KPMG

The English Schools Foundation

英基學校協會

Consolidated Financial Statements
for the year ended 31 August 2014

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 2014.

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 2(d), 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 2014 and the state of the Group's affairs as at that date are set out in the consolidated financial statements on pages 5 to 55.

Transfer to reserves

The Group has transferred the surplus for the year of HK$108,626,000 (2013: HK$164,204,000) to reserves.

At 31 August 2014, the Group's reserves amounted to HK$1,305,025,000 (2013: HK$1,187,049,000), being the excess of assets over liabilities. The Group sets out details of the reserves in note 21 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.

Properties, plant and equipment

Properties, plant and equipment include properties, leasehold improvements, furniture and equipment of the Group's schools, office and residential properties. At 31 August 2014, the net book value of the properties, plant and equipment was HK$1,609,837,000 (2013: HK$1,454,492,000) and the depreciation charge for the year then ended was HK$111,167,000 (2013: HK$86,440,000), respectively; see note 6 to the financial statements for details of movements in properties, plant and equipment.

Members of the Board

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

Carlson Tong (Chairman)	
Elizabeth Bosher (Vice-chairman)	
Robert Gazzi (Treasurer)	
Alexander Chan	
Andrea Lowe	
Judy Woo	
Kim Anderson	
Marc Castagnet	
Matthew Caplin	
Mike Draeger	
P M Kam	
Paul Clarke	
Pauline Ng	
Brenda Cook	(elected by the Committee of Principals on 18 August 2014)
Connie Liu	(elected by parents of students of schools of the Foundation, Renaissance College and Discovery College on 26 November 2013)
Elaine Leung	(elected by the Committee of School Council Chairmen on 2 January 2014)
Francis Carroll	(elected by parents of students of schools of the Foundation, Renaissance College and Discovery College on 26 November 2013)
Judy Vas	(elected by the Committee of School Council Chairmen on 24 September 2014)
Kelvin Wong	(nominated by the Nominating Committee on 17 January 2014)
Kumar Ramanathan	(nominated by the Nominating Committee on 29 October 2014)
Nirmala Rao	(nominated by the Nominating Committee on 17 January 2014)
Ronald Abbott	(elected by parents of students of schools of the Foundation, Renaissance College and Discovery College on 24 September 2014)

Members of the Board (continued)

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

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)
Amy Wong	(resigned on 23 October 2013)
Gordon Lamb	(resigned on 19 September 2014)
Jane Foxcroft	(resigned on 17 August 2014)
Kim Mak	(resigned on 27 October 2014)
Kyran Sze	(resigned on 14 December 2013)
Michael Dowie	(resigned on 27 November 2013)
Paul Varty	(resigned on 5 September 2014)
Simon Joyce	(resigned on 12 April 2014)
Simon Osborne	(resigned on 27 March 2014)
Vincent Ho	(resigned on 19 April 2014)
Virginia Wilson	(resigned on 31 December 2013)
Belinda Greer (Chief Executive Officer, ex officio)	(appointed on 1 September 2013)

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,

11 DEC 2014

Statement of comprehensive income for the year ended 31 August 2014

(Expressed in Hong Kong dollars)

	Note	The Group 2014 $'000	The Group 2013 $'000 (restated)	The Foundation 2014 $'000	The Foundation 2013 $'000 (restated)
Income					
Operating income					
Government grants	15	271,112	271,117	271,112	271,117
Tuition fees		1,538,858	1,443,056	1,129,730	1,077,210
Programme income		58,166	54,967	-	-
Rental income		75,976	77,138	77,128	77,835
Donations		4,925	8,035	4,338	7,587
Interest income		5,086	7,101	4,757	6,650
Income from subsidiary					
– From Development and Operating Agreement		-	-	21,241	20,233
– Management and administrative income		-	-	7,889	7,720
– Transfer from previous years' scholarship fund and hardship allowance surplus	16	1,310	5,063	-	-
Miscellaneous income		22,067	18,046	11,347	6,731
		1,977,500	1,884,523	1,527,542	1,475,083
Non-operating income	21(a)				
Nomination rights		44,917	67,790	30,717	49,500
Non-refundable building levy		19,310	13,883	-	-
		64,227	81,673	30,717	49,500
Total income		2,041,727	1,966,196	1,558,259	1,524,583

Statement of comprehensive income for the year ended 31 August 2014 (continued)

(Expressed in Hong Kong dollars)

	Note	The Group 2014 $'000	The Group 2013 $'000 (restated)	The Foundation 2014 $'000	The Foundation 2013 $'000 (restated)
Expenditure					
Staff expenses					
Basic salaries					
– Professional		894,826	849,053	673,781	646,778
– Other staff		255,270	241,660	194,018	185,918
Gratuities and allowances		331,753	315,906	255,382	249,583
Accommodation		18,901	15,811	18,901	15,811
Medical expenses		34,447	28,526	26,721	22,449
Passage and other allowances		3,196	3,237	2,763	2,423
	3(a)	1,538,393	1,454,193	1,171,566	1,122,962
Other expenses					
Depreciation on schools and offices		109,172	84,544	101,669	81,161
Repairs and maintenance		85,176	72,368	72,249	60,021
Other operating expenses	4	166,731	161,022	114,844	111,377
Scholarship fund and hardship allowance	16	33,629	29,865	-	-
		394,708	347,799	288,762	252,559
Total expenses		1,933,101	1,801,992	1,460,328	1,375,521
Surplus for the year	3	108,626	164,204	97,931	149,062
Other comprehensive income for the year					
Item that will not be reclassified to surplus or deficit:					
Remeasurement of net defined benefit asset	7(b)(v)	9,350	23,468	9,350	23,468
Total comprehensive income for the year		117,976	187,672	107,281	172,530

Statement of comprehensive income for the year ended 31 August 2014 (continued)

(Expressed in Hong Kong dollars)

		The Group		*The Foundation*	
	Note	*2014*	*2013*	*2014*	*2013*
		\$'000	\$'000	\$'000	\$'000
			(restated)		*(restated)*
Represented by:					
Operating surplus		53,749	105,999	76,564	123,030
Capital fund surplus		64,227	81,673	30,717	49,500
		117,976	187,672	107,281	172,530

The notes on pages 14 to 55 form part of these financial statements. Restatements in relation to revised HKAS 19, *Employee benefits* are detailed in note 2(c).

Balance sheet as at 31 August 2014

(Expressed in Hong Kong dollars)

	Note	The Group			The Foundation		
		31 August 2014 $'000	*31 August 2013* $'000 *(restated)*	*1 September 2012* $'000 *(restated)*	*31 August 2014* $'000	*31 August 2013* $'000 *(restated)*	*1 September 2012* $'000 *(restated)*
Non-current assets							
Properties, plant and equipment	6	1,609,837	1,454,492	1,078,953	1,551,332	1,403,881	1,059,174
Defined benefit retirement scheme	7	49,848	44,722	27,610	49,848	44,722	27,610
		1,659,685	1,499,214	1,106,563	1,601,180	1,448,603	1,086,784
Current assets	8						
Inventories		777	638	655	-	-	-
Rental, utility and other deposits		10,580	10,257	9,444	6,874	7,095	6,556
Prepayments		13,457	13,054	11,662	8,314	9,191	7,249
Loans to staff		4,667	7,117	5,770	3,183	5,138	3,652
Fees and other receivables	9	6,078	2,956	4,341	4,930	1,926	3,381
Government grants receivable		7,040	40,908	14,693	7,040	35,314	8,421
Amount due from subsidiary	10	-	-	-	-	-	2,721
Restricted cash	11	1,826	1,532	1,532	-	-	-
Deposits with original maturities over three months		312,412	231,984	323,069	310,312	230,084	321,169
Cash and cash equivalents	12	207,040	223,684	223,375	116,414	138,508	106,939
		563,877	532,130	594,541	457,067	427,256	460,088
Current liabilities	8						
Fees received in advance		154,202	165,130	172,881	76,856	90,364	98,810
Nomination rights received in advance		5,810	2,910	950	4,500	2,600	-
Amount due to subsidiary	10	-	-	-	35,280	27,104	-
Provision to meet staff conditions of service	13	88,282	88,238	85,206	69,932	73,168	69,900
Accounts payables and accruals	14	352,977	341,073	244,029	309,691	299,469	219,889
Government hardship allowance	15(b)	34,160	35,622	37,294	34,160	35,622	37,294
Scholarship fund and hardship allowance	16	28,076	33,374	41,761	-	-	-
Current portion of obligations under finance leases	17	738	133	218	738	133	218
Current portion of refundable debenture	19	4,123	-	-	-	-	-
Current portion of corporate nomination rights	20	250	-	-	250	-	-
		668,618	666,480	582,339	531,407	528,460	426,111
Net current (liabilities)/assets		(104,741)	(134,350)	12,202	(74,340)	(101,204)	33,977
Total assets less current liabilities		1,554,944	1,364,864	1,118,765	1,526,840	1,347,399	1,120,761

Balance sheet as at 31 August 2014 (continued)

(Expressed in Hong Kong dollars)

	Note	The Group			The Foundation		
		31 August 2014 $'000	*31 August 2013* $'000 *(restated)*	*1 September 2012* $'000 *(restated)*	*31 August 2014* $'000	*31 August 2013* $'000 *(restated)*	*1 September 2012* $'000 *(restated)*
Non-current liabilities							
Obligations under finance leases	17	2,214	33	166	2,214	33	166
Refundable capital levy	18	218,859	173,463	119,222	218,859	173,463	119,222
Refundable debenture	19	4,263	4,319	-	-	-	-
Corporate nomination rights	20	24,583	-	-	24,583	-	-
		249,919	177,815	119,388	245,656	173,496	119,388
NET ASSETS		1,305,025	1,187,049	999,377	1,281,184	1,173,903	1,001,373
RESERVES	21						
General reserve		1,005,368	931,675	859,843	1,062,075	965,567	876,704
Capital fund		160,765	96,538	14,865	80,217	49,500	-
Schools reserves		138,892	158,836	124,669	138,892	158,836	124,669
		1,305,025	1,187,049	999,377	1,281,184	1,173,903	1,001,373

Approved and authorised for issue by the Board of Governors on 11 DEC 2014

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The notes on pages 14 to 55 form part of these financial statements. Restatements in relation to revised HKAS 19, *Employee benefits* are detailed in note 2(c).

Statement of changes in reserves for the year ended 31 August 2014

(Expressed in Hong Kong dollars)

The Group

	General reserve	*Capital fund* (note 21(a))	*Schools reserves* (note 21(b))	*Total*
	$'000	$'000	$'000	$'000
As previously reported at 1 September 2012	862,364	14,865	124,669	1,001,898
Impact of change in accounting policy	(2,521)	-	-	(2,521)
Restated balance at 1 September 2012	859,843	14,865	124,669	999,377
Surplus for the year (restated)	28,469	81,673	54,062	164,204
Transfers	19,895	-	(19,895)	-
Other comprehensive income (restated)	23,468	-	-	23,468
Total comprehensive income (restated)	71,832	81,673	34,167	187,672
Restated balance at 31 August 2013 and 1 September 2013	931,675	96,538	158,836	1,187,049
Surplus for the year	(14,587)	64,227	58,986	108,626
Transfers	78,930	-	(78,930)	-
Other comprehensive income	9,350	-	-	9,350
Total comprehensive income	73,693	64,227	(19,944)	117,976
At 31 August 2014	1,005,368	160,765	138,892	1,305,025

Statement of changes in reserves for the year ended 31 August 2014 (continued)

(Expressed in Hong Kong dollars)

The Foundation

	General reserve $'000	*Capital fund* (note 21(a)) $'000	*Schools reserves* (note 21(b)) $'000	*Total* $'000
As previously reported at 1 September 2012	879,225	-	124,669	1,003,894
Impact of change in accounting policy	(2,521)	-	-	(2,521)
Restated balance at 1 September 2012	876,704	-	124,669	1,001,373
Surplus for the year (restated)	45,500	49,500	54,062	149,062
Transfers	19,895	-	(19,895)	-
Other comprehensive income (restated)	23,468	-	-	23,468
Total comprehensive income (restated)	88,863	49,500	34,167	172,530
Restated balance at 31 August 2013 and 1 September 2013	965,567	49,500	158,836	1,173,903
Surplus for the year	8,228	30,717	58,986	97,931
Transfers	78,930	-	(78,930)	-
Other comprehensive income	9,350	-	-	9,350
Total comprehensive income	96,508	30,717	(19,944)	107,281
At 31 August 2014	1,062,075	80,217	138,892	1,281,184

The notes on pages 14 to 55 form part of these financial statements. Restatements in relation to revised HKAS 19, *Employee benefits* are detailed in note 2(c).

Cash flow statement
for the year ended 31 August 2014
(Expressed in Hong Kong dollars)

	Note	The Group 2014 $'000	The Group 2013 $'000 (restated)	The Foundation 2014 $'000	The Foundation 2013 $'000 (restated)
Operating activities					
Net cash generated from operating activities	12(b)	149,009	204,664	159,374	261,835
Investing activities					
Payments for the purchase of properties, plant and equipment less capital creditors		(293,222)	(495,574)	(270,615)	(484,504)
Proceeds from sale of properties, plant and equipment		10	-	-	-
(Increase)/decrease in bank deposits with original maturities over three months		(80,428)	91,085	(80,228)	91,085
Government grants received		62,236	51,077	62,236	50,399
Increase in deposits pledged with bank		(294)	-	-	-
Interest received		5,086	7,101	4,757	6,650
Net cash used in investing activities		(306,612)	(346,311)	(283,850)	(336,370)
Financing activities					
Increase in refundable capital levy		45,396	54,241	45,396	54,241
Proceeds from issue of nomination rights		72,650	69,750	57,450	52,100
Proceeds from non-refundable building levy		19,310	13,883	-	-
Proceeds from refundable debenture		4,067	4,319	-	-
Capital element of finance lease rentals paid		(405)	(218)	(405)	(218)
Interest element of finance lease rentals paid		(59)	(19)	(59)	(19)
Net cash generated from financing activities		140,959	141,956	102,382	106,104

Cash flow statement
for the year ended 31 August 2014 (continued)

(Expressed in Hong Kong dollars)

	Note	The Group 2014 $'000	The Group 2013 $'000 (restated)	The Foundation 2014 $'000	The Foundation 2013 $'000 (restated)
Net (decrease)/increase in cash and cash equivalents		(16,644)	309	(22,094)	31,569
Cash and cash equivalents at 1 September		223,684	223,375	138,508	106,939
Cash and cash equivalents at 31 August	12(a)	207,040	223,684	116,414	138,508

The notes on pages 14 to 55 form part of these financial statements. Restatements in relation to revised HKAS 19, *Employee benefits* are detailed in note 2(c).

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 2(d) to the financial statements.

2 Significant accounting policies

(a) Statement of compliance

The consolidated financial statements for the year ended 31 August 2014 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. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting year. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting year (see note 27).

2 Significant accounting policies (continued)

(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.

During the year ended 31 August 2013, the Group has revised the estimated useful lives of buildings and building improvements (see note 6(i)).

In note 26, the Group discusses the significant judgements the Group made in applying HKFRSs on the financial statements and major sources of estimation uncertainty.

(c) Changes in accounting policies

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group and the Foundation. Of these, the following developments are relevant to the Group's financial statements:

- Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*

- HKFRS 10, *Consolidated financial statements*

- Revised HKAS 19, *Employee benefits*

Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*

The amendments require entities to present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The presentation of other comprehensive income in the consolidated statement of comprehensive income in these financial statements has been modified accordingly.

2 Significant accounting policies (continued)

(c) Changes in accounting policies (continued)

HKFRS 10, *Consolidated financial statements*

HKFRS 10 replaces the requirements in HKAS 27, *Consolidated and separate financial statements* relating to the preparation of consolidated financial statements and Hong Kong (SIC) Interpretation 12 *Consolidation – Special purpose entities*. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns. As a result of the adoption of HKFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 September 2013.

Revised HKAS 19, *Employee benefits*

Revised HKAS 19 introduces a number of amendments to the accounting for defined benefit plans. Among them, revised HKAS 19 eliminates the "corridor method" under which the recognition of actuarial gains and losses relating to defined benefit schemes could be deferred and recognised in the statement of comprehensive income over the expected average remaining service lives of employees. Under the revised standard, all actuarial gains and losses are required to be recognised immediately in other comprehensive income. Revised HKAS 19 also changed the basis for determining income from plan assets from expected return to interest income calculated at the liability discount rate, and requires immediate recognition of past service cost, whether vested or not.

As a result of the adoption of revised HKAS 19, the Group has changed its accounting policy with respect to defined benefit plans, for which the corridor method was previously applied. This change in accounting policy has been applied retrospectively by restating the balances at 1 September 2012 and 31 August 2013, with consequential adjustments to comparatives for the year ended 31 August 2013 as follows:

	As previously reported $'000	*Effect of adoption of revised HKAS 19* $'000	*As restated* $'000
Consolidated income and expenditure account for year ended 31 August 2013:			
Net defined benefit retirement scheme expenses	1,978	(8,334)	(6,356)
Surplus for the year	172,538	(8,334)	164,204

2 Significant accounting policies (continued)

(c) Changes in accounting policies (continued)

Revised HKAS 19, *Employee benefits (continued)*

	As previously reported $'000	*Effect of adoption of revised HKAS 19* $'000	*As restated* $'000
Consolidated statement of comprehensive income for year ended 31 August 2013:			
Remeasurement of net defined benefit asset	-	23,468	23,468
Other comprehensive income for the year	-	23,468	23,468
Total comprehensive income for the year	172,538	15,134	187,672
Consolidated balance sheet as at 31 August 2013:			
Defined benefit retirement scheme	32,109	12,613	44,722
Total non-current assets	1,486,601	12,613	1,499,214
Net assets	1,174,436	12,613	1,187,049
General reserve	919,062	12,613	931,675
Consolidated balance sheet as at 1 September 2012:			
Defined benefit retirement scheme	30,131	(2,521)	27,610
Total non-current assets	1,109,084	(2,521)	1,106,563
Net assets	1,001,898	(2,521)	999,377
General reserve	862,364	(2,521)	859,843

(d) Subsidiary

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. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

2 Significant accounting policies (continued)

(d) Subsidiary (continued)

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.

In the Foundation's balance sheet, the amounts due to ESL are stated at cost less impairment losses (see note 10).

(e) 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) Government grants

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 properties, plant and equipment from the cost of acquisition in arriving at the carrying amount of the related asset.

(ii) 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 balance sheet as liabilities at the end of the financial year.

(iii) 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.

2 Significant accounting policies (continued)

(e) Income recognition (continued)

(iv) Rental income

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

(v) 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.

(vi) Interest income

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

(vii) Resale income

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

(viii) Individual nomination rights

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.

(ix) Corporate nomination rights

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

(x) Non-refundable building levy

The Group recognises non-refundable building levy income when it is probable that the levy will be received, which is generally on receipt of cash.

2 Significant accounting policies (continued)

(f) Properties, plant and equipment

The Group records properties, plant and equipment other than construction in progress in the balance sheet at cost less related government grants, accumulated depreciation and impairment losses (see note 2(g)).

The Group records construction in progress at cost less related government grants, and is transferred to other categories of properties, plant and equipment 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 properties, plant and equipment, less related government grants to their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

–	Buildings	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.

The Group adds subsequent expenditure relating to properties, plant and equipment 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 property, plant and equipment, the Group recognises the related gains and losses being the difference between the net disposal proceeds and the carrying amount of the item.

2 Significant accounting policies (continued)

(g) Impairment of assets

The Group uses internal and external sources of information at each balance sheet date to identify indications that properties, plant and equipment 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.

(h) 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.

(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 properties, plant and equipment and the corresponding liabilities, net of finance charges, as obligations under finance leases.

2 Significant accounting policies (continued)

(h) Leased assets (continued)

(i) Assets acquired under finance leases (continued)

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 2(f). The Group accounts for impairment losses in accordance with the accounting policy as set out in note 2(g).

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 accounting 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 accounting 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.

(i) 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.

2 Significant accounting policies (continued)

(j) Fees and other receivables

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.

(k) Accounts and other payables

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.

(l) Cash and cash equivalents

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.

(m) Corporate nomination rights

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.

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.

2 Significant accounting policies (continued)

(n) Refundable capital levy

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.

(o) Refundable debenture

Refundable debenture is repayable by the Group when the student of a kindergarten leaves the school with sufficient notice. The refundable debenture is non-transferable, interest-free, non-depreciating and unsecured. Initially the Group recognises the refundable 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.

(p) Employee benefits

(i) 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.

(ii) 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.

(iii) 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.

2 Significant accounting policies (continued)

(p) Employee benefits (continued)

(iii) (continued)

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 balance sheet date 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)).

(q) 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.

2 Significant accounting policies (continued)

(r) Related parties

(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.

(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.

3 Surplus for the year

Surplus for the year is arrived at after charging:

	Note	The Group 2014 $'000	The Group 2013 $'000 (restated)	The Foundation 2014 $'000	The Foundation 2013 $'000 (restated)
(a) Staff costs					
Contribution to defined contribution retirement schemes		30,476	27,652	22,602	20,547
Net defined benefit retirement schemes expenses	7(b)(v)	4,224	6,356	4,224	6,356
Retirement costs		34,700	34,008	26,826	26,903
Salaries, wages and other benefits		1,503,693	1,420,185	1,144,740	1,096,059
		1,538,393	1,454,193	1,171,566	1,122,962
(b) Other items					
Depreciation	6	111,167	86,440	103,664	83,057
Loss on disposals of properties, plant and equipment		4,407	1,457	4,339	1,457
Operating lease charges:					
– equipment rentals	4	251	238	251	238
– property rentals	4	17,599	17,406	10,002	11,020

4 Other operating expenses

	Note	The Group 2014 $'000	The Group 2013 $'000	The Foundation 2014 $'000	The Foundation 2013 $'000
Audit fees		1,085	937	906	755
Cost of goods sold		1,190	1,289	-	-
Finance lease interest expenses		59	19	59	19
Impairment loss of fees and other receivables		685	1,246	685	892
Information technology expenses		18,738	16,606	14,426	13,206
Insurance		5,096	4,628	3,715	3,339
Leased equipment rentals	3(b)	251	238	251	238
Legal and professional fees		3,083	3,432	1,796	2,259
Library		1,951	1,822	1,379	1,382
Net government rent and rates	15(c)	1,338	982	753	502
Professional development and training		16,175	16,656	13,424	13,332
Property rentals	3(b)	17,599	17,406	10,002	11,020
Property management fee		2,900	2,860	1,724	1,724
Public relations and marketing expenses		2,075	3,127	746	1,224
Printing and stationery		8,615	8,212	6,367	6,296
Recruitment expenses		5,396	6,641	4,486	5,415
Teaching resources and materials		33,499	30,982	19,875	18,360
Utilities		29,296	26,437	21,328	19,095
General expenses		17,700	17,502	12,922	12,319
		166,731	161,022	114,844	111,377

5 Taxation

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

6 Properties, plant and equipment

(a) *The Group*

	Buildings and building improvements					Furniture and equipment			
	Foundation's Schools $'000	Renaissance College & Discovery College $'000	Quarters & others $'000	Construction in progress $'000	Leasehold improvements $'000	Foundation's Schools $'000	Renaissance College & Discovery College $'000	Quarters and others*** $'000	Total $'000
Cost:									
At 1 September 2013	1,745,730	577,901	257,294	80,912	29,669	339,916	58,720	40,539	3,130,681
Additions	84,530	827	653	162,612	297	41,278	8,512	2,983	301,692
Transfers	133,349	24,487	22,520	(194,125)	-	13,542	227	-	-
Disposals/adjustments*	(6,316)	(4,128)	-	-	-	(13,323)	(2,570)	(626)	(26,963)
At 31 August 2014	1,957,293	599,087	280,467	49,399	29,966	381,413	64,889	42,896	3,405,410
Government grants:									
At 1 September 2013	(205,782)	(338,606)	(45,453)	-	-	-	-	-	(589,841)
Additions	(35,342)	-	-	-	-	-	-	-	(35,342)
Disposals	-	9,856	-	-	-	-	-	-	9,856
At 31 August 2014	(241,124)	(328,750)	(45,453)	-	-	-	-	-	(615,327)
Accumulated depreciation:									
At 1 September 2013	(620,680)	(58,999)	(189,846)	-	(19,879)	(125,874)	(40,270)	(30,800)	(1,086,348)
Charge for the year**	(46,493)	(6,059)	(1,620)	-	(4,218)	(40,380)	(7,839)	(4,538)	(111,167)
Write-back on disposals/adjustments*	264	1,115	-	-	-	12,778	2,500	612	17,269
At 31 August 2014	(666,909)	(63,943)	(191,466)	-	(24,097)	(153,476)	(45,609)	(34,746)	(1,180,246)
Net book value:									
At 31 August 2014	1,049,260	206,394	43,548	49,399	5,869	227,937	19,280	8,150	1,609,837

* Adjustments on cost and depreciation of properties, plant and equipment relate to certain properties, plant and equipment 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 and the Foundation for the year ended 31 August 2014 was $1,995,000 (2013: $1,896,000). 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.

6 Properties, plant and equipment (continued)

(a) The Group (continued)

	Buildings and building improvements					Furniture and equipment			
	Foundation's Schools $'000	*Renaissance College & Discovery College* $'000	*Quarters & others* $'000	*Construction in progress* $'000	*Leasehold improvements* $'000	*Foundation's Schools* $'000	*Renaissance College & Discovery College* $'000	*Quarters and others**** $'000	*Total* $'000
Cost:									
At 1 September 2012	1,222,041	577,901	257,294	211,605	45,753	225,879	53,798	38,541	2,632,812
Additions	45,017	-	-	460,153	3,240	25,623	5,893	2,997	542,923
Transfers	483,542	-	-	(590,846)	-	107,304	-	-	-
Disposals/adjustments*	(4,870)	-	-	-	(19,324)	(18,890)	(971)	(999)	(45,054)
At 31 August 2013	1,745,730	577,901	257,294	80,912	29,669	339,916	58,720	40,539	3,130,681
Government grants:									
At 1 September 2012	(130,140)	(338,606)	(45,453)	-	-	-	-	-	(514,199)
Additions	(77,292)	-	-	-	-	-	-	-	(77,292)
Disposals	1,650	-	-	-	-	-	-	-	1,650
At 31 August 2013	(205,782)	(338,606)	(45,453)	-	-	-	-	-	(589,841)
Accumulated depreciation:									
At 1 September 2012	(595,242)	(53,767)	(186,860)	-	(28,342)	(116,545)	(32,247)	(26,657)	(1,039,660)
Charge for the year**	(26,930)	(5,232)	(2,986)	-	(10,763)	(26,553)	(8,899)	(5,077)	(86,440)
Write-back on disposals/adjustments*	1,492	-	-	-	19,226	17,224	876	934	39,752
At 31 August 2013	(620,680)	(58,999)	(189,846)	-	(19,879)	(125,874)	(40,270)	(30,800)	(1,086,348)
Net book value:									
At 31 August 2013	919,268	180,296	21,995	80,912	9,790	214,042	18,450	9,739	1,454,492

* Adjustments on cost and depreciation of properties, plant and equipment relate to certain properties, plant and equipment 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 and the Foundation for the year ended 31 August 2014 was $1,995,000 (2013: $1,896,000). 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.

6 Properties, plant and equipment (continued)

(b) *The Foundation*

	Buildings and building improvements					Furniture and equipment			
	Foundation's Schools $'000	*Renaissance College and Discovery College* $'000	*Quarters and others* $'000	*Construction in progress* $'000	*Leasehold improvements* $'000	*Foundation's Schools* $'000	*Renaissance College and Discovery College* $'000	*Quarters and others* $'000	*Total* $'000
Cost:									
At 1 September 2013	1,745,730	421,157	257,294	54,696	6,963	339,916	51,646	32,274	2,909,676
Additions	84,530	318	653	157,899	-	41,278	-	1,539	286,217
Transfers	133,349	-	22,520	(169,638)	-	13,542	227	-	-
Disposals/adjustments*	(6,316)	(4,128)	-	-	-	(13,323)	(1,096)	(390)	(25,253)
Transfers from ESL**	-	8,475	-	-	-	-	-	-	8,475
At 31 August 2014	1,957,293	425,822	280,467	42,957	6,963	381,413	50,777	33,423	3,179,115
Government grants:									
At 1 September 2013	(205,782)	(190,261)	(45,453)	-	-	-	-	-	(441,496)
Additions	(35,342)	-	-	-	-	-	-	-	(35,342)
Disposals	-	1,381	-	-	-	-	-	-	1,381
At 31 August 2014	(241,124)	(188,880)	(45,453)	-	-	-	-	-	(475,457)
Accumulated depreciation:									
At 1 September 2013	(620,680)	(58,159)	(189,846)	-	(5,142)	(125,874)	(39,942)	(24,656)	(1,064,299)
Charge for the year***	(46,493)	(4,603)	(1,620)	-	(1,286)	(40,380)	(5,567)	(3,715)	(103,664)
Write-back on disposals/adjustments*	264	1,115	-	-	-	12,778	1,096	384	15,637
At 31 August 2014	(666,909)	(61,647)	(191,466)	-	(6,428)	(153,476)	(44,413)	(27,987)	(1,152,326)
Net book value:									
At 31 August 2014	1,049,260	175,295	43,548	42,957	535	227,937	6,364	5,436	1,551,332

* Adjustments on cost and depreciation of properties, plant and equipment relate to certain properties, plant and equipment 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 (see note 6(h)).

*** Depreciation charge of quarters of the Group and the Foundation for the year ended 31 August 2014 was $1,995,000 (2013: $1,896,000). 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.

6 Properties, plant and equipment (continued)

(b) *The Foundation (continued)*

	Buildings and building improvements					*Furniture and equipment*			
	Foundation's Schools $'000	*Renaissance College and Discovery College* $'000	*Quarters and others* $'000	*Construction in progress* $'000	*Leasehold improvements* $'000	*Foundation's Schools* $'000	*Renaissance College and Discovery College* $'000	*Quarters and others* $'000	*Total* $'000
Cost:									
At 1 September 2012	1,222,041	421,157	257,294	209,747	26,287	225,879	52,617	30,941	2,445,963
Additions	45,017	-	-	435,795	-	25,623	-	2,273	508,708
Transfers	483,542	-	-	(590,846)	-	107,304	-	-	-
Disposals/adjustments*	(4,870)	-	-	-	(19,324)	(18,890)	(971)	(940)	(44,995)
At 31 August 2013	1,745,730	421,157	257,294	54,696	6,963	339,916	51,646	32,274	2,909,676
Government grants:									
At 1 September 2012	(130,140)	(190,261)	(45,453)	-	-	-	-	-	(365,854)
Additions	(77,292)	-	-	-	-	-	-	-	(77,292)
Disposals	1,650	-	-	-	-	-	-	-	1,650
At 31 August 2013	(205,782)	(190,261)	(45,453)	-	-	-	-	-	(441,496)
Accumulated depreciation:									
At 1 September 2012	(595,242)	(53,767)	(186,860)	-	(14,876)	(116,545)	(32,247)	(21,398)	(1,020,935)
Charge for the year**	(26,930)	(4,392)	(2,986)	-	(9,492)	(26,553)	(8,571)	(4,133)	(83,057)
Write-back on disposals/adjustments*	1,492	-	-	-	19,226	17,224	876	875	39,693
At 31 August 2013	(620,680)	(58,159)	(189,846)	-	(5,142)	(125,874)	(39,942)	(24,656)	(1,064,299)
Net book value:									
At 31 August 2013	919,268	172,737	21,995	54,696	1,821	214,042	11,704	7,618	1,403,881

* Adjustments on cost and depreciation of properties, plant and equipment relate to certain properties, plant and equipment 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 and the Foundation for the year ended 31 August 2014 $1,995,000 (2013: $1,896,000). 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.

6 Properties, plant and equipment (continued)

(c) King George V, Kowloon Junior, Peak, Glenealy, Kennedy and Quarry Bay schools were transferred to the Group and the Foundation on 1 September 1979 at nil book value. Additions to properties, plant and equipment of these schools since that date are included in the financial statements.

(d) 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.

(e) ***Residential properties***

The Group and the Foundation own 202 (2013: 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. An independent firm of surveyors, Colliers, valued the 115 remaining property units owned by the Group and the Foundation as at 31 August 2014 at \$2,703,640,000 (2013: \$2,551,520,000). The net book value of the 115 remaining property units as at 31 August 2014 was \$41,041,000 (2013: \$17,094,000).

(f) ***Mortgage of residential properties for banking facilities***

The banking facilities of the Group and the Foundation granted by The Hongkong and Shanghai Banking Corporation Limited are secured by mortgages over 12 residential properties with net book value of \$1,791,000 at 31 August 2014 (2013: 12 residential properties with net book value of \$2,149,000). The market value of the 12 residential properties as at 31 August 2014 based on external valuations was \$167,100,000 (2013: \$146,900,000).

(g) ***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 2014 was \$3,313,000 (2013: \$248,000) and the depreciation charge for the year ended 31 August 2014 was \$121,000 (2013: \$124,000).

6 Properties, plant and equipment (continued)

(h) Renaissance College and Discovery College

The Government approved applications to construct and operate non-profit making private independent schools in Ma On Shan in 2000 and in Discovery Bay in 2001 and signed service agreements with ESL relating to the school in Ma On Shan on 23 August 2004 and in relation to the school in Discovery Bay on 30 May 2006.

Subsequently, pursuant to a Development and Operating Agreement dated 23 August 2006, the Foundation undertook to construct, fit out and complete Renaissance College ("RCHK") and Discovery College ("DC") in order for ESL to operate RCHK and DC. In consideration for the construction costs incurred by the Foundation, it was agreed that ESL would pay a fee from income generated by RCHK and DC to the Foundation. The Foundation would bear any construction cost over and above the Government capital grants received for RCHK and DC.

At the ESL directors' meeting held on 21 May 2012, it was proposed and endorsed that RCHK and DC would pay for their own capital expenditure with effect from 1 July 2012. Any related depreciation charge on this capital expenditure would be recorded in the books of ESL. The proposal was agreed and ratified by the Board of Governors of the Foundation on 13 December 2012.

During the year, the Foundation's expenditure on properties, plant and equipment and depreciation charge for the year for RCHK and DC amounted to $9,020,000 (2013: $nil) and $10,170,000 (2013: $12,963,000), respectively.

Total cost of properties, plant and equipment and the net book value (net of related government grants and depreciation) of RCHK and DC at 31 August 2014 included in the financial statements of the Foundation was $476,599,000 (2013: $472,803,000) and $181,659,000 (2013: $184,441,000), respectively.

(i) Review of the estimated useful lives of properties, plant and equipment

During a review in the year ended 31 August 2013 of the Group's depreciation policies, the Group revised the estimated useful lives of assets listed below with effect from 1 September 2012 and applied component accounting, where applicable. The changes in estimated useful lives were based on historical experience and management considered that the revised estimated useful lives better reflect the estimated periods during which such assets would remain in service and be utilised by the Group and the Foundation:

	Previous estimated useful life	*Revised estimated useful life*
Buildings	20 years	20 - 50 years
Building improvements	10 years	10 - 20 years

6 Properties, plant and equipment (continued)

(i) Review of the estimated useful lives of properties, plant and equipment (continued)

The adoption of the new estimated useful lives had no effect on prior years. The effect on the year ended 31 August 2013 was to decrease the depreciation charge by $40,503,000 and increase the carrying value of the assets as at 31 August 2013 by the same amount. The Group considered it was impracticable to estimate the effect of the revised useful lives on future years depreciation charge.

7 Retirement schemes

(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.

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 balance sheet is as follows:

	The Group and the Foundation	
	2014	*2013*
	$'000	$'000 *(restated)*
Present value of defined benefit obligations	(87,630)	(90,687)
Fair value of scheme assets	137,478	135,409
	49,848	44,722

7 Retirement schemes (continued)

(b) Defined benefit retirement schemes (continued)

(i) (continued)

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 2015.

(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*	
	2014	*2013*	*2014*	*2013*
	$'000	$'000	$'000	$'000
Equities	14,313	12,412	56,059	52,727
Fixed income securities	18,145	17,615	46,753	49,360
Cash	568	738	1,640	2,557
Total	33,026	30,765	104,452	104,644

7 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	
	2014	*2013*
	$'000	$'000
		(restated)
At 1 September	(90,687)	(113,330)
Remeasurements:		
- Actuarial gain arising from changes in experience	1,777	1,762
- Actuarial (loss)/gain arising from changes in financial assumptions	(3,687)	12,791
	(1,910)	14,553
Current service cost	(4,244)	(5,550)
Interest cost	(2,085)	(726)
Less: actual benefits paid and payable	11,296	14,366
At 31 August	(87,630)	(90,687)

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

	The Group and the Foundation	
	2014	*2013*
	$'000	$'000
		(restated)
At 1 September	135,409	140,940
Interest income	2,902	811
Return on scheme assets, excluding interest income	11,260	8,915
Less: actual benefits paid and payable	(11,296)	(14,366)
Less: administrative expenses paid from scheme assets	(797)	(891)
At 31 August	137,478	135,409

7 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	
	2014	*2013*
	$'000	$'000 *(restated)*
Current service cost	4,244	5,550
Net interest on net defined benefit asset	(817)	(85)
Administrative expenses paid from scheme assets	797	891
Total amounts recognised in income and expenditure	4,224	6,356
Actuarial loss/(gain)	1,910	(14,553)
Return on scheme assets, excluding interest income	(11,260)	(8,915)
Total amounts recognised in other comprehensive income	(9,350)	(23,468)
Total defined benefit return	(5,126)	(17,112)

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.

7 Retirement schemes (continued)

(b) Defined benefit retirement schemes (continued)

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

	The Group and the Foundation			
	TA Scheme		*NT Scheme*	
	2014	*2013*	*2014*	*2013*
Discount rate	1.1%	1.3%	1.8%	2.4%
Future salary increases	3.5%	3.5%	3.5%	3.5%

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

	The Group and the Foundation			
	TA Scheme		*NT Scheme*	
	Increase in 0.25% $'000	*Decrease in 0.25%* $'000	*Increase in 0.25%* $'000	*Decrease in 0.25%* $'000
Discount rate	(64)	65	(1,548)	1,598
Future salary increases	55	(54)	1,481	(1,444)

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.

8 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 $10,529,000 (2013: $10,206,000) and $6,823,000 (2013: $7,044,000) respectively and the Group's other receivables and prepayments of $357,000 (2013: $374,000), the Group expect all other current assets and liabilities to be recovered or settled within one year of the balance sheet date.

9 Fees and other receivables

	The Group		*The Foundation*	
	2014	*2013*	*2014*	*2013*
	$'000	$'000	$'000	$'000
Fees receivables	5,140	5,710	3,574	4,057
Other receivables	4,158	1,083	4,158	1,083
Less: Allowance for impairment of doubtful debts	(3,220)	(3,837)	(2,802)	(3,214)
	6,078	2,956	4,930	1,926

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.

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*	
	2014	*2013*	*2014*	*2013*
	$'000	$'000	$'000	$'000
At 1 September	3,837	3,244	3,214	2,901
Impairment loss recognised	685	1,246	685	892
Uncollectible amounts written off	(1,302)	(653)	(1,097)	(579)
At 31 August	3,220	3,837	2,802	3,214

At 31 August 2014, 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 $3,220,000 (2013: $3,837,000) and $2,802,000 (2013: $3,214,000) respectively. The Group and the Foundation do not hold any collateral over these balances.

10 Amount due from/to subsidiary

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

11 Restricted cash

A deposit of $1,826,000 (2013: $1,532,000) 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.

12 Cash and cash equivalents

(a) Cash and cash equivalents comprise:

	The Group 2014	2013	*The Foundation* 2014	2013
	$'000	$'000	$'000	$'000
Deposits with original maturities less than three months	121,259	125,413	55,873	62,092
Cash at bank and in hand	85,781	98,271	60,541	76,416
	207,040	223,684	116,414	138,508

The effective interest rates per annum relating to cash and cash equivalents of the Group and the Foundation at the balance sheet date are 0.27% (2013: 0.35%) and 0.25% (2013: 0.26%) respectively.

12 Cash and cash equivalents (continued)

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

	The Group		*The Foundation*	
	2014	*2013*	*2014*	*2013*
	$'000	$'000	$'000	$'000
		(restated)		*(restated)*
Operating activities				
Surplus for the year	108,626	164,204	97,931	149,062
Adjustments for:				
Interest income	(5,086)	(7,101)	(4,757)	(6,650)
Nomination rights	(44,917)	(67,790)	(30,717)	(49,500)
Non-refundable building levy	(19,310)	(13,883)	-	-
Interest expense	59	19	59	19
Loss on disposals of properties, plant and equipment	4,407	1,457	4,339	1,457
Depreciation	111,167	86,440	103,664	83,057
Expense recognised under employee defined benefit retirement scheme	4,224	6,356	4,224	6,356
	159,170	169,702	174,743	183,801
Changes in working capital:				
(Increase)/decrease in inventories	(139)	17	-	-
(Increase)/decrease in rental and utility deposits	(323)	(813)	221	(539)
(Increase)/decrease in prepayments	(403)	(1,392)	877	(1,942)
Decrease/(increase) in loans to staff	2,450	(1,348)	1,955	(1,486)
Decrease/(increase) in fees and other receivables	2,472	1,386	(3,004)	1,455
Decrease in fees received in advance	(10,928)	(7,751)	(13,508)	(8,446)
Increase in amount due to subsidiary	-	-	8,176	29,825
Increase/(decrease) in provision to meet staff conditions of service	44	3,032	(3,236)	3,268
Increase/(decrease) in accounts payables and accruals excluding capital creditors	3,426	51,890	(5,388)	57,571
Decrease in government hardship allowance	(1,462)	(1,672)	(1,462)	(1,672)
Decrease in scholarship fund and hardship allowance	(5,298)	(8,387)	-	-
Net cash generated from operating activities	149,009	204,664	159,374	261,835

13 Provision to meet staff conditions of service

	The Group		*The Foundation*	
	2014	*2013*	*2014*	*2013*
	$'000	$'000	$'000	$'000
At 1 September	88,238	85,206	73,168	69,900
Provision for the year	224,744	211,612	174,930	168,442
Payments made during the year	(224,700)	(208,580)	(178,166)	(165,174)
At 31 August	88,282	88,238	69,932	73,168

Under the Group's and the Foundation's contracts of employment, staff are entitled to certain benefits in addition to their basic salary as explained in note 2(p). The Group and the Foundation make provision for the amount payable to staff under such contracts.

14 Accounts payables and accruals

	The Group		*The Foundation*	
	2014	*2013*	*2014*	*2013*
	$'000	$'000	$'000	$'000
Accounts payable	14,707	29,458	5,382	19,789
Accruals and provision	99,062	133,316	80,965	112,535
Accruals for major repairs	130,761	82,207	130,761	82,207
Deferred income	76,472	49,317	62,188	39,722
Retention money	17,111	31,078	17,111	31,078
Deposits received	7,890	9,174	7,735	9,039
Other payables	6,974	6,523	5,549	5,099
	352,977	341,073	309,691	299,469

15 Government grants

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	*2014*	*2013*	*2014*	*2013*
		$'000	$'000	$'000	$'000
Basic grants	15(a)	271,112	271,117	271,112	271,117
Hardship allowance	15(b)	6,845	6,845	6,845	6,845
Refund of rent and rates	15(c)	12,943	12,188	10,021	9,464
		290,900	290,150	287,978	287,426

The subvention review was concluded in July 2013. Excluding subvention of $28,271,000 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.

15 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	
	2014	*2013*
	$'000	$'000
At 1 September	35,622	37,294
Received from the Government	6,845	6,845
	42,467	44,139
Utilised to permit fee relief in cases of hardship	(8,307)	(8,517)
At 31 August	34,160	35,622

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	*2014*	*2013*	*2014*	*2013*
		$'000	$'000	$'000	$'000
Gross rent and rates for the year		14,281	13,170	10,774	9,966
Less: Recovered or recoverable from the Government		(12,943)	(12,188)	(10,021)	(9,464)
	4	1,338	982	753	502

16 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 2014, Renaissance College and Discovery College have each set aside 10% of their respective tuition fees which consists of 8% (2013: 8%) as scholarship fund and 2% (2013: 2%) as hardship allowance.

Tuition fees of Renaissance College and Discovery College transferred to scholarship fund/hardship allowance during the year amounted to $20,878,000 (2013: $19,042,000) and $12,751,000 (2013: $10,823,000) respectively.

	The Group		
	Scholarship fund	*Hardship allowance*	*Total*
	$'000	$'000	$'000
At 1 September 2012	26,853	14,908	41,761
Addition	23,892	5,973	29,865
Utilisation	(31,926)	(1,263)	(33,189)
Transfer	(5,063)	-	(5,063)
At 31 August 2013 and 1 September 2013	13,756	19,618	33,374
Addition	26,903	6,726	33,629
Utilisation	(35,202)	(2,415)	(37,617)
Transfer	-	(1,310)	(1,310)
At 31 August 2014	5,457	22,619	28,076

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

17 Obligations under finance leases

At 31 August 2014, the Group and the Foundation had obligations under finance leases repayable as follows:

	The Group and the Foundation					
	2014			*2013*		
	Present value of the minimum lease payments $'000	*Interest expense relating to future periods* $'000	*Total minimum lease payments* $'000	*Present value of the minimum lease payments* $'000	*Interest expense relating to future periods* $'000	*Total minimum lease payments* $'000
Within one year	738	127	865	133	10	143
Between one and two years	704	125	829	33	3	36
Between two and five years	1,510	293	1,803	-	-	-
	2,214	418	2,632	33	3	36
	2,952	545	3,497	166	13	179

18 Refundable capital levy

Refundable capital levy was introduced and payable by the parents of children joining the Foundation's school system in August 2011 and subsequent years. The levy is $25,000 for each child entering one of the Foundation's schools for the first time from August 2011 onwards and for each child that joins Year 7 from another school of the Foundation from August 2011 onwards. 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. The levy is repayable by the Foundation when the student leaves the school.

19 Refundable debenture

In August 2013, the Group introduced the refundable 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 refundable debenture is non-transferable, interest-free, non-depreciating and unsecured.

20 Corporate nomination rights

Movements in the corporate nomination rights were as follows:

	The Group and the Foundation	
	2014	*2013*
	$'000	$'000
At 1 September	-	-
Issued	25,000	-
Less: Amortisation to statement of comprehensive income	(167)	-
At 31 August	24,833	-
Less: Within one year or on demand	(250)	-
After one year	24,583	-

21 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.

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.

Reserves of the Group include total accumulated surplus of ESL amounting to $23,841,000 (2013: $13,146,000). Under the terms of the Memorandum of Association of ESL, no portion of the income and property of ESL can be paid or transferred, directly or indirectly, by way of dividend, bonus or otherwise by way of profit to the members of the ESL.

21 Reserves

(a) *Capital fund*

	The Group		*The Foundation*	
	2014	*2013*	*2014*	*2013*
	$'000	$'000	$'000	$'000
The Foundation	80,217	49,500	80,217	49,500
Renaissance College	50,761	29,434	-	-
Discovery College	29,787	17,604	-	-
	160,765	96,538	80,217	49,500

The Foundation introduced individual and corporate nomination rights schemes. 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 and King George V 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 $138,892,000 as at 31 August 2014 (2013: $158,836,000). 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 2014, the respective School Councils have authorised or contracted for capital commitments of $23,660,000 (2013: $48,506,000). The respective School Councils also reserve certain sums for major upgrades at schools.

During the year, $78,930,000 (2013: $19,895,000) 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.

(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, rental and interest 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.

22 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 balance sheet.

(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.

22 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 balance sheet date:

	The Group				*The Foundation*			
	2014		*2013*		*2014*		*2013*	
	Effective interest rate %	$'000	*Effective interest rate* %	$'000	*Effective interest rate* %	$'000	*Effective interest rate* %	$'000
Finance lease liabilities	3.85%	(2,952)	2.59%	(166)	3.85%	(2,952)	2.59%	(166)
Deposits with original maturities greater than three months	1.09%	312,412	0.82%	231,984	1.10%	310,312	0.82%	230,084
Restricted cash	0.01%	1,826	0.01%	1,532	-	-	-	-
Cash at bank and in hand	0.27%	207,040	0.31%	223,684	0.25%	116,414	0.26%	138,508
		518,326		457,034		423,774		368,426

(ii) Sensitivity analysis

At 31 August 2014, it is estimated that a general increase/decrease of 100 basis points (2013: 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 $5,183,000 (2013: $4,570,000). Other components of reserves would not be affected (2013: 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 balance sheet date and had been applied to re-measure these financial instruments which expose the Group to fair value interest rate risk at the balance sheet date. The analysis has been performed on the same basis for 2013.

22 Financial risk management and fair values (continued)

(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 values

All financial instruments are carried at amounts not materially different from their fair values at the balance sheet date because of their short term maturity.

23 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 2014 not provided for in these financial statements were as follows:

	The Group		*The Foundation*	
	2014	*2013*	*2014*	*2013*
	$'000	$'000	$'000	$'000
Contracted for	188,728	91,293	178,280	91,293
Authorised but not contracted for	133,135	327,261	133,135	326,005
	321,863	418,554	311,415	417,298

(b) At 31 August 2014, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		*The Foundation*	
	2014	*2013*	*2014*	*2013*
	$'000	$'000	$'000	$'000
Leased properties				
Within one year	13,027	15,971	6,024	9,640
Between one and five years	10,802	12,679	-	6,024
Over five years	2,621	3,235	-	-
	26,450	31,885	6,024	15,664
Leased equipment				
Within one year	7	78	7	78
Between one and five years	24	-	24	-
	31	78	31	78

23 Commitments (continued)

(b) (continued)

The Group leases a number of properties under operating leases. The leases run for an initial period of three to six 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.

24 Contingent liabilities

The Group and the Foundation had contingent liabilities at 31 August 2014 amounting to \$3,201,000 (2013: \$3,201,000) in respect of various utility guarantees issued by The Hongkong and Shanghai Banking Corporation Limited in favour of third parties.

25 Material related party transactions

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:

	2014	*2013*
	\$'000	\$'000
Salaries, allowances and benefits in kind	20,752	21,204
Retirement costs	157	150
	20,909	21,354

26 Accounting estimates and judgements

Notes 7 and 22 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 properties, plant and equipment*

The Group has significant properties, plant and equipment 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.

At each balance sheet date, 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 balance sheet date. 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 balance sheet date.

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

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments to standards, new standards and interpretations to standards which are not yet effective for the year ended 31 August 2014 and which have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the year of initial application. So far, the Group has concluded that the adoption of them is unlikely to have a significant impact on the financial statements.

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 55, which comprise the consolidated and Foundation balance sheets as at 31 August 2014, 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.

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

KPMG

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of the affairs of the Foundation and of the Group as at 31 August 2014 and of their surplus 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

11 DEC 2014