



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

Financial Statements
for the year ended 31 August 2016

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 2016.

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 five 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 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 2016 and Company’s financial position 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\$8,382,000 (2015: HK\$10,418,000) 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 9 to the financial statements.

Directors

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.

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.

Indemnity of directors

A permitted indemnity provision (as defined in section 469 of the Hong Kong Companies Ordinance) for the benefit of the directors of the Company is currently in force and was in force throughout this year.

Directors' interests in transactions, arrangements or contracts

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 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 2016 amounted to HK\$11,106,000 (2015: HK\$11,740,000). 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\$21,713,000 (2015: 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\$157,164,000 up to 31 August 2016 (2015: HK\$135,451,000).

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, 28 NOV 2016

Statement of comprehensive income for the year ended 31 August 2016 (Expressed in Hong Kong dollars)

	Note	2016 \$'000	2015 \$'000
Income	2		
Operating income		588,344	542,368
Non-operating income		29,475	29,122
		<u>617,819</u>	<u>571,490</u>
Expenditure			
<i>Staff expenses</i>			
Salaries and teaching resources		324,236	301,850
Gratuities and MPF contributions		52,253	47,034
Housing allowance		29,121	24,647
Medical expenses		10,443	9,140
Staff education allowance		14,689	14,013
Passage allowance		601	502
	3(a)	<u>431,343</u>	<u>397,186</u>
<i>Other expenses</i>			
Advertisements		1,588	1,447
Audit fee		242	186
Cost of goods sold		1,432	1,267
Depreciation	3(b), 9	14,432	9,307
Development and operating agreement payment	22(a)	21,713	21,241
Management and administrative expenses	22(a)	11,106	11,740
Office and general expenses	4	43,705	40,236
Rent, rates and building management fee	5	27,519	24,873
Scholarship fund and hardship allowance	14	39,931	37,158
Teaching materials and resources	6	16,426	16,431
		<u>178,094</u>	<u>163,886</u>
Total expenses		<u>609,437</u>	<u>561,072</u>
Surplus and total comprehensive income for the year	3	<u>8,382</u>	<u>10,418</u>

Statement of comprehensive income
for the year ended 31 August 2016 (continued)
(Expressed in Hong Kong dollars)

	<i>2016</i> \$'000	<i>2015</i> \$'000
Represented by:		
Operating deficit	(21,093)	(18,704)
Capital fund surplus	29,475	29,122
	<u>8,382</u>	<u>10,418</u>

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

Statement of financial position at 31 August 2016

(Expressed in Hong Kong dollars)

	Note	2016 \$'000	2015 \$'000
Non-current asset			
Properties, plant and equipment	9	159,883	92,558
Current assets	10		
Inventories		1,005	823
Rental and utilities deposits		5,303	4,270
Prepayments	11	7,485	7,220
Fees and other receivables	11	4,914	12,288
Amount due from the Foundation	15	-	2,401
Restricted cash	12	2,337	2,337
Deposits with original maturities over three months		13,085	12,945
Cash and cash equivalents	13	91,156	81,483
		125,285	123,767
Current liabilities	10		
Creditors and accruals		51,100	40,171
Nomination rights received in advance		610	710
Provision for staff gratuities and MPF contributions		24,292	22,220
Scholarship fund	14	1,899	892
Hardship allowance	14	18,795	24,335
Fees received in advance		93,016	78,260
Debenture	16	5,824	5,047
Deferred income			
– non-refundable building levy	17	4,218	3,360
Amount due to the Foundation	15	2,314	-
		202,068	174,995
Net current liabilities		(76,783)	(51,228)
Total assets less current liabilities		83,100	41,330

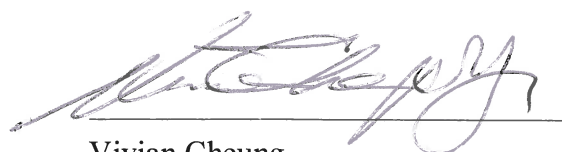
Statement of financial position at 31 August 2016
(continued)
(Expressed in Hong Kong dollars)

	<i>Note</i>	<i>2016</i> \$'000	<i>2015</i> \$'000
Non-current liabilities			
Loan from the Foundation	15	27,500	-
Debenture	16	5,334	4,179
Deferred income			
– non-refundable building levy	17	31,098	26,365
		<u>63,932</u>	<u>30,544</u>
NET ASSETS		<u>19,168</u>	<u>10,786</u>
RESERVES	19		
Capital fund		94,692	86,197
Accumulated fund		(75,524)	(75,411)
TOTAL SURPLUS		<u>19,168</u>	<u>10,786</u>

Approved and authorised for issue by the board of directors on **28 NOV 2016**



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 2016
(Expressed in Hong Kong dollars)

	<i>Accumulated fund</i> \$'000	<i>Capital fund</i> \$'000 (note 19(b))	<i>Total</i> \$'000
Balance at 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 and 1 September 2015	(75,411)	86,197	10,786
(Deficit)/surplus and total comprehensive income for the year	(21,093)	29,475	8,382
Transfers	20,980	(20,980)	-
At 31 August 2016	(75,524)	94,692	19,168

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

Cash flow statement

for the year ended 31 August 2016

(Expressed in Hong Kong dollars)

	Note	2016 \$'000	2015 \$'000
Operating activities			
Net cash generated from operating activities	13(b)	<u>17,906</u>	<u>15,642</u>
Investing activities			
Payments for the purchase of properties, plant and equipment (net of capital creditors)		(72,892)	(49,359)
Proceeds from disposal of properties, plant and equipment		-	2
Increase in deposits pledged with bank		-	(511)
Increase in deposits with original maturities over three months		(140)	(10,845)
Interest received		<u>401</u>	<u>314</u>
Net cash used in investing activities		<u>(72,631)</u>	<u>(60,399)</u>
Financing activities			
Proceeds from loan from the Foundation		27,500	-
Proceeds from nomination rights		16,450	16,000
Proceeds from non-refundable building levy		18,516	18,774
Proceeds from issuance of debenture		<u>1,932</u>	<u>840</u>
Net cash generated from financing activities		<u>64,398</u>	<u>35,614</u>
Net increase/(decrease) in cash and cash equivalents		9,673	(9,143)
Cash and cash equivalents at the beginning of the year		<u>81,483</u>	<u>90,626</u>
Cash and cash equivalents at the end of the year	13(a)	<u>91,156</u>	<u>81,483</u>

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 2016 (2015: 5 members). The directors of the Company are responsible for the preparation of financial statements.

The principal activity of the Company is to operate five 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)

(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)

	2016 \$'000	2015 \$'000
Operating income		
<i>Programme income (note)</i>		
Renaissance College tuition fees	240,190	223,575
Discovery College tuition fees	159,123	148,001
Camps and educational visits	12,454	12,889
Kindergarten tuition fees	87,834	79,407
Language course fees	21,441	18,575
Sports course fees	27,666	25,020
Examination fees	3,836	3,859
	<hr/>	<hr/>
	552,544	511,326
<i>Other</i>		
Donations	1,060	1,095
Registration fees	3,300	2,711
Rental income	11,138	10,416
Resale income	7,665	7,982
Interest income	401	314
Transfer from previous years' scholarship fund and hardship allowance surplus	6,700	3,500
Other income	5,536	5,024
	<hr/>	<hr/>
Total operating income	<hr/> 588,344	<hr/> 542,368
Non-operating income		
Non-refundable building levy	12,925	12,522
Nomination rights	16,550	16,600
	<hr/>	<hr/>
Total non-operating income	<hr/> 29,475	<hr/> 29,122

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

3 Surplus and total comprehensive income for the year

Surplus and total comprehensive income for the year is arrived at after charging:

	2016 \$'000	2015 \$'000
(a) Staff expenses:		
Contributions to defined contribution retirement scheme	9,374	8,997
Salaries, wages and other benefits	421,969	388,189
	<u>431,343</u>	<u>397,186</u>
(b) Other items:		
Depreciation	14,432	9,307
Impairment loss on fees receivables	294	52
Loss on disposal of properties, plant and equipment	99	58
Auditor's remuneration	242	186
Operating lease charges in respect of properties:		
– minimum lease payments	12,882	10,661
– contingent rentals	25	214
	<u>25</u>	<u>214</u>

4 Office and general expenses

	2016 \$'000	2015 \$'000
Building repair and maintenance	11,162	10,437
Insurance	1,572	1,649
Legal expenses	265	13
Minor furniture/equipment written off	2,872	2,229
Printing	1,731	1,786
Professional fees	407	590
Postage	277	354
Recruiting	1,067	1,029
Stationery	264	306
Training expenses	2,651	2,805
Transportation	899	576
Utilities	8,592	8,425
General office expenses and others	11,893	10,025
Interest expense	53	12
	<u>43,705</u>	<u>40,236</u>

5 Rent, rates and building management fee

	<i>2016</i> \$'000	<i>2015</i> \$'000
Gross rent and rates for the year	29,181	30,665
Less: Recovered or recoverable from the Government	<u>(3,527)</u>	<u>(7,140)</u>
	25,654	23,525
Building management fee	<u>1,865</u>	<u>1,348</u>
	<u>27,519</u>	<u>24,873</u>

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

	<i>2016</i> \$'000	<i>2015</i> \$'000
Teaching materials	12,547	12,422
Course expenses	580	373
Educational visit expenses	955	1,110
Examination expenses	<u>2,344</u>	<u>2,526</u>
	<u>16,426</u>	<u>16,431</u>

7 Directors' emoluments

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, emoluments 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(d)).

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 2015	187,359	33,733	38,027	8,427	267,546
Additions	2,583	14,580	19,927	44,769	81,859
Transfers	-	930	-	(930)	-
Disposals	-	(114)	(776)	-	(890)
At 31 August 2016	189,942	49,129	57,178	52,266	348,515
Government grants:					
At 1 September 2015 and 31 August 2016	139,870	-	-	-	139,870
Depreciation:					
At 1 September 2015	5,110	19,552	10,456	-	35,118
Charge for the year	3,619	3,199	7,614	-	14,432
Written back on disposals	-	(114)	(674)	-	(788)
At 31 August 2016	8,729	22,637	17,396	-	48,762
Net book value:					
At 31 August 2016	41,343	26,492	39,782	52,266	159,883

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 and 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

10 Current assets and current liabilities

With the exception of deposits for the rental of properties and utilities of \$5,303,000 (2015: \$4,270,000) and those prepayments, fees and other receivables mentioned in note 11, the Company expects all other current assets and liabilities to be recovered or settled within one year from 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.

	2016 \$'000	2015 \$'000
Fees receivables	2,399	1,795
Less: Allowance for impairment of doubtful debts	(582)	(372)
	<hr/>	<hr/>
	1,817	1,423
Loans to staff	1,670	1,510
Amount due from the government	1,427	9,079
Amount due from MPF trustee	-	276
	<hr/>	<hr/>
	4,914	12,288
	<hr/>	<hr/>
Prepayments	7,485	7,220
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The Company expects the amount of the Company's fees receivables and prepayments to be recovered or recognised as expense after more than one year is \$942,000 (2015: \$1,296,000). 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 fees 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:

	2016 \$'000	2015 \$'000
At the beginning of the year	372	418
Impairment loss recognised	294	52
Uncollectible amounts written off	(84)	(98)
At the end of the year	<u>582</u>	<u>372</u>

At 31 August 2016 and 2015, no fees receivables of the Company were individually determined to be impaired. Based on the aging of fees receivables and repayment patterns of customers, the Company has determined that the Company's fees receivables are collectively impaired by \$582,000 (2015: \$372,000). The Company does not hold any collateral over these balances.

12 Restricted cash

A deposit of \$2,337,000 (2015: \$2,337,000) 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:

	2016 \$'000	2015 \$'000
Deposits with original maturities less than three months	52,000	60,641
Cash at bank and in hand	39,156	20,842
	<u>91,156</u>	<u>81,483</u>

13 Cash and cash equivalents (continued)

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

	2016 \$'000	2015 \$'000
Operating activities		
Surplus and total comprehensive income for the year	8,382	10,418
Adjustments for:		
Interest income	(401)	(314)
Nomination rights	(16,550)	(16,600)
Non-refundable building levy	(12,925)	(12,522)
Depreciation	14,432	9,307
Impairment loss on fees receivables	294	52
Loss on disposal of properties, plant and equipment	99	58
Transfer from previous years' scholarship fund and hardship allowance	(6,700)	(3,500)
Operating deficit before changes in working capital	(13,369)	(13,101)
Increase in inventories	(182)	(46)
Increase in rental and utilities deposits	(1,033)	(564)
Increase in prepayments	(265)	(2,077)
Decrease/(increase) in fees and other receivables	7,080	(9,708)
Increase in net amount due to the Foundation	4,715	32,879
Increase in creditors and accruals excluding capital creditors	1,965	2,824
Increase in provision for staff gratuities and MPF contributions	2,072	3,870
Increase/(decrease) in scholarship fund	1,007	(4,565)
Increase in hardship allowance	1,160	5,216
Increase in fees received in advance	14,756	914
Net cash generated from operating activities	17,906	15,642

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 2016, Renaissance College and Discovery College have each set aside 10% (2015: 10%) of their respective tuition fees which consists of 8% (2015: 8%) for Renaissance College and 9% (2015: 8%) for Discovery College as scholarship fund and 2% (2015: 2%) for Renaissance College and 1% (2015: 2%) for Discovery College as hardship allowance.

Tuition fees of Renaissance College and Discovery College transferred to scholarship fund/hardship allowance during the year amounted to \$24,019,000 (2015: \$22,358,000) and \$15,912,000 (2015: \$14,800,000) respectively.

	2016 \$'000	2015 \$'000
Scholarship fund		
At the beginning of the year	892	5,457
Addition	33,536	29,726
Utilisation	(32,529)	(34,291)
At the end of the year	<u>1,899</u>	<u>892</u>
Hardship allowance		
At the beginning of the year	24,335	22,619
Addition	6,395	7,432
Utilisation	(5,235)	(2,216)
Transfer	(6,700)	(3,500)
At the end of the year	<u>18,795</u>	<u>24,335</u>

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

The Company transfers previous year's hardship allowance surplus to the statement of comprehensive income to fund part of the expenses.

15 Amount due from/to and loan from the Foundation

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

Loan from the Foundation is unsecured and bears interest at the higher of 3-month HIBOR plus 1% and the average external borrowing cost of the Foundation plus 1% per annum. The amount is repayable by 84 equal monthly instalments from 30 September 2018 and 31 August 2025.

16 Debenture

In August 2013, the Company introduced a debenture which is payable by parents of children joining the Company's kindergartens in August 2013 and subsequent years. The debenture is \$7,000 (2015: \$7,000) for each child entering one of the kindergartens for the first time from August 2013 onwards.

The debenture is repayable when the student 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 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 (2015: \$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 (2015: \$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.

(b) *Capital fund*

Movements in the capital fund were as follows

	2016 \$'000	2015 \$'000
At the beginning of the year	86,197	57,075
Income recognised during the year	29,475	29,122
Transfer to general reserve	(20,980)	-
	<hr/>	<hr/>
At the end of the year	<u>94,692</u>	<u>86,197</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.

During the year, the company transferred \$20,980,000 (2015: Nil) from capital fund to general reserve. The transfer represented the depreciation charge of capital projects funded by 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 risk management and fair values of 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 risk management policies and practices to manage these risks.

(a) Credit risk

The Company's credit risk is primarily attributable to fees 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.

(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

All the financial liabilities, except for loan from the Foundation as disclosed in note 15, were carried at amounts not materially different from their contractual undiscounted cash flows as at 31 August 2016 and 2015 and are repayable within one year or on demand. The contractual undiscounted cash flows for loan from the Foundation repayable within 1 year, between 1 and 5 years, and after 5 years are HK\$nil, HK\$17,133,000, and HK\$12,850,000, respectively.

(c) Interest rate risk

The Company's exposure to changes in interest rates relates primarily to bank deposits, cash and cash equivalents and loan from the Foundation. The Company's interest rate profile is set out in (i) below.

20 Financial risk management and fair values of financial instruments (continued)

(c) Interest rate risk (continued)

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

	2016		2015	
	<i>Effective</i>		<i>Effective</i>	
	<i>interest rate</i>		<i>interest rate</i>	
	%	\$'000	%	\$'000
Deposits with original maturities over three months	0.36%	13,085	0.43%	12,945
Restricted cash	0.01%	2,337	0.01%	2,337
Cash and cash equivalents	0.06%	91,156	0.18%	81,483
Loan from the Foundation	1.56%	(27,500)	-	-
		<u>79,078</u>		<u>96,765</u>

(ii) Sensitivity analysis

At 31 August 2016, it is estimated that a general increase/decrease of 100 basis points (2015: 100 basis points) in interest rates, with all other variables held constant, would have increased/decreased the Company's surplus and total comprehensive income for the year by approximately \$791,000 (2015: \$968,000). Other components of reserves would not be affected (2015: nil) by the changes in interest rates.

The sensitivity analysis above indicates the annualised impact on the Company's net interest income that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to those floating rate instruments which expose the Company to cash flow interest rate risk at that date. The Company performs the analysis on the same basis for 2015.

(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 2016 not provided for in these financial statements were as follows:

	<i>2016</i> \$'000	<i>2015</i> \$'000
Contracted for	53,779	98,049
Authorised but not contracted for	<u>1,752</u>	<u>300</u>
	<u>55,531</u>	<u>98,349</u>

- (b) At 31 August 2016, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	<i>2016</i> \$'000	<i>2015</i> \$'000
Within one year	13,044	12,621
Between one and five years	18,237	25,583
After five years	<u>14,236</u>	<u>17,056</u>
	<u>45,517</u>	<u>55,260</u>

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. Contingent rentals payable are based on a pre-determined percentage of the monthly gross turnover on the condition that it is higher than the minimum fixed rentals under the operating lease agreements.

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).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to the company's parent.

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:

	<i>2016</i> \$'000	<i>2015</i> \$'000
Fees in respect of management and administration services provided by the Foundation	11,106	11,740
School premises rental expense paid to the Foundation on the same terms as available for outsiders	13,589	13,641
Teaching and support staff salaries charged to the Foundation for extra-curricular programs	345	386
Teaching and support staff salaries charged by the Foundation for operation of kindergartens	1,581	1,034
Fees paid to the Foundation under the Development and Operating Agreement ("DOA")	21,713	21,241
Staff education allowance paid to the Foundation	1,535	1,537
Staff education allowance received from the Foundation	1,888	1,824
Course fees in respect of staff professional development provided by the Foundation	402	397
Interest expense paid to the Foundation	<u>36</u>	<u>-</u>

Cumulative fees paid to the Foundation under the DOA up to 31 August 2016 are \$157,164,000 (2015: \$135,451,000).

22 Material related party transactions (continued)

(b) Key management personnel remuneration

Remuneration for key management personnel is as follows:

	<i>2016</i> \$'000	<i>2015</i> \$'000
Salaries, allowances and benefits in kind	2,340	2,302
Retirement plans contributions	18	18
	<u>2,358</u>	<u>2,320</u>

There was only one key management personnel for the year ended 31 August 2016 (2015: one). Total remuneration is included in staff expenses (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"), accounting principles generally accepted in Hong Kong, and the requirements of the Hong Kong Companies Ordinance.

There are no new and revised HKFRSs that are first effective for the current reporting year of the Company. The Company has not applied any new standard or interpretation that is not yet effective for the current reporting year.

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.

Judgements made by the management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are disclosed in note 24.

(c) 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.

23 Other significant accounting policies (continued)

(d) *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.

(e) *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)

(f) *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.

(g) *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.

(h) *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.

(i) *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 fair value less costs of disposal 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 2016, 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. The parent of the Company produces consolidated financial statements in accordance with HKFRSs which are available at <https://www.esf.edu.hk/about-esf/accounts-and-annual-report>.

26 Possible impact of amendments to standards, new standards and interpretations to standards issued but not yet effective for the year ended 31 August 2016

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 August 2016 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*

Annual Improvements to HKFRSs 2012-2014 Cycle	1 January 2016
Amendments to HKAS 1, <i>Disclosure initiative</i>	1 January 2016
Amendments to HKAS 16 and HKAS 38, <i>Clarification of acceptable methods of depreciation and amortisation</i>	1 January 2016
HKFRS 9, <i>Financial instruments</i>	1 January 2018
HKFRS 15, <i>Revenue from contracts with customers</i>	1 January 2018
HKFRS 16, <i>Leases</i>	1 January 2019

The Company is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Company's 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 34, which comprise the Company's statement of financial position as at 31 August 2016, 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.



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 2016 and of the company's 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

28 NOV 2016