Cambridge
Education Group

Financial statements Cambridge Arts & Sciences Limited

For the year ended 31 August 2016

Company No. 03454690

Officers and professional advisers

Company registration number	03454690
Registered office	Kett House Station Road Cambridge CB1 2JH
Directors	M Ioakimides H Shah B Webb S White
Independent auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors Abacus House Castle Park Cambridge CB3 0AN

Contents

Strategic report

The directors present their strategic report on the company for the year ended 31 August 2016.

This is the first year that the financial statements have been prepared under Financial Reporting Standard 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"). The date of transition to FRS 102 was 1 September 2014. The effect of the transition to FRS 102 on the financial statements is explained in note 3 a).

Principal activities

The principal activity of the company during the year was the provision of high school, pathway and degree programmes as part of Cambridge Education Group ("CEG").

CEG, established in 1952, is a UK-based global group that specialises in provision of high quality academic and English language programmes to international students out of its 25 schools and centres across the UK, USA and continental Europe.

Attracting students from around the world who seek entry into the best universities in the UK, Europe and the USA, CEG operates within the buoyant international education sector which continues to grow. The driver for this growth is mainly due to the increasing wealth of emerging economies where a rising number of parents are able to afford their children an overseas education which is generally perceived to be of higher quality and can often lead to better job opportunities upon return. Fluency in the English language has long been perceived as a competitive advantage internationally which reinforces this trend.

CEG teaches a broad academic portfolio in the industry, meaning it can cater appropriately for the needs of more students than its peers due to its diverse offering.

The underlying principles across the group are:

- world-class provision of classroom based teaching in the English language;
- helping our students to achieve entry to the best universities according to their aspirations and abilities;
- continuous investment into state-of-the-art facilities which is evident at sites in London, Canterbury, Cambridge and Boston; and,
- exceptional pastoral care ensures that our student's educational experience is also safe, healthy and enjoyable.

Management

In 2015/16 we made a number of management changes. Michael Ioakimides joined the business as Chief Executive Officer replacing Fergus Brownlee, and Mark Stanton has been replaced as Manging Director of our CATS Colleges division by Stuart White, formerly the principal of CATS Cambridge.

Business review

The profit on ordinary activities before taxation for the year was £4,475,000 (2015 - £4,665,000). In the opinion of the directors the state of the company's affairs at 31 August 2016 was satisfactory and they hope to continue to see operating profitability in future periods.

The external environment has been a challenging one with further UK immigration policy changes challenging student recruitment into the UK. In addition economic and political volatility in key markets such as Russia have further dampened growth in the UK. Our business may be affected in future by factors relating to the departure of the UK from the European Union, but it is currently too early to assess any impacts.

These challenges did not have a negative impact on performance in 2015/16 with company revenues increasing by 10.3%.

Gross profit as a percentage of revenue has remained consistent at 56.7% (2015- 56.8%)

Operating profit as a percentage of revenue has decreased, to 13.5% (2015- 15.9 %), reflecting the tougher trading conditions in an increasingly competitive market.

Future developments

We continue in 2016/17 to look for ways to develop our offering, especially in the area of quality student accommodation and to improve the quality of the student experience.

Financial key performance indicators

The Board and management use the following Key Performance Indicators (KPIs) to monitor the success of the business:

- revenue growth
- operating profit before exceptional costs, depreciation and amortisation as a percentage of revenue
- revenue per employee
- recurring operating profit per employee

During the year:

- revenue increased and was 10.3% above 2015;
- operating margins decreased to 13.5% from 15.9%;
- revenue per employee increased by 4.0% from £85,600 to £89,000;
- operating profit before depreciation and amortisation per employee increased 3.5% from £17,000 to 17,600.

Principal risks and uncertainties

In common with other businesses of a similar nature, the group is exposed to a variety of risks and uncertainties. The directors believe the principal risks are:

- impact of changes in immigration policies and visa application processes;
- global reduction in international movement of students;
- adverse movements in interest and exchange rates; and,
- significant disruption in the trading ability of the group due one-off global disasters.

Policies are in place to monitor and manage each of these risks.

Financial risk management objectives and policies

The company's financial risk management policies and objectives are integrated into those of the wider group. The group uses various financial instruments including syndicated bank loans, loan notes, intra group loans and trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is working capital for the group's operations, and finance for capital investment.

The main risks arising from the group's financial instruments are interest rate risk, liquidity risk, foreign exchange risk and credit risk. The directors review and agree policies for managing each of these risks and, as they relate to the company, they are summarised below.

Interest rate risk

The parent group finances its operations through a mixture of equity, syndicated bank borrowings, loan notes and intra group loans. The parent group exposure to interest rate fluctuations on its borrowing is managed by the use of interest-rate swap arrangements.

Liquidity risk

The group seeks to manage financial risk by preparing detailed cash flow forecasts and ensuring sufficient liquidity is available to meet foreseeable needs. Short-term flexibility is achieved by a group backed bank lending facility.

Foreign exchange risk

The company operates in the United Kingdom and prices its services in pounds sterling and so is exposed to foreign currency risk because international students may experience currency exposures which could affect competitive advantage.

Credit risk

The group's principal financial assets are cash and trade debtors.

In order to manage credit risk the directors prioritise the credit control function and clear guidelines are in place for dealing with slow payers.

This report was approved by the board and signed on its behalf by:

H Shah
Director
26 May 2017

Directors' report

The directors present their report and the audited financial statements of the company for the year ended 31 August 2016.

Results and dividends

The profit for the financial year amounted to £3,847,000 (2015 £3,644,000). No dividends were paid during the year (2015 - £nil).

Directors

The directors who served the company during the year and up to the date of signing of the financial statements were as follows:

F Brownlee	Resigned 20 June 2016
M Ioakimides	Appointed 16 June 2016
H Shah	
M Stanton	Resigned 17 June 2016
B Webb	Appointed 17 January 2017
S White	Appointed 8 January 2016

Disabled employees

The company gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a disabled person. Where existing employees become disabled, it is the company's policy whenever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees wherever appropriate.

Employee involvement

The company keeps employees informed of matters affecting them as employees and the financial and economic factors affecting the performance of the group.

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Disclosure of information to auditors

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

- so far as that director is aware there is no relevant audit information of which the company's auditors are unaware; and
- the directors have taken all steps that they ought to have taken as a director in order to be aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Independent auditors

During the financial year PricewaterhouseCoopers LLP were appointed as auditors, following a competitive tender, the appointment taking effect for the audit of these financial statements. Having expressed their willingness to continue in office, they will be deemed reappointed for the next financial year in accordance with section 487 (2) of the Companies Act 2006 unless the company receives notice under section 488(1) of the Companies Act 2006.

By other of the board

H Shah
Director
26 May 2017

Independent auditors' report to the members of Cambridge Arts & Sciences Limited

Report on the financial statements

Our opinion

In our opinion, Cambridge Arts & Sciences Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 August 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Financial Statements (the "Annual Report"), comprise:

- the statement of financial position as at 31 August 2016;
- the income statement and statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Independent auditors' report to the members of Cambridge Arts & Sciences Limited (continued)

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on pages 6-7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Adrian Bennett (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cambridge
26 May 2017

Income statement

	Note	2016 £'000	2015 £'000
Revenue		**26,440**	23,971
Cost of sales		**(11,441)**	(10,358)
Gross profit		**14,999**	13,613
Administrative expenses		**(11,417)**	(9,801)
Operating profit	7	**3,582**	3,812
Interest income	9	**893**	853
Profit on ordinary activities before taxation		**4,475**	4,665
Tax on profit on ordinary activities	10	**(628)**	(1,021)
Profit for the financial year		**3,847**	3,644

All of the activities of the company are classed as continuing.

Statement of comprehensive income

	2016 £'000	2015 £'000
Profit for the financial year	**3,847**	3,644
Total comprehensive income for the year	**3,847**	3,644

Statement of financial position

	Note	2016 £'000	2015 £'000
Fixed assets			
Tangible assets	11	**3,411**	4,305
Current assets			
Debtors	12	**32,714**	26,897
Cash at bank and in hand		**-**	357
		32,714	27,254
Creditors: amounts falling due within one year	13	**(25,256)**	(24,537)
Net current assets		**7,458**	2,717
Total assets less current liabilities		**10,869**	7,022
Net assets		**10,869**	7,022
Capital and reserves			
Called-up share capital	15	**-**	-
Retained earnings		**10,869**	7,022
Total equity		**10,869**	7,022

These financial statements on pages 10 to 24 were approved by the directors and authorised for issue on 26 May 2017 and are signed on their behalf by:

H Shah
Director
Company Registration Number: 03454690

Statement of changes in equity

	Called up share capital £'000	Retained earnings £'000	Total equity £'000
At 1 September 2014	**-**	**3,378**	**3,378**
Profit for the financial year	-	3,644	3,644
Total comprehensive income for the financial year	-	3,644	3,644
At 31 August 2015	**-**	**7,022**	**7,022**
Profit for the financial year	-	3,847	3,847
Total comprehensive income for the financial year	-	3,847	3,847
At 31 August 2016	**-**	**10,869**	**10,869**

Statement of cash flows

	Note	2016 £'000	2015 £'000
Net cash from operating activities	16	**33**	95
Tax paid		**(31)**	(890)
Net cash generated from/(used in) operating activities		**2**	(795)
Cash flow from investing activities			
Purchase of tangible assets		**(1,614)**	(2,985)
Cash flow from financing activities			
Interest received		**893**	853
Decrease in cash and cash equivalents		**(719)**	(2,927)
Cash and cash equivalents at 1 September		**357**	3,284
Cash and cash equivalents at 31 August	**16**	**(362)**	357

Notes to the financial statements

1 General information

Cambridge Arts & Sciences Limited ("the company") is a private limited company limited by shares incorporated in United Kingdom under the Companies Act. The address of the registered office, which is also the principal place of business, is given on page 1. The principal activity of the company is the provision of pre-university study programmes to enable international students to meet the entry requirements for a UK university degree course.

2 Statement of compliance

These financial statements have been prepared in compliance with United Kingdom Accounting Standards including "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" ("FRS 102") and the Companies Act 2006.

3 Summary of significant accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and prior year in these financial statements.

a) Basis of preparation

These financial statements have been prepared on a going concern basis under the historic cost convention, as modified by the recognition of certain assets and liabilities measured at fair value.

These financial statements for the year ended 31 August 2016 are the first financial statements of the company prepared in accordance with FRS 102. The date of transition to FRS 102 was 1 September 2014. There were no material adjustments on adoption of new accounting policies under FRS 102 which had an effect on the profit for the financial year ended 31 August 2015 and the total equity as at 1 September 2014 and 31 August 2015, compared to that under UK GAAP as previously reported. Changes in disclosures on adoption of FRS 102 have been reflected in these financial statements.

The functional currency of the company is considered to be pounds sterling because that is the currency of the primary economic environment in which the company operates.

Values are presented in thousands of pounds sterling except where the nature of the disclosure or the value disclosed is such that disclosure in pounds sterling is more appropriate.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the 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 4.

Estimates and judgements are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

b) Going concern

The group of which the company is a part meets its day-to-day working capital requirements though it's bank facilities. The Directors have prepared both detailed budgets and long term forecasts for the group, taking account of reasonably possible changes in trading performance. After making enquiries, the Directors have a reasonable expectation that both the group and company have adequate resources to continue in operational existence for the foreseeable future, within the level of existing facilities and to meet long term liabilities as they fall due. The company therefore continues to adopt the going concern basis in preparing its financial statements.

c) Foreign currencies

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transaction. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions are recognised in the income statement.

Monetary assets and liabilities in foreign currencies are translated into the functional currency of pounds sterling at the rates of exchange ruling at the balance sheet date. Gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within net interest expense. All other foreign exchange gains and losses are presented in the income statement within administrative expenses.

d) Revenue

Revenue is stated net of VAT (if applicable) and is recognised when the significant risks and rewards are considered to have transferred to the buyer.

Revenue shown in the income statement represents amounts receivable in respect of the provision of educational and tuition services and is recognised as the performance of those services occurs.

Where a contract has only been partially completed at the balance sheet date, revenue represents the fair value of the services provided to date, based on the stage of completion of the contract activity at the balance sheet date. Where payments are received from customers in advance of services provided, those amounts are recorded as deferred income or, if potentially refundable within the terms of the contract, as other creditors, both as part of creditors due within one year.

e) Interest

Interest income is recognised in the period in which it is earned using the effective interest rate method.

f) Operating leases

Operating leases are arrangements where substantially all of the benefits and risks of ownership remain with the lessor and rentals under such arrangements are charged against profits on a straight line basis over the period of the lease.

Incentives received to enter into an operating lease are credited to the income statement to reduce the lease expense, on a straight-line basis over the whole life of the lease.

The company has taken advantage of the exemption in respect of lease incentives on leases in existence on the date of transition to FRS 102 (1 September 2014) and continues to credit such lease incentives to the income statement over the period to the first review date on which the rent is adjusted to market rates .

g) Employee benefits

The company provides a range of benefits to employees, including annual bonus arrangements, paid holiday arrangements and defined contribution pension plans.

Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.

The company operates a number of country-specific defined contribution plans for its employees. A defined contribution plan is a pension plan under which the group pays fixed contributions into an arrangement separate from the group. Once the contributions have been paid, the group has no further payment obligations. The contributions are recognised as an expense when they are due. Differences between contributions payable and actually paid are shown as either accruals or prepayments in the balance sheet. The assets of the plan are held separately from the group in independently administered funds.
The company operates a number of annual bonus plans for employees. An expense is recognised in the

income statement when the group has a legal or constructive obligation to make payments under the plans as a result of past events and a reliable estimate of the obligation can be made.

h) Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

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 to be paid to the tax authorities.

i) Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax, with the following exceptions:

- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.
- Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

j) Tangible assets

Tangible assets are stated at cost (or deemed cost) or valuation, less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price, costs directly attributable to bringing the asset to its working condition for its intended use, dismantling and restoration costs.

Subsequent costs, including major inspections, are included in the assets carrying amount or recognised as a separate asset, as appropriate, only when it is probably that economic benefits associated with the item will flow to the company and the cost can be measured reliably. Repairs, maintenance and minor inspection costs are expensed as incurred.

Assets in the course of construction are stated at cost. These assets are not depreciated until they are available for use.

Tangible assets are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in the profit and loss and include in 'Other operating (losses)/gains'

k) Depreciation and residual values

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Leasehold Property	10% straight line
Plant and Equipment	15% - 25% straight line
Computers	25% straight line

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at the end of each reporting period. The effect of any change is accounted for prospectively.

l) Impairment of non-financial assets

The company assesses at each reporting date whether an asset may be impaired. If any such indication exists the company estimates recoverable amount of assets. If it is not possible to estimate the recoverable amount of the individual asset, the company estimates, the recoverable amount of cash generating unit to which the asset belongs. The recoverable amount of an asset or cash generating unit is the higher of its fair value less costs to sell and its value in use. If the recoverable amount is less than its carrying amount, the carrying amount of the asset is impaired and it is reduced to its recoverable amount through an impairment in the income statement unless the asset is carried at revalued amount where impairment loss of a revalued asset is a revaluation decrease.

An impairment loss recognised for all assets, including goodwill, is reversed in a subsequent period if and only if the reasons for impairment loss have ceased to apply.

m) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term high liquid invest. Bank overdrafts, when applicable, are shown within borrowings in current liabilities.

n) Short-term debtors and creditors

Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the income statement in other operating expenses.

o) Financial instruments

The company has chosen to adopt Section 11 and 12 of FRS 102 in respect of financial instruments.

Basic financial assets, including trade and other receivables, and cash and bank balances, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction. Financing transactions are measured at the present value of the future receipts discounted at the market rate of interest and are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired, the impairment loss is the difference between the carrying amount and present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in the income statement.

Basic financial liabilities include trade and other payables, bank loans, loans from fellow group companies and preference shares that are classified as debt, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction. For such transactions the debt instrument is measured at present value of the future receipts discounted at a market rate of interest and subsequently carried at amortised cost, using the effective interest rate method.

Fees paid on 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 pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Trade payables are obligations to pay for goods and services that have been acquired in the ordinary course of business from suppliers. Accounts payable as classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities then trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

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

Dividends and other distributions to the company's shareholders are recognised as a liability in the period in which the dividends and other distributions are approved by the shareholders. These amounts are recognised in the statement of changes in equity.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the balance sheet. Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

4 Critical accounting estimates and assumptions

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

Impairment of debtors

The company makes an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other debtors, management considers factors including the ageing profile of debtors and historical experience. The net carrying amount of the debtors and the associated impairment provision is given in note 12.

Deferred income

Where payments are received or receivable from customers in advance of services provided, those amounts are recorded as deferred income if a binding and enforceable contract exists with the customer at the period end and there is reasonable expectation that those services will be provided and the amounts are not otherwise refundable, were the customer to exercise a right to withdraw.

Taxation

The company establishes provisions based on reasonable estimates and where relevant for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience with previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

Management estimation is required to determine the amount of deferred tax assets that is recognised, based upon likely timing and level of future taxable profits together with an assessment of the tax rates that will be applicable in future and the effect of future tax planning strategies.

5 Disclosure exemptions

FRS 102 allows a qualifying entity certain disclosure exemptions, subject to certain conditions, which have been complied with, including notification of, and no objection to, the use of exemptions by the company's shareholders. The company has taken advantage of the exemption from the financial instrument disclosures required under FRS 102 paragraphs 11.39 to 11.48A and paragraphs 12.26 to 12.29, as the information is provided in the consolidated financial statements of the group in which the company is consolidated.

6 Revenue

Revenue and profit on ordinary activities before taxation are attributable to the principal activity of the company and all revenues arise within the United Kingdom.

7 Operating profit

Operating profit is stated after charging:

	2016	2015
	£'000	£'000
Depreciation of tangible assets	**1,638**	936
Auditors' fees	**16**	8
Operating lease costs	**4,527**	3,116

Directors' remuneration is borne by other group companies.

8 Particulars of employees

	2016	2015
The average number of persons employed was:	**297**	280

The aggregate payroll costs of employees were:

	2016	2015
	£'000	£'000
Wages and salaries	**5,803**	5,594
Social security costs	**499**	517
Other pension costs	**41**	39
	6,343	6,150

9 Interest income

	2016 £'000	2015 £'000
Interest receivable and similar income:		
On intra group loans	893	853

10 Taxation on profit on ordinary activities

(a) Tax expense included in the income statement

	2016 £'000	2015 £'000
Current tax:		
UK Corporation tax based on the profits for the year at 20% (2015 – 20.58%)	1,110	1,034
Over provision in prior year	(415)	(1)
Total current tax	695	1,033
Deferred tax:		
Origination and reversal of timing differences	(67)	(12)
Tax on profit on ordinary activities	628	1,021

(b) Factors affecting tax charge

The tax assessed on the profit on ordinary activities for the year is lower (2015-higher) than the standard rate of corporation tax in the UK of 20% (2015 –20.58%).

	2016 £'000	2015 £'000
Profit on ordinary activities before taxation	4,475	4,665
Profit on ordinary activities multiplied by rate of tax	895	960
Fixed asset differences	-	19
Expenses not deductible for tax purposes	6	62
Capital allowances for the year in excess of depreciation	130	33
Over provision in respect of prior years	(397)	-
Adjustments to tax charge in respect of previous periods	13	(2)
Short term timing differences	(19)	(51)
Tax on profit on ordinary activities	628	1,021

(c) Tax rate changes

Deferred tax balances at 31 August 2016 and 31 August 2015 are measured at the revised rate of 18% and 20% respectively. During the year the UK corporation tax rate reduced to 20%, with further decreases to 19% and 18% due with effect from 1 April 2017 and 1 April 2020 respectively. A further decrease to 17% with effect from 1 April 2020 has been announced but had not been substantially enacted by year end.

11 Tangible fixed assets

	Leasehold property £'000	Plant & Equipment £'000	Computers £'000	Total £'000
Cost				
At 1 September 2015	1,838	4,241	2,065	8,144
Additions	585	59	100	744
At 31 August 2016	2,423	4,300	2,165	8,888
Accumulated depreciation:				
At 1 September 2015	281	2,295	1,263	3,839
Charge for the year	570	783	285	1,638
At 31 August 2016	851	3,078	1,548	5,477
Net book value				
At 31 August 2016	**1,572**	**1,222**	**617**	**3,411**
At 31 August 2015	1,557	1,946	802	4,305

12 Debtors

	2016 £'000	2015 £'000
Trade debtors	**2,255**	2,479
Amounts owed by group undertakings	**29,351**	23,575
Other debtors	**7**	-
Deferred taxation	**220**	153
Prepayments and accrued income	**881**	690
	32,714	26,897

Trade debtors are stated after provisions for impairment of £143,000 (2015 -£28,000). Amounts owed by group undertakings have no fixed date of repayment and are repayable on demand.

Included in debtors is a deferred tax asset which is the tax effect of timing differences in respect of:

	2016 £'000	2015 £'000
Excess of depreciation over taxation allowances	**210**	143
Other short term timing differences	**10**	10
	220	153

During the year £67,000 was credited to the income statement (2015 - £12,000 credit) and it is anticipated that a credit of approximately £20,000 will be made in the next financial year.

13 Creditors: amounts falling due within one year

	2016	2015
	£'000	£'000
Bank overdraft	**362**	-
Trade creditors	**786**	1,441
Amounts owed to group undertakings	**3,179**	1,415
Other taxation and social security	**18**	13
Corporation tax	**1,698**	1,034
Other creditors	**10,602**	10,321
Accruals and deferred income	**8,611**	10,313
	25,256	24,537

Amounts owed to group undertakings have no fixed date of repayment and are repayable on demand.

14 Post employment benefits

The company operates a defined contribution pension arrangement for the benefit of its employees. The amount recognised as an expense for this arrangement is disclosed in note 8.

15 Called-up share capital and reserves

Allotted, called up and fully paid:

	2016		2015	
	No	**£**	No	£
Ordinary shares of £1 each	2	2	2	2

The retained earnings reserve represents the cumulative profits and losses, net of dividends paid and other adjustments.

16 Notes to the cash flow statement

Reconciliation of operating profit to net cash inflow from operating activities

	2016 £'000	2015 £'000
Profit for the financial year	**3,847**	3,644
Adjustments:		
Tax on profit on ordinary activities	**628**	1,021
Interest income	**(893)**	(853)
Operating profit	**3,582**	3,812
Depreciation	**1,638**	936
Movements in working capital:		
- Increase in debtors	**(5,750)**	(7,949)
- Increase in creditors	**563**	3,296
Net cash inflow from operating activities	**33**	95

Reconciliation of net cash flow to movement in net funds

	2016 £'000	2015 £'000
Decrease in net funds	**(719)**	(2,927)
Net funds at 31 August 2015	**357**	3,284
Net funds at 31 August 2016	**(362)**	357

Analysis of changes in net funds

	At 1 Sept 2015 £'000	Cash flows £'000	Non cash movements £'000	At 31 Aug 2016 £'000
Cash in hand and at bank	357	(357)	-	-
Overdraft	-	(362)	-	**(362)**
Net funds	357	(719)	-	**(362)**

The presentation of company's statement of cash flow under FRS 102 is different to that under previous UK GAAP. In addition the cash flow statement reconciles cash and cash equivalents whereas under previous UK GAAP the reconciliation was for cash only. Cash and cash equivalents under FRS 102 are defined as 'cash on hand and demand deposits and short term highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value' whereas cash under previous UK GAAP is defined as 'cash in hand and deposits repayable on demand with any qualifying institution, less overdrafts from any qualifying institution repayable on demand'. The definition under FRS 102 is therefore broader in scope.

17 Related party transactions

As a wholly-owned subsidiary of Camelot Topco Limited, the company is exempt from the requirement to disclose transactions with other members of the group.

18 Contingent liabilities

The company is a co-guarantor of the syndicated bank loans of an intermediate parent undertaking Camelot Bidco Limited. As at 31st August 2016 these amounted to £90.8m (2015-£90.3m).

19 Capital and other commitments

At 31 August 2016 the company had future minimum lease payments under non-cancellable operating leases as set out below:

	2016	2015
	£'000	£'000
Payments due:		
Not later than one year	**1,478**	1,446
Later than one year and not later than five years	**5,517**	4,124
Later than five years	**20,038**	14,366
	27,033	19,936

The company had no other off-balance sheet arrangements and no capital commitments contracted but not provided (2015 – none).

20 Ultimate controlling party

The immediate parent company is CEG Colleges Limited, a company incorporated in the United Kingdom.

The ultimate parent company is Camelot Topco Limited, a company incorporated in the United Kingdom with a registered office at the same address as that of the company, as shown on page 1.

Cambridge Education Group Limited is the parent company of the smallest group which prepares publicly available consolidated financial statements that incorporate the results of the company. Copies of those consolidated financial statements may be obtained from the address given on page 1.

Camelot Topco Limited is the parent undertaking of the largest group which prepares publicly available consolidated financial statements that incorporate the results of the company. Copies of the consolidated financial statements may be obtained from the address given on page 1.

The ultimate controlling party is Bridgepoint Europe IV Fund, managed by Bridgepoint Advisers Limited, which owns the majority of the shares in the ultimate parent company on behalf of various funds.