ESF Educational Services Limited

英基教育服務有限公司

Financial Statements
for the year ended 31 August 2015

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 2015.

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 2015 and the state of the Company's affairs as at that date are set out in the financial statements on pages 4 to 34.

Reserves

The Company has transferred the surplus of HK$10,418,000 (2014: HK$2,220,000 (retated)) 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 9 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)
Vivian Cheung Wai Yan
Charles Caldwell
John Stewart
David Whalley (appointed on 9 December 2015)

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 2015 amounted to HK$11,740,000 (2014: HK$7,889,000). 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 (2014: HK$21,241,000) from income generated by RCHK and DC to the Foundation. The cumulative fee paid to the Foundation under the Agreement was HK$135,451,000 up to 31 August 2015 (2014: HK$114,210,000).

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

Belinda Greer

Director

Hong Kong, 09 DEC 2015

Statement of comprehensive income for the year ended 31 August 2015

(Expressed in Hong Kong dollars)

	Note	*2015* $'000	*2014* $'000 (restated)
Income	2		
Operating income		542,368	491,138
Non-operating income		29,122	25,035
		571,490	516,173
Expenditure			
Staff expenses			
Salaries and teaching resources		301,850	283,090
Gratuities and MPF contributions		47,034	40,187
Housing allowance		24,647	24,024
Medical expenses		9,140	7,726
Staff education allowance		14,013	12,160
Passage allowance		502	433
	3(a)	397,186	367,620
Other expenses			
Advertisements		1,447	950
Audit fee		186	179
Cost of goods sold		1,267	1,190
Depreciation	3(b), 9	9,307	7,503
Development and operating agreement payment	22(a)	21,241	21,241
Management and administrative expenses	22(a)	11,740	7,889
Office and general expenses	4	40,236	39,655
Rent, rates and building management fee	5	24,873	20,094
Scholarship fund and hardship allowance	14	37,158	33,629
Teaching materials and resources	6	16,431	14,003
		163,886	146,333
Total expenses		561,072	513,953
Surplus and total comprehensive income for the year	3	10,418	2,220

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

(Expressed in Hong Kong dollars)

	Note	*2015* $'000	*2014* $'000 (restated)
Represented by:			
Operating deficit		(18,704)	(22,815)
Capital fund surplus		29,122	25,035
		10,418	2,220

The notes on pages 10 to 34 form part of these financial statements.

Statement of financial position at 31 August 2015

(Expressed in Hong Kong dollars)

	Note	*31 August 2015* $'000	*31 August 2014* $'000 (restated)	*1 September 2013* $'000 (restated)
Non-current asset				
Properties, plant and equipment	9	92,558	58,505	50,611
Current assets	10			
Inventories		823	777	638
Rental and utilities deposits		4,270	3,706	3,162
Prepayments	11	7,220	5,143	3,863
Fees and other receivables	11	12,288	2,632	8,603
Amount due from The English Schools Foundation	15	2,401	35,280	27,104
Restricted cash	12	2,337	1,826	1,532
Deposits with original maturities over three months		12,945	2,100	1,900
Cash and cash equivalents	13	81,483	90,626	85,176
		123,767	142,090	131,978
Current liabilities	10			
Creditors and accruals		40,171	43,286	41,604
Nomination rights received in advance		710	1,310	310
Provision for staff gratuities and MPF contributions		22,220	18,350	15,070
Scholarship fund	14	892	5,457	13,756
Hardship allowance	14	24,335	22,619	19,618
Fees received in advance		78,260	77,346	74,766
Debenture	16	5,047	4,123	-
Deferred income – non-refundable building levy	17	3,360	4,006	2,669
		174,995	176,497	167,793
Net current liabilities		(51,228)	(34,407)	(35,815)
Total assets less current liabilities		41,330	24,098	14,796

Statement of financial position at 31 August 2015 (continued)

(Expressed in Hong Kong dollars)

	Note	*31 August 2015* $'000	*31 August 2014* $'000 (restated)	*1 September 2013* $'000 (restated)
Non-current liabilities				
Debenture	16	4,179	4,263	4,319
Deferred income				
– non-refundable building levy	17	26,365	19,467	12,329
		30,544	23,730	16,648
NET ASSETS/(LIABILITIES)		10,786	368	(1,852)
RESERVES	19			
Capital fund		86,197	57,075	32,040
Accumulated fund		(75,411)	(56,707)	(33,892)
TOTAL SURPLUS/(DEFICIT)		10,786	368	(1,852)

Approved and authorised for issue by the board of directors on 09 DEC 2015

Belinda Greer
Director

Vivian Cheung
Director

The notes on pages 10 to 34 form part of these financial statements.

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

(Expressed in Hong Kong dollars)

	Accumulated fund $'000	*Capital fund* $'000 (note 19(b)) (restated)	*Total* $'000 (restated)
As previously reported at 1 September 2013	(33,892)	47,038	13,146
Impact of change in accounting policy	-	(14,998)	(14,998)
Restated balance at 1 September 2013	(33,892)	32,040	(1,852)
(Deficit)/surplus and total comprehensive income for the year	(22,815)	25,035	2,220
Restated balance at 31 August 2014 and 1 September 2014	(56,707)	57,075	368
(Deficit)/surplus and total comprehensive income for the year	(18,704)	29,122	10,418
At 31 August 2015	(75,411)	86,197	10,786

The notes on pages 10 to 34 form part of these financial statements.

Cash flow statement for the year ended 31 August 2015

(Expressed in Hong Kong dollars)

	Note	*2015* $'000	*2014* $'000
Operating activities			
Net cash generated from/(used in) operating activities	13(b)	15,642	(10,365)
Investing activities			
Payments for the purchase of properties, plant and equipment (net of capital creditors)		(49,359)	(22,607)
Proceeds from sale of properties, plant and equipment		2	10
Increase in deposits pledged with bank		(511)	(294)
Increase in deposits with original maturities over three months		(10,845)	(200)
Interest received		314	329
Net cash used in investing activities		(60,399)	(22,762)
Financing activities			
Proceeds from nomination rights		16,000	15,200
Proceeds from non-refundable building levy		18,774	19,310
Proceeds from issuance of debenture		840	4,067
Net cash generated from financing activities		35,614	38,577
Net (decrease)/increase in cash and cash equivalents		(9,143)	5,450
Cash and cash equivalents at beginning of the year		90,626	85,176
Cash and cash equivalents at end of the year	13(a)	81,483	90,626

The notes on pages 10 to 34 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 2015 (2014: 5 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 Income

Accounting policy

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 statement of financial position 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.

2 Income (continued)

Accounting policy (continued)

(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.

(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 income from the non-refundable building levy over the number of years individual students are expected to remain at the school.

(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.

2 Income (continued)

	2015 $'000	*2014* $'000 (restated)
Operating income		
Programme income (note)		
Renaissance College tuition fees	223,575	208,778
Discovery College tuition fees	148,001	127,515
Camps and educational visits	12,889	13,006
Kindergarten tuition fees	79,407	72,835
Language course fees	18,575	17,857
Sports course fees	25,020	23,693
Examination fees	3,859	3,610
	511,326	467,294
Other		
Donations	1,095	587
Registration fees	2,711	1,967
Rental income	10,416	9,584
Resale income	7,982	6,571
Interest income	314	329
Transfer from previous years' scholarship fund and hardship allowance surplus	3,500	1,310
Other income	5,024	3,496
Total operating income	542,368	491,138
Non-operating income		
Non-refundable building levy	12,522	10,835
Nomination rights	16,600	14,200
Total non-operating income	29,122	25,035

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

3 Surplus for the year

Surplus for the year is arrived at after charging:

		2015	*2014*
		$'000	$'000
(a)	***Staff expenses:***		
	Contributions to defined contribution retirement scheme	8,997	7,874
	Salaries, wages and other benefits	388,189	359,746
		397,186	367,620
(b)	***Other items:***		
	Depreciation	9,307	7,503
	Impairment loss on accounts receivables	52	-
	Loss on disposal of properties, plant and equipment	58	68
	Auditor's remuneration	186	179
	Operating lease charges in respect of properties:		
	– minimum lease payments	10,661	9,371
	– contingent rentals	214	303

4 Office and general expenses

	2015	*2014*
	$'000	$'000
Building repair and maintenance	10,437	10,772
Insurance	1,649	1,381
Legal expense	13	180
Minor furniture/equipment written off	2,229	2,155
Printing	1,786	1,940
Professional fees	590	1,107
Postage	354	364
Recruiting	1,029	910
Stationery	306	308
Training expenses	2,805	3,272
Transportation	576	550
Utilities	8,425	7,968
General office expenses and others	10,037	8,748
	40,236	39,655

5 Rent, rates and building management fee

	2015 $'000	*2014* $'000
Gross rent and rates for the year	30,665	21,840
Less: Recovered or recoverable from the Government	(7,140)	(2,922)
	23,525	18,918
Building management fee	1,348	1,176
	24,873	20,094

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

6 Teaching materials and resources

	2015 $'000	*2014* $'000
Teaching materials	12,422	11,130
Course expenses	373	379
Educational visit expenses	1,110	181
Examination expenses	2,526	2,313
	16,431	14,003

7 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.

8 Taxation

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

9 Properties, plant and equipment

Accounting policy

The Company records properties, plant and equipment other than construction in progress in the statement of financial position at cost less related government grants, accumulated depreciation and impairment losses (see note 23(e)).

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*
- *Leasehold improvements* — *Shorter of 10 years/period of the lease*
- *Furniture and equipment* — *3 – 10 years*

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. Where parts of an item of properties, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately.

The 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.

9 Properties, plant and equipment (continued)

	Buildings $'000	*Leasehold improvements* $'000	*Furniture and equipment* $'000	*Construction in progress* $'000	*Total* $'000
Cost:					
At 1 September 2014	173,266	23,001	23,586	6,442	226,295
Additions	10,613	10,732	16,610	5,465	43,420
Transfers	3,480	-	-	(3,480)	-
Disposals	-	-	(2,169)	-	(2,169)
At 31 August 2015	187,359	33,733	38,027	8,427	267,546
Government grants:					
At 1 September 2014	139,870	-	-	-	139,870
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
At 31 August 2015	139,870	-	-	-	139,870
Depreciation:					
At 1 September 2014	2,296	17,668	7,956	-	27,920
Charge for the year	2,814	1,884	4,609	-	9,307
Written back on disposals	-	-	(2,109)	-	(2,109)
At 31 August 2015	5,110	19,552	10,456	-	35,118
Net book value:					
At 31 August 2015	42,379	14,181	27,571	8,427	92,558

9 Properties, plant and equipment (continued)

	Buildings $'000	*Leasehold improvements* $'000	*Furniture and equipment* $'000	*Construction in progress* $'000	*Total* $'000
Cost:					
At 1 September 2013	156,746	22,704	15,339	26,216	221,005
Additions	508	297	9,957	4,713	15,475
Transfers	24,487	-	-	(24,487)	-
Transfers to The English Schools Foundation*	(8,475)	-	-	-	(8,475)
Disposals	-	-	(1,710)	-	(1,710)
At 31 August 2014	173,266	23,001	23,586	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	840	14,737	6,472	-	22,049
Charge for the year	1,456	2,931	3,116	-	7,503
Written back on disposals	-	-	(1,632)	-	(1,632)
At 31 August 2014	2,296	17,668	7,956	-	27,920
Net book value:					
At 31 August 2014	31,100	5,333	15,630	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 Current assets and current liabilities

With the exception of deposits for the rental of properties and utilities of $4,270,000 (2014: $3,706,000) and those accounts and other receivables and prepayments mentioned in note 11, the Company expects all other current assets and liabilities to be recovered or settled within one year of the end of the reporting period.

11 Prepayments, fees and other receivables

Accounting policy

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.

	2015 $'000	*2014* $'000
Fees receivables	1,795	1,566
Less: Allowance for impairment of doubtful debts	(372)	(418)
	1,423	1,148
Loans to staff	1,510	1,484
Amount due from government	9,079	-
Amount due from MPF trustee	276	-
	12,288	2,632
Prepayments	7,220	5,143

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 $1,296,000 (2014: $357,000). 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.

11 Prepayments, fees and other receivables (continued)

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:

	2015 $'000	*2014* $'000
At beginning of the year	418	623
Impairment loss recognised	52	-
Uncollectible amounts written off	(98)	(205)
At end of the year	372	418

At 31 August 2015 and 31 August 2014, 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 $372,000 (2014: $418,000). The Company does not hold any collateral over these balances.

12 Restricted cash

A deposit of $2,337,000 (2014: $1,826,000) is pledged to a bank for guarantees issued by that bank in favour of MTR Corporation Limited and Hoo Wah Company Limited under the terms of three separate tenancy agreements.

13 Cash and cash equivalents

(a) Cash and cash equivalents comprise:

	2015 $'000	*2014* $'000
Deposits with original maturities less than three months	60,641	65,386
Cash at bank and in hand	20,842	25,240
	81,483	90,626

13 Cash and cash equivalents (continued)

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

	2015 $'000	*2014* $'000 (restated)
Operating activities		
Surplus for the year	10,418	2,220
Adjustments for:		
Interest income	(314)	(329)
Nomination rights	(16,600)	(14,200)
Non-refundable building levy	(12,522)	(10,835)
Depreciation	9,307	7,503
Impairment loss on accounts receivables	52	-
Loss on disposal of properties, plant and equipment	58	68
Operating deficit before changes in working capital	(9,601)	(15,573)
Increase in inventories	(46)	(139)
Increase in rental and utilities deposits	(564)	(544)
Increase in prepayments	(2,077)	(1,280)
(Increase)/decrease in fees and other receivables	(9,708)	5,971
Decrease/(increase) in amount due from The English Schools Foundation	32,879	(8,176)
Increase in creditors and accruals excluding capital creditors	2,824	8,814
Increase in provision for staff gratuities and MPF contributions	3,870	3,280
Decrease in scholarship fund	(4,565)	(8,299)
Increase in hardship allowance	1,716	3,001
Increase in fees received in advance	914	2,580
Net cash generated from/(used in) operating activities	15,642	(10,365)

14 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 2015, Renaissance College and Discovery College have each set aside 10% (2014: 10%) of their respective tuition fees which consists of 8% (2014: 8%) as scholarship fund and 2% (2014: 2%) as hardship allowance.

Tuition fees of Renaissance College and Discovery College transferred to scholarship fund/hardship allowance during the year amounted to $22,358,000 (2014: $20,878,000) and $14,800,000 (2014: $12,751,000) respectively.

	2015	*2014*
	$'000	$'000
Scholarship fund		
At beginning of the year	5,457	13,756
Addition	29,726	26,903
Utilisation	(34,291)	(35,202)
At end of the year	892	5,457
Hardship allowance		
At beginning of the year	22,619	19,618
Addition	7,432	6,726
Utilisation	(2,216)	(2,415)
Transfer	(3,500)	(1,310)
At end of the year	24,335	22,619

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

15 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.

16 Debenture

In August 2013, the Company introduced the debenture which is payable by parents of children joining the Company's kindergartens in August 2013 and subsequent years. The debenture is $7,000 (2014: $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 of a kindergarten leaves the school with sufficient notice. The debenture is non-transferable, interest-free, non-depreciating and unsecured. Initially the Company recognises the 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.

17 Non-refundable building levy

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

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

18 Individual nomination rights

Accounting policy

The Company recognises deposits made in respect of individual 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 individual nomination rights when the rights are exercised for the acceptance of school place offers, which is generally on receipt of cash.

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

19 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.

19 Reserves (continued)

(b) Capital fund

	2015	*2014*
	$'000	$'000
Renaissance College	44,565	27,288
Discovery College	41,632	29,787
	86,197	57,075

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.

20 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 statement of financial position.

20 Financial instruments (continued)

(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 end of the reporting period:

	2015		*2014*	
	Effective interest rate %	$'000	*Effective interest rate* %	$'000
Deposits with original maturities over three months	0.43%	12,945	0.20%	2,100
Restricted cash	0.01%	2,337	0.01%	1,826
Cash and cash equivalents	0.18%	81,483	0.29%	90,626
		96,765		94,552

(ii) Sensitivity analysis

At 31 August 2015, it is estimated that a general increase/decrease of 100 basis points (2014: 100 basis points) in interest rates, with all other variables held constant, would have increased/decreased the Company's surplus for the year by approximately $968,000 (2014: $946,000). Other components of reserves would not be affected (2014: nil) by the changes in interest rates.

The sensitivity analysis above indicates the instantaneous change in the Company's surplus that would arise assuming that the change in interest rates had occurred at the end of the reporting period 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 end of the reporting period. The Company performs the analysis on the same basis for 2014.

20 Financial instruments (continued)

(d) Fair value measurement

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

21 Commitments

(a) The Company has certain capital commitments relating mainly to the renovation of the schools. Capital commitments outstanding at 31 August 2015 not provided for in these financial statements were as follows:

	2015 $'000	*2014* $'000
Contracted for	98,049	10,448
Authorised but not contracted for	300	-
	98,349	10,448

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

	2015 $'000	*2014* $'000
Within one year	12,621	9,502
Between one and five years	25,583	20,802
After five years	17,056	3,673
	55,260	33,977

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.

22 Material related party transactions

Accounting policy

(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.

22 Material related party transactions (continued)

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

	2015 $'000	*2014* $'000
Fee in respect of management and administration services provided by ESF	11,740	7,889
School premises rental expense paid to ESF on the same terms as available for outsiders	13,641	10,736
Teaching and support staff salaries charged to ESF for extra-curricular programs	386	793
Teaching and support staff salaries charged by ESF for operation of kindergartens	1,034	651
Fee paid to ESF under the Development and Operating Agreement ("DOA")	21,241	21,241
Staff education allowance paid to ESF	1,537	1,840
Staff education allowance received from ESF	1,824	1,695
Course fee in respect of staff professional development provided by ESF	397	521
Fixed assets transferred to ESF	-	(8,475)
Amount due from ESF	2,401	35,280

Cumulative fees paid to ESF under the DOA up to 31 August 2015 are $135,451,000 (2014: $114,210,000).

22 Material related party transactions (continued)

(b) Key management personnel remuneration

Remuneration for key management personnel is as follows:

	2015	*2014*
	$'000	$'000
Salaries, allowances and benefits in kind	2,302	2,219
Retirement plans contributions	18	16
	2,320	2,235

There was only one key management personnel for the year ended 31 August 2015 (2014: one). Total remuneration is included in staff costs (see note 3(a)).

23 Other 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, and the requirements of the Hong Kong Companies Ordinance.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current reporting year of the Company. However, none of these new and revised HKFRS is relevant to the Company's financial statements for the current and prior reporting years.

In addition, the requirements of Part 9, "Accounts and Audit", of the Hong Kong Companies Ordinance (Cap. 622) came into operation at the start of the Company's current financial year. The adoption of the requirements has primarily impacted the presentation and disclosure of information in the financial statements. These changes mainly include updating any references to the Hong Kong Companies Ordinance to refer to the current Hong Kong Companies Ordinance and replacing certain terminology no longer used in the Hong Kong Companies Ordinance with terminology used in HKFRSs.

The Company has not applied any new standard or interpretation that is not yet effective for the current reporting year (see note 26).

23 Other significant accounting policies (continued)

(b) Basis of preparation of the financial statements

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

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In note 24, the Company discusses the significant judgements the Company made in applying HKFRSs on the financial statements and major sources of estimation uncertainty.

(c) Change in accounting policy

Non-refundable building levy

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

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

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

23 Other significant accounting policies (continued)

(c) Change in accounting policy (continued)

Non-refundable building levy (continued)

	As previously reported $'000	*Change in accounting policy* $'000	*As restated* $'000
Statement of comprehensive income for year ended 31 August 2014:			
Non-operating income	33,510	(8,475)	25,035
Surplus and total comprehensive income for the year	10,695	(8,475)	2,220
Statement of financial position as at 31 August 2014:			
Non-refundable building levy (current)	-	4,006	4,006
Total current liabilities	172,491	4,006	176,497
Non-refundable building levy (non-current)	-	19,467	19,467
Total non-current liabilities	4,263	19,467	23,730
Net assets	23,841	(23,473)	368
Capital fund	80,548	(23,473)	57,075
Statement of financial position as at 1 September 2013:			
Non-refundable building levy (current)	-	2,669	2,669
Total current liabilities	165,124	2,669	167,793
Non-refundable building levy (non-current)	-	12,329	12,329
Total non-current liabilities	4,319	12,329	16,648
Net assets/(liabilities)	13,146	(14,998)	(1,852)
Capital fund	47,038	(14,998)	32,040

23 Other significant accounting policies (continued)

(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.

(e) Impairment of properties, plant and equipment

The Company uses internal and external sources of information at the end of each reporting period 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.

(f) 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 reporting year 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 reporting year in which they are incurred.

23 Other significant accounting policies (continued)

(g) 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.

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.

(h) 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.

(i) 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 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.

(j) Functional and presentation currency

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

24 Accounting estimates and judgements

Note 20 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 shortens the useful lives and/or makes impairment provisions based on the assessment. At the end of each reporting period, the Company 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 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 period end 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.

25 Immediate and ultimate controlling entity

At 31 August 2015, 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.

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

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

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

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

KPMG

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 34, which comprise the Company's statement of financial position as at 31 August 2015, 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 405 to the Hong Kong Companies Ordinance, 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.

KPMG

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 financial position of the Company as at 31 August 2015 and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Certified Public Accountants

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

9 DEC 2015