**Finance costs**
Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred, including:
- interest on short-term and long-term borrowings
- interest on hire purchases

**Provisions**
Provisions are recognised when the consolidated entity has a present (legal or constructive) obligation as a result of a past event, it is probable the consolidated entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

**Employee benefits**

*Short-term employee benefits*
Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

*Other long-term employee benefits*
The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date 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 reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

*Defined contribution superannuation expense*
Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

**Note 1. Significant accounting policies (continued)**

*Share-based payments*
Vocation provides benefits to its employees and directors in the form of share-based payments, whereby employees and directors render services in exchange for shares or rights over shares ("equity settled transactions"). The cost of these equity settled transactions with employees and directors is measured by reference to the fair value of the equity instruments at the date at which they are granted.

The cost of these equity settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled ("vesting period"), ending on the date on which the relevant employees become fully entitled to the award. For benefits provided at the IPO, the vesting date was the date of the IPO.

At each subsequent reporting date until vesting, the cumulative charge to profit or loss is the product of:
- the grant date fair value of the award;
- the current best estimate of the number of awards that will vest, taking into account such factors as the likelihood of
- employee turnover during the vesting period and the likelihood of non-market performance conditions being met; and
- the expired portion of the vesting period.

The charge to profit or loss for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding entry to equity.

*Profit-sharing and bonus plans*
The consolidated entity recognises a liability and an expense for profit-sharing and bonuses based on a formula that takes into consideration the profit attributable to the shareholders after certain adjustments. The consolidated entity recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

**Fair value measurement**
When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interest. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed each reporting date and transfers between levels are determined based on a reassessment of the lowest level input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

**Issued capital**
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.

**Dividends**
Dividends are recognised when declared during the financial year and no longer at the discretion of the company.

## Note 1. Significant accounting policies (continued)

### Business combinations
The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the consolidated entity remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

Where settlement of any part of the cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rates used is the entity’s incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

Except for the continuation accounting described in the basis of preparation, business combination accounting using the acquisition method has been adopted for the acquisition of the remainder of the subsidiaries and ancillary businesses.

### Earnings per share

*Basic earnings per share*
Basic earnings per share is calculated by dividing the profit attributable to the owners of Vocation Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

## Note 1. Significant accounting policies (continued)

*Diluted earnings per share*
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

**Goods and Services Tax ('GST') and other similar taxes**
Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the 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 tax authority is included in other receivables or other 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 tax authority, are presented as operating cash flows.

**Rounding of amounts**
The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

**New Accounting Standards and Interpretations not yet mandatory or early adopted**
Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2014. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

*AASB 9 Financial Instruments and its consequential amendments*
This standard introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortised cost or fair value. The accounting for financial liabilities continues to be classified and measured in accordance with AASB 139, with one exception, being that the portion of a change of fair value relating to the entity's own credit risk is to be presented in other comprehensive income unless it would create an accounting mismatch. The standard provides a new simpler approach to hedge accounting that is intended to more closely align with risk management activities undertaken by entities when hedging financial and non-financial risks. The consolidated entity will adopt this standard and the amendments from 1 July 2018 but the impact of its adoption is yet to be assessed by the consolidated entity.

*AASB 2012-3 Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities*
The amendments clarify the meaning of 'currently has a legally enforceable right of set-off'; and clarifies that some gross settlement systems may be considered to be equivalent to net settlement. The adoption of the amendments from 1 July 2014 will not have a material impact on the consolidated entity.

*AASB 2013-3 Amendments to AASB 136 - Recoverable Amount Disclosures for Non-Financial Assets*
The disclosure requirements of AASB 136 'Impairment of Assets' have been enhanced to require additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposals. Additionally, if measured using a present value technique, the discount rate is required to be disclosed. The adoption of these amendments from 1 July 2014 may increase the disclosures by the consolidated entity.

## Note 1. Significant accounting policies (continued)

*AASB 2014-1 Amendments to Australian Accounting Standards*
These amendments are in several parts. Part A makes various amendments to Australian Accounting Standards arising from the issuance of IASB's 'Annual Improvements to IFRSs 2010-2012 Cycle' and 'Annual Improvements to IFRSs 2011-2013 Cycle'. Part C makes amendments to particular Australian Accounting Standards to delete their references to AASB 1031 'Materiality'. Part E makes consequential amendments to numerous other Standards as a consequence of the introduction of hedge accounting requirements into AASB 9 'Financial Instruments' in December 2013. Amendments Part A to D are applicable to annual reporting periods beginning on or after 1 July 2014 or as specified in each Part. Amendments Part E are applicable to annual reporting periods beginning on or after 1 January 2015 or as specified in Part E. The adoption of these amendments will not have a material impact on the consolidated entity.

*Annual Improvements to IFRSs 2010-2012 Cycle*
These amendments affects several Accounting Standards as follows: Amends the definition of 'vesting conditions' and 'market condition' and adds definitions for 'performance condition' and 'service condition' in AASB 2 'Share-based Payment'; Amends AASB 3 'Business Combinations' to clarify that contingent consideration that is classified as an asset or liability shall be measured at fair value at each reporting date; Amends AASB 8 'Operating Segments' to require entities to disclose the judgements made by management in applying the aggregation criteria; Clarifies that AASB 8 only requires a reconciliation of the total reportable segments assets to the entity's assets, if the segment assets are reported regularly; Clarifies that the issuance of AASB 13 'Fair Value Measurement' and the amending of AASB 139 'Financial Instruments: Recognition and Measurement' and AASB 9 'Financial Instruments' did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amount, if the effect of discounting is immaterial. The adoption of these amendments will not have a material impact on the consolidated entity.

*IFRS 15 Revenue from Contracts with Customers*
The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgments made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The consolidated entity will adopt this standard and the amendments from 1 July 2017 but the impact of its adoption is yet to be assessed by the consolidated entity.

## Note 2. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

## Note 2. Critical accounting judgements, estimates and assumptions (continued)

*Revenue recognition*
The consolidated entity uses the percentage-of-completion method to account for its contract revenue. The stage of completion is measured by reference to the costs incurred to date compared to the estimated total costs to service the contract. Significant assumptions are required to estimate the total costs and the stages of the contract they are incurred in, the progression of students and costs incurred to date and attrition rates during the various stages of progression. In making these estimates, management has relied on past experience on actual costs incurred in various phases of progression in a student life cycle and attrition rates. For details of accrued income and deferred revenue at 30 June 2014, refer to notes 8 and 16.

*Goodwill and other indefinite life intangible assets*
The consolidated entity tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 1. The recoverable amounts of cash-generating units have been determined based on fair value less costs to sell. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

*Business combinations*
As discussed in note 1, business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the consolidated entity taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

The consolidated entity engages independent valuers to value identified intangibles assets acquired through business combinations which includes the use of assumptions, including estimated discount rates based on current cost of capital and growth dates of the estimates future cash flows.

## Note 3. Operating segments

*Identification of reportable operating segments*
The consolidated entity operates in one segment being a full-service private vocational education and training service ('VET') provider. This is based on the internal reports that are reviewed and used by the Executive Committee (who are identified as the Chief Operating Decision Maker ('CODM')) in assessing performance and in determining the allocation of resources.

The consolidated entity operates predominantly in one geographical region being Australia.

## Note 4. Revenue

| | Consolidated | |
|---|---|---|
| | **2014** | **2013** |
| | **$'000** | **$'000** |
| **Sales revenue** | | |
| Enterprise | 40,777 | 1,911 |
| Direct | 25,272 | 8,837 |
| Solutions | 62,330 | 26,348 |
| | 128,379 | 37,096 |
| **Other revenue** | | |
| Interest | 196 | 66 |
| Revenue | 128,575 | 37,162 |

## Note 5. Expenses

| | Consolidated 2014 $'000 | 2013 $'000 |
|---|---|---|
| Profit before income tax includes the following specific expenses: | | |
| **Depreciation** | | |
| Leasehold improvements | 50 | - |
| Plant and equipment | 276 | 152 |
| Motor vehicles | 5 | - |
| Computer equipment | 288 | 182 |
| Total depreciation | 619 | 334 |
| **Amortisation** | | |
| Intellectual property and curriculum | 680 | 33 |
| Customer contracts and relationships | 1,966 | - |
| Software | 445 | - |
| Licences | 5 | 107 |
| Total amortisation | 3,096 | 140 |
| Total depreciation and amortisation | 3,715 | 474 |
| **Finance costs** | | |
| Interest and finance charges paid/payable | 181 | 1 |
| **Rental expense relating to operating leases** | | |
| Minimum lease payments | 511 | 116 |
| **Superannuation expense** | | |
| Defined contribution superannuation expense | 1,097 | 262 |

## Note 6. Income tax expense

| | Consolidated | |
|---|---|---|
| | **2014** | **2013** |
| | **$'000** | **$'000** |
| **Income tax expense** | | |
| Current tax | 8,231 | 1,907 |
| Deferred tax - origination and reversal of temporary differences | (4,457) | 123 |
| Aggregate income tax expense | 3,774 | 2,030 |
| Deferred tax included in income tax expense comprises: | | |
| Increase/(decrease) in deferred tax liabilities (note 19) | (4,457) | 123 |
| **Numerical reconciliation of income tax expense and tax at the statutory rate** | | |
| Profit before income tax expense | 12,046 | 6,767 |
| Tax at the statutory tax rate of 30% | 3,614 | 2,030 |
| Tax effect amounts which are not deductible/(taxable) in calculating taxable income: | | |
| Entertainment expenses | 20 | 5 |
| Tax offset for franked dividends | - | (237) |
| Sundry items | - | 109 |
| Share-based payments | 140 | 123 |
| Income tax expense | 3,774 | 2,030 |

## Note 7. Current assets - cash and cash equivalents

| | Consolidated | |
|---|---|---|
| | **2014** | **2013** |
| | **$'000** | **$'000** |
| Cash at bank and on hand | 21,531 | 619 |
| Cash on deposit * | 214 | 110 |
| | 21,745 | 729 |

* Cash on deposit includes restricted cash of $144,000 (2013: $110,000).

The weighted average interest on cash balance is 2.5% (2013: 2.6%).

## Note 8. Current assets - trade and other receivables

| | Consolidated | |
|---|---|---|
| | 2014 $'000 | 2013 $'000 |
| Trade receivables | 15,830 | 253 |
| Less: Provision for impairment of receivables | (120) | - |
| | 15,710 | 253 |
| Other receivables | 2,864 | - |
| Prepayments | 1,608 | 56 |
| Accrued revenue | 23,171 | 5,220 |
| Deposits paid | 415 | 77 |
| Receivable from related parties | 261 | 1,185 |
| | 44,029 | 6,791 |

*Impairment of receivables*
The consolidated entity has recognised a loss of $120,000 in profit or loss in respect of impairment of receivables for the year ended 30 June 2014.

The ageing of the impaired receivables provided for above are as follows:

| | Consolidated | |
|---|---|---|
| | 2014 $'000 | 2013 $'000 |
| Over 6 months overdue | 120 | - |

Movements in the provision for impairment of receivables are as follows:

| | Consolidated | |
|---|---|---|
| | 2014 $'000 | 2013 $'000 |
| Additional provisions recognised | 120 | - |

*Past due but not impaired*
Customers with balances past due but without provision for impairment of receivables amount to $1,614,000 as at 30 June 2014 ($nil as at 30 June 2013).

The consolidated entity did not consider that there is a credit risk on the aggregate balances after reviewing credit terms of customers based on recent collection practices.

The ageing of the past due but not impaired receivables are as follows:

| | Consolidated | |
|---|---|---|
| | 2014 $'000 | 2013 $'000 |
| 0 to 3 months overdue | 985 | - |
| 3 to 6 months overdue | 629 | - |
| | 1,614 | - |

## Note 9. Non-current assets - property, plant and equipment

| | Consolidated 2014 $'000 | Consolidated 2013 $'000 |
|---|---|---|
| Leasehold improvements - at cost | 923 | - |
| Less: Accumulated depreciation | (50) | - |
| | 873 | - |
| Plant and equipment - at cost | 1,507 | 560 |
| Less: Accumulated depreciation | (494) | (218) |
| | 1,013 | 342 |
| Motor vehicles - at cost | 76 | - |
| Less: Accumulated depreciation | (5) | - |
| | 71 | - |
| Computer equipment - at cost | 1,069 | 610 |
| Less: Accumulated depreciation | (686) | (398) |
| | 383 | 212 |
| | 2,340 | 554 |

*Reconciliations*

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

| Consolidated | Leasehold improvements $'000 | Plant and equipment $'000 | Motor vehicles $'000 | Computer equipment $'000 | Total $'000 |
|---|---|---|---|---|---|
| Balance at 1 July 2012 | - | 161 | - | 253 | 414 |
| Additions | - | 333 | - | 141 | 474 |
| Depreciation expense | - | (152) | - | (182) | (334) |
| Balance at 30 June 2013 | - | 342 | - | 212 | 554 |
| Additions | 497 | 327 | - | 399 | 1,223 |
| Additions through business combinations (note 32) | 455 | 647 | 76 | 60 | 1,238 |
| Write off of assets | (29) | (27) | - | - | (56) |
| Depreciation expense | (50) | (276) | (5) | (288) | (619) |
| Balance at 30 June 2014 | 873 | 1,013 | 71 | 383 | 2,340 |

## Note 10. Non-current assets - intangibles

| | Consolidated 2014 $'000 | 2013 $'000 |
|---|---|---|
| Goodwill - at cost | 218,601 | - |
| | | |
| Intellectual property and curriculum - at cost | 5,334 | 100 |
| Less: Accumulated amortisation | (756) | (76) |
| | 4,578 | 24 |
| | | |
| Customer contracts and relationships - at cost | 26,982 | - |
| Less: Accumulated amortisation | (1,966) | - |
| | 25,016 | - |
| | | |
| Software - at cost | 3,933 | 8 |
| Less: Accumulated amortisation | (445) | - |
| | 3,488 | 8 |
| | | |
| Licences - at cost | 2,221 | 896 |
| Less: Accumulated amortisation | (112) | (107) |
| | 2,109 | 789 |
| | | |
| | 253,792 | 821 |

*Reconciliations*
Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

| Consolidated | Goodwill $'000 | Intellectual property and curriculum $'000 | Customer contracts and relationships $'000 | Software $'000 | Licences $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| Balance at 1 July 2012 | - | 57 | - | - | - | 57 |
| Additions | - | - | - | 8 | 896 | 904 |
| Amortisation expense | - | (33) | - | - | (107) | (140) |
| | | | | | | |
| Balance at 30 June 2013 | - | 24 | - | 8 | 789 | 821 |
| Additions | - | 1,652 | - | 246 | 84 | 1,982 |
| Additions through business combinations (note 32) | 218,601 | 3,582 | 26,982 | 3,679 | 1,241 | 254,085 |
| Amortisation expense | - | (680) | (1,966) | (445) | (5) | (3,096) |
| | | | | | | |
| Balance at 30 June 2014 | 218,601 | 4,578 | 25,016 | 3,488 | 2,109 | 253,792 |

*Goodwill*
The recoverable amount of the consolidated entity's cash generating units ('CGUs') is based on fair value less costs of disposal ('FVLCOD'). The FVLCOD was determined based on the value of the business at IPO and total consideration paid to acquire the different businesses since IPO less disposal costs. All of these transactions were at arm's length and at market value within seven months of 30 June 2014. No internal or external indicators were present as at 30 June 2014 to indicate any differences to the fair values determined in recent transaction prices.

Goodwill is monitored by management at the level of the consolidated entity's sole operating segment being Vocational education and training services. Refer to note 3.

## Note 11. Current liabilities - trade and other payables

| | Consolidated | |
|---|---|---|
| | 2014 | 2013 |
| | $'000 | $'000 |
| Trade payables | 4,895 | 162 |
| Contingent consideration (note 32) | 8,900 | - |
| Other payables | 29,634 | 3,364 |
| | 43,429 | 3,526 |

Refer to note 24 for further information on financial instruments.

## Note 12. Current liabilities - borrowings

| | Consolidated | |
|---|---|---|
| | 2014 | 2013 |
| | $'000 | $'000 |
| Hire purchase | 72 | - |

Refer to note 17 for further information on assets pledged as security and financing arrangements.

Refer to note 24 for further information on financial instruments.

## Note 13. Current liabilities - income tax

| | Consolidated | |
|---|---|---|
| | 2014 | 2013 |
| | $'000 | $'000 |
| Provision for income tax | 3,630 | 460 |

## Note 14. Current liabilities - employee benefits

| | Consolidated | |
|---|---|---|
| | 2014 | 2013 |
| | $'000 | $'000 |
| Annual leave | 1,110 | 112 |
| Long service leave | 186 | 42 |
| | 1,296 | 154 |

## Note 15. Current liabilities - provisions

| | Consolidated | |
|---|---|---|
| | 2014 | 2013 |
| | $'000 | $'000 |
| Lease make good | 23 | - |

*Lease make good*
The provision represents the present value of the estimated costs to make good the premises leased by the consolidated entity at the end of the respective lease terms.

## Note 15. Current liabilities - provisions (continued)

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

| Consolidated - 2014 | Lease make good $'000 |
|---|---|
| Carrying amount at the start of the year | - |
| Additional provisions recognised | 23 |
| Carrying amount at the end of the year | 23 |

## Note 16. Current liabilities - deferred revenue

| | Consolidated 2014 $'000 | 2013 $'000 |
|---|---|---|
| Deferred revenue | 2,776 | - |

## Note 17. Non-current liabilities - borrowings

| | Consolidated 2014 $'000 | 2013 $'000 |
|---|---|---|
| Bank loans | 42,593 | - |

Refer to note 24 for further information on financial instruments.

The consolidated entity has entered into a facilities agreement dated 30 May 2014, as amended by the Amendment Agreement dated 6 June 2014 ('Facilities Agreement'), with the Commonwealth Bank of Australia, National Australia Bank and Westpac Banking Corporation ('MLAs') and others under which the lenders assembled by the MLAs in consultation with the consolidated entity provided a $123 million loan facility to the consolidated entity, comprising $120 million under Facility A and $3 million under Facility B.

Facility A is a three year cash advance facility that can be used by the consolidated entity towards financing Permitted Acquisitions (as defined in the Facilities Agreement) and associated costs, fees and expenses or to fund capital expenditure for the day to day operations and the general corporate purposes of the consolidated entity.

Facility B is a three year bank guarantee facility that can be used towards the issuance of bank guarantees.

The loans are subject to certain covenants which includes maintaining interest cover and gearing ratios at certain levels. The consolidated entity has complied with the financial covenants during the reporting period.

*Total secured liabilities*
The total secured liabilities (current and non-current) are as follows:

| | Consolidated 2014 $'000 | 2013 $'000 |
|---|---|---|
| Bank loans | 42,593 | - |
| Hire purchase | 72 | - |
| | 42,665 | - |

## Note 17. Non-current liabilities - borrowings (continued)

*Assets pledged as security*
The bank loans are secured by guarantees and indemnities as well as a charge over the issued capital of the company's subsidiaries.

*Financing arrangements*
Unrestricted access was available at the reporting date to the following lines of credit:

| | Consolidated | |
|---|---|---|
| | **2014 $'000** | **2013 $'000** |
| Total facilities | | |
| Bank loans | 120,000 | - |
| Bank guarantee | 3,000 | - |
| | 123,000 | - |
| Used at the reporting date | | |
| Bank loans | 42,593 | - |
| Bank guarantee | - | - |
| | 42,593 | - |
| Unused at the reporting date | | |
| Bank loans | 77,407 | - |
| Bank guarantee | 3,000 | - |
| | 80,407 | - |

## Note 18. Non-current liabilities - derivative financial instruments

| | Consolidated | |
|---|---|---|
| | **2014 $'000** | **2013 $'000** |
| ASM put/call option | 2,460 | - |

Refer to note 24 for further information on financial instruments.

Refer to note 25 for further information on fair value measurement.

Put/call options
During the financial year, the consolidated entity acquired 50% interest in Australian School of Management ('ASM'). The shareholders of the other 50% held a put option and the consolidated entity has a call option. The consolidated entity did not record a non-controlling interest in accordance with AASB 10 'Consolidated Financial Statements', but rather recorded the put option as a financial liability in accordance with AASB 132 'Financial Instruments: Presentation', measured at the estimated net present value of the expected exercise price of the put option, with subsequent changes in the recognised value recorded in the profit or loss. The call options had nominal value and have not been recognised.

## Note 19. Non-current liabilities - deferred tax

| | Consolidated 2014 $'000 | 2013 $'000 |
|---|---|---|
| **Deferred tax liability comprises temporary differences attributable to:** | | |
| Amounts recognised in profit or loss: | | |
| Intangibles | 7,663 | - |
| IPO costs | (3,190) | - |
| Training resources | - | 237 |
| Revenue received in advance and accrued revenue | 1,906 | - |
| Employee benefits | (669) | (46) |
| Accrued expenses | (963) | (86) |
| Provision for doubtful debts | (112) | - |
| Prepayments | - | 17 |
| Accrued interest | 15 | 1 |
| | 4,650 | 123 |
| Amounts recognised in equity: | | |
| Transaction costs on share issue | (2,744) | - |
| Deferred tax liability | 1,906 | 123 |
| Amount expected to be settled within 12 months (liabilities $3,453,000 less assets $4,687,000) | (1,234) | 123 |
| Amount expected to be settled after more than 12 months (liabilities $6,131,000 less assets $2,991,000) | 3,140 | - |
| | 1,906 | 123 |
| **Movements:** | | |
| Opening balance | 123 | - |
| Credited/(charged) to profit or loss (note 6) | (4,457) | 123 |
| Additions through business combinations (note 32) | 8,984 | - |
| Credited to equity (note 20) | (2,744) | - |
| Closing balance | 1,906 | 123 |

## Note 20. Equity - issued capital

| | Consolidated 2014 Shares | 2013 Shares | 2014 $'000 | 2013 $'000 |
|---|---|---|---|---|
| Ordinary shares - fully paid | 202,899,894 | - | 221,442 | - |

**Note 20. Equity - issued capital (continued)**

*Group reorganisation*
Vocation Limited was incorporated on 6 November 2013 and undertook an initial public offering ('IPO') on 9 December 2013. Prior to the IPO, a 100% owned subsidiary of Vocation Limited, BAWM Pty Ltd ('BAWM') undertook a reorganisation such that Vocation Limited was established as BAWM's parent/holding entity.

Vocation Limited determined that the acquisition of BAWM did not represent a business combination as defined by AASB 3 'Business Combinations'. The appropriate accounting treatment for recognising the new group structure has been determined on the basis that the transaction was a form of capital reconstruction and group reorganisation. The capital reconstruction has been accounted for using the principles of a reverse acquisition by BAWM of Vocation Group and Vocation Limited.

As a result, the consolidated financial statements of Vocation Limited have been prepared as a continuation of the financial statements of the accounting acquirer, BAWM. Refer to basis of preparation in note 1.

The number of shares on issue shown reflects those of Vocation Limited after the reconstruction.

*Movements in ordinary share capital*

| Details | Date | Shares | Issue price | $'000 |
|---|---|---|---|---|
| Balance | 1 July 2013 | 12 | | - |
| Group Reorganisation | 15 November 2013 | (12) | | - |
| Shares issued to BAWM founders in exchange for BAWM shares | 15 November 2013 | 83,753,529 | $0.02 | 1,685 |
| Shares issued as part settlement for purchase of founding and ancillary businesses | 6 December 2013 | 35,049,786 | $1.89 | 66,244 |
| Shares issued as performance rights | 6 December 2013 | 2,003,594 | $1.61 | 3,241 |
| Shares issued at IPO | 6 December 2013 | 79,193,091 | $1.89 | 149,675 |
| Transaction costs arising on IPO | 6 December 2013 | - | $0.00 | (9,147) |
| Deferred tax credit recognised directly in equity | 6 December 2013 | - | $0.00 | 2,744 |
| Issue of shares on acquisition of Oil Group Holdings Pty Ltd | 30 May 2014 | 2,899,894 | $2.41 | 7,000 |
| Balance | 30 June 2014 | 202,899,894 | | 221,442 |

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

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

*Capital risk management*
The consolidated entity's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The consolidated entity would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current company's share price at the time of the investment. The consolidated entity has pursued investments to integrate and grow its existing businesses in order to maximise synergies.

### Note 20. Equity - issued capital (continued)

The consolidated entity is subject to certain financing arrangements covenants and meeting these is given priority in all capital risk management decisions. There have been no events of default on the financing arrangements during the financial year.

### Note 21. Equity - reserves

| | Consolidated 2014 $'000 | Consolidated 2013 $'000 |
|---|---|---|
| Share-based payments reserve | 465 | - |
| Capital reorganisation reserve | (1,685) | - |
| | (1,220) | - |

*Share-based payments reserve*
The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

Certain directors and employees were granted performance rights at the time of IPO which were converted to ordinary shares prior to listing on the ASX. The fair value of the performance rights was calculated using the share price at IPO, discounted for the impact of the escrow periods on the marketability of the shares.

*Capital reorganisation reserve*
As explained in note 1, the consolidated Vocation Group is a continuation of the existing BAWM entity. Vocation Limited has therefore recorded the net assets of BAWM at their historic carrying value at the date of acquisition as a capital re-organisation reserve in equity.

*Movements in reserves*
Movements in each class of reserve during the current and previous financial year are set out below:

| Consolidated | Share-based payment $'000 | Capital reorganisation $'000 | Total $'000 |
|---|---|---|---|
| Balance at 1 July 2012 | - | - | - |
| Balance at 30 June 2013 | - | - | - |
| Share-based payments | 465 | - | 465 |
| Capital reorganisation | - | (1,685) | (1,685) |
| Balance at 30 June 2014 | 465 | (1,685) | (1,220) |

### Note 22. Equity - retained profits

| | Consolidated 2014 $'000 | Consolidated 2013 $'000 |
|---|---|---|
| Retained profits at the beginning of the financial year | 4,737 | 4,509 |
| Profit after income tax expense for the year | 8,272 | 4,737 |
| Dividends paid (note 23) | (9,510) | (4,509) |
| Retained profits at the end of the financial year | 3,499 | 4,737 |

## Note 23. Equity - dividends

*Dividends*
On 30 October 2013, the directors of BAWM Pty Limited declared a Pre-IPO fully franked dividend for the year ended 30 June 2014 of $792,500 per ordinary share.

In addition to the above dividend, since year end the directors have recommended the payment of a fully franked final dividend of 3.2 cents per fully paid ordinary share on 10 October 2014, to shareholders registered on 1 September 2014.

*Franking credits*

| | Consolidated | |
|---|---|---|
| | 2014 $'000 | 2013 $'000 |
| Franking credits available for subsequent financial years based on a tax rate of 30% | 8,279 | 1,919 |

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:
- franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date

## Note 24. Financial instruments

***Financial risk management objectives***
The consolidated entity's activities expose it to a variety of financial risks: market risk (including price risk and interest rate risk), credit risk and liquidity risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity. The consolidated entity uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and other price risks, ageing analysis for credit risk.

Risk management is carried out by senior finance executives ('finance') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the consolidated entity and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the consolidated entity's operating units. Finance reports to the Board on a monthly basis.

***Market risk***

*Foreign currency risk*
The consolidated entity currently does not undertake material transactions denominated in foreign currency and hence is not exposed to foreign currency risk through foreign exchange rate fluctuations.

*Interest rate risk*
The consolidated entity's main interest rate risk arises from long-term borrowings. Borrowings are currently issued at variable rates and expose the consolidated entity to interest rate risk.

As at the reporting date, the consolidated entity had the following variable rate borrowings outstanding:

| | 2014 | | 2013 | |
|---|---|---|---|---|
| **Consolidated** | **Weighted average interest rate %** | **Balance $'000** | **Weighted average interest rate %** | **Balance $'000** |
| Bank loans | 4.51% | 42,593 | -% | - |
| Net exposure to cash flow interest rate risk | | 42,593 | | - |

An analysis by remaining contractual maturities is shown in 'liquidity and interest rate risk management' below.

## Note 24. Financial instruments (continued)

An increase/decrease in interest rates of 100 basis points would have an adverse/favourable effect on profit before tax and equity of $425,900 per annum.

***Credit risk***

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The consolidated entity obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The consolidated entity does not hold any collateral.

The consolidated entity's policy for cash holdings requires the holdings to be with the major four banks in Australia.

***Liquidity risk***

Vigilant liquidity risk management requires the consolidated entity to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The consolidated entity manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

*Financing arrangements*

Unused borrowing facilities at the reporting date:

| | Consolidated | |
|---|---|---|
| | 2014<br>$'000 | 2013<br>$'000 |
| Bank loans | 77,407 | - |
| Bank guarantee | 3,000 | - |
| | 80,407 | - |

The bank facilities may be drawn at any time and have a maturity of three years.

**Note 24. Financial instruments (continued)**

*Remaining contractual maturities*
The following tables detail the consolidated entity's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

| Consolidated - 2014 | Weighted average interest rate % | 1 year or less $'000 | Between 1 and 2 years $'000 | Between 2 and 5 years $'000 | Over 5 years $'000 | Remaining contractual maturities $'000 |
|---|---|---|---|---|---|---|
| **Non-derivatives** | | | | | | |
| **Non-interest bearing** | | | | | | |
| Trade payables | -% | 4,895 | - | - | - | 4,895 |
| Other payables | -% | 29,634 | - | - | - | 29,634 |
| Contingent consideration | -% | 8,900 | - | - | - | 8,900 |
| | | | | | | |
| **Interest-bearing - variable** | | | | | | |
| Bank loans | 4.51% | 1,943 | 1,943 | 45,015 | - | 48,901 |
| Hire purchase | -% | 30 | 30 | 18 | - | 78 |
| Total non-derivatives | | 45,402 | 1,973 | 45,033 | - | 92,408 |
| | | | | | | |
| **Derivatives** | | | | | | |
| Put/call option | -% | - | 2,460 | - | - | 2,460 |
| Total derivatives | | - | 2,460 | - | - | 2,460 |

| Consolidated - 2013 | Weighted average interest rate % | 1 year or less $'000 | Between 1 and 2 years $'000 | Between 2 and 5 years $'000 | Over 5 years $'000 | Remaining contractual maturities $'000 |
|---|---|---|---|---|---|---|
| **Non-derivatives** | | | | | | |
| **Non-interest bearing** | | | | | | |
| Trade payables | -% | 162 | - | - | - | 162 |
| Other payables | -% | 3,364 | - | - | - | 3,364 |
| Total non-derivatives | | 3,526 | - | - | - | 3,526 |

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

***Fair value of financial instruments***
Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

## Note 25. Fair value measurement

*Fair value hierarchy*
The following tables detail the consolidated entity's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:
Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
Level 3: Unobservable inputs for the asset or liability

| Consolidated - 2014 | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|
| **Liabilities** | | | | |
| Contingent consideration | - | - | 8,900 | 8,900 |
| Put/call option | - | - | 2,460 | 2,460 |
| Total liabilities | - | - | 11,360 | 11,360 |

There were no transfers between levels during the financial year and all the amounts are coming from the business combinations transaction during the year .

*Valuation techniques for fair value measurements categorised within level 3*
Contingent consideration has been calculated based on management's estimates of amounts expected to be paid for the acquisition of business. It has been calculated with reference to the amounts that have been achieved being a normalised earnings before interest, tax, depreciation and amortisation (EBITDA). Refer to note 32 for further details.

The put/call option has been calculated by reference to the contractual amounts in the underlying contracts.

Fair value measurements are reviewed and approved by the CFO and ARC at least once every six months in line with the consolidated entity half yearly reporting periods.

*Sensitivity*
No reasonable change in the estimates will significantly change the fair values.

## Note 26. Key management personnel disclosures

*Compensation*
The aggregate compensation made to directors and other members of key management personnel of the consolidated entity is set out below:

| | Consolidated 2014 $ | Consolidated 2013 $ |
|---|---|---|
| Short-term employee benefits | 1,102,117 | 698,528 |
| Post-employment benefits | 63,179 | 56,948 |
| Long-term benefits | 15,131 | 10,668 |
| Share-based payments | 3,028,774 | - |
| | 4,209,201 | 766,144 |

The figures for 2014 represent the KMPs for the seven months from listing, as detailed in the Remuneration report contained within the Directors' report. Additionally, the following amounts were paid to KMPs prior to listing in 2014:
Short-term benefit $340,261
Post-employment benefits $28,542
Long-term benefits $18,501

## Note 27. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by PricewaterhouseCoopers, the auditor of the company:

| | Consolidated | |
|---|---|---|
| | 2014 | 2013 |
| | $ | $ |
| **Audit services - PricewaterhouseCoopers (2013: Pitcher Partners)** | | |
| Audit or review of the financial statements | 225,000 | 46,098 |
| **Other services - PricewaterhouseCoopers (2013: Pitcher Partners)** | | |
| Non-statutory review of interim financial information | 75,000 | - |
| Acquisition related assurance services | 121,500 | - |
| Financial due diligence services related to IPO | 1,299,455 | - |
| Financial due diligence services related to acquisitions | 637,000 | - |
| Taxation services | 246,510 | 3,153 |
| Remuneration advice | 88,903 | - |
| | 2,468,368 | 3,153 |
| | 2,693,368 | 49,251 |

The financial due diligence services related to the IPO were undertaken by PricewaterhouseCoopers prior to their appointment as external auditor. Since their appointment as external auditor, the consolidated entity has engaged them to provide non audit services where their expertise and experience with the consolidated entity are important. These services were primarily advice on accounting, taxation and remuneration in connection with the establishment of Vocation as a newly listed company or assurance services related to acquisitions. The directors have taken appropriate steps to ensure that the provision of these non audit services does not compromise the external auditor's independence.

## Note 28. Contingent liabilities

The consolidated entity had no contingent liabilities as at 30 June 2014 and 30 June 2013.

## Note 29. Commitments

| | Consolidated | |
|---|---|---|
| | 2014 | 2013 |
| | $'000 | $'000 |
| **Capital commitments** | | |
| Committed at the reporting date but not recognised as liabilities, payable: | | |
| Property, plant and equipment | 82 | - |
| **Lease commitments - operating** | | |
| Committed at the reporting date but not recognised as liabilities, payable: | | |
| Within one year | 2,420 | 534 |
| One to five years | 6,175 | 154 |
| | 8,595 | 688 |

Operating lease commitments includes contracted amounts for various offices under non-cancellable operating leases expiring within three to five years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

## Note 30. Related party transactions

*Parent entity*
Vocation Limited is the parent entity.

*Subsidiaries*
Interests in subsidiaries are set out in note 33.

*Key management personnel*
Disclosures relating to key management personnel are set out in note 26 and the remuneration report in the directors' report.

*Transactions with related parties*
The following transactions occurred with related parties:

| | Consolidated | |
|---|---|---|
| | **2014** | **2013** |
| | **$** | **$** |
| Payment for goods and services: | | |
| Payment for professional fees from KMPs | 35,280 | 103,131 |
| Payment for administration fees from KMPs | 2,546 | - |
| Other transactions: | | |
| Payments of amounts recognised as net assets within business combinations | 36,014,149 | - |
| Pre IPO dividends from retained profits | 3,804,000 | - |
| *Persons/entities with significant influence over the entity* | | |
| The following transactions occurred with persons/entities with significant influence over the consolidated entity: | | |
| Payment for goods and services: | | |
| Payments for administration fees | 16,560 | 18,190 |
| Other transactions: | | |
| Payments of amounts recognised as net assets within business combinations* | 15,245,480 | - |
| Pre IPO dividends from retained profits | 5,706,000 | - |

*Relates to the purchase of Student Hub and Aspin from shareholders who had significant influence over BAWM Pty Limited from the period of 1 July 2013 to 6 December 2013 prior to the group reorganisation.

*Receivable from and payable to related parties*
The following balances are outstanding at the reporting date in relation to transactions with related parties:

| | Consolidated | |
|---|---|---|
| | **2014** | **2013** |
| | **$** | **$** |
| Current receivables: | | |
| Loan to employees | 8,500 | - |
| Receivables from persons/entities with significant influence over the consolidated entity * | 260,872 | 1,185,477 |

* Amounts receivable from the shareholders of BAWM Pty Limited prior to the group reorganisation mentioned in the basis of preparation note. This balance was received in July 2014.

*Loans to/from related parties*
There were no loans to or from related parties at the current and previous reporting date.

*Terms and conditions*
All the above transactions were made on normal commercial terms and conditions and at market rates.

## Note 31. Parent entity information

Set out below is the supplementary information about the parent entity.

*Statement of profit or loss and other comprehensive income*

| | Parent 2014 $'000 | Parent 2013 $'000 |
|---|---|---|
| Loss after income tax | (14,137) | - |
| Total comprehensive income | (14,137) | - |

*Statement of financial position*

| | Parent 2014 $'000 | Parent 2013 $'000 |
|---|---|---|
| Total current assets | 13,606 | - |
| Total assets | 272,789 | - |
| Total current liabilities | 20,421 | - |
| Total liabilities | 65,484 | - |
| Equity | | |
| Issued capital | 221,442 | - |
| Accumulated losses | (14,137) | - |
| Total equity | 207,305 | - |

*Guarantees entered into by the parent entity in relation to the debts of its subsidiaries*
The parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2014, except for the deed of cross guarantee as detailed in note 34. The bank loans are secured by guarantees and indemnities as well as a charge over the issued capital of the parent entity's subsidiaries. Refer to note 17.

*Contingent liabilities*
The parent entity had no contingent liabilities as at 30 June 2014.

*Capital commitments - Property, plant and equipment*
The parent entity had commitments for property, plant and equipment of $82,000 as at 30 June 2014. Also, it has operating lease commitments as described below:

| | Parent 2014 $'000 | Parent 2013 $'000 |
|---|---|---|
| Committed at the reporting date but not recognised as liabilities, payable: | | |
| within one year | 566 | - |
| one to five years | 2,218 | - |

*Accounting period*
The parent entity was incorporated on 6 November 2013. The results above therefore represents the period from incorporation to 30 June 2014.

## Note 31. Parent entity information (continued)

*Significant accounting policies*
The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 1, except for the following:
- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity; and
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

## Note 32. Business combinations

The formation of Vocation has brought together under common ownership three leading Australian private VET Providers. Subsequent to this reorganisation which included Vocation Limited being established as BAWM's parent/holding entity, as explained in note 1, the parent entity also acquired 100% of Avana Group Pty Ltd ('AVANA') and its controlled entities, CSIA Pty Ltd ('CSIA') and its controlled entities, Aspin Pty Ltd and Student Hub Pty Ltd. These entities were the founding companies.

This completed the group reorganisation on 6 December 2013.

Some of the founding companies have been working closely together prior to the formation of Vocation, to deliver training outcomes. For example, BAWM has provided back office support, outsourced student and data management functions to CSIA for the last three years. CSIA and AVANA have also collaborated since early 2013 to deliver a national training program to ISS. The founding companies are also complementary businesses, both in terms of their geographic strengths and industry focus. AVANA specialises in delivery of VET services to the tourism, hospitality, retail and community services industries, predominantly in New South Wales, Western Australia and Tasmania; BAWM's strength lies in delivering VET and related services to the transport and logistics, manufacturing, construction and community services sectors in Victoria; and CSIA specialises in delivery of vocational training and ancillary services to the management, business and customer service segments, particularly in New South Wales, Victoria, South Australia and Queensland.

*Acquired receivables*
The fair value of acquired trade receivables is $2,578,000 The gross contractual amount for trade receivables due is $3,123,000 of which $560,000 is expected to be uncollectible.

*Revenue and profit contribution*
The acquired business contributed revenues of $30,269,000 and net profit of $3,015,000 to the consolidated entity for the period from 9 December 2013 to 30 June 2014.

If the acquisition had occurred on 1 July 2013, consolidated revenue and profit for the year ended 30 June 2014 would have increased by $12,852,000 and $3,343,000 respectively. These amounts have been calculated using the subsidiary's results and adjusting them for the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 July 2013, together with the consequential tax effects.

*Acquisition-related costs*
Acquisition-related costs of $12,200,000 are included in transaction costs in profit or loss and in operating cash flows in the statement of cash flows.

**Note 32. Business combinations (continued)**

Details of the fair value acquisition in $'000 are as follows:

| | Avana | CSIA | Aspin | Student Hub | Total Fair value |
|---|---|---|---|---|---|
| Cash and cash equivalents | 252 | 509 | 293 | 13 | 1,067 |
| Trade and other receivables | 2,457 | 2,204 | 1,418 | 208 | 6,287 |
| Other current assets | 88 | 79 | - | - | 167 |
| Plant and equipment | 85 | 78 | 11 | - | 174 |
| Intellectual property | 883 | 595 | 365 | - | 1,843 |
| Customer contracts and relationships | 8,332 | 9,784 | - | - | 18,116 |
| Software | 1,388 | - | - | 2,260 | 3,648 |
| Memberships | - | 126 | - | - | 126 |
| Licences | 300 | 300 | 100 | - | 700 |
| Deferred tax asset | 160 | 62 | - | - | 222 |
| Trade payables | (554) | (1,280) | (1,184) | - | (3,018) |
| Provision for income tax | - | (400) | - | - | (400) |
| Employee benefits | (224) | (53) | (28) | - | (305) |
| Deferred tax liability | (2,729) | (3,046) | (30) | - | (5,805) |
| Other liabilities | (509) | - | (413) | (592) | (1,514) |
| Net assets acquired | 9,929 | 8,958 | 532 | 1,889 | 21,308 |
| Goodwill | 50,704 | 90,280 | 15,541 | 11,406 | 167,931 |
| Acquisition-date fair value of the total consideration transferred | 60,633 | 99,238 | 16,073 | 13,295 | 189,239 |
| Representing: | | | | | |
| Cash paid or payable to vendor | 39,483 | 64,798 | 16,073 | 2,640 | 122,994 |
| Vocation Limited shares issued to vendor | 21,150 | 34,440 | - | 10,655 | 66,245 |
| | 60,633 | 99,238 | 16,073 | 13,295 | 189,239 |

Purchase consideration – cash outflow

| | | | | | |
|---|---|---|---|---|---|
| Cash used to acquire business, net of cash acquired: | | | | | |
| Acquisition-date fair value of the total consideration transferred | 39,483 | 64,798 | 16,073 | 2,640 | 122,994 |
| Less: cash and cash equivalents | (252) | (509) | (293) | (13) | (1,067) |
| Net cash used | 39,231 | 64,289 | 15,780 | 2,627 | 121,927 |

The goodwill is attributable to the workforce, potential growth in student numbers, diversification and synergistic benefits for the consolidated entity. The business combination is provisional as at 30 June 2014.

## Note 32. Business combinations (continued)

*Australian College of Applied Education Pty Ltd and Australian School of Management Pty Ltd*
On 30 April 2014, the parent entity acquired 100% of the issued share capital of the Australian College of Applied Education Pty Ltd ('ACAE') based in Western Australia.

The parent entity also acquired 50% of the issued capital of the Australian School of Management Pty Ltd ('ASM'), an associated higher education provider, with an option to acquire the remaining 50%.

The acquisitions are highly consistent with the consolidated entity's stated strategy of diversification, and will accelerate entry into new geographies and student cohorts by leveraging licences held by ACAE and ASM across the consolidated entity's existing platform.

Details of the acquisition are as follows:

| | **Fair value $'000** |
|---|---|
| Cash and cash equivalents | 1,450 |
| Trade receivables | 789 |
| Prepayments and other assets | 161 |
| Land and buildings - Leasehold improvements | 564 |
| Intellectual property | 481 |
| Licences | 491 |
| Intercompany payable | (47) |
| Trade payables | (296) |
| Other payables | (158) |
| Provision for income tax | (17) |
| Employee benefits | (98) |
| Deferred revenue | (1,774) |
| Deferred tax liability | (147) |
| Net assets acquired | 1,399 |
| Goodwill | 3,186 |
| Acquisition-date fair value of the total consideration transferred | 4,585 |
| Representing: | |
| Cash paid or payable to vendor | 2,125 |
| Put/call option (note ii) | 2,460 |
| | 4,585 |
| Cash used to acquire business, net of cash acquired: | |
| Acquisition-date fair value of the total consideration transferred | 2,125 |
| Less: cash and cash equivalents | (1,450) |
| Net cash used | 675 |

The goodwill is attributable to the workforce, potential growth in student numbers, diversification and synergistic benefits for the consolidated entity. The business combination is provisional as at 30 June 2014.

**Note 32. Business combinations (continued)**

*Acquired receivables*
The fair value of acquired trade receivables is $780,000. The gross contractual amount for trade receivables due is $807,000, of which $27,000 is expected to be uncollectible.

*Non-controlling interests and deferred consideration*
The consolidated entity recognises non-controlling interests in an acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. This decision is made on an acquisition-by-acquisition basis. The consolidated entity has elected to not recognise the non-controlling interests in the remaining 50% share of the acquired net identifiable assets of ASM due to the existence of a call option to acquire the remaining 50% at the consolidated entity's discretion. The value of this call option has been treated as deferred consideration.

*Revenue and profit contribution*
The acquired businesses contributed revenues of $1,091,000 and net profit of $165,000 to the consolidated entity for the period from 1 May 2014 to 30 June 2014.

If the acquisition had occurred on 1 July 2013, consolidated revenue and profit for the year ended 30 June 2014 would have increased by $4,718,000 and $340,000 respectively.

*Acquisition-related costs*

Acquisition-related costs of $55,000 are included in transaction costs in profit or loss and in operating cash flows in the statement of cash flows.

**Note 32. Business combinations (continued)**

*Oil Group Holdings Pty Limited (Real Institute) and its controlled entities*
On 31 May 2014 the parent entity acquired 100% of the issued share capital of Oil Group Holdings Pty Limited ('Real') a national and multi-award winning education and training provider with a strong presence in Queensland, New South Wales and Western Australia. It offers courses across multiple industries, with a particular focus on the logistics industry and the labour hire market, where it provides industry-based training that allows students to be placed directly into sustainable employment after completing their qualifications.

The acquisition is highly complementary, providing additional scale, geographic and industry diversification, and exposure to new sources of revenue and new enterprise clients.

Details of the acquisition are as follows:

| | Fair value $'000 |
|---|---|
| Cash and cash equivalents | 307 |
| Trade receivables | 1,049 |
| Income tax refund due | 62 |
| Other receivables | 232 |
| Accrued revenue - unbilled revenue | 2,429 |
| Prepayments and deposits | 167 |
| Plant and equipment | 500 |
| Website | 31 |
| Intellectual property | 1,258 |
| Customer contracts and relationships | 8,740 |
| Licence | 50 |
| Deferred tax asset | 112 |
| Trade payables | (1,970) |
| Borrowings | (74) |
| Other provisions | (76) |
| Deferred tax liability | (3,366) |
| Net assets acquired | 9,451 |
| Goodwill | 47,484 |
| Acquisition-date fair value of the total consideration transferred | 56,935 |
| Representing: | |
| Cash paid or payable to vendor | 41,035 |
| Shares issued to vendor | 7,000 |
| Contingent consideration (see below) | 8,900 |
| | 56,935 |
| Cash used to acquire business, net of cash acquired: | |
| Acquisition-date fair value of the total consideration transferred | 41,035 |
| Less: cash and cash equivalents | (307) |
| Net cash used | 40,728 |

The goodwill is attributable to the workforce, potential growth in student numbers, diversification and synergistic benefits for the consolidated entity. The business combination is provisional as at 30 June 2014.

**Note 32. Business combinations (continued)**

*Contingent consideration*
In the event that Real achieves a normalised earnings before interest, tax, depreciation and amortisation ('EBITDA') of $9,000,000 for the financial year ending 30 June 2014, additional consideration of up to $7,000,000 will be payable in shares in September 2014. The value of these shares could increase if the EBITDA target exceeds $9,000,000 (or could decrease if the EBITDA target is below $9,000,000). The maximum consideration under this tranche is however capped at $10,000,000. The fair value of the contingent consideration of $8,900,000 was estimated with reference to the expected EBITDA of Real from the June 2014 management forecasts.

*Acquired receivables*
The fair value of acquired trade receivables is $1,049,000. The gross contractual amount for trade receivables due is $1,049,000, all of which is expected to be collectible.

*Revenue and profit contribution*
The acquired business contributed revenues of $2,895,000 and net profit of $1,230,000 to the consolidated entity for the period from 1 June 2014 to 30 June 2014.

If the acquisition had occurred on 1 July 2013, consolidated revenue and profit for the year ended 30 June 2014 would have increased by $16,769,000 and $2,431,000 respectively. These amounts have been calculated using the subsidiary's results and adjusting them for the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to intangible assets had applied from 1 July 2013, together with the consequential tax effects.

*Acquisition-related costs*
Acquisition-related costs of $2,690,000 are included in transaction costs in profit or loss and in operating cash flows in the statement of cash flows.

**Note 33. Interests in subsidiaries**

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1:

| Name | Principal place of business / Country of incorporation | Ownership interest 2014 % | Ownership interest 2013 % |
|---|---|---|---|
| BAWM Pty Ltd | Australia | 100.00% | 100.00% |
| Aspin Pty Ltd * | Australia | 100.00% | -% |
| Student Hub Pty Ltd * | Australia | 100.00% | -% |
| OzSoft Pty Ltd * | Australia | 100.00% | -% |
| CSIA Pty Ltd * | Australia | 100.00% | -% |
| TTS-100 Pty Ltd * | Australia | 100.00% | -% |
| Learning Verve Pty Ltd * | Australia | 100.00% | -% |
| Antenna Strategic Insights Pty Ltd * | Australia | 100.00% | -% |
| Avana Group Pty Ltd * | Australia | 100.00% | -% |
| QI Careers Pty Ltd * | Australia | 100.00% | -% |
| Avana Talent Pty Ltd * | Australia | 100.00% | -% |
| Avana Education Pty Ltd * | Australia | 100.00% | -% |
| Avana Services Pty Ltd * | Australia | 100.00% | -% |
| Green Skills Institute Pty Ltd * | Australia | 100.00% | -% |
| Avana Learning Pty Ltd * | Australia | 100.00% | -% |
| Australian College of Applied Education ** | Australia | 100.00% | -% |
| Australian School of Management ** | Australia | 50.00% | -% |
| Real Corporate Partners Pty Ltd *** | Australia | 100.00% | -% |
| RI Partners Pty Ltd *** | Australia | 100.00% | -% |
| Online Institute of Learning Pty Ltd *** | Australia | 100.00% | -% |
| Oil Group Holdings Pty Ltd *** | Australia | 100.00% | -% |

**Note 33. Interests in subsidiaries (continued)**

* These companies were acquired on 6 December 2013.
** These companies were acquired on 30 April 2014.
*** These companies were acquired on 31 May 2014.

The principal activity of the subsidiaries is summarised in the director's report.

**Note 34. Deed of cross guarantee**

The following entities are party to a deed of cross guarantee under which each company guarantees the debts of the others:

BAWM Pty Ltd
Avana Group Pty Ltd and its controlled entities
CSIA Pty Ltd and its controlled entities
Aspin Pty Ltd
Student Hub Pty Ltd and its controlled entities
Australian College of Applied Education Pty Ltd
Oil Group Holdings Pty Limited (Real Institute) and its controlled entities

By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare financial statements and directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission ('ASIC').

The above companies represent a 'Closed Group' for the purposes of the Class Order, and as there are no other parties to the Deed of Cross Guarantee that are controlled by Vocation Limited, they also represent the 'Extended Closed Group'.

Set out below is a consolidated statement of profit or loss and other comprehensive income and statement of financial position of the 'Closed Group'.

| **Statement of profit or loss and other comprehensive income** | **2014 $'000** | **2013 $'000** |
|---|---|---|
| Revenue | 128,238 | - |
| Staff and contractor costs | (36,433) | - |
| Course delivery costs | (40,216) | - |
| Depreciation and amortisation expense | (3,715) | - |
| External student acquisition costs | (5,246) | - |
| Occupancy costs | (2,571) | - |
| IPO and transactions costs | (15,430) | - |
| Share-based payments | (3,706) | - |
| Other expenses | (8,861) | - |
| Finance costs | (181) | - |
| **Profit before income tax expense** | 11,879 | - |
| Income tax expense | (3,774) | - |
| **Profit after income tax expense** | 8,105 | - |
| Other comprehensive income for the year, net of tax | - | - |
| **Total comprehensive income for the year** | 8,105 | - |

## Note 34. Deed of cross guarantee (continued)

| Equity - retained profits | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Retained profits at the beginning of the financial year | 4,737 | - |
| Profit after income tax expense | 8,105 | - |
| Dividends paid | (9,510) | - |
| Retained profits at the end of the financial year | 3,332 | - |

| Statement of financial position | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **Current assets** | | |
| Cash and cash equivalents | 21,200 | - |
| Trade and other receivables | 43,162 | - |
| | 64,362 | - |
| **Non-current assets** | | |
| Investment | 3,585 | - |
| Property, plant and equipment | 2,340 | - |
| Intangibles | 250,115 | - |
| | 256,040 | - |
| **Total assets** | 320,402 | - |
| **Current liabilities** | | |
| Trade and other payables | 42,275 | - |
| Borrowings | 72 | - |
| Income tax | 3,538 | - |
| Employee benefits | 1,296 | - |
| Provisions | 23 | - |
| Deferred revenue | 2,741 | - |
| | 49,945 | - |
| **Non-current liabilities** | | |
| Borrowings | 42,684 | - |
| Derivative financial instruments | 2,460 | - |
| Deferred tax | 1,759 | - |
| | 46,903 | - |
| **Total liabilities** | 96,848 | - |
| **Net assets** | 223,554 | - |
| **Equity** | | |
| Issued capital | 221,442 | - |
| Reserves | (1,220) | - |
| Retained profits | 3,332 | - |
| **Total equity** | 223,554 | - |

## Note 35. Events after the reporting period

On 1 July 2014, the parent entity acquired 100% of the issued share capital of Endeavour College of Natural Health ('Endeavour'), one of Australia's leading providers of higher education and vocational training in the health and wellness sector.

The acquisition will significantly diversify the consolidated entity's revenue sources as Endeavour currently attracts no state or federal funding. The acquisition also significantly strengthens the consolidated entity's position in the higher education market, broadens its educational offering by providing further exposure in the growing health and wellness sector, and delivers an established and high quality national campus footprint which significantly improves the consolidated entity's overall geographic exposure.

The financial effects of this transaction have not been brought to account at 30 June 2014. The operating results, assets and liabilities of the company will be consolidated from 1 July 2014.

*Acquisition related costs*
Acquisition related costs of $3,316,000 are included in transaction costs in profit or loss and in operating cash flows in the statement of cash flows.

The provisionally determined fair values of the assets and liabilities of Endeavour as at the date of acquisition are as follows:

| | **Fair value $'000** |
|---|---|
| Cash and cash equivalents | 206 |
| Trade receivables | 21,194 |
| Inventories | 406 |
| Other current assets | 975 |
| Plant and equipment | 7,114 |
| Other intangible assets | 28,781 |
| Deferred tax asset | 2,612 |
| Income in advance | (16,864) |
| Trade payables | (2,591) |
| Lease liabilities | (375) |
| Provision for income tax | (1,808) |
| Employee benefits | (725) |
| Other provisions | (4,210) |
| Deferred tax liability | (713) |
| Net assets acquired | 34,002 |
| Goodwill | 48,942 |
| Acquisition-date fair value of the total consideration transferred | 82,944 |
| Representing: | |
| Cash paid or payable to vendor | 82,944 |

Apart from the dividend declared as disclosed in note 23, no other matter or circumstance has arisen since 30 June 2014 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

## Note 36. Reconciliation of profit after income tax to net cash from operating activities

| | Consolidated 2014 $'000 | 2013 $'000 |
|---|---|---|
| Profit after income tax expense for the year | 8,272 | 4,737 |
| | | |
| Adjustments for: | | |
| Depreciation and amortisation | 3,715 | 474 |
| Write off of property, plant and equipment | 56 | - |
| Share-based payments | 3,706 | - |
| Interest received - non cash | (45) | - |
| Finance costs - non cash | 159 | - |
| | | |
| Change in operating assets and liabilities: | | |
| Increase in trade and other receivables | (25,895) | (6,791) |
| Decrease/(increase) in other assets | 105 | (105) |
| Increase in trade and other payables | 22,003 | 4,506 |
| Increase in derivative liabilities | 2,460 | - |
| Increase in provision for income tax | 3,773 | 328 |
| Decrease in deferred tax liabilities | (4,458) | - |
| Increase in employee benefits | 739 | 367 |
| Increase/(decrease) in other provisions | (648) | 42 |
| | | |
| Net cash from operating activities | 13,942 | 3,558 |

## Note 37. Earnings per share

| | Consolidated 2014 $'000 | 2013 $'000 |
|---|---|---|
| Profit after income tax attributable to the owners of Vocation Limited | 8,272 | 4,737 |

| | Number | Number |
|---|---|---|
| Weighted average number of ordinary shares used in calculating basic earnings per share | 149,925,902 | 83,753,529 |
| Adjustments for calculation of diluted earnings per share: | | |
| Contingent consideration * | 237,144 | - |
| | | |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | 150,163,046 | 83,753,529 |

| | Cents | Cents |
|---|---|---|
| Basic earnings per share | 5.52 | 5.66 |
| Diluted earnings per share | 5.51 | 5.66 |

* Weighted average number of ordinary shares, based on the 2,885,246 shares, that will be issued in September 2014.

In the directors' opinion:

- the attached financial statements and notes thereto comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;

- the attached financial statements and notes thereto comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;

- the attached financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the financial year ended on that date;

- 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

- at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group 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 34 to the financial statements.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

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

On behalf of the directors

John Dawkins AO
Chairman

2 September 2014
South Melbourne

# Independent auditor's report to the members of Vocation Limited

## *Report on the financial report*

We have audited the accompanying financial report of Vocation Limited (the company), which comprises the statement of financial position as at 30 June 2014, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Vocation Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at 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, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements 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. Those 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 consolidated entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

### *Independence*

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

***PricewaterhouseCoopers, ABN 52 780 433 757***
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*T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au*

*Auditor's opinion*

In our opinion:

a. the financial report of Vocation Limited is in accordance with the *Corporations Act 2001,* including:

   i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and

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

b. the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

## *Report on the Remuneration Report*

We have audited the remuneration report included in pages 14 to 19 of the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

*Auditor's opinion*

In our opinion, the remuneration report of Vocation Limited for the year ended 30 June 2014 complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

Steve Bourke
Partner

Sydney
2 September 2014

The shareholder information set out below was applicable as at 8 August 2014.

**Distribution of equitable securities**
Analysis of number of equitable security holders by size of holding:

| | Number of holders of ordinary shares | Number of holders of options over ordinary shares |
|---|---|---|
| 1 to 1,000 | 143 | - |
| 1,001 to 5,000 | 301 | - |
| 5,001 to 10,000 | 143 | - |
| 10,001 to 100,000 | 169 | - |
| 100,001 and over | 54 | - |
| | 810 | - |
| Holding less than a marketable parcel | - | - |

**Equity security holders**

*Twenty largest quoted equity security holders*
The names of the twenty largest security holders of quoted equity securities are listed below:

| | Ordinary shares | |
|---|---|---|
| | Number held | % of total shares issued |
| National Nominees Limited | 37,775,293 | 18.62 |
| HSBC Custody Nominees (Australia) Limited | 25,233,965 | 12.44 |
| J P Morgan Nominees Australia Limited | 23,427,534 | 11.55 |
| Bret Beaumont Whitford | 18,041,657 | 8.89 |
| BNP Paribas Noms Pty Ltd (DRP) | 13,775,217 | 6.79 |
| Citicorp Nominees Pty Limited | 11,436,885 | 5.64 |
| Broadtree Investments Pty Ltd | 6,769,806 | 3.34 |
| Boncal Investments Pty Ltd | 6,769,806 | 3.34 |
| Amasue Investments Pty Ltd | 6,769,806 | 3.34 |
| Morrissey Corporation Pty Ltd | 6,769,806 | 3.34 |
| Jusben Pty Ltd | 6,769,806 | 3.34 |
| Mark Edward Hutchinson & Sophie Jane Hutchinson | 4,624,599 | 2.28 |
| RBC Investor Services Australia Nominees Pty Limited | 3,930,669 | 1.94 |
| BNP Paribas Noms (NZ) Ltd (DRP) | 3,578,922 | 1.76 |
| AMP Life Limited | 2,709,992 | 1.34 |
| UBS Wealth Management Australia Nominees Pty Ltd | 2,130,691 | 1.05 |
| Memfan Pty Ltd | 1,461,101 | 0.72 |
| R P Robinson Pty Ltd | 1,449,947 | 0.71 |
| Cryer Holdings Pty Ltd | 1,449,947 | 0.71 |
| HSBC Custody Nominees (Australia) Limited (NT Comnwlth Super Corp a/c) | 1,256,329 | 0.62 |
| | 186,131,778 | 91.76 |

*Unquoted equity securities*
There are no unquoted equity securities.

**Substantial holders**
Substantial holders in the company are set out below:

| | Ordinary shares | |
| --- | --- | --- |
| | Number held | % of total shares issued |
| Bret Beaumont Whitford (in personal capacity and as trustee for Whitford Family Trust) | 18,222,071 | 8.98 |
| UBS AG and its related bodies corporate | 16,295,447 | 8.03 |

**Voting rights**
The voting rights attached to ordinary shares are set out below:

*Ordinary shares*
On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

There are no other classes of equity securities.