LUTHERAN PHILIP HOUSE LIMITED
- MA TAU WAI NURSERY SCHOOL

REPORTS AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 AUGUST 2013

梁卓偉會計師行

C. W. LEUNG & CO.

CERTIFIED PUBLIC ACCOUNTANTS

HONG KONG

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(in association with **Tam, Hui, Tse & Ho, CPA**)

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DANNY L. T. HUI	許立德會計師	**FRANKIE T. S. HO**	何達成會計師

INDEPENDENT AUDITOR'S REPORT
TO THE BOARD OF DIRECTORS OF LUTHERAN PHILIP HOUSE LIMITED
RE : MA TAU WAI NURSERY SCHOOL

We have audited the financial statements of Lutheran Philip House Limited - Ma Tau Wai Nursery School (the "Nursery") set out on pages 3 to 13, which comprise the statement of financial position as at 31 August 2013, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

梁卓偉會計師行

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INDEPENDENT AUDITOR'S REPORT (CONT'D)
TO THE BOARD OF DIRECTORS OF LUTHERAN PHILIP HOUSE LIMITED
RE : MA TAU WAI NURSERY SCHOOL

Opinion

In our opinion, the financial statements give a true and fair view of the state of the Nursery's affairs as at 31 August 2013 and of its loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

C. W. LEUNG & CO.
Certified Public Accountants

Hong Kong, 31 MAR 2014

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LUTHERAN PHILIP HOUSE LIMITED - MA TAU WAI NURSERY SCHOOL
STATEMENT OF FINANCIAL POSITION AS AT 31 AUGUST 2013

	Note	2013 HK$	2012 HK$
ASSETS			
Non-current assets			
Plant and equipment	5	**26,737.50**	41,848.50
Current assets			
Inventories		**22,930.20**	25,399.00
Accounts receivable		**7,909.80**	7,718.20
Rental and utility deposit		**11,690.00**	9,300.00
Cash and cash equivalents	7	**689,430.08**	758,485.37
		731,960.08	800,902.57
Total assets		**758,697.58**	842,751.07
RESERVES			
Accumulated fund		**621,564.63**	657,746.97
LIABILITIES			
Current liabilities			
Accruals		**36,462.25**	33,605.00
Receipt in advance		**100,670.70**	151,399.10
Total liabilities		**137,132.95**	185,004.10
Total equity and liabilities		**758,697.58**	842,751.07

Approved and authorised for issue by the Board of Directors on 31 MAR 2014

Chairman

Director

The notes on pages 7 to 13 form an integral part of these financial statements.

LUTHERAN PHILIP HOUSE LIMITED - MA TAU WAI NURSERY SCHOOL
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 AUGUST 2013

	Note	2013 HK$	2012 HK$
School fee income		**2,288,256.00**	2,079,451.00
Sales of textbook book and sundry income		**96,095.20**	95,067.53
Cost of sales of textbook, exercise book and sundry income		**(98,381.31)**	(91,212.89)
Other income	8	**517,467.67**	498,996.10
Employee benefit expenses	9	**(2,333,498.71)**	(2,170,345.71)
Depreciation and amortisation expenses		**(16,711.00)**	(28,799.40)
Other expenses	10	**(489,410.19)**	(445,534.65)
Loss of operating nursery school		**(36,182.34)**	(62,378.02)
Teacher development subsidy surplus/(deficit)			
School-based training		**-**	(17,100.00)
Loss for the year		**(36,182.34)**	(79,478.02)
Other comprehensive income/(loss)		**-**	-
Total comprehensive loss		**(36,182.34)**	(79,478.02)

The notes on pages 7 to 13 form an integral part of these financial statements.

LUTHERAN PHILIP HOUSE LIMITED - MA TAU WAI NURSERY SCHOOL
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 AUGUST 2013

	Accumulated Fund HK$
Balance at 1 September 2011	737,224.99
Total comprehensive loss	(79,478.02)
Balance at 31 August 2012	657,746.97
Balance at 1 September 2012, as per above	657,746.97
Total comprehensive loss	(36,182.34)
Balance at 31 August 2013	621,564.63

Teacher Development Subsidy included in the accumulated fund as the end of the reporting period is as follows :

	2013 HK$	2012 HK$
Accumulated (deficit)/surplus	**(335.80)**	(335.80)

LUTHERAN PHILIP HOUSE LIMITED - MA TAU WAI NURSERY SCHOOL
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 AUGUST 2013

	Note	2013 HK$	2012 HK$
Cash flow from operating activities			
Loss for the year		**(36,182.34)**	(79,478.02)
Adjustments for :			
Depreciation		**16,711.00**	28,799.40
Interest income		**(75.60)**	(83.60)
		(19,546.94)	(50,762.22)
Changes in working capital			
Inventories		**2,468.80**	(3,258.00)
Trade and other receivables		**(2,581.60)**	(6,829.00)
Trade and other payables		**(47,871.15)**	(13,330.60)
Net cash used in operating activities		**(67,530.89)**	(74,179.82)
Cash flow from financing activities			
Purchase of plant and equipment		**(1,600.00)**	(29,881.00)
Interest received		**75.60**	83.60
Net cash used in investing activates		**(1,524.40)**	(29,797.40)
Net decrease in cash and cash equivalents		**(69,055.29)**	(103,977.22)
Cash and cash equivalents at beginning of year		**758,485.37**	862,462.59
Cash and cash equivalents at end of year	7	**689,430.08**	758,485.37

The notes on pages 7 to 13 form an integral part of these financial statements.

1. General information

Lutheran Philip House Limited - Ma Tau Wai Nursery School (the "Nursery") is a nursery operated in Hong Kong. Its business address is No. 115, 117 & 118, G/F., Magnolia House, Ma Tau Wai Estate, Kowloon, Hong Kong.

2. Summary of significant accounting policies

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

2.1 Basis of preparation

The financial statements of the Nursery have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS). The financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Nursery's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

Standards, amendments and interpretations
(a) Effective for the financial year
The Nursery has adopted all relevant standards, amendments and interpretations effective for the financial year. The Supervisor is the opinion that the adoption does not have any significant impact on the Nursery's financial statements.

(b) Having been issued but not yet effective for the financial year
HKFRSs that have been issued but are not yet effective for the financial year include the following HKFRSs which may be relevant to the Nursery's operations and financial statements:

	Effective for annual periods beginning on or thereafter
HKFRS 9 *Financial instruments*	1 January 2015
HKFRS 11 *Joint arrangements*	1 January 2013
HKFRS 12 *Disclosure of interests in other entities*	1 January 2013
HKFRS 13 *Fair value measurement*	1 January 2013
HKAS 19 (revised 2011) *Employee benefits*	1 January 2013
HKAS 28 (revised 2011) *Investments in associates and joint ventures*	1 January 2013
Amendments to HKAS 1 *Presentation of financial statements - Presentation of items of other comprehensive income*	1 July 2012

The Nursery has not adopted any relevant standards, amendments and interpretations issued subsequent to but not being effective at 31 August 2013 of which the Supervisor is of the opinion that there will be no material impact on the financial statements for the period of initial application.

2. Summary of significant accounting policies (cont'd)

2.2 Plant and equipment

The plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Nursery and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the statement of profit or loss and other comprehensive income during the financial period in which they are incurred.

Depreciation of plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Furniture, fixtures, equipment and decoration	25% - 33.33% per annum
Computer hardware and software	33.33% per annum

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

2.3 Impairment of investments in non-financial assets

Assets that have an indefinite useful life or have not yet available for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.4 Financial assets

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. Loans and receivables are classified as 'receivables' and 'cash and cash equivalents' in the statement of financial position (Notes 2.6 and 2.7).

2.5 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2. Summary of significant accounting policies (cont'd)

2.6 Receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Nursery will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of profit or loss and other comprehensive income . When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited in the statement of profit or loss and other comprehensive income .

2.7 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

2.8 Payables

Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.9 Employee benefits

Defined contribution pension obligations
A defined contribution plan is a pension plan under which the Nursery pays contributions into a separate entity. The Nursery has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

2.10 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Nursery's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

The Nursery recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Nursery's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the income have been resolved. The Nursery bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

2. Summary of significant accounting policies (cont'd)

2. 10 Revenue recognition

(a) Nursery services income
Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(b) Subventions, grants and subsidies received
On actual receipt basis.

(c) Sales of goods
When the significant risks and rewards of ownership have been transferred to the buyer, and no significant uncertainties remain regarding the consideration, associated costs or the possible return of goods.

(d) Interest income
Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Nursery reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised either as cash is collected or on a cost-recovery basis as conditions warrant.

2.11 Leases (as the lessee)

Operating lease
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the statement of profit or loss and other comprehensive income on a straight-line basis over the period of the lease.

3. Financial risk management

3.1 Financial risk factors

The Nursery's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk, and liquidity risk. The Board has policies (not written) to focus on the unpredictability of financial markets and seek to minimise potential adverse effects on the Nursery's financial performance as follows :-

(a) Market risk
(i) Foreign exchange risk
The Nursery's business transactions are mainly denominated in Hong Kong dollar and hence its exposure to foreign exchange risk is insignificant.

(ii) Price risk
As at 31 August 2013, the Nursery had no material assets or liabilities of which the carrying values are affected by the prevailing market. Hence, the price risk is insignificant.

(iii) Cash flow and fair value interest rate risk
As the Nursery has no significant interest-bearing assets and liabilities, its income and operating cash flows are substantially independent of changes in market interest rates.

3. Financial risk management

3.1 Financial risk factors

(b) Credit risk
As at 31 August 2013, the Nursery's maximum exposure to credit risk which will cause a financial loss to the Nursery due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the statement of financial position.

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents with banks and financial institutions, as well as credit exposures to other significant receivables. For banks and financial institutions, only those independently rated with a minimum rating of 'Aa2' are accepted. For other significant receivables, the Nursery considers their financial positions to assess their credit qualities.

(c) Liquidity risk
Prudent liquidity risk management involves maintaining sufficient cash for operations.

During the year, the Nursery finances its working capital requirements through the fund generated from operations. In general, the Nursery operates with a working capital surplus.

3.2 Capital risk management

The Nursery monitors its capital without involving any gearing.

4. Critical accounting estimates and judgements

There being no significant accounting estimates and judgements involving in the preparation of the financial statements.

5. Plant and equipment

Year ended 31 August 2013

	Furniture, fixtures equipment and decoration HK$	Computer, hardware and software HK$	Total HK$
Cost			
Balance brought forward	158,177.00	12,438.00	170,615.00
Additions	1,600.00	-	1,600.00
Balance carried forward	159,777.00	12,438.00	172,215.00
Aggregate depreciation			
Balance brought forward	122,516.20	6,250.30	128,766.50
Charge	13,099.80	3,611.20	16,711.00
Balance carried forward	135,616.00	9,861.50	145,477.50
Net book value			
At 31 August 2013	**24,161.00**	**2,576.50**	**26,737.50**

5. Plant and equipment (cont'd)

Year ended 31 August 2012

	Furniture, fixtures equipment and decoration *(Restated)* HK$	Computer, hardware and software *(Restated)* HK$	Total HK$
Cost			
Balance brought forward	132,095.00	8,639.00	140,734.00
Additions	26,082.00	3,799.00	29,881.00
Balance carried forward	158,177.00	12,438.00	170,615.00
Aggregate depreciation			
Balance brought forward	97,651.80	2,315.30	99,967.10
Charge	24,864.40	3,935.00	28,799.40
Balance carried forward	122,516.20	6,250.30	128,766.50
Net book value			
At 31 August 2012	35,660.80	6,187.70	41,848.50

6. Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available):

Cash at bank

	2013 HK$	2012 HK$
Aa2	**686,430.08**	755,485.37

7. Cash and cash equivalents

	2013 HK$	2012 HK$
Cash in hand	**3,000.00**	3,000.00
Cash at bank	**686,430.08**	755,485.37
	689,430.08	758,485.37

8. Other income

	2013 HK$	2012 HK$
Subsidy received under the Kindergarten and Child Care Centre Subsidy Scheme	**40,117.50**	49,551.00
Reimbursement of Rent and rates	**118,913.50**	118,181.50
Meal fee	**352,800.00**	325,600.00
Sundry income	**5,561.07**	500.00
Bank interest income	**75.60**	83.60
Donation	-	5,080.00
	517,467.67	498,996.10

9. Employee benefit expenses

	2013 HK$	2012 HK$
Wages and salaries	**2,227,719.23**	2,070,385.75
Pension costs - defined contribution plans	**105,779.48**	99,959.96
	2,333,498.71	2,170,345.71

10. Other expenses

	2013 HK$	2012 HK$
Operating lease payments	**117,779.70**	112,860.00
Auditors' remuneration	**15,000.00**	15,000.00
Others	**356,630.49**	317,674.65
Total other expenses	**489,410.19**	445,534.65

11. Commitments

Operating lease commitments – where the Nursery is the lessee
The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2013 HK$	2012 HK$
Not later than 1 year	**126,987.00**	65,835.00
Later than 1 year and not later than 5 years	**194,579.00**	-
	321,566.00	65,835.00