



ESF Educational Services Limited
英基教育服務有限公司

Financial Statements
for the year ended 31 August 2014

Report of the Board of Directors

The Board of Directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 August 2014.

Principal place of business

ESF Educational Services Limited (the “Company”) is a company incorporated and domiciled in Hong Kong and has its registered office and principal place of business at 25/F, 1063 King’s Road, Quarry Bay, Hong Kong.

Principal activities

The principal activities of the Company 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 the Company are substantially provided by The English Schools Foundation. The Company is exempt from taxation pursuant to section 88 of the Hong Kong Inland Revenue Ordinance.

Financial statements

The surplus of the Company for the year ended 31 August 2014 and the state of the Company’s affairs as at that date are set out in the financial statements on pages 4 to 31.

Reserves

The Company has transferred the surplus of HK\$10,695,000 (2013: HK\$15,142,000) to reserves. The Company shows other movements in reserves in the statement of changes in reserves.

Under the terms of the Memorandum of Association of the Company, no portion of the income and property of the Company can be paid or transferred, directly or indirectly, by way of dividend, bonus or otherwise by way of profit to the members of the Company.

Properties, plant and equipment

The Company has set out details of movements in properties, plant and equipment in note 10 to the financial statements.

Directors of the Board

The directors of the Board during the financial year and up to the date of this report were:

Belinda Greer (Chairman)	(appointed as Chairman on 6 November 2013)
Vivian Cheung Wai Yan	
Charles Caldwell	
John Stewart	
Pam Ryan	(resigned on 20 June 2014)

In accordance with articles 29 and 30 of the Company's articles of association, all existing directors shall retire from office at each annual general meeting but shall be eligible for re-election.

No contract of significance to which the Company, or its holding entity was a party and in which a director had a material interest existed at the end of the year or at any time during the year.

During the year there was in existence an arrangement between The English Schools Foundation ("the Foundation") and the Company whereby the Foundation provided management and administrative services to the Company. Fees charged by the Foundation for the provision of such services during the year ended 31 August 2014 amounted to HK\$7,889,000 (2013: HK\$7,720,000). None of the directors of the Company had a material interest in this arrangement.

Pursuant to a Development and Operating Agreement (the "Agreement") dated 23 August 2006 between the Company and the Foundation, the Foundation has undertaken to construct, fit out and complete Renaissance College ("RCHK") and Discovery College ("DC") in order for the Company to operate RCHK and DC. In consideration for the provision of the school buildings and facilities by the Foundation, the Company paid a fee amounting to HK\$21,241,000 (2013: HK\$20,233,000) from income generated by RCHK and DC to the Foundation. The cumulative fee paid to the Foundation under the Agreement was HK\$114,210,000 up to 31 August 2014 (2013: HK\$92,969,000).

At no time during the year was the Company, or its holding entity a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of an interest in the Company 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 Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board



Director

Hong Kong, - 6 JAN 2015

Statement of comprehensive income for the year ended 31 August 2014 *(Expressed in Hong Kong dollars)*

	Note	2014 \$'000	2013 \$'000
Income	3		
Operating income		491,138	448,778
Non-operating income	18(b)	33,510	32,173
		<u>524,648</u>	<u>480,951</u>
Expenditure			
<i>Staff expenses</i>			
Salaries and teaching resources		283,090	258,309
Gratuities and MPF contributions		40,187	33,217
Housing allowance		24,024	23,645
Medical expenses		7,726	6,077
Staff education allowance		12,160	9,461
Passage allowance		433	814
	4(a)	<u>367,620</u>	<u>331,523</u>
<i>Other expenses</i>			
Advertisements		950	1,454
Audit fee		179	182
Cost of goods sold		1,190	1,289
Depreciation	4(b), 10	7,503	3,383
Development and operating agreement payment	21(a)	21,241	20,233
Management and administrative expenses	21(a)	7,889	7,720
Office and general expenses	5	39,655	38,540
Rent, rates and building management fee	6	20,094	18,549
Scholarship fund and hardship allowance	15	33,629	29,865
Teaching materials and resources	7	14,003	13,071
		<u>146,333</u>	<u>134,286</u>
Total expenses		<u>513,953</u>	<u>465,809</u>
Surplus and total comprehensive income for the year	4	<u>10,695</u>	<u>15,142</u>

Statement of comprehensive income
for the year ended 31 August 2014 (continued)
(Expressed in Hong Kong dollars)

	<i>Note</i>	<i>2014</i> \$'000	<i>2013</i> \$'000
Represented by:			
Operating deficit		(22,815)	(17,031)
Capital fund surplus		<u>33,510</u>	<u>32,173</u>
		<u>10,695</u>	<u>15,142</u>

The notes on pages 10 to 31 form part of these financial statements.

Balance sheet at 31 August 2014

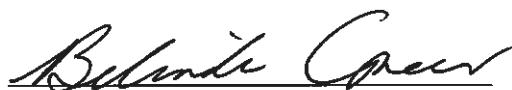
(Expressed in Hong Kong dollars)

	Note	2014 \$'000	2013 \$'000
Non-current asset			
Properties, plant and equipment	10	58,505	50,611
Current assets	11		
Inventories		777	638
Rental and utilities deposits		3,706	3,162
Prepayments	12	5,143	3,863
Fees and other receivables	12	2,632	8,603
Amount due from The English Schools Foundation	16	35,280	27,104
Restricted cash	13	1,826	1,532
Deposits with original maturities over three months		2,100	1,900
Cash and cash equivalents	14	90,626	85,176
		142,090	131,978
Current liabilities	11		
Creditors and accruals		43,286	41,604
Nomination rights received in advance		1,310	310
Provision for staff gratuities and MPF contributions		18,350	15,070
Scholarship fund	15	5,457	13,756
Hardship allowance	15	22,619	19,618
Fees received in advance		77,346	74,766
Refundable debenture	17	4,123	-
		172,491	165,124
Net current liabilities		(30,401)	(33,146)
Total assets less current liabilities		28,104	17,465

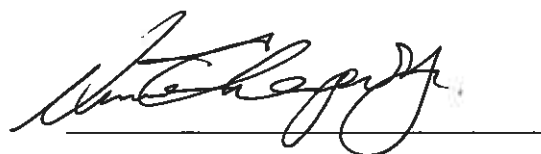
Balance sheet at 31 August 2014 (continued)
(Expressed in Hong Kong dollars)

	Note	2014 \$'000	2013 \$'000
Non-current liability			
Refundable debenture	17	<u>4,263</u>	<u>4,319</u>
NET ASSETS		<u>23,841</u>	<u>13,146</u>
RESERVES	18		
Capital fund		80,548	47,038
Accumulated fund		<u>(56,707)</u>	<u>(33,892)</u>
TOTAL SURPLUS		<u>23,841</u>	<u>13,146</u>

Approved and authorised for issue by the board of directors on **6 JAN 2015**



Director



Director

The notes on pages 10 to 31 form part of these financial statements.

Statement of changes in reserves
for the year ended 31 August 2014
(Expressed in Hong Kong dollars)

	<i>Accumulated fund \$'000</i>	<i>Capital fund \$'000 (note 18(b))</i>	<i>Total \$'000</i>
At 1 September 2012	(16,861)	14,865	(1,996)
(Deficit)/surplus and total comprehensive income for the year	<u>(17,031)</u>	<u>32,173</u>	<u>15,142</u>
At 31 August 2013 and 1 September 2013	(33,892)	47,038	13,146
(Deficit)/surplus and total comprehensive income for the year	<u>(22,815)</u>	<u>33,510</u>	<u>10,695</u>
At 31 August 2014	<u>(56,707)</u>	<u>80,548</u>	<u>23,841</u>

The notes on pages 10 to 31 form part of these financial statements.

Cash flow statement

for the year ended 31 August 2014

(Expressed in Hong Kong dollars)

	<i>Note</i>	<i>2014</i> \$'000	<i>2013</i> \$'000
Operating activities			
Net cash generated from operating activities	14(b)	(10,365)	(56,493)
Investing activities			
Payments for the purchase of properties, plant and equipment (net of capital creditors)		(22,607)	(11,070)
Proceeds from sale of fixed assets		10	-
Increase in deposits pledged with bank		(294)	-
Increase in deposits with original maturities over three months		(200)	-
Interest received		329	451
Net cash used in investing activities		(22,762)	(10,619)
Financing activities			
Proceeds from nomination rights		15,200	17,650
Proceeds from non-refundable building levy		19,310	13,883
Proceeds from refundable debenture		4,067	4,319
Net cash generated from financing activities		38,577	35,852
Net increase/(decrease) in cash and cash equivalents		5,450	(31,260)
Cash and cash equivalents at 1 September		85,176	116,436
Cash and cash equivalents at 31 August	14(a)	90,626	85,176

The notes on pages 10 to 31 form part of these financial statements.

Notes to the financial statements

(Expressed in Hong Kong dollars)

1 Background

ESF Educational Services Limited (“the Company”) is incorporated in Hong Kong under the Hong Kong Companies Ordinance and is limited by guarantee. In the event that the Company is wound up, each member’s guaranteed contribution to the assets of the Company is limited to \$100. The Company had 5 members as at 31 August 2014 (2013: 6 members). The directors of the Company are responsible for the preparation of financial statements.

The principal activity of the Company is to operate 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 the Company are substantially provided by The English Schools Foundation.

2 Significant accounting policies

(a) *Statement of compliance*

The Board has prepared the financial statements in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which in collective term includes 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. These financial statements also comply with the applicable requirements of the Hong Kong Companies Ordinance, which for this financial year and the comparative period continue to be those of the predecessor Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the new Hong Kong Companies Ordinance (Cap.622), “Accounts and Audit”, which are set out in section 76 to 87 of Schedule 11 to that Ordinance. The Company has set out a summary of significant accounting policies adopted by the Company below.

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

The Company has not applied any new standard or interpretation that is not yet effective for the current accounting year (see note 24).

2 Significant accounting policies (continued)

(b) Basis of preparation of the financial statements

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

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

In note 22, the Company discusses the significant judgements the Company made in applying HKFRSs on the financial statements and major sources of estimation uncertainty.

(c) Income recognition

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

(i) Tuition fees

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

The Company classifies tuition fees received in respect of the following academic year as fees received in advance; the Company carries these in the balance sheet as liabilities at the end of the financial year.

(ii) Other programme fees

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

(iii) Donations

The Company recognises donations when the Company becomes entitled to the donations and it is probable that they will be received. The Company recognises donations relating to expenditure incurred on a systematic basis in the same year in which the related expenditure is incurred. The Company recognises donations that compensate the Company 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.

2 Significant accounting policies (continued)

(c) Income recognition (continued)

(iv) Rental income

The Company recognises rental income earned from the licensing use of school facilities as income on an accruals basis.

(v) Resale income

The Company recognises resale income that represents income earned from selling textbooks, stationery and school uniforms on an accruals basis.

(vi) Interest income

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

(vii) Non-refundable building levy

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

(viii) Nomination rights

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

(d) Government grants

The Company recognises government grants when there is reasonable assurance that the Company will comply with the conditions attached to them and that the grants will be received. The Company deducts grants provided to the Company relating to properties, plant and equipment from the cost of acquisition in arriving at the carrying amount of the properties, plant and equipment.

2 Significant accounting policies (continued)

(e) Properties, plant and equipment

The Company 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(f)).

The Company records construction in progress at cost less related government grants, and the Company transfers it 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 Company 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
Furniture and other equipment	5 - 10 years
Computer equipment	3 - 5 years
Air conditioning	10 years
Leasehold improvements	Shorter of 10 years/period of the lease

Annually the Company reviews the estimated life of the assets and the estimates of residual value. The Company states construction in progress at cost net of related government grants and is not subject to any depreciation charge.

The Company adds subsequent expenditure relating to properties, plant and equipment that the Company has already been recognised to the carrying amount of the asset provided the Company considers that it is probable that the Company will obtain future economic benefits, in excess of the originally assessed standard of performance of the existing assets, 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 properties, plant and equipment, the Company 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)

(f) Impairment of properties, plant and equipment

The Company 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 Company 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 costs of disposal and value in use. In assessing value in use, the Company 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 Company determines the recoverable amount for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit).

The Company 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 Company credits reversals of impairment losses as income in the year in which the reversals are recognised.

(g) Operating lease charges

Where the Company has the use of assets under operating leases, the Company 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 Company recognises lease incentives received as an integral part of the aggregate net lease payments made. The Company recognises contingent rental payments as expense in the accounting year in which they are incurred.

(h) Inventories

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

The Company 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 Company'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.

2 Significant accounting policies (continued)

(h) Inventories (continued)

When inventories are sold, the Company recognises the carrying amount of those inventories as an expense in the year in which the related income is recognised. The Company 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.

(i) Fees and other receivables

Initially the Company recognises fees and other receivables at fair value, thereafter the Company 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 Company states the receivables at cost less allowance for impairment of doubtful debts.

The Company 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.

(j) Creditors and accruals

The Company initially recognises creditors and accruals at fair value, subsequently the Company states these at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(k) 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.

(l) Refundable debenture

Refundable debenture is repayable by the Company 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 Company recognises the refundable debenture at fair value, thereafter the Company states this at amortised cost unless the effect of discounting would be immaterial, in which case it is stated at cost.

2 Significant accounting policies (continued)

(m) *Employee benefits*

- (i) The Company accrues salaries, gratuities, paid annual leave, leave passage and the cost to the Company of non-monetary benefits in the year in which the associated services are rendered by employees of the Company. Where payment or settlement is deferred and the effect would be material, the Company states these amounts are stated at their present values.
- (ii) The Company recognises as expense obligations for contributions to the Mandatory Provident Fund as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance as incurred.

(n) *Related parties*

- (a) A person, or a close member of that person's family, is related to the Company if that person:
 - (i) has control or joint control over the Company;
 - (ii) has significant influence over the Company; or
 - (iii) is a member of the key management personnel of the Company or the Company's parent.
- (b) An entity is related to the Company if any of the following conditions applies:
 - (i) The entity and the Company 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 Company or an entity related to the Company.
 - (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 Income

	2014 \$'000	2013 \$'000
Operating income		
<i>Programme income (note)</i>		
Renaissance College tuition fees	208,778	190,418
Discovery College tuition fees	127,515	108,236
Camps and educational visits	13,006	10,917
Kindergarten tuition fees	72,835	67,192
Language course fees	17,857	18,168
IB revision course fees	-	271
Sports course fees	23,693	22,910
Examination fees	3,610	2,701
	<hr/> 467,294	<hr/> 420,813
<i>Other</i>		
Donations	587	448
Registration fees	1,967	2,184
Rental income	9,584	9,850
Resale income	6,571	6,883
Interest income	329	451
Transfer from previous years' scholarship fund and hardship allowance surplus	1,310	5,063
Other income	3,496	3,086
	<hr/> 491,138	<hr/> 448,778
Total operating income		
Non-operating income		
Non-refundable building levy	19,310	13,883
Nomination rights	14,200	18,290
	<hr/> 33,510	<hr/> 32,173
Total non-operating income		

Note: Programme income represents fees charged to individuals and institutions who participate in programmes organised by the Company.

4 Surplus for the year

Surplus for the year is arrived at after charging:

	<i>2014</i> \$'000	<i>2013</i> \$'000
(a) Staff costs:		
Contributions to defined contribution retirement scheme	7,874	7,105
Salaries, wages and other benefits	359,746	324,418
	<u>367,620</u>	<u>331,523</u>
(b) Other items:		
Depreciation	7,503	3,383
Impairment loss on accounts receivables	-	354
Loss on disposal of properties, plant and equipment	68	-
Auditor's remuneration	179	182
Operating lease charges in respect of property rentals:		
- minimum lease payments	9,371	8,588
- contingent rentals	303	191
	<u>9,674</u>	<u>8,779</u>

5 Office and general expenses

	<i>2014</i> \$'000	<i>2013</i> \$'000
Building repair and maintenance	10,772	10,590
Insurance	1,381	1,289
Legal expense	180	151
Minor furniture/equipment written off	2,155	1,757
Printing	1,940	1,659
Professional fees	1,107	1,022
Postage	364	269
Recruiting	910	1,226
Stationery	308	257
Training expenses	3,272	3,869
Transportation	550	443
Utilities	7,968	7,342
General office expenses and others	8,748	8,666
	<u>39,655</u>	<u>38,540</u>

6 Rent, rates and building management fee

	<i>2014</i>	<i>2013</i>
	\$'000	\$'000
Gross rent and rates for the year	21,840	20,137
Less: Recovered or recoverable from the Government	<u>(2,922)</u>	<u>(2,724)</u>
	18,918	17,413
Building management fee	<u>1,176</u>	<u>1,136</u>
	<u>20,094</u>	<u>18,549</u>

The Company receives reimbursement of rent and rates actually paid for premises of Renaissance College and Discovery College from the Government.

7 Teaching materials and resources

	<i>2014</i>	<i>2013</i>
	\$'000	\$'000
Teaching materials	11,130	10,653
Course expenses	379	449
Educational visit expenses	181	181
Examination expenses	<u>2,313</u>	<u>1,788</u>
	<u>14,003</u>	<u>13,071</u>

8 Directors' remuneration

In accordance with article 5 of the Company's memorandum of association, no directors of the Company are appointed to any salaried office and no directors shall be given fees, remuneration or other benefits by the Company.

9 Taxation

The Company is exempt from taxation pursuant to section 88 of the Hong Kong Inland Revenue Ordinance.

10 Properties, plant and equipment

Cost:	Furniture \$'000	Other equipment \$'000	Computer equipment \$'000	Air conditioning \$'000	Building/ leasehold improvements \$'000	Construction in progress \$'000	Total \$'000
At 1 September 2013	1,612	5,864	7,650	213	179,450	26,216	221,005
Additions	1,161	2,785	3,141	2,869	806	4,713	15,475
Transfers	-	-	-	-	24,487	(24,487)	-
Transfers to The English Schools Foundation*	-	-	-	-	(8,475)	-	(8,475)
Disposals	(141)	(522)	(1,047)	-	-	-	(1,710)
At 31 August 2014	2,632	8,127	9,744	3,082	196,268	6,442	226,295
Government grants:							
At 1 September 2013	-	-	-	-	148,345	-	148,345
Additions	-	-	-	-	-	-	-
Disposals	-	-	-	-	(8,475)	-	(8,475)
At 31 August 2014	-	-	-	-	139,870	-	139,870
Depreciation:							
At 1 September 2013	1,022	2,191	3,245	14	15,577	-	22,049
Charge for the year	316	877	1,668	255	4,387	-	7,503
Written back on disposals	(141)	(487)	(1,004)	-	-	-	(1,632)
At 31 August 2014	1,197	2,581	3,909	269	19,964	-	27,920
Net book value:							
At 31 August 2014	1,435	5,546	5,835	2,813	36,434	6,442	58,505

* 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.

10 Properties, plant and equipment (continued)

	Furniture \$'000	Other equipment \$'000	Computer equipment \$'000	Air conditioning \$'000	Building/ leasehold improvements \$'000	Construction in progress \$'000	Total \$'000
Cost:							
At 1 September 2012	1,354	2,970	4,316	141	176,210	1,858	186,849
Additions	279	2,900	3,366	72	3,240	24,358	34,215
Disposals	(21)	(6)	(32)	-	-	-	(59)
At 31 August 2013	1,612	5,864	7,650	213	179,450	26,216	221,005
Government grants:							
At 1 September 2012	-	-	-	-	148,345	-	148,345
Additions	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-
At 31 August 2013	-	-	-	-	148,345	-	148,345
Depreciation:							
At 1 September 2012	884	1,900	2,475	-	13,466	-	18,725
Charge for the year	160	296	802	14	2,111	-	3,383
Written back on disposals	(22)	(5)	(32)	-	-	-	(59)
At 31 August 2013	1,022	2,191	3,245	14	15,577	-	22,049
Net book value:							
At 31 August 2013	590	3,673	4,405	199	15,528	26,216	50,611

10 Properties, plant and equipment (continued)

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. The Company signed service agreements with The English Schools Foundation (“ESF”) relating to a school in Ma On Shan on 23 August 2004 and in relation to a school in Discovery Bay on 30 May 2006. Subsequently, pursuant to a Development and Operating Agreement dated 23 August 2006 (the “Agreement”), ESF undertook to construct, fit out and complete Renaissance College (“RCHK”) and Discovery College (“DC”) in order for the Company to operate RCHK and DC. In consideration for the construction costs incurred by ESF, it was agreed that the Company would pay a fee from income generated by RCHK and DC to ESF. ESF would bear any construction cost over and above the Government capital grants received for RCHK and DC.

At the 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 the Company.

11 Current assets and current liabilities

With the exception of deposits for the rental of properties and utilities of \$3,706,000 (2013: \$3,162,000) and those accounts and other receivables and prepayments mentioned in note 12, the Company expects all other current assets and liabilities to be recovered or settled within one year of the balance sheet date.

12 Prepayments, fees and other receivables

	2014 \$’000	2013 \$’000
Fees receivables	1,566	1,653
Less: Allowance for impairment of doubtful debts	<u>(418)</u>	<u>(623)</u>
	1,148	1,030
Loans to staff	1,484	1,979
Amount due from government	<u>-</u>	<u>5,594</u>
	<u>2,632</u>	<u>8,603</u>
 Prepayments	 <u>5,143</u>	 <u>3,863</u>

12 Fees and other receivables (continued)

The Company expects the amount of the Company's accounts receivables and prepayments to be recovered or recognised as expense after more than one year is \$357,000 (2014: \$374,000). The Company expects all of the other accounts and other receivables (including amount due from the Foundation) to be recovered or recognised as expense within one year.

Impairment of fees receivables

Fee receivables are due immediately from the date of billing.

The Company records impairment losses in respect of fees receivables using an allowance account, unless the Company is satisfied that the recovery of the amount is remote, in which case the impairment loss is written off against accounts receivables directly.

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

	2014 \$'000	2013 \$'000
At 1 September	623	343
Impairment loss recognised	-	354
Uncollectible amounts written off	(205)	(74)
At 31 August	<u>418</u>	<u>623</u>

At 31 August 2014 and 31 August 2013, no fees receivables of the Company were individually determined to be impaired. Based on the aging of accounts receivable and repayment patterns of customers, the Company has determined that the Company's fees receivable are collectively impaired by \$418,000 (2013: \$623,000). The Company does not hold any collateral over these balances.

13 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.

14 Cash and cash equivalents

(a) Cash and cash equivalents comprise:

	2014 \$'000	2013 \$'000
Deposits with original maturities less than three months	65,386	63,321
Cash at bank and in hand	25,240	21,855
	<u>90,626</u>	<u>85,176</u>

(b) Reconciliation of surplus for the year to cash used in operating activities:

	2014 \$'000	2013 \$'000
Operating activities		
Surplus for the year	10,695	15,142
Adjustments for:		
Interest income	(329)	(451)
Nomination rights	(14,200)	(18,290)
Non-refundable building levy	(19,310)	(13,883)
Depreciation	7,503	3,383
Impairment loss on accounts receivables	-	354
Loss on disposal of properties, plant and equipment	68	-
Changes in working capital	(15,573)	(13,745)
(Increase)/decrease in inventories	(139)	17
Increase in rental and utilities deposits	(544)	(274)
(Increase)/decrease in prepayments	(1,280)	550
Decrease in fees and other receivables	5,971	393
Increase in amount due from The English Schools Foundation	(8,176)	(29,825)
Increase/(decrease) in creditors and accruals excluding capital creditors	8,814	(5,681)
Increase/(decrease) in provision for staff gratuities and MPF contributions	3,280	(236)
Decrease in scholarship fund	(8,299)	(13,097)
Increase in hardship allowance	3,001	4,710
Increase in fees received in advance	2,580	695
Net cash used in operating activities	<u>(10,365)</u>	<u>(56,493)</u>

15 Scholarship fund and hardship allowance

Pursuant to the service agreement between the Company and the Government, the Company 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% (2013: 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.

	2014 \$'000	2013 \$'000
Scholarship fund		
At 1 September	13,756	26,853
Addition	26,903	23,892
Utilisation	(35,202)	(31,926)
Transfer	-	(5,063)
	<u>5,457</u>	<u>13,756</u>
At 31 August		
Hardship allowance		
At 1 September	19,618	14,908
Addition	6,726	5,973
Utilisation	(2,415)	(1,263)
Transfer	(1,310)	-
	<u>22,619</u>	<u>19,618</u>
At 31 August		

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

16 Amount due from The English Schools Foundation

Amount due from The English Schools Foundation is unsecured, interest-free and has no fixed terms of repayment.

17 Refundable debenture

In August 2013, the Company introduced the refundable debenture which is payable by parents of children joining the Company's kindergartens in August 2013 and subsequent years. The debenture is \$7,000 (2013: \$7,000) for each child entering one of the kindergartens for the first time from August 2013 onwards. The debenture is repayable by the Company when the student leaves the school with sufficient notice. The refundable debenture is non-transferable, interest-free, non-depreciating and unsecured.

18 Reserves

(a) *Components of the Company's reserves*

The Company sets out the opening and closing balances and the movements of the Company's reserves during the year in the statement of changes in reserves.

(b) *Capital fund*

	2014 \$'000	2013 \$'000
Renaissance College	50,761	29,434
Discovery College	29,787	17,604
	<u>80,548</u>	<u>47,038</u>

The income from non-refundable building levy and nomination rights is designated solely to finance capital expenditure of Renaissance College and Discovery College of the Company and hence is included in the capital fund.

(c) *Capital management*

The Company is a non-profit-making institution. The Company is not subject to any externally imposed capital requirements; its activities are mainly funded by tuition fees, programme income, donations, interest income and funds generated from self financing activities. The Company manages the accumulated surplus of the Company according to the financial management guidelines and procedures of the Company in meeting the objectives of the Company with the view of safeguarding the entity's ability to continue as a going concern.

19 Financial instruments

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

(a) Credit risk

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

The Company places deposits and cash and cash equivalents with major financial institutions in Hong Kong with good credit ratings.

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

(b) Liquidity risk

The Company's policy is to regularly monitor liquidity requirements to ensure that the Company 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 Company's exposure to changes in interest rates relates primarily to bank deposits and cash and cash equivalents. The Company's interest rate profile is set out in (i) below.

- (i) The following table details the Company's interest rate profile, deposits and borrowing (as defined above) at the balance sheet date:

	2014		2013	
	<i>Effective</i>		<i>Effective</i>	
	<i>interest rate</i>		<i>interest rate</i>	
	%	\$'000	%	\$'000
Deposits with original maturities over three months	0.20%	2,100	0.20%	1,900
Restricted cash	0.01%	1,826	0.01%	1,532
Cash at bank and in hand	0.29%	90,626	0.37%	85,176
		<u>94,552</u>		<u>88,608</u>

19 Financial instruments (continued)

(c) Interest rate risk (continued)

(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 Company's surplus for the year by approximately \$946,000 (2013: \$886,000). 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 Company'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 those financial instruments held by the Company which expose the Company to fair value interest rate risk at the balance sheet date. The Company performs the analysis on the same basis for 2013.

(d) Fair value measurement

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

20 Commitments

- (a) The Company has certain capital commitments relating mainly to the renovation of the schools. Capital commitments outstanding at 31 August 2014 not provided for in these financial statements were as follows:

	2014 \$'000	2013 \$'000
Contracted for	<u>10,448</u>	<u>1,256</u>

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

	2014 \$'000	2013 \$'000
Within one year	9,502	8,832
Between one and five years	20,802	16,654
After five years	<u>3,673</u>	<u>6,783</u>
	<u>33,977</u>	<u>32,269</u>

20 Commitments (continued)

(b) (continued)

The Company leases a number of properties under operating leases. The leases typically run for an initial period of three to ten years, with some having an option to renew upon expiry at which point all terms will be renegotiated.

Rentals payable represent the total future minimum lease payments under operating lease agreements. The Company bases the contingent rentals payable 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.

21 Material related party transactions

(a) During the year, the Company had various material transactions with the Foundation as follow:

	2014 \$'000	2013 \$'000
Fee in respect of management and administration services provided by ESF	7,889	7,720
School premises rental expense paid to ESF on the same terms as available for outsiders	10,736	10,547
Teaching and support staff salaries charged to ESF for extra-curricular programs	793	292
Teaching and support staff salaries charged by ESF for operation of kindergartens	651	1,360
Fee paid to ESF under the Development and Operating Agreement ("DOA")	21,241	20,233
Staff education allowance paid to ESF	1,840	1,799
Staff education allowance received from ESF	1,695	1,506
Course fee in respect of staff professional development provided by ESF	521	546
Fixed assets transferred to ESF	(8,475)	-
Amount due from ESF	<u>35,280</u>	<u>27,104</u>

Cumulative fees paid to ESF under the DOA up to 31 August 2014 are \$114,210,000 (2013: \$92,969,000).

21 Material related party transactions (continued)

(b) Key management personnel remuneration

Remuneration for key management personnel is as follows:

	2014 \$'000	2013 \$'000
Salaries, allowances and benefits in kind	2,219	2,129
Retirement plans contributions	<u>16</u>	<u>15</u>
	<u>2,235</u>	<u>2,144</u>

There was only one key management personnel for the year ended 31 August 2014 (2013: one). Total remuneration is included in staff costs (see note 4(a)).

22 Accounting estimates and judgements

Note 19 contains information about the assumptions and their risk factors relating to financial instruments. The other key source of estimation uncertainty is with respect to the useful lives and impairment of properties, plant and equipment. The Company 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 Company reviews the appropriateness of the estimated useful lives. The Company's 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 Company extends or shorten the useful lives and/or makes impairment provisions based on the assessment. At each balance sheet date, the Company reviews whether there are any indications of impairment and will recognise an impairment loss if the carrying amount of an asset is lower than its recoverable amount. The sources utilised to identify indications of impairment are often subjective in nature and the Company has to use judgement in applying such information to its operations. The Company'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 Company to estimate the recoverable value, which is the greater of the asset's net selling price and its value in use. The Company has 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 value of any asset.

23 Immediate and ultimate controlling entity

At 31 August 2014, the directors consider the immediate parent and ultimate controlling entity of the Company to be The English Schools Foundation, which is incorporated in Hong Kong.

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

In addition, the requirements of Part 9, "Accounts and Audit", of the new Hong Kong Companies Ordinance (Cap. 622) come into operation from the Company's first financial year commencing after 3 March 2014 (i.e. the Company's financial year which began on 1 September 2014) in accordance with section 358 of that Ordinance. The Company is in the process of making an assessment of the expected impact of the changes in the Companies Ordinance on the financial statements in the period of initial application of Part 9. So far it has concluded that the impact is unlikely to be significant and will primarily only affect the presentation and disclosure of information in the financial statements.

Independent auditor's report to the members of ESF Educational Services Limited

(Incorporated in Hong Kong and limited by guarantee)

We have audited the financial statements of ESF Educational Services Limited (the "Company") set out on pages 4 to 31, which comprise the Company's balance sheet as at 31 August 2014, and the statement of comprehensive income, statement of changes in reserves and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 80 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap.622), 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 financial statements are free from material misstatement.

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

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



Independent auditor's report to the members of
ESF Educational Services Limited (continued)
(Incorporated in Hong Kong and limited by guarantee)

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company as at 31 August 2014 and of its surplus and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

A handwritten signature in blue ink, appearing to be 'K. M. L.', located below the opinion text.

Certified Public Accountants

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

- 6 JAN 2015