The English Schools Foundation

英基學校協會

Consolidated Financial Statements
for the year ended 31 August 2015

Report of the Board of Governors

The Board of Governors ("the Board") have pleasure in submitting their annual report together with the audited consolidated financial statements for the year ended 31 August 2015.

Principal place of business

The English Schools Foundation ("the Foundation") is a subvented organisation incorporated in Hong Kong under The English Schools Foundation Ordinance and has its office and principal place of business at 25/F, 1063 King's Road, Quarry Bay, Hong Kong.

Principal activity

The principal activity of the Foundation and its subsidiary ("the Group") is to own, manage, administer and operate schools to provide a modern liberal education through the medium of English language. In note 9, the Group sets out the principal activities and other particulars of the Foundation's subsidiary. The Foundation and its subsidiary are exempt from taxation pursuant to section 88 of the Hong Kong Inland Revenue Ordinance.

Financial statements

The surplus of the Group for the year ended 31 August 2015 and the state of the Group's affairs as at that date are set out in the consolidated financial statements on pages 5 to 53.

Transfer to reserves

The Group has transferred the surplus for the year of HK$130.2 million (2014: HK$100.1 million (restated)) to reserves.

At 31 August 2015, the Group's reserves amounted to HK$1,400.4 million (2014: HK$1,281.5 million (restated)), being the excess of assets over liabilities. The Group sets out details of the reserves in note 23 and the statement of changes in reserves.

Under the terms of The English Schools Foundation Ordinance, no dividend or bonus whatsoever can be paid and no gift or division of money or any property whatsoever can be made by or on behalf of the Foundation to any of the officers or employees of the Foundation, any of the members of the Board or any of the students of the schools of the Foundation except by way of prize, reward or special grant or in the case of an employee of the Foundation, by way of a dividend or bonus payable under a contract of employment.

Fixed assets

Fixed assets include properties, leasehold improvements, furniture and equipment of the Group's schools, office and residential properties. At 31 August 2015, the net book value of the fixed assets was HK$1,699.8 million (2014: HK$1,609.8 million) and the depreciation charge for the year then ended was HK$134.8 million (2014: HK$111.2 million), respectively; see note 5 to the financial statements for details of movements in fixed assets.

Members of the Board

The members of the Board during the financial year and up to the date of this report are:

Abraham Shek (Chairman)	(nominated by the Nominating Committee on 3 May 2015)
Pauline Ng (Vice-chairman)	(elected by members of the Board on 16 December 2015)
Robert Gazzi (Treasurer)	
Alexander Chan	
Brenda Cook	
Connie Liu	
Elaine Leung	
Francis Carroll	
Judy Woo	
Kelvin Wong	
Nirmala Rao	
P M Kam	
Amanda Barton	(elected by the Committee of Teaching Staff on 17 September 2015)
Andrew Greene	(elected by the Committee of Teaching Staff on 17 September 2015)
Christine Brendle	(elected by the Committee of Parents on 2 October 2015)
Dannis Au	(elected by parents of students of schools of the Foundation , Renaissance College and Discovery College on 21 November 2015))
Dayna Lim Cheung	(elected by parents of students of schools of the Foundation from among the parents of students with special educational needs on 17 September 2015)
Joanne Bowers	(elected by the Committee of Support Staff on 6 November 2015)
Judy Vas	(elected by the Committee of School Council Chairmen on 24 September 2014)
Kumar Ramanathan	(nominated by the Nominating Committee on 29 October 2014)
Paul Varty	(nominated by the Nominating Committee on 25 November 2015)

Members of the Board (continued)

The members of the Board during the financial year and up to the date of this report are: (continued)

Ronald Abbott	(elected by parents of students of schools of the Foundation, Renaissance College and Discovery College on 24 September 2014)
Scarlett Mattoli	(elected by parents of students of schools of the Foundation, Renaissance College and Discovery College on 24 September 2014)
Schumann Tang	(elected by parents of students of schools of the Foundation, Renaissance College and Discovery College on 24 September 2014)
Virginia Morris	(elected by the Committee of School Council Chairmen on 24 September 2014)
Andrea Lowe	(resigned on 20 November 2015)
Carlson Tong (Chairman)	(resigned on 2 May 2015)
Elizabeth Bosher (Vice-chairman)	(resigned on 26 October 2015)
Gordon Lamb	(resigned on 19 September 2014)
Kim Anderson	(resigned on 30 June 2015)
Kim Mak	(resigned on 27 October 2014)
Marc Castagnet	(resigned on 30 September 2015)
Matthew Caplin	(resigned on 12 September 2015)
Mike Draeger	(resigned on 4 November 2015)
Paul Clarke	(resigned on 12 September 2015)
Paul Varty	(resigned on 5 September 2014)
Belinda Greer (Chief Executive Officer, ex officio)	

The term of office of a member, other than an ex officio member, shall be 3 years. A member is eligible for re-nomination or re-election at the expiry of his term as a member, but a person shall not serve as a member consecutively for more than 2 terms.

At no time during the year was the Group a party to any arrangement to enable the members of the Board to acquire benefits by means of the acquisition of interest in the Group or any other body corporate.

Auditors

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Foundation has been proposed.

By order of the Board

Chairman

Hong Kong,
16 DEC 2015

Statement of comprehensive income for the year ended 31 August 2015

(Expressed in Hong Kong dollars)

	Note	*The Group* 2015 $'million	*The Group* 2014 $'million (restated)	*The Foundation* 2015 $'million	*The Foundation* 2014 $'million
Income					
Operating income					
Government grants	14	271.1	271.1	271.1	271.1
Tuition fees		1,636.8	1,538.9	1,185.8	1,129.7
Programme income		60.3	58.2	-	-
Rental income		76.2	76.0	79.4	77.1
Donations		9.8	4.9	8.7	4.3
Interest income		5.6	5.1	5.3	4.8
Income from subsidiary					
– From Development and Operating Agreement		-	-	21.2	21.2
– Management and administrative income		-	-	11.7	7.9
Transfer from previous years' scholarship fund and hardship allowance surplus	15	3.5	1.3	-	-
Miscellaneous income		27.9	22.0	13.0	11.4
		2,091.2	1,977.5	1,596.2	1,527.5
Non-operating income					
Individual nomination rights		62.5	44.8	45.9	30.6
Amortisation of corporate nomination rights		0.5	0.1	0.5	0.1
Non-refundable building levy		12.5	10.8	-	-
Non-refundable capital levy		1.9	-	1.9	-
		77.4	55.7	48.3	30.7
Total income		2,168.6	2,033.2	1,644.5	1,558.2

Statement of comprehensive income for the year ended 31 August 2015 (continued)

(Expressed in Hong Kong dollars)

	Note	*The Group* 2015 $'million	*The Group* 2014 $'million (restated)	*The Foundation* 2015 $'million	*The Foundation* 2014 $'million
Expenditure					
Staff expenses					
Basic salaries					
– Professional		921.2	894.8	688.4	673.8
– Other staff		274.8	255.3	206.2	194.0
Gratuities and allowances		350.8	331.8	265.1	255.4
Accommodation		24.1	18.9	24.1	18.9
Medical expenses		39.8	34.4	30.7	26.7
Passage and other allowances		2.6	3.2	2.1	2.8
	2(a)	1,613.3	1,538.4	1,216.6	1,171.6
Other expenses					
Depreciation on schools and offices		128.4	109.2	119.1	101.7
Repairs and maintenance		87.4	85.2	74.7	72.2
Other operating expenses	3	172.1	166.7	114.3	114.8
Scholarship fund and hardship allowance	15	37.2	33.6	-	-
		425.1	394.7	308.1	288.7
Total expenses		2,038.4	1,933.1	1,524.7	1,460.3
Surplus for the year	2	130.2	100.1	119.8	97.9

Statement of comprehensive income for the year ended 31 August 2015 (continued)

(Expressed in Hong Kong dollars)

		The Group		*The Foundation*	
	Note	*2015* $'million	*2014* $'million (restated)	*2015* $'million	*2014* $'million
Surplus for the year		130.2	100.1	119.8	97.9
Other comprehensive income for the year					
Item that will not be reclassified to surplus or deficit:					
Remeasurement of net defined benefit asset	6(b)(v)	(11.3)	9.4	(11.3)	9.4
Total comprehensive income for the year		118.9	109.5	108.5	107.3
Represented by:					
Operating surplus		41.5	53.8	60.2	76.6
Capital fund surplus		77.4	55.7	48.3	30.7
		118.9	109.5	108.5	107.3

The notes on pages 15 to 53 form part of these financial statements.

Statement of financial position as at 31 August 2015

(Expressed in Hong Kong dollars)

		The Group			*The Foundation*	
	Note	*31 August 2015* $'million	*31 August 2014* $'million (restated)	*1 September 2013* $'million (restated)	*31 August 2015* $'million	*31 August 2014* $'million
Non-current assets						
Fixed assets	5					
- Investment properties		65.3	-	-	65.3	-
- Other properties, plant and equipment		1,634.5	1,609.8	1,454.5	1,541.9	1,551.3
		1,699.8	1,609.8	1,454.5	1,607.2	1,551.3
Defined benefit retirement scheme	6	34.6	49.8	44.6	34.6	49.8
		1,734.4	1,659.6	1,499.1	1,641.8	1,601.1
Current assets	7					
Inventories		0.8	0.8	0.7	-	-
Rental, utility and other deposits		11.4	10.6	10.3	7.0	6.9
Prepayments		15.7	13.5	13.0	8.5	8.4
Loans to staff		5.8	4.7	7.1	4.3	3.2
Fees and other receivables	8	13.8	6.1	3.0	3.1	4.9
Government grants receivable		8.9	7.0	40.9	8.9	7.0
Restricted cash	10	2.3	1.8	1.5	-	-
Deposits with original maturities over three months		352.9	312.4	232.0	340.0	310.3
Cash and cash equivalents	11	192.5	207.0	223.6	111.0	116.4
		604.1	563.9	532.1	482.8	457.1

Statement of financial position as at 31 August 2015 (continued)

(Expressed in Hong Kong dollars)

	Note	The Group 31 August 2015 $'million	The Group 31 August 2014 $'million (restated)	The Group 1 September 2013 $'million (restated)	The Foundation 31 August 2015 $'million	The Foundation 31 August 2014 $'million
Current liabilities	7					
Fees received in advance		143.2	154.2	165.1	64.9	76.9
Nomination rights received in advance		3.6	5.8	2.9	2.9	4.5
Amount due to subsidiary	9	-	-	-	2.4	35.3
Provision to meet staff conditions of service	12	102.9	88.3	88.3	80.7	69.9
Accounts payables and accruals	13	296.0	353.0	341.1	255.8	309.7
Government hardship allowance	14(b)	31.9	34.1	35.6	31.9	34.1
Scholarship fund and hardship allowance	15	25.2	28.1	33.4	-	-
Obligations under finance leases	16	0.3	0.7	0.1	0.3	0.7
Debenture	18	5.0	4.1	-	-	-
Deferred income						
- Non-refundable building levy	19	3.4	4.0	2.7	-	-
- Non-refundable capital levy	20	3.5	-	-	3.5	-
Corporate nomination rights	22	0.5	0.3	-	0.5	0.3
		615.5	672.6	669.2	442.9	531.4
Net current (liabilities)/ assets		(11.4)	(108.7)	(137.1)	39.9	(74.3)
Total assets less current liabilities		1,723.0	1,550.9	1,362.0	1,681.7	1,526.8

Statement of financial position as at 31 August 2015 (continued)

(Expressed in Hong Kong dollars)

		The Group			*The Foundation*	
	Note	*31 August 2015* $'million	*31 August 2014* $'million (restated)	*1 September 2013* $'million (restated)	*31 August 2015* $'million	*31 August 2014* $'million
Non-current liabilities						
Obligations under finance leases	16	0.7	2.2	*-	0.7	2.2
Refundable capital levy	17	222.5	218.8	173.4	222.5	218.8
Debenture	18	4.2	4.3	4.3	-	-
Deferred income						
- Non-refundable building levy	19	26.4	19.5	12.3	-	-
- Non-refundable capital levy	20	44.9	-	-	44.9	-
Corporate nomination rights	22	23.9	24.6	-	23.9	24.6
		322.6	269.4	190.0	292.0	245.6
NET ASSETS		1,400.4	1,281.5	1,172.0	1,389.7	1,281.2
RESERVES	23					
General reserve		1,041.1	1,005.4	931.7	1,116.5	1,062.1
Capital fund		214.6	137.2	81.5	128.5	80.2
Schools reserves		144.7	138.9	158.8	144.7	138.9
		1,400.4	1,281.5	1,172.0	1,389.7	1,281.2

* Less than $0.1 million

Approved and authorised for issue by the Board of Governors on 16 DEC 2015

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The notes on pages 15 to 53 form part of these financial statements.

Statement of changes in reserves for the year ended 31 August 2015

(Expressed in Hong Kong dollars)

The Group

	General reserve	*Capital fund* (note 23(a))	*Schools reserves* (note 23(b))	*Total*
	$'million	$'million (restated)	$'million	$'million (restated)
As previously reported at 1 September 2013	931.7	96.5	158.8	1,187.0
Impact of change in accounting policy	-	(15.0)	-	(15.0)
Restated balance at 1 September 2013	931.7	81.5	158.8	1,172.0
Surplus for the year	(14.6)	55.7	59.0	100.1
Transfers	78.9	-	(78.9)	-
Other comprehensive income	9.4	-	-	9.4
Total comprehensive income	73.7	55.7	(19.9)	109.5
Restated balance at 31 August 2014 and 1 September 2014	1,005.4	137.2	138.9	1,281.5
Surplus for the year	10.0	77.4	42.8	130.2
Transfers	37.0	-	(37.0)	-
Other comprehensive income	(11.3)	-	-	(11.3)
Total comprehensive income	35.7	77.4	5.8	118.9
At 31 August 2015	1,041.1	214.6	144.7	1,400.4

Statement of changes in reserves for the year ended 31 August 2015 (continued)

(Expressed in Hong Kong dollars)

The Foundation

	General reserve	*Capital fund* (note 23(a))	*Schools reserves* (note 23(b))	*Total*
	$'million	$'million	$'million	$'million
At 1 September 2013	965.6	49.5	158.8	1,173.9
Surplus for the year	8.2	30.7	59.0	97.9
Transfers	78.9	-	(78.9)	-
Other comprehensive income	9.4	-	-	9.4
Total comprehensive income	96.5	30.7	(19.9)	107.3
At 31 August 2014 and 1 September 2014	1,062.1	80.2	138.9	1,281.2
Surplus for the year	28.7	48.3	42.8	119.8
Transfers	37.0	-	(37.0)	-
Other comprehensive income	(11.3)	-	-	(11.3)
Total comprehensive income	54.4	48.3	5.8	108.5
At 31 August 2015	1,116.5	128.5	144.7	1,389.7

The notes on pages 15 to 53 form part of these financial statements.

Cash flow statement
for the year ended 31 August 2015
(Expressed in Hong Kong dollars)

	Note	*The Group* 2015 $'million	*The Group* 2014 $'million	*The Foundation* 2015 $'million	*The Foundation* 2014 $'million
Operating activities					
Net cash generated from operating activities	11(b)	185.4	149.0	169.7	159.4
Investing activities					
Payments for the purchase of fixed assets less capital creditors		(300.9)	(293.2)	(251.5)	(270.6)
Increase in bank deposits with original maturities over three months		(40.5)	(80.4)	(29.7)	(80.2)
Government grants received		3.3	62.2	3.3	62.2
Increase in deposits pledged with bank		(0.5)	(0.3)	-	-
Interest received		5.6	5.1	5.3	4.8
Net cash used in investing activities		(333.0)	(306.6)	(272.6)	(283.8)

Cash flow statement
for the year ended 31 August 2015 (continued)
(Expressed in Hong Kong dollars)

	Note	*The Group* 2015 $'million	*The Group* 2014 $'million	*The Foundation* 2015 $'million	*The Foundation* 2014 $'million
Financing activities					
Increase in refundable capital levy		3.7	45.4	3.7	45.4
Proceeds from issue of nomination rights		60.3	72.7	44.3	57.4
Proceeds from non-refundable building levy		18.8	19.3	-	-
Proceeds from non-refundable capital levy		50.3	-	50.3	-
Proceeds from issuance of debenture		0.8	4.1	-	-
Capital element of finance lease rentals paid		(0.7)	(0.4)	(0.7)	(0.4)
Interest element of finance lease rentals paid		(0.1)	(0.1)	(0.1)	(0.1)
Net cash generated from financing activities		133.1	141.0	97.5	102.3
Net decrease in cash and cash equivalents		(14.5)	(16.6)	(5.4)	(22.1)
Cash and cash equivalents at beginning of the year		207.0	223.6	116.4	138.5
Cash and cash equivalents at end of the year	11(a)	192.5	207.0	111.0	116.4

The notes on pages 15 to 53 form part of these financial statements.

Notes to the financial statements
(Expressed in Hong Kong dollars)

1 Background

The English Schools Foundation ("the Foundation") is incorporated in Hong Kong under The English Schools Foundation Ordinance. The Foundation has a wholly owned subsidiary, ESF Educational Services Limited ("ESL") (together referred to as "the Group"). The Board of Governors of the Foundation ("the Board") is responsible for the preparation of consolidated financial statements.

The principal activity of the Group is to own, manage, administer and operate schools to provide a modern liberal education through the medium of English language. The principal activities and other particulars of the Foundation's subsidiary are set out in note 9 to the financial statements.

2 Surplus for the year

Surplus for the year is arrived at after charging/(crediting):

	Note	*The Group* 2015 $'million	*The Group* 2014 $'million	*The Foundation* 2015 $'million	*The Foundation* 2014 $'million
(a) Staff costs					
Contribution to defined contribution retirement schemes		35.6	30.5	26.6	22.6
Net defined benefit retirement schemes expenses	6(b)(v)	3.9	4.2	3.9	4.2
Retirement costs		39.5	34.7	30.5	26.8
Salaries, wages and other benefits		1,573.8	1,503.7	1,186.1	1,144.8
		1,613.3	1,538.4	1,216.6	1,171.6

2 Surplus for the year (continued)

Surplus for the year is arrived at after charging/(crediting): (continued)

	Note	The Group 2015 $'million	The Group 2014 $'million	The Foundation 2015 $'million	The Foundation 2014 $'million
(b) Other items					
Gross rental income from investment properties		(32.6)	-	(32.6)	-
Direct rental outgoings in respect of investment properties:					
- generated rental income		16.7	-	16.7	-
- did not generate rental income		1.9	-	1.9	-
Depreciation	5	134.8	111.2	125.5	103.7
Loss on disposals of fixed assets		1.4	4.4	1.3	4.3
Operating lease charges:					
- equipment rentals	3	0.3	0.2	0.3	0.2
- property rentals	3	19.3	17.6	10.1	10.0

3 Other operating expenses

	Note	The Group 2015 $'million	The Group 2014 $'million	The Foundation 2015 $'million	The Foundation 2014 $'million
Audit fees		1.0	1.1	0.8	0.9
Cost of goods sold		1.3	1.2	-	-
Finance lease interest expenses		0.1	0.1	0.1	0.1
Impairment loss of fees and other receivables		0.1	0.7	-	0.7
Information technology expenses		17.8	18.7	13.8	14.4
Insurance		5.7	5.1	4.0	3.7
Leased equipment rentals	2(b)	0.3	0.2	0.3	0.2
Legal and professional fees		2.6	3.1	2.0	1.8
Library		2.0	1.9	1.3	1.4
Net government rent and rates	14(c)	1.4	1.3	0.7	0.8
Professional development and training		14.2	16.2	11.8	13.4
Property rentals	2(b)	19.3	17.6	10.1	10.0
Property management fee		3.1	2.9	1.8	1.7
Public relations and marketing expenses		4.2	2.1	2.4	0.7
Printing and stationery		8.1	8.6	6.0	6.4
Recruitment expenses		5.4	5.4	4.4	4.5
Teaching resources and materials		37.1	33.5	21.0	19.9
Utilities		29.5	29.3	21.1	21.3
General expenses		18.9	17.7	12.7	12.9
		172.1	166.7	114.3	114.8

4 Taxation

The Foundation and ESL are exempted from taxation pursuant to section 88 of the Hong Kong Inland Revenue Ordinance.

5 Fixed assets

Accounting policy

The Group records fixed assets other than construction in progress in the statement of financial position at cost less related government grants, accumulated depreciation and impairment losses.

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 27(f)) to earn rental income and / or for capital appreciation. Rental income from investment properties is accounted for as described in note 27(d).

The Group records construction in progress at cost less related government grants, and is transferred to other categories of fixed assets when substantially all the activities necessary to prepare the assets for their intended use are completed.

The Group charges depreciation that is designed to write off the cost of fixed assets, less related government grants to their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

–	*Buildings/investment properties*	*20 - 50 years*
–	*Building improvements*	*10 - 20 years*
–	*Leasehold improvements*	*Shorter of the lease term or useful life*
–	*Computer equipment*	*3 - 5 years*
–	*Furniture and other equipment*	*5 - 10 years*

Annually the Group reviews the estimated life of the assets and the estimates of residual value. The Group states construction in progress at cost and it is not subject to any depreciation charge. Where parts of an item of fixed assets have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately.

The Group adds subsequent expenditure relating to fixed assets that the Group has already recognised to the carrying amount of the asset provided the Group considers that it is probable that the Group will obtain future economic benefits, in excess of the originally assessed standard of performance of the existing asset, from the expenditure. All other subsequent expenditure is recognised as an expense in the year in which it is incurred.

On the date of the retirement or disposal of an item of fixed assets, the Group recognises the related gains and losses being the difference between the net disposal proceeds and the carrying amount of the item.

5 Fixed assets (continued)

(a) The Group

	Buildings and building improvements				*Furniture and equipment*						
	Foundation's Schools $'million	*Renaissance College & Discovery College* $'million	*Quarters & others* $'million	*Leasehold improvements* $'million	*Foundation's Schools* $'million	*Renaissance College & Discovery College* $'million	*Quarters and others**** $'million	*Construction in progress* $'million	*Sub-total* $'million	*Investment properties* $'million	*Total* $'million
Cost:											
At 1 September 2014	1,957.3	599.1	280.5	30.0	381.4	64.8	42.9	49.4	3,405.4	-	3,405.4
Additions	49.4	17.9	-	3.6	40.4	15.4	2.1	102.4	231.2	0.2	231.4
Transfers of construction in progress	42.0	3.5	-	-	4.6	-	5.7	(91.1)	(35.3)	35.3	-
Transfers of investment properties	-	-	(199.7)	-	-	-	-	-	(199.7)	199.7	-
Disposals/adjustments*	(1.7)	-	-	-	(35.4)	(1.4)	(0.6)	-	(39.1)	(2.9)	(42.0)
At 31 August 2015	2,047.0	620.5	80.8	33.6	391.0	78.8	50.1	60.7	3,362.5	232.3	3,594.8
Government grants:											
At 1 September 2014	(241.1)	(328.7)	(45.5)	-	-	-	-	-	(615.3)	-	(615.3)
Additions	(5.2)	-	-	-	-	-	-	-	(5.2)	-	(5.2)
At 31 August 2015	(246.3)	(328.7)	(45.5)	-	-	-	-	-	(620.5)	-	(620.5)
Accumulated depreciation:											
At 1 September 2014	(666.9)	(64.0)	(191.4)	(24.1)	(153.5)	(45.6)	(34.8)	-	(1,180.3)	-	(1,180.3)
Charge for the year**	(64.6)	(7.6)	(0.4)	(2.2)	(44.1)	(6.8)	(4.3)	-	(130.0)	(4.8)	(134.8)
Transfer of investment properties	-	-	162.2	-	-	-	-	-	162.2	(162.2)	-
Write-back on disposals/adjustments*	0.4	-	-	-	35.4	1.2	3.6	-	40.6	-	40.6
At 31 August 2015	(731.1)	(71.6)	(29.6)	(26.3)	(162.2)	(51.2)	(35.5)	-	(1,107.5)	(167.0)	(1,274.5)
Net book value:											
At 31 August 2015	1,069.6	220.2	5.7	7.3	228.8	27.6	14.6	60.7	1,634.5	65.3	1,699.8

* Adjustments on cost and depreciation of fixed assets relate to certain fixed assets capitalised at the time of commissioning based on estimates. Such assets' final values have been adjusted following finalisation of contract claims with contractors at final contract values during the year.

** Depreciation charge of quarters of the Group for the year ended 31 August 2015 was $6.4 million (2014: $2.0 million). The amount is included in "Accommodation" in the statement of comprehensive income. Remaining charges represent depreciation on schools and offices and are shown separately in the statement of comprehensive income.

*** The cost and related accumulated depreciation of the furniture and equipment of the Group's kindergartens are included in "Quarters and others" under "Furniture and Equipment" category.

5 Fixed assets (continued)

(a) *The Group (continued)*

	Buildings and building improvements				Furniture and equipment				
	Foundation's Schools $'million	*Renaissance College & Discovery College* $'million	*Quarters & others* $'million	*Leasehold improvements* $'million	*Foundation's Schools* $'million	*Renaissance College & Discovery College* $'million	*Quarters and others**** $'million	*Construction in progress* $'million	*Total* $'million
Cost:									
At 1 September 2013	1,745.7	577.9	257.3	29.7	339.9	58.7	40.5	80.9	3,130.6
Additions	84.5	0.8	0.7	0.3	41.3	8.5	3.0	162.6	301.7
Transfers	133.4	24.5	22.5	-	13.5	0.2	-	(194.1)	-
Disposals/adjustments*	(6.3)	(4.1)	-	-	(13.3)	(2.6)	(0.6)	-	(26.9)
At 31 August 2014	1,957.3	599.1	280.5	30.0	381.4	64.8	42.9	49.4	3,405.4
Government grants:									
At 1 September 2013	(205.8)	(338.6)	(45.5)	-	-	-	-	-	(589.9)
Additions	(35.3)	-	-	-	-	-	-	-	(35.3)
Disposals	-	9.9	-	-	-	-	-	-	9.9
At 31 August 2014	(241.1)	(328.7)	(45.5)	-	-	-	-	-	(615.3)
Accumulated depreciation:									
At 1 September 2013	(620.6)	(59.0)	(189.8)	(19.9)	(125.9)	(40.2)	(30.8)	-	(1,086.2)
Charge for the year**	(46.5)	(6.1)	(1.6)	(4.2)	(40.4)	(7.8)	(4.6)	-	(111.2)
Write-back on disposals/adjustments*	0.2	1.1	-	-	12.8	2.4	0.6	-	17.1
At 31 August 2014	(666.9)	(64.0)	(191.4)	(24.1)	(153.5)	(45.6)	(34.8)	-	(1,180.3)
Net book value:									
At 31 August 2014	1,049.3	206.4	43.6	5.9	227.9	19.2	8.1	49.4	1,609.8

* Adjustments on cost and depreciation of fixed assets relate to certain fixed assets capitalised at the time of commissioning based on estimates. Such assets' final values have been adjusted following finalisation of contract claims with contractors at final contract values during the year.

** Depreciation charge of quarters of the Group for the year ended 31 August 2015 was $6.4 million (2014: $2.0 million). The amount is included in "Accommodation" in the statement of comprehensive income. Remaining charges represent depreciation on schools and offices and are shown separately in the statement of comprehensive income.

*** The cost and related accumulated depreciation of the furniture and equipment of the Group's kindergartens are included in "Quarters and others" under "Furniture and Equipment" category.

5 Fixed assets (continued)

(b) *The Foundation*

	Buildings and building improvements				*Furniture and equipment*						
	Foundation's Schools $'million	*Renaissance College and Discovery College* $'million	*Quarters and others* $'million	*Leasehold improvements* $'million	*Foundation's Schools* $'million	*Renaissance College and Discovery College* $'million	*Quarters and others* $'million	*Construction in progress* $'million	*Sub-total* $'million	*Investment properties* $'million	*Total* $'million
Cost:											
At 1 September 2014	1,957.3	425.8	280.5	7.0	381.4	50.7	33.4	43.0	3,179.1	-	3,179.1
Additions	49.4	0.1	-	-	40.4	-	0.9	96.9	187.7	0.2	187.9
Transfers of construction in progress	42.0	-	-	-	4.6	-	5.7	(87.6)	(35.3)	35.3	-
Transfer of investment properties	-	-	(199.7)	-	-	-	-	-	(199.7)	199.7	-
Disposals/adjustments*	(1.7)	-	-	-	(35.4)	(1.3)	1.5	-	(36.9)	(2.9)	(39.8)
At 31 August 2015	2,047.0	425.9	80.8	7.0	391.0	49.4	41.5	52.3	3,094.9	232.3	3,327.2
Government grants:											
At 1 September 2014	(241.1)	(188.9)	(45.5)	-	-	-	-	-	(475.5)	-	(475.5)
Additions	(5.2)	-	-	-	-	-	-	-	(5.2)	-	(5.2)
At 31 August 2015	(246.3)	(188.9)	(45.5)	-	-	-	-	-	(480.7)	-	(480.7)
Accumulated depreciation:											
At 1 September 2014	(666.9)	(61.7)	(191.4)	(6.4)	(153.5)	(44.4)	(28.0)	-	(1,152.3)	-	(1,152.3)
Charge for the year***	(64.6)	(4.5)	(0.4)	(0.6)	(44.1)	(3.2)	(3.3)	-	(120.7)	(4.8)	(125.5)
Transfer of investment properties	-	-	162.2	-	-	-	-	-	162.2	(162.2)	-
Write-back on disposals/adjustments*	0.4	-	-	-	35.4	1.2	1.5	-	38.5	-	38.5
At 31 August 2015	(731.1)	(66.2)	(29.6)	(7.0)	(162.2)	(46.4)	(29.8)	-	(1,072.3)	(167.0)	(1,239.3)
Net book value:											
At 31 August 2015	1,069.6	170.8	5.7	-	228.8	3.0	11.7	52.3	1,541.9	65.3	1,607.2

* Adjustments on cost and depreciation of fixed assets relate to certain fixed assets capitalised at the time of commissioning based on estimates. Such assets' final values have been adjusted following finalisation of contract claims with contractors at final contract values during the year.

** The amount represented the construction cost not covered by Government grants according to the final project subvention. The Foundation would bear this cost under the Development and Operating Agreement dated 23 August 2006.

*** Depreciation charge of quarters of the Foundation for the year ended 31 August 2015 was $6.4 million (2014: $2.0 million). The amount is included in "Accommodation" in the statement of comprehensive income. Remaining charges represent depreciation on schools and offices and are shown separately in the statement of comprehensive income.

5 Fixed assets (continued)

(b) *The Foundation (continued)*

	Buildings and building improvements				Furniture and equipment				
	Foundation's Schools $'million	Renaissance College and Discovery College $'million	Quarters and others $'million	Leasehold improvements $'million	Foundation's Schools $'million	Renaissance College and Discovery College $'million	Quarters and others $'million	Construction in progress $'million	Total $'million
Cost:									
At 1 September 2013	1,745.7	421.1	257.3	7.0	339.9	51.6	32.3	54.7	2,909.6
Additions	84.5	0.3	0.7	-	41.3	-	1.5	157.9	286.2
Transfers	133.4	-	22.5	-	13.5	0.2	-	(169.6)	-
Disposals/adjustments*	(6.3)	(4.1)	-	-	(13.3)	(1.1)	(0.4)	-	(25.2)
Transfers from ESL**	-	8.5	-	-	-	-	-	-	8.5
At 31 August 2014	1,957.3	425.8	280.5	7.0	381.4	50.7	33.4	43.0	3,179.1
Government grants:									
At 1 September 2013	(205.8)	(190.3)	(45.5)	-	-	-	-	-	(441.6)
Additions	(35.3)	-	-	-	-	-	-	-	(35.3)
Disposals	-	1.4	-	-	-	-	-	-	1.4
At 31 August 2014	(241.1)	(188.9)	(45.5)	-	-	-	-	-	(475.5)
Accumulated depreciation:									
At 1 September 2013	(620.6)	(58.2)	(189.8)	(5.1)	(125.9)	(39.9)	(24.7)	-	(1,064.2)
Charge for the year***	(46.5)	(4.6)	(1.6)	(1.3)	(40.4)	(5.6)	(3.7)	-	(103.7)
Write-back on disposals/adjustments*	0.2	1.1	-	-	12.8	1.1	0.4	-	15.6
At 31 August 2014	(666.9)	(61.7)	(191.4)	(6.4)	(153.5)	(44.4)	(28.0)	-	(1,152.3)
Net book value:									
At 31 August 2014	1,049.3	175.2	43.6	0.6	227.9	6.3	5.4	43.0	1,551.3

* Adjustments on cost and depreciation of fixed assets relate to certain fixed assets capitalised at the time of commissioning based on estimates. Such assets' final values have been adjusted following finalisation of contract claims with contractors at final contract values during the year.

** The amount represented the construction cost not covered by Government grants according to the final project subvention. The Foundation would bear this cost under the Development and Operating Agreement dated 23 August 2006.

*** Depreciation charge of quarters of the Foundation for the year ended 31 August 2015 was $6.4 million (2014: $2.0 million). The amount is included in "Accommodation" in the statement of comprehensive income. Remaining charges represent depreciation on schools and offices and are shown separately in the statement of comprehensive income.

5 Fixed assets (continued)

(c) The Group's and the Foundation's schools are built on sites provided by the Government (either free of premium or nominal premium) on education leases which impose certain restrictions on use. All the leases run until 2047 or later, except for Renaissance College and Discovery College, which are on temporary leases renewable until the lease is terminated by the Government.

(d) Residential properties

The Group and the Foundation own 202 (2014: 202) housing units which are used as staff quarters or leased to third parties.

The Board has reviewed the residential property portfolio. Non-assignment clauses contained in the Conditions of Grants for the 87 units of Braemar Heights prevent their sale on the open market. Majority of the 115 remaining property units are leased to third parties and hence the Group and the Foundation transferred the carrying value of these units from buildings and building improvements to investment properties with effect from 1 September 2014. An independent firm of surveyors, Knight Frank Petty Limited, valued the investment properties owned by the Group and the Foundation as at 31 August 2015 at $3,209.0 million (2014: $2,703.6 million).

(e) Mortgage of residential properties for banking facilities

The banking facilities of the Group and the Foundation granted by The Hong Kong and Shanghai Banking Corporation Limited are secured by mortgages over 12 residential properties with net book value of $3.4 million at 31 August 2015 (2014: 12 residential properties with net book value of $1.8 million). The market value of the 12 residential properties as at 31 August 2015 based on external valuations was $181.0 million (2014: $167.1 million).

(f) Equipment held under finance leases

The Group and the Foundation have acquired office equipment under finance leases with terms ranging from two to five years. At the end of the lease term the Group and the Foundation have options to purchase the equipment at a price deemed to be a bargain purchase option.

The net book value of equipment held under finance leases as at 31 August 2015 was $1.1 million (2014: $3.3 million) and the depreciation charge for the year ended 31 August 2015 was $0.3 million (2014: $0.1 million).

6 Retirement schemes

Accounting policy

(i) *The Group recognises as expense obligations for contributions to defined contribution retirement schemes, including contributions payable under the Hong Kong Mandatory Provident Fund Schemes Ordinance, as they are incurred.*

(ii) *The Group calculates the Group's net obligation in respect of defined benefit retirement schemes separately for each scheme by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years; the Group discounts that benefit to determine the present value, and the fair value of any scheme assets is deducted. A qualified actuary performs the calculation using the projected unit credit method. When the calculation results in a benefit to the Group, the Group recognises asset limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.*

The Group recognises service cost and net interest expense (income) on the net defined benefit liability (asset) in the statement of comprehensive income. The Group measures current service cost as the increase in the present value of the defined benefit obligation resulting from employee service in the current period. When the benefits of a plan are changed, or when a plan is curtailed, the Group recognises the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, as an expense in the statement of comprehensive income at the earlier of when the plan amendment or curtailment occurs and when related restructuring costs or termination benefits are recognised. The Group determines net interest expense (income) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the year to the net defined benefit liability (asset). The discount rate is the yield at the end of reporting period on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations.

The Group recognises remeasurements arising from defined benefit retirement plans in other comprehensive income and reflected immediately in retained earnings. Remeasurements comprise actuarial gains and losses, the return on plan assets (excluding amounts included in net interest on the net defined benefit liability (asset)) and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability (asset)).

(a) The Group and the Foundation operates three employee retirement schemes for staff:

(i) the Senior Staff and Teaching Staff Elective Provident Fund;

(ii) the Non-Teaching Staff Superannuation Scheme (the "NT Scheme"), eligible staff are non-teaching staff employed before 19 January 2000 under the conditions of service applicable before that date; and

(iii) the Terminal Award Scheme (the "TA Scheme"), eligible staff are teaching and senior staff employed before 1 September 1988.

6 Retirement schemes (continued)

(a) The Group and the Foundation operates three employee retirement schemes for staff: (continued)

The Senior Staff and Teaching Staff Elective Provident Fund is a defined contribution retirement scheme, therefore once contributions are made no further liability accrues to the Group and the Foundation. The other two schemes are defined benefit retirement schemes funded by contributions from the Group and the Foundation in accordance with an independent actuary's recommendation based on annual actuarial valuations.

(b) Defined benefit retirement schemes

(i) The amount recognised in the statement of financial position is as follows:

	The Group and the Foundation	
	2015	*2014*
	$'million	$'million
Present value of defined benefit obligations	(77.8)	(87.6)
Fair value of scheme assets	112.4	137.4
	34.6	49.8

The Group and the Foundation expect that a portion of the above defined benefit retirement schemes assets will be recovered within one year. However, it is not practicable to segregate this amount from the amounts recoverable in later periods, as future contributions will relate to future services rendered and future changes in actuarial assumptions and market conditions. Accordingly, the Group and the Foundation have recorded the assets as non-current assets.

The Group and the Foundation do not expect to make any contribution to the schemes in the year ending 31 August 2016.

(ii) Scheme assets for each of the TA Scheme and the NT Scheme consist of the following:

	The Group and the Foundation			
	TA Scheme		*NT Scheme*	
	2015	*2014*	*2015*	*2014*
	$'million	$'million	$'million	$'million
Equities	13.4	14.3	49.7	56.1
Fixed income securities	11.9	18.1	25.7	46.7
Cash	3.0	0.6	8.7	1.6
Total	28.3	33.0	84.1	104.4

6 Retirement schemes (continued)

(b) Defined benefit retirement schemes (continued)

(iii) Movements in the present value of defined benefit obligations were as follows:

	The Group and the Foundation 2015 $'million	2014 $'million
At beginning of the year	(87.6)	(90.7)
Remeasurements:		
- Actuarial gain arising from changes in experience	0.7	1.8
- Actuarial loss arising from changes in financial assumptions	(0.6)	(3.7)
	0.1	(1.9)
Current service cost	(3.9)	(4.2)
Interest cost	(1.5)	(2.1)
Transfer out	1.5	-
Less: actual benefits paid and payable	13.6	11.3
At end of the year	(77.8)	(87.6)

(iv) Movements in the fair value of scheme assets were as follows:

	The Group and the Foundation 2015 $'million	2014 $'million
At beginning of the year	137.4	135.3
Interest income	2.2	2.9
Return on scheme assets (less)/greater than discount rate	(11.4)	11.3
Transfer out	(1.5)	-
Less: actual benefits paid and payable	(13.6)	(11.3)
Less: administrative expenses paid from scheme assets	(0.7)	(0.8)
At end of the year	112.4	137.4

6 Retirement schemes (continued)

(b) Defined benefit retirement schemes (continued)

(v) Income recognised in the statement of comprehensive income is as follows:

	The Group and the Foundation	
	2015	*2014*
	$'million	$'million
Current service cost	3.9	4.2
Net interest on net defined benefit asset	(0.7)	(0.8)
Administrative expenses paid from scheme assets	0.7	0.8
Total amounts recognised in income and expenditure	3.9	4.2
Actuarial (gain)/loss	(0.1)	1.9
Return on scheme assets less/(greater) than discount rate	11.4	(11.3)
Total amounts recognised in other comprehensive income	11.3	(9.4)
Total defined benefit return	15.2	(5.2)

The Group and the Foundation include the current service cost, net interest on net defined benefit asset and administrative expenses paid from scheme assets under gratuities and allowances in the statement of comprehensive income.

(vi) Significant actuarial assumptions and sensitivity analysis are as follows:

	The Group and the Foundation			
	TA Scheme		*NT Scheme*	
	2015	*2014*	*2015*	*2014*
Discount rate	1.0%	1.1%	1.7%	1.8%
Future salary increases	3.5%	3.5%	3.5%	3.5%

6 Retirement schemes (continued)

(b) Defined benefit retirement schemes (continued)

(vi) (continued)

The below analysis shows how the defined benefit obligation as at 31 August 2015 and 2014 would have increased (decreased) as a result of 0.25% change in the significant actuarial assumptions:

	2015			
	The Group and the Foundation			
	TA Scheme		*NT Scheme*	
	Increase in 0.25% $'million	*Decrease in 0.25%* $'million	*Increase in 0.25%* $'million	*Decrease in 0.25%* $'million
Discount rate	(0.1)	0.1	(1.4)	1.5
Future salary increases	*-	*-	1.4	(1.3)

	2014			
	The Group and the Foundation			
	TA Scheme		*NT Scheme*	
	Increase in 0.25% $'million	*Decrease in 0.25%* $'million	*Increase in 0.25%* $'million	*Decrease in 0.25%* $'million
Discount rate	(0.1)	0.1	(1.5)	1.6
Future salary increases	0.1	(0.1)	1.5	(1.4)

* Less than $0.1 million

The above sensitivity analysis is based on the assumption that changes in actuarial assumptions are not correlated and therefore it does not take into account the correlations between the actuarial assumptions.

7 Current assets and current liabilities

With the exception of the Group's and the Foundation's deposits given for the rental of properties and utilities of $11.2 million (2014: $10.5 million) and $7.0 million (2014: $6.8 million) respectively, the Group's other receivables and prepayments of $1.3 million (2014: $0.4 million) and the Group's and the Foundation's deferred income of $36.3 million (2014: $34.9 million) and $32.1 million (2014: $34.9 million) respectively, the Group expect all other current assets and liabilities to be recovered or settled within one year of the end of reporting period.

8 Fees and other receivables

Accounting policy

Initially the Group recognises fees and other receivables at fair value, thereafter the Group states these at amortised cost using the effective interest method, less allowance for impairment of doubtful debts. Where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial, the Group states the receivables at cost less allowance for impairment of doubtful debts.

The Group calculates the allowance for impairment of doubtful debts as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted where the effect of discounting is material.

	The Group		*The Foundation*	
	2015	*2014*	*2015*	*2014*
	$'million	$'million	$'million	$'million
Fees receivables	3.9	5.1	2.1	3.6
Other receivables	12.0	4.2	2.7	4.1
Less: Allowance for impairment of doubtful debts	(2.1)	(3.2)	(1.7)	(2.8)
	13.8	6.1	3.1	4.9

Impairment of fees receivables

Fees receivables are due immediately from the date of billing. The Group and the Foundation record impairment losses in respect of fees and other receivables using an allowance account, unless the Group and the Foundation satisfy that recovery of the amount is remote, in which case the impairment loss is written off against debtors directly.

8 Fees and other receivables (continued)

The movement in the allowance for impairment of doubtful debts during the year, including both specific and collective loss components, was as follows:

	The Group		*The Foundation*	
	2015	*2014*	*2015*	*2014*
	$'million	$'million	$'million	$'million
At beginning of the year	3.2	3.8	2.8	3.2
Impairment loss recognised	0.1	0.7	-	0.7
Uncollectible amounts written off	(1.2)	(1.3)	(1.1)	(1.1)
At end of the year	2.1	3.2	1.7	2.8

At 31 August 2015, no debtors of the Group and the Foundation were individually determined to be impaired. Based on ageing of fees receivables and repayment patterns of customers the Group and the Foundation have determined that the Group's and the Foundation's fees receivables collectively to be impaired by $2.1 million (2014: $3.2 million) and $1.7 million (2014: $2.8 million) respectively. The Group and the Foundation do not hold any collateral over these balances.

9 Subsidiary

Accounting policy

A subsidiary is an entity controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

The Group consolidates a subsidiary in the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements.

ESL, a company incorporated in Hong Kong and limited by guarantee, is a controlled subsidiary of the Group. Its activities are the operation of four kindergartens and two private independent schools, the provision of English as an Additional Language (EAL) courses and sports activities for young people. The management expertise and administration of ESL are substantially provided by the Foundation.

Amount due to subsidiary is unsecured, interest free and has no fixed terms of repayment.

10 Restricted cash

A deposit of $2.3 million (2014: $1.8 million) is pledged to a bank for guarantees issued by that bank in favour of MTR Corporation Limited under the terms of two separate tenancy agreements.

11 Cash and cash equivalents

Accounting policy

Cash and cash equivalents comprise cash at bank and on hand and demand deposits with banks and other financial institutions, having been within three months of maturity at acquisition.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(a) Cash and cash equivalents comprise:

	The Group		*The Foundation*	
	2015	*2014*	*2015*	*2014*
	$'million	$'million	$'million	$'million
Deposits with original maturities less than three months	94.7	121.2	34.1	55.9
Cash at bank and in hand	97.8	85.8	76.9	60.5
	192.5	207.0	111.0	116.4

The effective interest rates per annum relating to cash and cash equivalents of the Group and the Foundation at the end of reporting period are 0.11% (2014: 0.27%) and 0.05% (2014: 0.25%) respectively.

11 Cash and cash equivalents (continued)

(b) Reconciliation of surplus for the year to cash generated from operating activities:

	The Group		*The Foundation*	
	2015 $'million	*2014* $'million (restated)	*2015* $'million	*2014* $'million
Operating activities				
Surplus for the year	130.2	100.1	119.8	97.9
Adjustments for:				
Interest income	(5.6)	(5.1)	(5.3)	(4.8)
Nomination rights	(63.0)	(44.9)	(46.4)	(30.7)
Non-refundable building/capital levy	(14.4)	(10.8)	(1.9)	-
Interest expense	0.1	0.1	0.1	0.1
Loss on disposals of fixed assets	1.4	4.4	1.3	4.3
Depreciation	134.8	111.2	125.5	103.7
Expense recognised under defined benefit retirement schemes	3.9	4.2	3.9	4.2
	187.4	159.2	197.0	174.7
Changes in working capital:				
Increase in inventories	-	(0.1)	-	-
(Increase)/decrease in rental and utility deposits	(0.8)	(0.3)	(0.1)	0.2
(Increase)/decrease in prepayments	(2.2)	(0.5)	(0.1)	0.9
(Increase)/decrease in loans to staff	(1.1)	2.4	(1.1)	2.0
(Increase)/decrease in fees and other receivables	(7.7)	2.5	1.8	(3.0)
Decrease in fees received in advance	(11.0)	(10.9)	(12.0)	(13.5)
(Decrease)/increase in amount due to subsidiary	-	-	(32.9)	8.2
Increase/(decrease) in provision to meet staff conditions of service	14.6	-	10.8	(3.2)
Increase/(decrease) in accounts payables and accruals excluding capital creditors	11.3	3.5	8.5	(5.4)
Decrease in government hardship allowance	(2.2)	(1.5)	(2.2)	(1.5)
Decrease in scholarship fund and hardship allowance	(2.9)	(5.3)	-	-
Net cash generated from operating activities	185.4	149.0	169.7	159.4

12 Provision to meet staff conditions of service

Accounting policy

The Group accrues salaries, gratuities, paid annual leave, leave passage and the cost to the Group of non-monetary benefits in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, the Group states these amounts at their present values.

Movements in the provision to meet staff conditions of service were as follows:

	The Group		*The Foundation*	
	2015	*2014*	*2015*	*2014*
	$'million	$'million	$'million	$'million
At beginning of the year	88.3	88.3	69.9	73.2
Provision for the year	243.2	224.7	185.5	174.9
Payments made during the year	(228.6)	(224.7)	(174.7)	(178.2)
At end of the year	102.9	88.3	80.7	69.9

13 Accounts payables and accruals

Accounting policy

Initially the Group recognises accounts and other payables at fair value, subsequently the Group states these at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

	The Group		*The Foundation*	
	2015	*2014*	*2015*	*2014*
	$'million	$'million	$'million	$'million
Accounts payable	24.4	14.7	15.4	5.4
Other accruals	69.1	99.0	59.5	81.0
Accruals for major repairs	84.1	130.8	84.1	130.8
Deferred income	86.5	76.5	66.2	62.2
Retention money	16.1	17.1	16.1	17.1
Deposits received	10.0	7.9	9.8	7.7
Other payables	5.8	7.0	4.7	5.5
	296.0	353.0	255.8	309.7

14 Government grants

Accounting policy

The Group recognises government grants when there is reasonable assurance that the Group will comply with the conditions attached to them and that the grants will be received. The Group recognises grants relating to expenditure on a systematic basis in the same year in which the related expenditure is incurred. The Group deducts grants provided to the Group relating to fixed assets from the cost of acquisition in arriving at the carrying amount of the related asset.

The Government provides basic grants and hardship allowance to the Foundation. The total grants received by the Group and the Foundation were as follows:

		The Group		*The Foundation*	
	Note	*2015* $'million	*2014* $'million	*2015* $'million	*2014* $'million
Basic grants	14(a)	271.1	271.1	271.1	271.1
Hardship allowance	14(b)	6.9	6.9	6.9	6.9
Refund of rent and rates	14(c)	19.3	12.9	12.2	10.0
		297.3	290.9	290.2	288.0

The subvention review was concluded in July 2013. Excluding subvention of $28.3 million for students with special education needs in the Foundation's mainstream schools and the Jockey Club Sarah Roe School, the basic grants and hardship allowance (collectively the "Subvention") is expected to be phased out in 13 years starting from the 2016/17 school year until 2028/29 school year. The phase out amount in each year will vary and range from approximately $17 million to $22 million according to the Subvention currently provided to each year group of the Foundation's mainstream schools. All existing students of the Foundation will continue to benefit from the Subvention, frozen at its current level, until they either graduate from the schools in Year 13 or leave the system. The phasing out of the Subvention will affect children entering Year 1 of the Foundation's schools in August 2016 and thereafter.

(a) Grant per class

The Government's basic recurrent grant is a grant per class calculated to be equivalent to the grant allowed for each class provided to other schools in the public-aided education sector in 1999/2000. Since 1999/2000, the basic recurrent grant has been reduced by 12.372% in various stages through to 31 March 2007. No further reductions have been made since 1 April 2007. The grant per class is paid for each qualifying class in a Foundation school at 30 November each year and is used for education purposes only.

14 Government grants (continued)

(b) Hardship allowance

In addition to the grant per class, the Government also provides an allowance for the relief of hardship based upon a percentage of the recurrent grant per class. The movement for the year was as follows:

	The Group and the Foundation	
	2015	*2014*
	$'million	$'million
At beginning of the year	34.1	35.6
Received from the Government	6.9	6.9
	41.0	42.5
Utilised to permit fee relief in cases of hardship	(9.1)	(8.4)
At end of the year	31.9	34.1

The Group and the Foundation include the amount utilised to permit fee relief during the year in income as a component of tuition fees.

(c) Refund of rent and rates

The Group and the Foundation also receives from the Government a reimbursement of rent and rates actually paid for school premises. The charge for rent and rates, which is included in other operating expenses, was arrived at as follows:

		The Group		*The Foundation*	
	Note	*2015*	*2014*	*2015*	*2014*
		$'million	$'million	$'million	$'million
Gross rent and rates for the year		20.7	14.2	12.9	10.8
Less: Recovered or recoverable from the Government		(19.3)	(12.9)	(12.2)	(10.0)
	3	1.4	1.3	0.7	0.8

15 Scholarship fund and hardship allowance

Pursuant to the service agreement between ESL and the Government, ESL shall set aside a sum, which shall not be less than 10% of its total school fee income from its Private Independent Schools, to provide scholarships and other financial assistance for deserving students at such schools in each school year. During the year ended 31 August 2015, Renaissance College and Discovery College have each set aside 10% of their respective tuition fees which consists of 8% (2014: 8%) as scholarship fund and 2% (2014: 2%) as hardship allowance.

Tuition fees of Renaissance College and Discovery College transferred to scholarship fund/hardship allowance during the year amounted to $22.4 million (2014: $20.9 million) and $14.8 million (2014: $12.7 million) respectively.

	The Group		
	Scholarship fund $'million	*Hardship allowance* $'million	*Total* $'million
At 1 September 2013	13.8	19.6	33.4
Addition	26.9	6.7	33.6
Utilisation	(35.2)	(2.4)	(37.6)
Transfer	-	(1.3)	(1.3)
At 31 August 2014 and 1 September 2014	5.5	22.6	28.1
Addition	29.7	7.5	37.2
Utilisation	(34.3)	(2.3)	(36.6)
Transfer	-	(3.5)	(3.5)
At 31 August 2015	0.9	24.3	25.2

The Group includes the amount utilised to permit fee relief during the year in income as a component of tuition fees.

16 Obligations under finance leases

At 31 August 2015, the Group and the Foundation had obligations under finance leases repayable as follows:

	The Group and the Foundation					
	2015			*2014*		
	Present value of the minimum lease payments $'million	*Interest expense relating to future periods* $'million	*Total minimum lease payments* $'million	*Present value of the minimum lease payments* $'million	*Interest expense relating to future periods* $'million	*Total minimum lease payments* $'million
Within one year	0.3	0.1	0.4	0.7	0.2	0.9
Between one and two years	0.3	-	0.3	0.7	0.1	0.8
Between two and five years	0.4	0.1	0.5	1.5	0.3	1.8
	0.7	0.1	0.8	2.2	0.4	2.6
	1.0	0.2	1.2	2.9	0.6	3.5

17 Refundable capital levy

Refundable capital levy was introduced and payable by the parents of children joining the Foundation's school system from August 2011 to June 2015. After the introduction of non-refundable capital levy (see note 20), the refundable capital levy is applicable to children that join Year 7 from another school of the Foundation if their parents did not pay refundable capital levy for them before. The levy is $25,000 per child. Certain concessions are granted to families with more than two children studying at ESF schools and teachers who are also parents of students studying at ESF schools.

Refundable capital levy is repayable by the Group when the student leaves the school. The refundable capital levy is non-transferable, interest-free, non-depreciating and unsecured. Initially the Group recognises the refundable capital levy at fair value, subsequently the Group states this at amortised cost unless the effect of discounting would be immaterial, in which case it is stated at cost.

18 Debenture

In August 2013, the Group introduced the debenture which is payable by parents of children joining the Group's kindergartens in August 2013 and subsequent years. The debenture is $7,000 for each child entering one of the kindergartens for the first time from August 2013 onwards.

The debenture is repayable when the student leaves the school with sufficient notice. The debenture is non-transferable, interest-free, non-depreciating and unsecured. Initially the Group recognises the debenture at fair value, thereafter the Group states this at amortised cost unless the effect of discounting would be immaterial, in which case it is stated at cost.

19 Non-refundable building levy

The Group charges non-refundable building levy to finance capital expenditures of Renaissance College and Discovery College. In the case of Renaissance College, the levy is charged as a one-time payment upon a student's acceptance of a school place. The levy is set at $50,000 (2014: $50,000) for Year 1 entrants with pro-rated amounts set for Year 2 to Year 12 new entrants. For Discovery college students, the levy is collected on an annual basis at $5,900 (2014: $5,900) per annum for all students.

The Group recognise non-refundable building levy over the number of years individual students are expected to remain at the school.

20 Non-refundable capital levy

The Group charges non-refundable capital levy to finance capital expenditures of various capital projects of the ESF schools. The levy is charged as a one-time payment upon a student's acceptance of a school place. The levy is set at $38,000 for Year 1 entrants with pro-rated amounts set for Year 2 to Year 13 new entrants.

The Group recognise non-refundable capital levy over the number of years individual students are expected to remain at the school.

21 Individual nomination rights

Accounting policy

The Group recognises deposits made in respect of individual nomination rights as receipt in advance and transfer them to income when offers are made. The Group recognises the remaining balance from the sale of individual nomination rights when the rights are exercised for the acceptance of school place offers, which is generally on receipt of cash.

The individual nomination rights is a means to gain priority on the waiting list and a school place subject to success of interview.

22 Corporate nomination rights

Accounting policy

The corporate nomination rights ("CNR") scheme entitles the holder of the CNR (the "Holder") to identify one nominee in relation to any CNR at any time according to the terms and conditions of the CNR. The CNR is non-transferrable, interest-free, depreciating and unsecured.

The Group recognises receipt of cash made in respect of CNR as liabilities and amortises to income when the holder of the CNR notifies the Group the first nominee under the terms and conditions of the corporate nomination rights scheme.

Each CNR is redeemable at the date 20 years following the first nomination date for that CNR at zero value. The Holder may redeem a CNR at any date following 10 years after the first nomination date for that CNR. The redeemable amount is the remaining value of that CNR at the date of redemption. Initially the Foundation recognises the CNR at fair value, subsequently the Foundation states this at amortised cost unless the effect of discounting would be immaterial, in which case it is stated at cost less accumulated amortisation.

Movements in the corporate nomination rights were as follows:

	The Group and the Foundation	
	2015	*2014*
	$'million	$'million
At beginning of the year	24.9	-
Issued	-	25.0
Less: Amortisation to statement of comprehensive income	(0.5)	(0.1)
At end of the year	24.4	24.9
Less: Within one year or on demand	(0.5)	(0.3)
After one year	23.9	24.6

23 Reserves

The reserves of the Group and the Foundation represent the excess of assets over liabilities; the opening and closing balances and the movements during the year are set out in the statement of changes in reserves.

(a) Capital fund

	The Group		*The Foundation*	
	2015	*2014*	*2015*	*2014*
	$'million	$'million	$'million	$'million
The Foundation	128.5	80.2	128.5	80.2
Renaissance College	44.5	27.2	-	-
Discovery College	41.6	29.8	-	-
	214.6	137.2	128.5	80.2

The Foundation introduced individual and corporate nomination rights schemes and non-refundable capital levy. The income from the schemes is designated solely to finance redevelopment projects of the Foundation and hence is included in the capital fund. During the year, payments are made against Kowloon Junior School, King George V School and Island School redevelopment projects. Renaissance College and Discovery College of the Group introduced non-refundable building levy and nomination rights. The income is designated solely to finance capital expenditure and hence is included in the capital fund.

(b) Schools reserves

The Group's reserves include the accumulated surplus of individual schools of the Foundation which amounted to $144.7 million as at 31 August 2015 (2014: $138.9 million). These reserves have been designated to finance operating and capital activities at individual schools at the discretion of the respective School Councils. From their reserves as at 31 August 2015, the respective School Councils have authorised or contracted for capital commitments of $21.5 million (2014: $23.7 million). The respective School Councils also reserve certain sums for major upgrades at schools.

During the year, $37.0 million (2014: $78.9 million) was transferred from schools reserves to general reserve. The transfer represented various schools capital expenditure during the year which was funded by the schools reserves.

23 Reserves (continued)

(c) Capital management

The Group is a non-profit making organisation whose principal activity is the operation of schools to provide education through the medium of English language. The Group is not subject to any externally imposed capital requirements; its activities are mainly funded by tuitions fees, government subventions, donations, and investment income.

In the absence of any capital the Group's reserves are maintained at a level necessary to meet the Group's short and long term objectives taking account the importance of safeguarding the Group's ability to continue as a going concern.

24 Financial risk management and fair values

Exposure to credit, liquidity and interest rate risks arises in the normal course of the Group's activities. The Group describes below the Group's exposure to these risks and the financial risk management policies and practices used to manage these risks.

(a) Credit risk

The Group's credit risk is primarily attributable to bank deposits, cash and cash equivalents and account receivables and other receivables. Management has a credit policy in place and the exposure to these credit risks are monitored on an ongoing basis.

The Group's bank deposits and cash and cash equivalents are placed with major financial institutions.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

(b) Liquidity risk

The Group's policy is to regularly monitor liquidity requirements to ensure that the Group maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

(c) Interest rate risk

The Group's exposure to changes in interest rates relates primarily to bank deposits, cash at bank and obligations under finance leases. The Group's interest rate profile as is set out in (i) below.

24 Financial risk management and fair values (continued)

(c) Interest rate risk (continued)

(i) The following table details the Group's and the Foundation's interest rate profile, deposits and borrowing (as defined above) at the end of reporting period:

	The Group				*The Foundation*			
	2015		*2014*		*2015*		*2014*	
	Effective interest rate %	$'million	*Effective interest rate* %	$'million	*Effective interest rate* %	$'million	*Effective interest rate* %	$'million
Finance lease liabilities	3.70%	(1.0)	3.85%	(2.9)	3.70%	(1.0)	3.85%	(2.9)
Deposits with original maturities greater than three months	0.80%	352.9	1.09%	312.4	0.81%	340.0	1.10%	310.3
Restricted cash	0.01%	2.3	0.01%	1.8	-	-	-	-
Cash and cash equivalents	0.11%	192.5	0.27%	207.0	0.05%	111.0	0.25%	116.4
		546.7		518.3		450.0		423.8

24 Financial risk management and fair values (continued)

(c) Interest rate risk (continued)

(ii) Sensitivity analysis

At 31 August 2015, it is estimated that a general increase/decrease of 100 basis points (2014: 100 basis points) in interest rates, with all other variables held constant, would have increased/decreased the Group's surplus for the year by approximately $5.5 million (2014: $5.2 million). Other components of reserves would not be affected (2014: nil) by the changes in interest rates.

The sensitivity analysis above indicates the instantaneous change in the Group's surplus that would arise assuming that the change in interest rates had occurred at the end of reporting period and had been applied to re-measure these financial instruments which expose the Group to fair value interest rate risk at the end of reporting period. The analysis has been performed on the same basis for 2014.

(d) Currency risk

The Group operates in Hong Kong and have limited exposure to currency risk which arises from foreign currency purchases and receipts/payments for school activities jointly organised with overseas institutions.

(e) Fair value measurement

All financial assets and liabilities are carried at amounts not materially different from their fair values at the end of reporting period because of their short term maturity.

25 Commitments

(a) The Group and the Foundation have certain capital commitments relating mainly to the renovation of the schools and major upgrades of information technology systems. Capital commitments outstanding at 31 August 2015 not provided for in these financial statements were as follows:

	The Group		*The Foundation*	
	2015	*2014*	*2015*	*2014*
	$'million	$'million	$'million	$'million
Contracted for	198.8	188.7	100.7	178.3
Authorised but not contracted for	242.4	133.2	242.2	133.1
	441.2	321.9	342.9	311.4

25 Commitments (continued)

(b) At 31 August 2015, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		*The Foundation*	
	2015	*2014*	*2015*	*2014*
	$'million	$'million	$'million	$'million
Leased properties				
Within one year	19.9	13.0	9.8	6.0
Between one and five years	31.3	10.8	14.2	-
Over five years	17.1	2.6	-	-
	68.3	26.4	24.0	6.0

	The Group		*The Foundation*	
	2015	*2014*	*2015*	*2014*
	$'million	$'million	$'million	$'million
Leased equipment				
Within one year	1.0	-	1.0	-
Between one and five years	3.6	-	3.6	-
	4.6	-	4.6	-

The Group leases a number of properties under operating leases. The leases run for an initial period of three to ten years, with some having an option to renew upon expiry when all terms will be renegotiated. Contingent rental payable are based on a pre-determined percentage of the monthly gross turnover on the condition that it is higher than the minimum fixed rentals under the operating lease agreements.

The Group leases certain equipment under operating leases. The leases typically run for an initial period of two to five years, with the option to return, renew or buy the equipment upon expiry when all terms are renegotiated. None of the leases includes contingent rentals.

26 Material related party transactions

Accounting policy

(a) *A person, or a close member of that person's family, is related to the Group if that person:*

(i) *has control or joint control over the Group;*

(ii) *has significant influence over the Group; or*

(iii) *is a member of the key management personnel of the Group or the Group's parent.*

(b) *An entity is related to the Group if any of the following conditions applies:*

(i) *The entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others).*

(ii) *One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).*

(iii) *Both entities are joint ventures of the same third party.*

(iv) *One entity is a joint venture of a third entity and the other entity is an associate of the third entity.*

(b) *An entity is related to the Group if any of the following conditions applies: (continued)*

(v) *The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.*

(vi) *The entity is controlled or jointly controlled by a person identified in (a).*

(vii) *A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).*

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

26 Material related party transactions (continued)

Board of Governors and key management personnel remuneration

Key management personnel consist of the following:

(i) Full time paid employees who are also members of the Board of Governors, namely, representatives of the Committee of Principals, the Committee of Teachers, the Committee of Support Staff and the Chief Executive Officer who is an ex-officio member of the Board of Governors; and

(ii) Director of Education, Chief Operating Officer of ESL, Director of Facilities, Chief Financial Officer and Director of Human Resources.

The members of the Board of Governors other than those mentioned in note (i) did not receive any remuneration during the current and previous year.

Remuneration for key management personnel is as follows:

	2015 $'million	*2014* $'million
Salaries, allowances and benefits in kind	17.9	20.7
Retirement costs	0.2	0.2
	18.1	20.9

27 Other significant accounting policies

Apart from the accounting policies presented within the corresponding notes to the financial statements, the other significant accounting policies applied in the preparation of these consolidated financial statements are set out below:

(a) Statement of compliance

The consolidated financial statements for the year ended 31 August 2015 comprise the Foundation and its subsidiary.

The Board has prepared the consolidated financial statements to comply with the requirements under The English Schools Foundation Ordinance and The English Schools Foundation (General) Regulation and in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which include all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and accounting principles generally accepted in Hong Kong.

27 Other significant accounting policies (continued)

(a) Statement of compliance (continued)

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current reporting year. There have been no significant changes to the accounting policies applied in these financial statements for the years presented as a result of these developments.

The Group has not applied any new standard or interpretation that is not yet effective for the current reporting year (see note 29).

(b) Basis of preparation of the financial statements

The Group uses the historical cost basis to prepare the financial statements.

In order to prepare financial statements that comply with HKFRSs the Group has to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The Group believes the estimates and associated assumptions, which the Group makes based on historical experience and various other factors, are reasonable under the circumstances. Actual results may differ from these estimates.

The Group reviews the estimates and underlying assumptions on an ongoing basis. The Group recognises revisions to accounting estimates in the year the Group revises the estimate if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

In note 28, the Group discusses the significant judgements the Group made in applying HKFRSs on the financial statements and major sources of estimation uncertainty.

(c) Change in accounting policy

Non-refundable building levy

During the year, the Group voluntarily changed its accounting policy for the recognition of non-refundable building levy income. Previously, non-refundable building levy income was recognised when it was probable that the levy would be received, which was generally on receipt of cash.

The Group now recognises non-refundable building levy over the number of years individual students are expected to remain at the school. The Group judges that this policy better reflects the period of time over which the performance obligation associated with the non-refundable building levy is satisfied.

27 Other significant accounting policies (continued)

(c) *Change in accounting policy (continued)*

Non-refundable building levy (continued)

This change in accounting policy has been applied retrospectively by restating the balances at 1 September 2013 and 31 August 2014, with consequential adjustments to comparatives for the year ended 31 August 2014 as follows:

	As previously reported $'million	*Effect of change in accounting policy* $'million	*As restated* $'million
Consolidated statement of comprehensive income for year ended 31 August 2014:			
Non-refundable building levy	19.3	(8.5)	10.8
Surplus for the year	108.6	(8.5)	100.1
Total comprehensive income for the year	118.0	(8.5)	109.5
Consolidated statement of financial position as at 31 August 2014			
Current portion of non-refundable building levy	-	4.0	4.0
Total current liabilities	668.6	4.0	672.6
Non-refundable building levy	-	19.5	19.5
Total non-current liabilities	249.9	19.5	269.4
Net assets	1,305.0	(23.5)	1,281.5
Capital fund	160.7	(23.5)	137.2
Consolidated statement of financial position as at 1 September 2013			
Current portion of non-refundable building levy	-	2.7	2.7
Total current liabilities	666.6	2.7	669.3
Non-refundable building levy	-	12.3	12.3
Total non-current liabilities	177.7	12.3	190.0
Net assets	1,187.0	(15.0)	1,172.0
Capital fund	96.5	(15.0)	81.5

27 Other significant accounting policies (continued)

(d) Income recognition

The Group measures income at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the income and costs, if applicable, can be measured reliably, the Group recognises income as follows:

(i) Tuition fees

For an academic year which ends within the financial year, the Group recognises tuition fees when they are receivable.

The Group classifies tuition fees received in respect of the following academic year as fees received in advance and the Group carries these in the Statement of financial position as liabilities at the end of the financial year.

(ii) Programme income

The Group recognises programme income on an accruals basis in respect of programmes provided; unearned programme fees are treated as fees received in advance.

(iii) Rental income

The Group recognises rental income, which is income earned from the licensing use of school facilities, investment properties and other properties on an accruals basis.

(iv) Donations

The Group recognises donations when the Group becomes entitled to the donations and it is probable that they will be received. The Group recognises donations relating to expenditure on a systematic basis in the same year in which the related expenditure is incurred. The Group recognises donations that compensate for the cost of an asset as deferred income that is recognised as income on a straight-line basis over the useful life of the related asset.

(v) Interest income

The Group recognises interest income as it accrues using the effective interest method.

(vi) Resale income

The Group uses an accruals basis to recognise resale income that represents income earned from selling textbooks, stationery and school uniforms.

27 Other significant accounting policies (continued)

(e) Impairment of assets

The Group uses internal and external sources of information at the end of each reporting period to identify indications that fixed assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the Group estimates the asset's recoverable amount and recognise an impairment loss if the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount of an asset is the greater of its fair value less cost of disposal (if measurable) or value in use (if determinable). In assessing value in use, the Group discounts the estimated future cash flows to their present value using a discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the Group determines the recoverable amount for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

The Group reverses an impairment loss if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. The Group credits reversals of impairment losses as income in the year in which the reversals are recognised.

(f) Leased assets

Under HKFRSs an arrangement, comprising a transaction or a series of transactions, is or contains a lease if the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. The Group determines whether the Group is a party to a lease based on the substance of the arrangement regardless of whether the arrangement takes the legal form of a lease.

The Group classifies assets held under leases which transfer substantially all the risks and rewards of ownership as being held under finance leases. The Group classifies other leases as operating leases.

27 Other significant accounting policies (continued)

(f) Leased assets (continued)

(i) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the Group includes the amounts representing the fair value of the leased assets, or, if lower, the present value of the minimum lease payments of such assets in Fixed assets and the corresponding liabilities, net of finance charges, as obligations under finance leases.

The Group charges depreciation at rates which write off the cost of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 5. The Group accounts for impairment losses in accordance with the accounting policy as set out in note 27(e).

The Group charges as an expense the finance charges implicit in the lease payments over the period of the lease so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each reporting year.

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, the Group expenses payments made under the leases in equal instalments over the reporting years covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. The Group recognises lease incentives received as an integral part of the aggregate net lease payments made.

(g) Inventories

The Group carries inventories that consist of uniforms held for resale at the lower of cost and net realisable value.

The Group calculates cost using the first-in-first-out method and comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the Group's estimate of selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the Group recognises the carrying amount of those inventories as an expense in the year in which the related income is recognised. The Group recognises the amount of any write-down of inventories to net realisable value and all losses of inventories as an expense in the year the write-down or loss occurs and the amount of any reversal of any write-down of inventories as a reduction in the amount of inventories recognised as an expense in the year in which the reversal occurs.

27 Other significant accounting policies (continued)

(h) Provisions and contingent liabilities

The Group recognises provisions for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the Group can make a reliable estimate. Where the time value of money is material, the Group states provisions at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the Group discloses the obligation as a contingent liability, unless the probability of outflow of economic benefits is remote. Unless the probability of outflow of economic benefits is remote, the Group also discloses as contingent liabilities possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events.

(i) Functional and presentation currency

These financial statements are presented in Hong Kong dollars, which is the Group's and the Foundation's functional and presentation currency. All financial information presented in Hong Kong dollars has been rounded to $0.1 million unless stated otherwise.

28 Accounting estimates and judgements

Notes 6 and 24 contain information about the assumptions and their risk factors relating to defined benefit retirement scheme obligations and financial instruments respectively. Other key sources of estimation uncertainty are as follows:

(a) Useful lives and impairment of fixed assets

The Group has significant fixed assets and is required to estimate the useful lives of these assets in order to ascertain the amount of depreciation charge for each reporting period. The useful lives are estimated at the time of purchase of these assets and each year the Group assesses the appropriateness of the estimated useful lives. The assessment takes into account any unexpected adverse changes in circumstances or events such as declines in projected results and changes in the operating environment. The Group extends or shortens the useful lives and/or makes impairment provisions based on the assessment.

28 Accounting estimates and judgements (continued)

(a) *Useful lives and impairment of fixed assets (continued)*

At the end of each reporting period, the Group reviews whether there are any indications of impairment and will recognise an impairment loss if the carrying amount of an asset is higher than its recoverable amount. The sources utilised to identify indications of impairment are often subjective in nature and the Group has to use judgement in applying such information to its operations. The Group's interpretation of this information has a direct impact on whether an impairment assessment is performed as at any given end of reporting period. If an indication of impairment is identified, such information is further subjected to an exercise that requires the Group to estimate the recoverable amount of the asset, which is the greater of its net selling price and its value in use.

The Group is required to make assumptions to make this assessment, including the utilisation of such assets, the cash flows to be generated, appropriate discount rates, etc. Changes in any of these assumptions could result in a material change in future estimates of the recoverable amount of any asset.

(b) *Accruals for development project costs and major repairs*

The Group undertakes capital projects and various repairs and maintenance work. Invoices from the contractors are often received some time after the work is performed. Accordingly the Group has to review the status of each of the projects and to make certain estimates on the stage of completion of the projects. Actual costs may be higher or lower than estimated at the end of reporting period.

29 Possible impact of amendments to standards, new standards and interpretations to standards issued but not yet effective for the current reporting year

Up to the date of issue of these financial statements, the HKICPA has issued a few amendments and new standards which are not yet effective for the year ended 31 August 2015 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 15, *Revenue from contracts with customers*	1 January 2018
HKFRS 9, *Financial instruments*	1 January 2018

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application.

KPMG

Independent auditor's report to the members of The English Schools Foundation

(Incorporated in Hong Kong under The English Schools Foundation Ordinance)

We have audited the consolidated financial statements of The English Schools Foundation ("the Foundation") and its subsidiary ("the Group") set out on pages 5 to 53, which comprise the consolidated and Foundation statement of financial position as at 31 August 2015, the consolidated and Foundation statements of comprehensive income, the consolidated and Foundation statements of changes in reserves and the consolidated and Foundation cash flow statements for the year then ended and a summary of significant accounting policies and other explanatory information.

Board of Governors' responsibility for the consolidated financial statements

The Board of Governors of the Foundation are responsible for the preparation of consolidated 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 for such internal control as the Board of Governors determine is necessary to enable the preparation of consolidated 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 consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other persons 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 Board of Governors, as well as evaluating the overall presentation of the consolidated financial statements.

KPMG

Independent auditor's report to the members of The English Schools Foundation (continued)

(Incorporated in Hong Kong under The English Schools Foundation Ordinance)

Auditor's responsibility (continued)

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Foundation and of the Group as at 31 August 2015 and of their financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards.

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

16 DEC 2015