Cambridge
Education Group

Annual report and financial statements Cambridge Education Group Limited

For the year ended 31 August 2018

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Company No. 06020370

Officers and professional advisers

Company registration number	06020370
Registered office	Kett House Station Road Cambridge Cambridgeshire CB1 2JH
Directors	M Ioakimides B Webb P Symes
Independent auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors Maurice Wilkes Building St John's Innovation Park Cambridge CB4 0WS

Contents

Strategic report

The directors present their strategic report on the group for the year ended 31 August 2018.

Principal activities

The principal activity of the group during the year was that of the parent group which holds Cambridge Education Group Limited and its subsidiaries ("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 30 schools and centres across the UK, North America, continental Europe and China.

CEG operates its business through four divisions:

- **High Schools** – offering high school programmes in Cambridge, Canterbury and London in the UK, Boston, USA, and Shanghai, China.
- **Pathways** – offering pathway programmes on university campuses in the UK, USA and Europe for undergraduate and postgraduate degree study.
- **Stafford House** – offering high quality English language teaching for adults and juniors at ten centres in the UK and North America.
- **Arts** – Cambridge School of Visual and Performing Arts is a leading UK provider of art, design and music pathway and degree programmes.

CEG recruits international students who wish to pursue an English language based university education. The group provides a broad range of programmes to enable students to progress to the university of their choice.

The underlying principles across all divisions are:

- World-class provision of classroom based teaching in the English language;
- Helping 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, Boston and Shanghai; and,
- Exceptional pastoral care that ensures students' educational experience is also safe, healthy and enjoyable.

The international education sector remains an attractive and growing market with demographic trends driving an increased demand for Western education from the emerging markets. A growing middle class in the emerging markets with rising disposable incomes and lack of university places are the drivers for future market growth.

CEG is well placed to take advantage of these trends as it has a strong and diversified portfolio of study locations covering UK, USA, Europe and China and a global recruitment team located in all the key countries with high student demand.

Management changes

During the year Philip Symes joined the group as Chief Financial Officer replacing Harshitkumar Shah.

Business review

The results for the year and financial position of the group are as shown in the financial statements. In the opinion of the directors the state of the group's affairs at 31 August 2018 was satisfactory and they plan to maintain and grow operating profitability in future periods.

CEG

During 2017/18 the group has continued to make investments to support future growth:

- Acquired a majority shareholding in a new company in China, CEG Education Technology (Shanghai) which runs two training centres in Shanghai. They offer Chinese national students the opportunity to gain an international education before progressing to CATS high schools in the UK or USA or Cambridge School of Visual and Performing Arts.
- Added a new pathway partnership in the USA with Illinois Institute of Technology.
- Opened two new regional sales offices in Dubai and Bangkok to strengthen international recruitment and admissions services.

2017/18 continues the group's growth trajectory with revenues growing by 8.1% (£9.9m) (2017 - 12.5% (£13.6m)), following strong recruitment growth across a full portfolio of academic programmes.

A key measure often used to monitor the performance of a business is underlying EBITDA, which is: earnings before interest, tax, depreciation and amortisation, excluding the effects of the start-up and one off costs†. This measure is used to assess the underlying performance of the business as it is indicative of the performance of the business in the longer term, excluding the short term effects of building a capable and profitable business. Underlying EBITDA rose to £14.5m from £13.1m on the back of higher revenues.

Operating profitability of the trading group headed by Cambridge Education Group Limited, as a percentage of revenue has increased to a profit of 1.9% (2017 – 0.9% loss) as gains on property disposals offset higher costs incurred in sales and marketing activity, investment in IT and other one-off costs.

Of capital expenditure of £4.7m (2017 - £3.6), £1.1m (2017 - £1.3m) has been invested in developing a global admissions system and other information systems. The remaining £3.6m has been focused on further developing CATS high school in Boston and further developments in Cambridge and Canterbury, UK.

Seven freehold properties owned by the group in the UK were sold during the year resulting in a gain of £5.7m. Six of these were sold under sale and leaseback arrangements.

Future developments

CEG Group continues in 2018/19 to look for ways to develop its offering, especially in the area of quality student accommodation and to improve the quality of the student experience.

Continued international expansion is at the heart of the group's growth plans.

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† A key driver of growth for CEG is the establishment of new schools and particularly of new university partners globally for our Pathways division. Once a new school or partnership is established there is a period of investment to establish the venture and promote it globally through sales and marketing efforts. This investment is incurred before student volumes reach a sustainable scale and therefore there is a period of time when the new venture incurs losses in a start-up phase. After the first few student intakes are completed and the venture becomes established, student volumes increase substantially to cover the investment made and move the venture into profit. The directors monitor the level of investment in new ventures in this build up phase and separately from the existing core business – these are identified as "start-up costs". During the year these costs amounted to £1,784,000 (2017 - £1,904,000).

Furthermore the business also incurs "one-off costs" as part of expanding its business by acquisition and by transforming internal capabilities. Such costs include the costs of assessment and due diligence on acquisition targets or new markets, costs relating to changes in senior management and staff restructuring more generally and of specific pieces of non-recurring professional advice. These costs are offset to a large extent by non-recurring credits, such as profits on property disposals. During the year net one-off costs amounted to £1,891,000 (2017 - £3,898,000).

Financial key performance indicators

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

- Turnover growth;
- Gross margin;
- Underlying EBITDA;
- Signing and launching new Pathway partnerships.

During the year, for the group headed by Cambridge Education Group Limited:

- Turnover continued to grow and was 8.1% above 2017;
- Gross margin fell slightly to 47.6% (2017 – 48.5%);
- Underlying EBITDA rose to £14.5m from £13.1m;
- Signed a new highly ranking university partnership with Illinois Institute of Technology.

The directors consider this performance to be satisfactory.

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 to one-off global disasters.

The policies and procedures in place to monitor and manage these risks include:

- Investing and operating in more than one country to disaggregate the geographical, political and currency risks;
- Operating business in a number of different but related market segments; and,
- Employing staff, consultants and professional advisers with appropriate competences to mitigate both current and forseeable business risks.

Financial risk management objectives and policies

The group uses various financial instruments including syndicated bank loans, loan notes, intra group loans, 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, price risk and credit risk. The directors review and agree policies for managing each of these risks and they are summarised below.

Interest rate risk

The group finances its operations through a mixture of equity, syndicated bank borrowings, loan notes and intra group loans. The group's exposure to interest rate fluctuations on its borrowing was managed for part of the financial year 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 revolving credit facility.

Foreign exchange risk

The group operates internationally and is exposed to foreign currency transactional risk arising from various currency exposures.

Foreign exchange risk arises when commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The group also has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk primarily with respect to the US dollar and euro.

The exposure to foreign currency risk is naturally hedged with future development plans.

Price risk

The group seeks to manage price risk by setting price lists for all products and agreeing policies and approval procedures for discounts and other price incentives such as bursaries.

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:

P Symes
Director
20 December 2018

Directors' report

The directors present their report and the audited financial statements of the group for the year ended 31 August 2018.

A review of the business, including financial key performance indicators and principal risks and uncertainties, together with a summary of future developments are included in the strategic report under s414 of the Companies Act 2006 and are therefore, not shown in the directors' report.

Results and dividends

The profit for the financial year amounted to £277,000 (2017 – 3,278,000). No dividend was paid during the year (2017 - none). The directors do not recommend the payment of a final dividend (2017 – none).

Directors

The directors of the company who were in office during the year and up to the date of signing the financial statements were:

M Ioakimides	
H Shah	Resigned 29 January 2018
B Webb	
P Symes	Appointed 9 April 2018

Future developments and risk management

Future developments and the principal risks and uncertainties and arrangements for their management are described in the Strategic report on pages 3 to 6.

Disabled employees

The group 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 group'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

Through regular meetings and other internal communications, the group keeps employees informed of and consulted on matters affecting them as employees and of the financial and economic factors affecting the performance of the group. Where relevant and appropriate, employees are eligible for performance related remuneration based on the achievement of personal and corporate objectives.

Development expenditure

Development costs that are directly attributable to the design and testing of certain identifiable software products controlled by the group are recognised as intangible assets.

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic report, Directors' report and the group and company financial statements in accordance with applicable law and regulations.

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 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).

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 group and the company and of the profit or loss of the group and company for that period. In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" has been followed, subject to any material departures disclosed and explained in the financial statements;
- Notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 102 used in the preparation of financial statements; 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 the group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and the group 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 group'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 group's auditors are aware of that information.

Independent auditors

PricewaterhouseCoopers LLP, having expressed their willingness to continue in office, 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.

On behalf of the board

P Symes
Director
20 December 2018

Independent auditors' report to the members of Cambridge Education Group Limited

Report on the audit of the financial statements

Opinion

In our opinion, Cambridge Education Group Limited's group financial statements and parent company financial statements (the "financial statements"):

give a true and fair view of the state of the group's and of the parent company's affairs as at 31 August 2018 and of the group's profit and cash flows for the year then ended;

have been properly prepared 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); and

have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the consolidated and company statements of financial position as at 31 August 2018; the consolidated income statement and statement of comprehensive income, the consolidated statement of cash flows, and the consolidate and company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's and parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and parent company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 August 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and parent company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of the Directors' Responsibilities set out on page 7-8, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the parent 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.

Other required reporting

Companies Act 2006 exception reporting

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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Andy Grimbly (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cambridge
20 December 2018

Consolidated income statement

For the year ended 31 August 2018

	Note	2018 £'000	2017 £'000
Revenue	6	**132,070**	122,173
Cost of sales		**(69,168)**	(62,936)
Gross profit		**62,902**	59,237
Administrative expenses		**(60,368)**	(60,354)
Profit / (loss) before interest and taxation		**2,534**	(1,117)
Analysis of group operating profit / (loss):			
Underlying EBITDA	7	**14,463**	13,072
New venture start-up costs and other one-off costs	7	**(9,336)**	(5,802)
Gain on disposal of tangible fixed assets		**5,661**	-
Profit before depreciation and amortisation	7	**10,788**	7,270
Depreciation		**(4,871)**	(5,248)
Amortisation and impairment		**(3,383)**	(3,139)
Operating profit / (loss)	8	**2,534**	(1,117)
Interest payable and similar expenses	11	**(138)**	(153)
Profit / (loss) before taxation		**2,396**	(1,270)
Tax (charge) / credit on profit / (loss)	12	**(2,119)**	4,548
Profit for the financial year		**277**	3,278
Profit attributable to:			
- Owners of the parent		**277**	3,278
- Non-controlling interests		**-**	-
		277	3,278

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

The company has taken advantage of section 408 of the Companies Act 2006 not to publish its own profit and loss account.

Consolidated statement of comprehensive income

for the year ended 31 August 2018

	2018	2017
	£'000	£'000
Profit for the financial year	**277**	3,278
Other comprehensive income/(expense) for the year:		
Unrealised surplus on revaluation of tangible assets (net of deferred tax)	**273**	-
Foreign exchange on retranslation of overseas subsidiaries	**70**	(123)
	343	(123)
Total comprehensive income for the year	**620**	3,155
Total comprehensive income attributable to:		
- Owners of the parent	**620**	3,155
- Non-controlling interests	**-**	-
	620	3,155

Consolidated statement of financial position

As at 31 August 2018

	Note	2018 £'000	2017 £'000
Fixed assets			
Intangible assets	13	**17,929**	16,605
Tangible assets	14	**13,461**	26,542
		31,390	43,147
Current assets			
Debtors	16	**52,020**	27,874
Cash at bank and in hand		**25,396**	25,715
		77,416	53,589
Creditors: amounts falling due within one year	17	**(91,845)**	(80,816)
Net current liabilities		**(14,429)**	(27,227)
Total assets less current liabilities		**16,961**	15,920
Creditors: amounts falling due after more than one year	18	**(3,537)**	(3,808)
Provisions for liabilities	20	**(179)**	(162)
Net assets		**13,245**	11,950
Capital and reserves			
Called-up share capital	22	**127**	127
Other reserves		**1,410**	1,286
Retained earnings		**11,033**	10,537
Total equity attributable to the owners of the parent		**12,570**	11,950
Non-controlling interests		**675**	-
Total equity		**13,245**	11,950

These financial statements on pages 12 to 45 were approved by the directors and authorised for issue on 20 December 2018 and are signed on their behalf by:

Phil Symes

P Symes
Director
Company registration number: 06020370

Consolidated statement of changes in equity

for the year ended 31 August 2018

	Called-up share capital	Other reserves	Retained earnings	Total	Non-controlling interest	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 September 2016	**127**	**1,409**	**7,259**	**8,795**	**-**	**8,795**
Profit for the financial year	-	-	3,278	3,278	-	3,278
Other comprehensive expense for the financial year	-	(123)	-	(123)	-	(123)
Total comprehensive income for the financial year	-	(123)	3,278	3,155	-	3,155
At 31 August 2017	**127**	**1,286**	**10,537**	**11,950**	**-**	**11,950**
At 1 September 2017	**127**	**1,286**	**10,537**	**11,950**	**-**	**11,950**
Profit for the financial year	-	-	277	277	-	277
Other comprehensive income for the financial year	-	343	-	343	-	343
Total comprehensive income for the financial year	-	343	277	620	-	620
Transfer		(219)	219	-	-	-
Total transactions with owners recognised directly in equity	-	(219)	219	-	-	-
Non-controlling interest arising on business combination	-	-	-	-	675	675
At 31 August 2018	**127**	**1,410**	**11,033**	**12,570**	**675**	**13,245**

Company statement of financial position

As at 31 August 2018

	Note	2018 £'000	2017 £'000
Fixed assets			
Investments	15	**18,982**	13,605
Current assets			
Debtors due less than one year	16	**20,028**	18,477
Cash		**3,461**	-
		23,489	18,477
Creditors: amounts falling due within one year	17	**(39,161)**	(28,181)
Net current liabilities		**(15,672)**	(9,704)
Total assets less current liabilities		**3,310**	3,901
Creditors: amounts falling due after more than one year	18	**(3,003)**	(3,003)
Net assets		**307**	898
Capital and reserves			
Called-up share capital	22	**127**	127
Retained earnings		**180**	771
Total equity		**307**	898

The loss after tax dealt with in the financial statements of the company and attributable to members was £591,000 (2017 – loss £636,000).

These financial statements on pages 12 to 45 were approved by the directors and authorised for issue on 20 December 2018 and are signed on their behalf by:

P Symes
Director
Company registration number: 06020370

Company statement of changes in equity

for the year ended 31 August 2018

	Called-up share capital	Retained earnings	Total equity
	£'000	£'000	£'000
At 1 September 2016	**127**	**1,407**	**1,534**
Loss for the financial year	-	(636)	(636)
Total comprehensive expense for the financial year	-	(636)	(636)
At 31 August 2017	**127**	**771**	**898**
At 1 September 2017	**127**	**771**	**898**
Loss for the financial year	-	(591)	(591)
Total comprehensive expense for the financial year	-	(591)	(591)
At 31 August 2018	**127**	**180**	**307**

Consolidated statement of cash flows

for the year ended 31 August 2018

	Note	2018 £'000	2017 £'000
Net cash from operating activities	23	**(12,432)**	2,558
Tax paid		**(597)**	(344)
Net cash (used in) / generated from operating activities		**(13,029)**	2,214
Cash flow from investing activities			
Purchase of intangible assets		**(1,075)**	(1,336)
Purchase of tangible assets		**(3,646)**	(2,267)
Proceeds from disposal of tangible assets		**17,736**	-
Net cash generated from / (used in) investing activities		**13,015**	(3,603)
Cash flow from financing activities			
Interest paid		**(107)**	(100)
Net cash used in financing activities		**(107)**	(100)
Decrease in cash and cash equivalents		**(121)**	(1,489)
Effect of exchange rates on cash and cash equivalents		**(198)**	244
Cash and cash equivalents at 1 September		**25,715**	26,960
Cash and cash equivalents at 31 August	23	**25,396**	25,715

Notes to the financial statements

1 General information

Cambridge Education Group Limited ("the company") is a private limited company limited by shares and incorporated in the United Kingdom under the Companies Act and is registered in England. The address of the registered office, which is also the principal place of business, is given on page 1. The nature of the company's operations and principal activities of the company and its subsidiaries (together, "the group") are set out in the Strategic report on pages 3 to 6.

2 Statement of compliance

The group and individual 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 measured at fair value.

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. The consolidated financial statements are also presented in pounds sterling and overseas operations are included in accordance with the accounting policies set out below.

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 group and company 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 meets its day-to-day working capital requirements through its banking facilities. The directors have prepared both detailed budgets and long term forecasts, taking account of possible changes in trading performance. After making enquiries, the directors have a reasonable expectation that the group has 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 group therefore continues to adopt the going concern basis in preparing its financial statements.

c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and all subsidiary undertakings together, made up to 31 August.

A subsidiary is an entity controlled by the group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Where a subsidiary has different accounting policies to the group, appropriate adjustments are made to those subsidiaries to conform to group accounting policies.

Any subsidiary undertakings sold or acquired during the year are included up to, or from, the dates of change of control or change of significant influence respectively.

Where control of a subsidiary is achieved in stages, the initial acquisition that gave the group control is accounted for under the acquisition method. Thereafter where the group increases it controlling interest in the subsidiary the transaction is treated as a transaction between equity holders. Any difference in fair value of the consideration paid and the carrying amount of the non-controlling interest acquired is recognised directly in equity. No changes are made in the carrying value of assets, liabilities or provisions for contingent liabilities.

All intra-group transactions, balances, income and expenses are eliminated on consolidation..

d) 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.

The trading results of group undertakings are translated into the functional currency at monthly average exchange rates period by period during the year. The assets and liabilities of overseas undertakings, including goodwill and fair value adjustments arising on acquisition, are translated at the exchange rates ruling at the year end. Exchange adjustments arising from the retranslation of opening net investments and from translation of the profits or losses at average rates are recognised in 'Other comprehensive income'.

e) 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.

f) Interest

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

g) Dividends

Dividend income is recognised when the right to receive payment is established.

h) Exceptional items

The group classifies certain one-off charges or credits that have a material impact on the group's financial results as 'exceptional items'. These are disclosed separately to provide further understanding of the underlying financial performance of the group. These costs and credits are categorised as either start-up costs or one-off items.

Start-up costs are incurred once a new school or partnership is established, during the period of investment to establish and promote the venture before student volumes reach a sustainable scale and the venture becomes established.

One-off items are the result of expanding the business by acquisition, including due diligence on targets and assessment of new markets. They also result from transforming internal capabilities, including changes in senior management and staff restructuring more generally and of specific pieces of non-recurring tax or accounting advice.

i) 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 group 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.

j) Employee benefits

The group provides a range of benefits to employees, including annual bonus arrangements, paid holiday arrangements, private medical cover 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 group 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 group 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.

k) Borrowing costs

All borrowing costs are recognised in the income statement in the period in which they are incurred, using the effective interest rate method.

l) 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.

m) Deferred taxation

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.

n) Intangible assets and goodwill

Goodwill and intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses.

Intangible assets are non-monetary assets without physical substance which are separable or arise from contractual or other legal rights.

Goodwill is the difference between the fair value of the purchase consideration and the fair value of the group's share of the identifiable assets and liabilities acquired. Such goodwill can arise on the acquisition of an unincorporated business or on consolidation of an acquired incorporated business, accounted for by application of the purchase method.

Goodwill is reviewed for impairment at the end of the first full financial year following each acquisition and subsequently when necessary, if circumstances indicate that its carrying value may not be recoverable. It is amortised to the income statement over its estimated economic life.

The cost of a business is the fair value of the consideration given, liabilities incurred or assumed and of equity instruments issued plus the costs directly attributable to the business combination. Where control is achieved in stages, the cost is the consideration at the date of each transaction.

On acquisition, goodwill is allocated to the cash-generating units ('CGU's') that are expected to benefit from the combination.

Goodwill is assessed for impairment when there are indicators of impairment and any impairment is charged to the income statement. Reversals of impairment are recognised when the reasons for the impairment no longer apply.

Development costs that are directly attributable to the design and testing of identifiable software products controlled by the group are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software so that it will be available for use;
- Management intends to complete the software and use or sell it;
- There is an ability to use or sell the software;
- It can be demonstrated how the software will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the software are available; and
- The expenditure attributable to the software during the development can be reliably measured.

Costs associated with maintaining computer software are recognised as an expense as incurred.

o) Amortisation of intangible assets and goodwill

Amortisation is calculated, using the straight-line method, to allocate the depreciable amount of intangible assets and goodwill to their residual values over their estimated useful economic lives, as follows:

Goodwill on consolidation	5 to 20 years straight line (see below)
Software	3 to 5 years straight line
Business licences and educational accreditations	5 years straight line

Goodwill on consolidation of acquisitions before 1 September 2014 has been amortised over 20 years, that being the useful life that could be reliably estimated on the date of acquisition, and will continue to be amortised over that period unless there is a subsequent change in circumstances which makes the basis of that estimate no longer valid.

Amortisation is charged to administrative expenses in the income statement.

Where factors, such as technological advancement or changes in market price, indicate that residual value or useful life have changed, the residual value, useful life or amortisation rate are amended prospectively to reflect the new circumstances. The assets are reviewed for impairment if the above factors indicate that the carrying amount may be impaired.

p) 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.

Land and buildings include freehold and leasehold schools, colleges, student accommodation and offices. The leasehold buildings are stated at cost and the freehold land and buildings are stated at valuation, less accumulated depreciation and accumulated impairment losses.

Plant and machinery and fixtures, fittings, and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs, including major inspections, are included in the assets carrying amount or recognised as a separate asset, as appropriate, only when it is probable that economic benefits associated with the item will flow to the group 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 income statement and included in 'Other operating (losses)/gains'

Freehold land and buildings are revalued periodically to fair value based on an appraisal undertaken by a qualified external valuer. Any revaluation gains are recognised in equity and any losses are recognised in the income statement unless and to the extent that they offset a gain previously recorded in equity.

q) Depreciation and residual values

Depreciation is calculated so as to write off the cost of tangible assets, less their estimated residual value, over the useful economic life of those assets as follows:

Freehold buildings	30 or 50 years straight line
Leasehold buildings	6% - 25% straight line
Plant and equipment	15% - 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.

r) Impairment of non-financial assets

The group assesses at each reporting date whether an asset may be impaired. If any such indication exists the group estimates recoverable amount of assets. If it is not possible to estimate the recoverable amount of the individual asset, the group estimates the recoverable amount of the 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.

s) Investments

Investments in a subsidiary company are valued at cost less accumulated provision for permanent impairment.

Investments in associates are recognised initially in the consolidated balance sheet at the transaction price and subsequently adjusted to reflect the group's share of profit or loss of the associate, less any impairment. Any excess of the cost of acquisition over the group's share of the net fair value of the identifiable assets and liabilities of the associate is recognised at the date of acquisition and although treated as goodwill, is presented as part of the investment in the associate. Amortisation is charged so as to allocate the cost of goodwill over its estimated useful life, using the straight-line method.

Investments in associates are accounted for at cost less impairment in the individual financial statements.

t) Leased assets

Assets obtained under hire purchase contracts, finance leases and other similar arrangements where substantially all of the benefits and risks of ownership are assumed by the company are capitalised as tangible assets and are depreciated over the shorter of the lease term and their useful lives. Obligations under such arrangements are included in creditors net of finance charge allocated to future periods and the finance element of the rental payment is charged to the income statement so as to produce a constant periodic rate of charge on the net obligation outstanding at each period end.

u) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts, when applicable, are shown within borrowings in current liabilities.

v) 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 administrative expenses.

w) Provisions and contingencies

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required in settlement of the obligation and the amount of the obligation can be measured reliably.

Where there are a number of similar obligations, the probability that an outflow will be required is determined by considering the class of obligations as a whole.

Provisions are measured at the present value of the future obligations using a pre-tax discount rate that reflects current market assessments of the time value of money and the obligation specific risks. Any unwinding of a discount due to the elapse of time is treated as a finance cost.

Contingent liabilities arise as a result of past events where it is either not probable that there will be an outflow of resources or the amount cannot be reliably measured or where the existence or otherwise of an obligation can only be determined by the outcome of uncertain future events that are not wholly within the group's control.

Contingent liabilities are not recognised, except those which may be acquired in a business combination but are disclosed in the financial statements unless the probability of an outflow of resources is remote.

Contingent assets are not recognised and are only disclosed if the inflow of economic benefits is probable.

x) Financial instruments

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

Basic financial assets, including trade and other debtors, amounts owed by group undertakings, accrued income 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 profit or loss.

Basic financial liabilities including trade and other creditors, amounts owed to group undertakings and accruals, 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.
Preference shares which result in fixed returns to the holder or are mandatorily redeemable on a specific date are classified as liabilities. The dividend on these preference shares are recognised in the income statement as interest expense.

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

Derivatives which are not basic financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in the income statement in finance costs or income as appropriate.

To date the group has not applied hedge accounting to any transactions.

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 group'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 income statement. 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 judgements

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.

Recognition of purchased intangible assets
When the group purchases a business that includes recognisable intangible assets, the assessment of the fair value of such assets involves judgements on their nature and estimates of current and future cash flows and other factors

Useful economic lives of tangible assets
The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives and the residual values of the assets. The useful economic lives and residual values are considered annually. The carrying amount of tangible assets is shown in note 14 and the useful economic lives for each class of assets are shown in note 3(q).

Impairment of intangible assets and goodwill
The group considers whether intangible assets and/or goodwill are impaired. This estimate is based on a variety of factors such as expected use of the acquired business, the expected useful life of cash generating units to which the goodwill is attributed, any legal, regulatory or contractual provisions that can limit useful life and assumptions that market participants would consider in respect of a similar business. Where an indication of impairment is identified the estimation of recoverable value requires estimation of the recoverable value of the CGUs. This requires estimation of the future cash flow from the CGUs and also selection of appropriate discount rates in order to calculate the net present value of those cash flows.

Impairment of non-financial assets
Where there are indicators of impairment of individual assets, the group performs impairment tests based on fair value less costs to sell or a value in use calculation. The fair value less costs to sell calculation is based on available data for binding sales transactions in an arm's length transaction on similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model, with the cash flows derived from the budget. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected growth rate used for extrapolation purposes.

Impairment of debtors
The group 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 16.

Taxation
The group 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

As a consolidated income statement is published, a separate income statement for the parent company is omitted from the group financial statements by virtue of section 408 of the Companies Act 2006.

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 following exemptions:

- From preparing a statement of cash flows, on the basis that it is a qualifying entity and the consolidated statement of cash flows, included in these financial statements, includes the company's cash flows;
- 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 statement disclosures; and,
- From the key management personnel compensation disclosures required under FRS102 paragraph 33.7, as the information is provided in the consolidated financial statement disclosures.

6 Revenue

The revenue and profit before tax are attributable to the principal activities of the group. An analysis of revenue is given below:

	2018	2017
	£'000	£'000
United Kingdom	**99,834**	89,412
Rest of the European Union	**4,454**	4,303
North America	**27,782**	28,458
	132,070	122,173

All revenue comprises provision of education and ancillary services.

7 Profit before depreciation and amortisation

A measure often used to monitor the performance of a business is EBITDA, which is earnings before interest, tax, depreciation and amortisation. The directors set targets for and monitor business performance using underlying EBITDA which is EBITDA excluding the effects of the start-up costs and one-off items.

Start-up costs are incurred once a new school or partnership is established, during the period of investment to establish and promote the venture before student volumes reach a sustainable scale and the venture becomes established. One-off items are the result of expanding the business by acquisition, including due diligence on targets and assessment of new markets. They also result from transforming internal capabilities, including changes in senior management and staff restructuring more generally and of specific pieces of non-recurring professional advice.

Underlying EBITDA is used to assess the underlying performance of the business as it is indicative of the performance of the business in the longer term, excluding the short term effects of building a capable and profitable business.

	2018	2017
	£'000	£'000
Underlying EBITDA	**14,463**	13,072
New venture start-up costs	**(1,784)**	(1,904)
One-off costs	**(7,552)**	(3,898)
Gain on disposal of tangible fixed assets	**5,661**	-
Operating profit before depreciation and amortisation	**10,788**	7,270

Overseas operational losses and one-off costs:

	2018	2017
	£'000	£'000
New venture start-up costs	**1,784**	1,904
Professional fees	**2,550**	786
Restructuring, acquisition and integration	**3,169**	1,384
Marketing and advertising	**1,044**	1,003
Other	**789**	725
Total one-off costs	**7,552**	3,898
	9,336	5,802

8 Operating profit

Operating profit is stated after charging /(crediting):

	2018	2017
	£'000	£'000
Amortisation of goodwill and intangible assets	3,339	3,139
Impairment of intangible assets (included in 'Administrative expenses')	44	-
Depreciation of tangible assets	4,871	5,248
Gain on disposal of tangible assets	(5,661)	-
Impairment of trade debtors	788	655
Auditors' remuneration:		
Audit fees for the entity	5	5
Audit fees for the group	290	223
Other audit related	52	180
Tax compliance fees	147	89
Other services	469	243
Operating lease charges	21,223	19,585
Net loss on foreign currency translation	17	185

9 Particulars of employees

The average number of staff employed by the group during the financial year amounted to:

	2018	2017
	No.	No.
Number of teaching and administrative staff	1,230	1,236
Number of temporary teaching staff	295	261
	1,525	1,497

In addition to the full-time employees detailed above, approximately 198 (2017 – 183) temporary teaching staff are employed by the group during its summer programmes, taking place in July and August each year. The costs of these teaching staff are included in the analysis of employee costs.

The aggregate payroll costs of employees were:

	2018	2017
	£'000	£'000
Wages and salaries	**43,661**	43,254
Social security costs	**3,193**	2,877
Other pension costs	**293**	270
	47,147	46,401
Amounts capitalised to intangible assets (software)	**(57)**	(126)
Charge to the income statement	**47,090**	46,275

The company had no employees (2017: none).

10 Directors and key management

Remuneration in respect of directors was as follows:

	2018	2017
	£'000	£'000
Emoluments receivable	**1,152**	874

Emoluments of highest paid director:

	2018	2017
	£'000	£'000
Total emoluments (excluding pension contributions)	**484**	318

Three directors accrued benefits under a defined contribution pension scheme (2017 – one) and total contributions of £1,000 were made during the year (2017 - £1,000).

Remuneration in respect of key management, comprising the directors and other senior management who together have authority and responsibility for planning, directing and controlling the activities of the group, was as follows:

	2018	2017
	£'000	£'000
Salaries and other short term benefits	**2,316**	1,410
Pension contributions	**16**	2
Compensation for loss of office	**-**	15
	2,332	1,427

11 Interest payable and similar expenses

	2018 £'000	2017 £'000
Letter of credit costs	**97**	101
Discount on deferred consideration	**31**	52
Bank interest	**10**	-
	138	153

12 Tax on profit / (loss)

(a) Tax charge / (credit) included in the income statement

	2018 £'000	2017 £'000
Current tax		
United Kingdom corporation tax for the year at 19.00% (2017 – 19.58%)	**1,275**	960
Adjustments in respect of prior periods	**250**	(306)
Overseas tax	**132**	92
Total current tax	**1,657**	746
Deferred tax		
Origination and reversal of timing differences	**(390)**	(403)
Adjustments in respect of prior periods	**(436)**	86
Impact of change in tax rate	**1,288**	-
Recognition of overseas losses	**-**	(4,977)
Total deferred tax (note 20)	**462**	(5,294)
Tax charge / (credit) for the year	**2,119**	(4,548)

(b) Tax charge included in other comprehensive income

	2018 £'000	2017 £'000
Deferred tax on revaluation of tangible assets	**11**	-

(c) Reconciliation of tax charge / (credit)

The tax assessed on the profit for the year is higher than (2017 – higher than) the standard rate of corporation tax in the UK of 19.00% (2017 – 19.58%). The differences are explained below:

	2018	2017
	£'000	£'000
Profit / (loss) before taxation	**2,396**	(1,270)
Profit / (loss) before taxation multiplied by rate of tax	**455**	(249)
Expenses not deductible for tax purposes	**1,238**	277
Adjustments in respect of prior periods	**(186)**	(220)
Impact of change in tax rate	**1,288**	-
Recognition of overseas tax losses	**-**	(4,368)
Other	**(676)**	12
Tax charge / (credit) for the year	**2,119**	(4,548)

(d) Tax rate changes

The tax rate for the current year is lower than the prior year due to changes in the UK corporation tax rate, which decreased from 20% to 19% from 1 April 2017. Changes to the UK corporation tax rates were substantively enacted as part of the Finance Bill 2016 (on 6 September 2016). These include reductions to the main rate to reduce rate to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

13 Intangible assets

Group	**Goodwill**	**Licenses and accredit-ations**	**Software**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Cost				
At 1 September 2017	14,889	7,514	3,490	25,893
Additions (note 26)	3,802	-	1,075	4,877
Impairment	-	-	(44)	(44)
Foreign exchange movement	(73)	(89)	-	(162)
At 31 August 2018	**18,618**	**7,425**	**4,521**	**30,564**
Accumulated amortisation				
At 1 September 2017	5,535	2,446	1,307	9,288
Charge for the year	992	1,436	911	3,339
Foreign exchange movement	(13)	21	-	8
At 31 August 2018	**6,514**	**3,903**	**2,218**	**12,635**
Net book value				
At 31 August 2018	**12,104**	**3,522**	**2,303**	**17,929**
At 31 August 2017	9,354	5,068	2,183	16,605

The individual intangible assets (excluding goodwill) which are material to the financial statements are:

	2018	2017	**2018**	2017
	Carrying amount		**Remaining useful life**	
	£'000	£'000	**Years**	Years
Business licences and educational accreditations:				
United States of America	**3,069**	4,422	**2.3**	3.3
Canada	**453**	646	**3.7**	3.7

The business licences and educational accreditations allow the group to operate certain language schools with overseas students. The useful life is based on the period that would be required to obtain such licenses and accreditations independently.

An impairment of £44,000 has been made against the development cost of a new human resources information system.

The company had no intangible assets at 31 August 2018 (2017: none).

14 Tangible assets

Group	**Freehold land & buildings**	**Leasehold land & buildings**	**Plant & equipment**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Cost or valuation				
At 1 September 2017	13,955	18,804	18,095	50,854
Additions	-	1,283	2,363	3,646
Acquisition	-	10	3	13
Disposals	(12,075)	-	-	(12,075)
Transfers	-	55	(55)	-
Revaluation	70	-	-	70
Foreign exchange movement	-	(65)	(17)	(82)
At 31 August 2018	**1,950**	**20,087**	**20,389**	**42,426**
Accumulated depreciation				
At 1 September 2017	219	9,480	14,613	24,312
Charge for the year	-	2,750	2,121	4,871
Revaluation	(219)	-	-	(219)
Foreign exchange movement	-	19	(18)	1
At 31 August 2018	**-**	**12,249**	**16,716**	**28,965**
Net book value				
At 31 August 2018	**1,950**	**7,838**	**3,673**	**13,461**
At 31 August 2017	13,736	9,324	3,482	26,542

During the year, the company disposed of seven freehold land and buildings with a valuation of

£12,075,000. Six of these were sold to third party purchasers under sale and leaseback agreements. The capital commitments of this transaction are included in note 26.

Freehold land and buildings were revalued at 31 August 2018 by Savills (UK) Limited, Chartered Surveyors regulated by RICS, acting as external valuers and in accordance with the RICS Red Book at £1,950,000. The basis of valuation was fair value, which is the price that would be received to sell an asset in an orderly transaction between market participants, before selling expenses and based on market evidence. The directors consider that this valuation is indicative of the value at the balance sheet date.

The net book value of land included in the above is:

	2018	2017
	£'000	£'000
Freehold	**1,237**	8,284
	1,237	8,284

If certain tangible assets had not been revalued, they would have been included on the historical cost basis at the following amounts:

	Freehold land and buildings £'000
Cost	
At 1 September 2017	11,130
Disposals	(10,087)
At 31 August 2018	**1,043**
Accumulated depreciation	
At 1 September 2017	657
Charge for the year	74
Disposals	(636)
At 31 August 2018	**95**
Net book value	
At 31 August 2018	**948**
At 31 August 2017	10,473

The company had no tangible assets at 31 August 2018 (2017: none).

15 Investments

	Investment in subsidiaries £'000
At 1 September 2017	13,605
Additions	5,377
At 31 August 2018	**18,982**

Additions comprise 70% of the share capital of CEG Education Technology (Shanghai) Co. Limited (note 27).

Investments are the directly held subsidiary undertakings detailed in note 28.

16 Debtors

Debtors due less than one year	Group		Company	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
Trade debtors	**5,465**	3,885	**-**	-
Amounts owed by group undertakings	**36,213**	14,536	**19,471**	18,249
Other debtors	**1,215**	595	**-**	-
Corporation tax overpaid	**557**	228	**557**	228
Deferred tax (note 20)	**2,609**	3,059	**-**	-
Prepayments and accrued income	**5,961**	5,571	**-**	-
	52,020	27,874	**20,028**	18,477

Trade debtors are stated after provisions for impairment of £1,047,000 (2017 - £901,000). Amounts owed by group undertakings have no fixed date of repayment and are repayable on demand.

17 Creditors: amounts falling due within one year

	Group		Company	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
Bank loans and overdrafts	**-**	-	**9,308**	11,812
Trade creditors	**2,910**	6,764	**-**	-
Amounts owed to group undertakings	**3,708**	972	**26,353**	16,369
Overseas taxation	**97**	59	**-**	-
Deferred and contingent consideration	**4,220**	652	**3,500**	-
Other creditors	**17,340**	14,600	**-**	-
Other taxation and social security	**1,210**	53	**-**	-
Accruals and deferred income	**62,360**	57,716	**-**	-
	91,845	80,816	**39,161**	28,181

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

Other creditors include commissions due, deposits and other amounts refundable to students.

Deferred and contingent consideration is payable for the purchase of business assets for the group's new subsidiary in China (see note 27). Deferred consideration also includes the final instalment of payments made for the right to operate a school in Boston acquired in 2013.

18 Creditors: amounts falling due after more than one year

	Group		Company	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
Amounts falling due between one and five years:				
Amounts owed to group undertakings	**3,003**	3,003	**3,003**	3,003
Deferred consideration	**-**	805	**-**	-
Other creditors	**302**	-	**-**	-
Amounts falling due after five years:				
Other creditors	**232**	-	**-**	-
	3,537	3,808	**3,003**	3,003

Amounts owed to group undertakings are interest free, have no fixed date of repayment and are expected to be repaid in the event of a refinancing of the parent companies.

19 Post employment benefits

The group operates defined contribution pension arrangements for the benefit of its employees. The amount recognised as an expense for these arrangements is disclosed in note 9. The amount outstanding at year end was £238,000 (2017 - £33,000).

The company does not provide any post employment benefits (2017 – none).

20 Provisions for other liabilities

Group	Deferred tax £'000
At 1 September 2017	(2,897)
Charged to the income statement	462
Charged to other comprehensive income	11
Foreign exchange movement	(6)
	(2,430)
At 31 August 2018	**179**
At 31 August 2018 (asset) – note 16	**(2,609)**
	(2,430)

The company had no provisions for other liabilities (2017 – none).

The group's deferred taxation liability/(asset) consists of the tax effect of timing differences in respect of:

	2018		2017	
	Recog-nised £'000	**Unrecog-nised £'000**	Recog-nised £'000	Unrecog-nised £'000
Excess of depreciation over taxation allowances	**(693)**	-	(65)	-
Other timing differences	**(70)**	-	(7)	-
Valuation of acquired intangible assets	-	-	1,709	-
Revaluation of tangible assets	**823**	-	60	-
Unrelieved losses	**(2,490)**	**(17)**	(4,594)	-
	(2,430)	**(17)**	(2,897)	-
Deferred tax assets (note 16)	**(2,609)**		(3,059)	
Deferred tax liability	**179**		162	
	(2,430)		(2,897)	

Deferred tax assets and liabilities are only offset where the group has a legally enforceable right to do so and where assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity or another entity within the group.

The net deferred tax liability expected to reverse in the 2019 financial year is £496,000 and this primarily relates to the amortisation of intangible assets.

The company had no provisions for other liabilities (2017 – none).

21 Financial instruments

The carrying values of the group's financial instruments are summarised by category below:

	Group		Company	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
Financial assets that are debt instruments measured at amortised cost less impairment:				
- Trade debtors	**5,465**	3,885	**-**	-
- Amounts owed by group undertakings	**36,213**	14,536	**19,471**	18,249
- Other debtors	**1,215**	595	**-**	-
	42,893	19,016	**19,471**	18,249
Financial liabilities measured at amortised cost:				
- Bank loans and overdrafts	**-**	-	**9,308**	11,812
- Trade creditors	**2,910**	6,764	**-**	-
- Amounts owed to group undertakings	**6,711**	3,975	**29,356**	19,372
- Other creditors	**17,874**	14,600	**-**	-
- Accruals	**11,276**	9,653	**-**	-
- Deferred consideration	**4,220**	1,457	**3,500**	-
	42,991	36,449	**42,164**	31,184

Neither the company nor the group had any financial assets or liabilities at fair value, through the income statement or otherwise.

22 Called-up share capital and reserves

Allotted, called up and fully paid:

	2018		2017	
	No.	**£'000**	No.	£'000
Ordinary shares of £0.10 each	**1,265,000**	**127**	1,265,000	127

The ordinary shares are not redeemable, have voting rights of one vote per share and are all equally entitled to dividends and any distribution of capital. All shares are classified as equity.

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

The other reserve represents the excess of the fair value over cost of freehold land and buildings held at fair value together with the cumulative gains and losses arising on the retranslation of net assets of overseas operations from local currency to pounds sterling.

23 Notes to the statement of cash flows

Reconciliation of operating profit to net cash inflow from operating activities

	2018 £'000	2017 £'000
Profit for the financial year	**277**	3,278
Adjustments:		
Tax on profit on ordinary activities	**2,119**	(4,548)
Net interest expense	**138**	153
Operating profit / (loss)	**2,534**	(1,117)
Depreciation	**4,871**	5,248
Amortisation and impairment	**3,383**	3,139
Gain on disposal of tangible assets	**(5,661)**	-
Movements in working capital:		
(Increase) / decrease in debtors	**(25,737)**	4,875
Increase / (decrease) in creditors	**8,178**	(9,587)
Net cash (outflow) / inflow from operating activities	**(12,432)**	2,558

Analysis of changes in net funds

	At 1 Sept 2017 £'000	Cash flows £'000	Non-cash movements £'000	At 31 August 2018 £'000
Net cash:				
Cash in hand and at bank	25,715	(121)	(198)	**25,396**
Net funds	25,715	(121)	(198)	**25,396**

The non-cash movements primarily relate to foreign exchange differences.

Included in cash in hand and at bank is £3,461,000 (2017: £nil) of cash held in escrow within the company.

24 Related party transactions

During the year the group entered into transactions with related parties.

Management fees and expenses of £221,000 (2017 - £201,000) were payable to Bridgepoint Advisors Limited, which manages the ultimate controlling party of the group. At year end none (2017 - £nil) of this amount was still outstanding. Any amounts due are on normal credit terms.

Fees for advice on procurement of goods and services of £15,000 (2017 – £42,000) were payable to PEPCo Services LLP which is a fellow subsidiary of Bridgepoint Advisers Limited. At year end none of this amount was still outstanding (2017 - £19,000). Any amounts due are on normal credit terms.

The remuneration of directors and key management is disclosed in note 10.

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.

25 Contingent liabilities

The group has guaranteed the syndicated bank loans of its subsidiary undertaking Camelot Bidco Limited. At 31 August 2018 these amounted to £79,700,000 (2017 - £90,700,000).

In addition the group has letters of credit in relation to lease commitments for properties in the United States of America amounting to USD $500,000 (2017 – USD $2,800,000).

The company had no contingent liabilities (2017 – none).

26 Capital and other commitments

At 31 August 2018 the group had the following future minimum lease payments under non-cancellable operating leases as set out below:

	2018	2017
	£'000	£'000
Payments due:		
Not later than one year	**19,524**	16,550
Later than one year and not later than five years	**70,403**	62,444
Later than five year	**196,438**	173,806
	286,365	252,800

The group had no other off-balance sheet arrangements.

Group capital commitments contracted but not provided in the financial statements amounted to £nil (2017 - £nil).

27 Business combinations

On 21 August 2018 the group acquired 70% of the ordinary share capital in a new company in China, CEG Education Technology (Shanghai) Co. Limited, which was issued at par for Rmb14.0m, and acquired control on 31 August 2018. The remaining shareholding has been taken by the original owners who built up the business under its original name, Kaishi. The new company will take over the operation of two schools in Shanghai where students follow a UK or US based curriculum before progressing to a CEG school based in the UK or US for their final year of high school. The group will also pay cash consideration of £3.8m to the owners of Kaishi for the transfer of the business from Kaishi to CEG Education Technology.

	£'000
Fair value of consideration:	
Deferred consideration	3,461
Contingent consideration	39
Directly attributable costs	302
	3,802

The identifiable assets and liabilities assumed on the date of acquisition were:

	Book value and fair value £'000
Tangible assets	13
Debtors	2,344
Creditors	(2,357)
	-
Non-controlling interest	-
Goodwill	3,802
Total	3,802

Deferred consideration is payable in three instalments all of which are expected to be paid within the next 12 months. Discounting has not been applied to the deferred consideration due as it is not considered to be material. Contingent consideration is payable if the number of students enrolled for the 2018/19 academic year exceeds a certain target.

The revenue and contribution to the profit from CEG Education Technology included in the consolidated income statement for 2018 were both £nil.

28 List of subsidiary undertakings

Subsidiary undertakings	Registered Office	Nature of Business	Interest
Direct shareholdings			
CEG Properties Limited	i.	Holding of assets for use by other group companies	100% ordinary shares
CEG Administrative Services Limited	i.	Provision of administrative services to group companies	100% ordinary shares
Cambridge Education Group Holdings Inc	iv.	Intermediate holding company & On-site university foundation courses	100% ordinary shares
CEG Holding Canada Inc	vii.	Intermediate holding company	100% ordinary shares
CEG Education Technology (Shanghai) Co. Limited	xii.	Pre-University study programmes	70% ordinary shares
Indirect shareholdings			
CEG Colleges Limited	i.	Pre-University study programmes	100% ordinary shares
Cambridge Arts & Sciences Limited	i.	Pre-University study programmes	100% ordinary shares
CATS Canterbury Limited	i.	Pre-University study programmes	100% ordinary shares
CATS College London Limited	i.	Pre-University study programmes	100% ordinary shares
Stafford House Companies Limited	i.	Intermediate holding company	100% ordinary shares
Stafford House School of English Limited	i.	Year round English language programmes	100% ordinary shares
Stafford House Study Holidays Limited	i.	Summer English language Programmes	100% ordinary shares
CEG UFP Limited	i.	On-site university foundation courses	100% ordinary shares
CEG UCLAN Foundation Campus Limited	i.	On-site university foundation courses	100% ordinary shares
Coventry Foundation Campus Limited	i.	On-site university foundation courses	100% ordinary shares
CEG FoundationCampus Sunderland Limited	i.	On-site university foundation courses	100% ordinary shares
London South Bank FoundationCampus Limited	i.	On-site university foundation courses	100% ordinary shares
Foundation Campus London Limited	i.	On-site university foundation courses	100% ordinary shares
OnCampus Hull Limited	i.	On-site university foundation courses	100% ordinary shares
OnCampus Reading Limited	i.	On-site university foundation courses	100% ordinary shares

CATS Retail Limited	i.	Dormant	100% ordinary shares

Subsidiary undertakings	Registered Office	Nature of Business	Interest
Cambridge School of Art & Design Limited	i.	Dormant	100% ordinary shares
Cambridge School of Visual and Performing Arts Limited	i.	Dormant	100% ordinary shares
Study Holidays Limited	i.	Dormant	100% ordinary shares
Hull Online Limited [a]	i.	Dormant	100% ordinary shares
CEG Dormant 2 Limited	i.	Dormant	100% ordinary shares
Amsterdam FoundationCampusB.V.	ii.	On-site university foundation courses	100% ordinary shares
ONCAMPUS Lund Sweden AB	iii.	On-site university foundation courses	100% ordinary shares
CATS Academy Boston, Inc	iv.	Pre-University study programmes	100% ordinary shares
ONCampus Boston, Inc	iv.	On-site university foundation courses	100% ordinary shares
OnCampus SUNY Inc	iv.	Year round English language programmes	100% ordinary shares
Academy of English Boston, Inc	v.	Year round English language programmes	100% ordinary shares
Intrax English Academies LLC	vi.	Year round English language programmes	100% ordinary shares
976821 Ontario Inc.	viii.	Year round English language programmes	100% ordinary shares
744648 Alberta Inc.	ix.	Year round English language programmes	100% ordinary shares
Cambridge Education Group Hong Kong Limited	x.	Provision of administrative services for group companies	100% ordinary shares
Cambridge Education Group Consulting (Shanghai) Limited	xi.	Provision of administrative services for group companies	100% ordinary shares
CEG International Limited	i	Dormant	100% ordinary shares

28 List of subsidiary undertakings (continued)

i	Kett House, Station Road, Cambridge, CB1 2JH
ii	Jachthavenweg 109H, 1081 KM Amsterdam, Netherlands
iii	Östra Vallgatan 14, 223 61 Lund, Sweden
iv	251 Little Falls Drive, Wilmington, DE 19808, United States of America
v	84 State Street, Boston, MA 02109, United States of America
vi	600 California Street 10th Floor, San Francisco, CA 94108, United States of America
vii	1200 Waterfront Centre, 200 Burrard Street, Vancouver BC, V6C 3L6, Canada
viii	4400-40 King Street West, Toronto, Ontario, M5H 3Y4, Canada
ix	1900,520-3rd Avenue SW, Calgary, Alberta, T2P 0R3, Canada
x	Suite 2611, Office Tower Langham Place, 8 Argyle Street, Mong Kok, Hong Kong
xi	Room 408, Building 2, NO. 215 Yaohua Road, China (Shanghai) Pilot Free Trade Zone, Shanghai, People's Republic of China
xii	Room 609, Building 2, Lane 166, Min Hong Road, Min Hang District, Shang Hai, People's Republic of China

a With effect from 27 July 2018 the subsidiary changed its name from "CEG Dormant 1 Limited".

29 Ultimate controlling party

The immediate parent company is Camelot Bidco Limited.

Camelot Holdco Limited is the parent company of the smallest group which prepares publicly available consolidated financial statements that incorporate the results of the company and its subsidiaries. Copies of those consolidated financial statements may be obtained from the address given on page 1.

Camelot Topco Limited is the ultimate parent company and the parent undertaking of the largest group which prepares publicly available consolidated financial statements that incorporate the results of the company and its subsidiaries. Copies of those 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.