



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

**Financial Statements**  
**for the year ended 31 August 2017**

## **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 2017.

### **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 2017 and Company’s financial position as at that date are set out in the financial statements on pages 4 to 35.

### **Reserves**

The Company has transferred the surplus of HK\$33,152,000 (2016: HK\$8,382,000) 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

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 any of 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 2017 amounted to HK\$11,650,000 (2016: HK\$11,106,000). 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\$21,993,000 (2016: HK\$21,713,000) from income generated by RCHK and DC to the Foundation. The cumulative fee paid to the Foundation under the Agreement was HK\$179,157,000 up to 31 August 2017 (2016: HK\$157,164,000).

## **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      - 4 DEC 2017



Belinda Greer

Director

Hong Kong,

## Statement of comprehensive income for the year ended 31 August 2017 (Expressed in Hong Kong dollars)

|  | Note    | 2017<br>\$'000 | 2016<br>\$'000 |
|--|---------|----------------|----------------|
| <b>Income</b>  | 2       |                |                |
| Operating income   |         | 660,020        | 588,344        |
| Non-operating income                                       |         | 34,839         | 29,475         |
|  |         | <u>694,859</u> | <u>617,819</u> |
| <b>Expenditure</b>   |         |                |                |
| <i>Staff expenses</i>                                      |         |                |                |
| Salaries and teaching resources                            |         | 346,756        | 324,236        |
| Gratuities and MPF contributions                           |         | 55,516         | 52,253         |
| Housing allowance  |         | 31,064         | 29,121         |
| Medical expenses   |         | 10,807         | 10,443         |
| Staff education allowance                                  |         | 16,625         | 14,689         |
| Passage allowance  |         | 724            | 601            |
|  | 3(a)    | <u>461,492</u> | <u>431,343</u> |
| <i>Other expenses</i>                                      |         |                |                |
| Advertisements   |         | 1,459          | 1,588          |
| Audit fee  |         | 252            | 242            |
| Cost of goods sold   |         | 1,364          | 1,432          |
| Depreciation   | 3(b), 9 | 19,828         | 14,432         |
| Development and operating agreement payment                | 22(a)   | 21,993         | 21,713         |
| Management and administrative expenses                     | 22(a)   | 11,650         | 11,106         |
| Office and general expenses                                | 4       | 54,013         | 43,705         |
| Rent, rates and building management fee                    | 5       | 30,018         | 27,519         |
| Scholarship fund and hardship allowance                    | 14      | 43,602         | 39,931         |
| Teaching materials and resources                           | 6       | 16,036         | 16,426         |
|  |         | <u>200,215</u> | <u>178,094</u> |
| <b>Total expenses</b>                                      |         | <u>661,707</u> | <u>609,437</u> |
| <b>Surplus and total comprehensive income for the year</b> | 3       | <u>33,152</u>  | <u>8,382</u>   |

**Statement of comprehensive income**  
**for the year ended 31 August 2017 (continued)**  
*(Expressed in Hong Kong dollars)*

|                                 | <i>2017</i>   | <i>2016</i>  |
|---------------------------------|---------------|--------------|
|                                 | \$'000        | \$'000       |
| Represented by:                 |               |              |
| <b>Accumulated fund deficit</b> | (1,687)       | (21,093)     |
| <b>Capital fund surplus</b>     | 34,839        | 29,475       |
|                                 | <u>33,152</u> | <u>8,382</u> |

The notes on pages 10 to 35 form part of these financial statements.

# Statement of financial position at 31 August 2017


(Expressed in Hong Kong dollars)

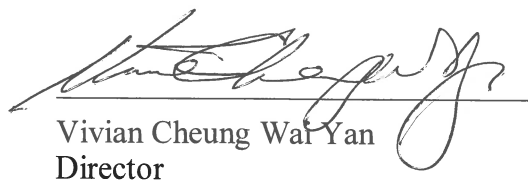
|   | Note | 2017<br>\$'000 | 2016<br>\$'000 |
|---|------|----------------|----------------|
| <b>Non-current asset</b>                                |      |                |                |
| Properties, plant and equipment                         | 9    | 200,990        | 159,883        |
| <b>Current assets</b>                                   | 10   |                |                |
| Inventories   |      | 1,031          | 1,005          |
| Rental and utilities deposits                           |      | 5,606          | 5,303          |
| Prepayments   | 11   | 6,753          | 7,485          |
| Fees and other receivables                              | 11   | 4,140          | 4,914          |
| Restricted cash   | 12   | 2,608          | 2,337          |
| Deposits with original maturities<br>over three months  |      | 91,854         | 13,085         |
| Cash and cash equivalents                               | 13   | 67,489         | 91,156         |
|   |      | 179,481        | 125,285        |
| <b>Current liabilities</b>                              | 10   |                |                |
| Creditors and accruals                                  |      | 68,897         | 51,100         |
| Nomination rights received in advance                   |      | 510            | 610            |
| Provision for staff gratuities and MPF<br>contributions |      | 25,167         | 24,292         |
| Scholarship fund  | 14   | 5,144          | 1,899          |
| Hardship allowance                                      | 14   | 13,677         | 18,795         |
| Fees received in advance                                |      | 99,984         | 93,016         |
| Debenture   | 16   | 6,629          | 5,824          |
| Deferred income   |      |                |                |
| – non-refundable building levy                          | 17   | 4,831          | 4,218          |
| Amount due to the Foundation                            | 15   | 12,075         | 2,314          |
|   |      | 236,914        | 202,068        |
| <b>Net current liabilities</b>                          |      | (57,433)       | (76,783)       |
| <b>Total assets less current liabilities</b>            |      | 143,557        | 83,100         |

Statement of financial position at 31 August 2017  
(continued)  
(Expressed in Hong Kong dollars)

|                                | Note | 2017<br>\$'000  | 2016<br>\$'000  |
|--------------------------------|------|-----------------|-----------------|
| <b>Non-current liabilities</b> |      |                 |                 |
| Loan from the Foundation       | 15   | 51,000          | 27,500          |
| Debenture                      | 16   | 5,117           | 5,334           |
| Deferred income                |      |                 |                 |
| – non-refundable building levy | 17   | 35,120          | 31,098          |
|                                |      | <u>91,237</u>   | <u>63,932</u>   |
| <b>NET ASSETS</b>              |      | <u>52,320</u>   | <u>19,168</u>   |
| <b>RESERVES</b>                | 19   |                 |                 |
| Capital fund                   |      | 116,980         | 94,692          |
| Accumulated fund               |      | <u>(64,660)</u> | <u>(75,524)</u> |
| <b>TOTAL SURPLUS</b>           |      | <u>52,320</u>   | <u>19,168</u>   |

Approved and authorised for issue by the board of directors on - 4 DEC 2017

  
Belinda Greer  
Director

  
Vivian Cheung Wai Yan  
Director

The notes on pages 10 to 35 form part of these financial statements.



**Statement of changes in reserves  
for the year ended 31 August 2017**  
(Expressed in Hong Kong dollars)

|   | <i>Accumulated<br/>fund<br/>\$'000</i> | <i>Capital<br/>fund<br/>\$'000<br/>(note 19(b))</i> | <i>Total<br/>\$'000</i> |
|---|--|---|-------------------------|
| <b>Balance at 1 September 2015</b>                                  | (75,411)                               | 86,197  | 10,786                  |
| (Deficit)/surplus and total<br>comprehensive income for<br>the year | (21,093)                               | 29,475  | 8,382                   |
| Transfers   | 20,980                                 | (20,980)  | -                       |
| <b>At 31 August 2016 and<br/>1 September 2016</b>                   | (75,524)                               | 94,692  | 19,168                  |
| (Deficit)/surplus and total<br>comprehensive income for<br>the year | (1,687)                                | 34,839  | 33,152                  |
| Transfers   | 12,551                                 | (12,551)  | -                       |
| <b>At 31 August 2017</b>  | (64,660)                               | 116,980   | 52,320                  |

The notes on pages 10 to 35 form part of these financial statements.

## Cash flow statement for the year ended 31 August 2017 (Expressed in Hong Kong dollars)

|   | Note  | 2017<br>\$'000 | 2016<br>\$'000 |
|---|-------|----------------|----------------|
| <b>Operating activities</b>   |       |                |                |
| <b>Net cash generated from operating activities</b>                                     | 13(b) | 39,710         | 17,906         |
| <b>Investing activities</b>   |       |                |                |
| Payments for the purchase of properties, plant and equipment (net of capital creditors) |       | (48,302)       | (72,892)       |
| Proceeds from disposal of properties, plant and equipment                               |       | -              | -              |
| Increase in restricted cash   |       | (271)          | -              |
| Increase in deposits with original maturities over three months                         |       | (78,769)       | (140)          |
| Interest received   |       | 503            | 401            |
| <b>Net cash used in investing activities</b>  |       | (126,839)      | (72,631)       |
| <b>Financing activities</b>   |       |                |                |
| Proceeds from loan from the Foundation  |       | 23,500         | 27,500         |
| Proceeds from nomination rights   |       | 19,850         | 16,450         |
| Proceeds from non-refundable building levy  |       | 19,524         | 18,516         |
| Proceeds from issuance of debenture   |       | 588            | 1,932          |
| <b>Net cash generated from financing activities</b>                                     |       | 63,462         | 64,398         |
| <b>Net (decrease)/increase in cash and cash equivalents</b>                             |       | (23,667)       | 9,673          |
| <b>Cash and cash equivalents at the beginning of the year</b>                           |       | 91,156         | 81,483         |
| <b>Cash and cash equivalents at the end of the year</b>                                 | 13(a) | 67,489         | 91,156         |

The notes on pages 10 to 35 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 2017 (2016: 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)

|  | 2017<br>\$'000 | 2016<br>\$'000 |
|--|----------------|----------------|
| <b>Operating income</b>  |                |                |
| <i>Programme income (note)</i>   |                |                |
| Renaissance College tuition fees   | 258,223        | 240,190        |
| Discovery College tuition fees   | 177,794        | 159,123        |
| Camps and educational visits   | 13,307         | 12,454         |
| Kindergarten tuition fees  | 113,767        | 87,834         |
| Language course fees   | 24,060         | 21,441         |
| Sports course fees   | 33,117         | 27,666         |
| Examination fees   | 1,798          | 3,836          |
|  | <hr/>          | <hr/>          |
|  | 622,066        | 552,544        |
| <i>Other</i>   |                |                |
| Donations  | 1,551          | 1,060          |
| Registration fees  | 3,543          | 3,300          |
| Rental income  | 11,447         | 11,138         |
| Resale income  | 7,972          | 7,665          |
| Interest income  | 503            | 401            |
| Transfer from previous years' scholarship fund and<br>hardship allowance surplus | 4,870          | 6,700          |
| Other income   | 8,068          | 5,536          |
|  | <hr/>          | <hr/>          |
| <b>Total operating income</b>  | <u>660,020</u> | <u>588,344</u> |
| <b>Non-operating income</b>  |                |                |
| Non-refundable building levy   | 14,889         | 12,925         |
| Nomination rights  | 19,950         | 16,550         |
|  | <hr/>          | <hr/>          |
| <b>Total non-operating income</b>  | <u>34,839</u>  | <u>29,475</u>  |

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:

|   | 2017<br>\$'000 | 2016<br>\$'000 |
|---|----------------|----------------|
| <b>(a) Staff expenses:</b>                              |                |                |
| Contributions to defined contribution retirement scheme | 10,178         | 9,374          |
| Salaries, wages and other benefits                      | 451,314        | 421,969        |
|   | <u>461,492</u> | <u>431,343</u> |
| <b>(b) Other items:</b>                                 |                |                |
| Depreciation  | 19,828         | 14,432         |
| Impairment loss on fees receivables                     | 192            | 294            |
| Loss on disposal of properties, plant and equipment     | 50             | 99             |
| Auditor's remuneration                                  | 252            | 242            |
| Operating lease charges in respect of properties:       |                |                |
| – minimum lease payments                                | 13,781         | 12,882         |
| – contingent rentals                                    | 1,617          | 25             |
|   | <u>16,398</u>  | <u>12,907</u>  |

### 4 Office and general expenses

|                                       | 2017<br>\$'000 | 2016<br>\$'000 |
|---------------------------------------|----------------|----------------|
| Building repair and maintenance       | 20,192         | 11,162         |
| Insurance                             | 2,198          | 1,572          |
| Legal expenses                        | 149            | 265            |
| Minor furniture/equipment written off | 1,948          | 2,872          |
| Printing                              | 1,663          | 1,731          |
| Professional fees                     | 1,314          | 407            |
| Postage                               | 158            | 277            |
| Recruiting                            | 1,209          | 1,067          |
| Stationery                            | 302            | 264            |
| Training expenses                     | 2,669          | 2,651          |
| Transportation                        | 789            | 899            |
| Utilities                             | 8,280          | 8,592          |
| General office expenses and others    | 12,592         | 11,893         |
| Interest expense                      | 550            | 53             |
|                                       | <u>54,013</u>  | <u>43,705</u>  |

**5 Rent, rates and building management fee**

|  | <i>2017</i><br>\$'000 | <i>2016</i><br>\$'000 |
|--|-----------------------|-----------------------|
| Gross rent and rates for the year                  | 31,247                | 29,181                |
| Less: Recovered or recoverable from the Government | <u>(3,425)</u>        | <u>(3,527)</u>        |
|  | 27,822                | 25,654                |
| Building management fee                            | <u>2,196</u>          | <u>1,865</u>          |
|  | <u><u>30,018</u></u>  | <u><u>27,519</u></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>2017</i><br>\$'000 | <i>2016</i><br>\$'000 |
|----------------------------|-----------------------|-----------------------|
| Teaching materials         | 13,234                | 12,547                |
| Course expenses            | 708                   | 580                   |
| Educational visit expenses | 559                   | 955                   |
| Examination expenses       | <u>1,535</u>          | <u>2,344</u>          |
|                            | <u><u>16,036</u></u>  | <u><u>16,426</u></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<br>\$'000 | Leasehold improvements<br>\$'000 | Furniture and equipment<br>\$'000 | Construction in progress<br>\$'000 | Total<br>\$'000 |
|---|---------------------|----------------------------------|-----------------------------------|------------------------------------|-----------------|
| <b>Cost:</b>                            |                     |                                  |                                   |                                    |                 |
| At 1 September 2016                     | 189,942             | 49,129                           | 57,178                            | 52,266                             | 348,515         |
| Additions                               | -                   | 424                              | 15,586                            | 46,790                             | 62,800          |
| Transfers                               | -                   | -                                | 120                               | (120)                              | -               |
| Disposals / adjustments*                | (33)                | (1,779)                          | (972)                             | -                                  | (2,784)         |
| At 31 August 2017                       | 189,909             | 47,774                           | 71,912                            | 98,936                             | 408,531         |
| <b>Government grants:</b>               |                     |                                  |                                   |                                    |                 |
| At 1 September 2016 and 31 August 2017  | (139,870)           | -                                | -                                 | -                                  | (139,870)       |
| <b>Depreciation:</b>                    |                     |                                  |                                   |                                    |                 |
| At 1 September 2016                     | 8,729               | 22,637                           | 17,396                            | -                                  | 48,762          |
| Charge for the year                     | 3,846               | 5,564                            | 10,418                            | -                                  | 19,828          |
| Written back on disposals / adjustments | -                   | -                                | (919)                             | -                                  | (919)           |
| At 31 August 2017                       | 12,575              | 28,201                           | 26,895                            | -                                  | 67,671          |
| <b>Net book value:</b>                  |                     |                                  |                                   |                                    |                 |
| At 31 August 2017                       | 37,464              | 19,573                           | 45,017                            | 98,936                             | 200,990         |

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

## 9 Properties, plant and equipment (continued)

|  | Buildings<br>\$'000 | Leasehold improvements<br>\$'000 | Furniture and equipment<br>\$'000 | Construction in progress<br>\$'000 | Total<br>\$'000 |
|--|---------------------|----------------------------------|-----------------------------------|------------------------------------|-----------------|
| <b>Cost:</b>                           |                     |                                  |                                   |                                    |                 |
| 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         |
| <b>Government grants:</b>              |                     |                                  |                                   |                                    |                 |
| At 1 September 2015 and 31 August 2016 | (139,870)           | -                                | -                                 | -                                  | (139,870)       |
| <b>Depreciation:</b>                   |                     |                                  |                                   |                                    |                 |
| 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          |
| <b>Net book value:</b>                 |                     |                                  |                                   |                                    |                 |
| At 31 August 2016                      | 41,343              | 26,492                           | 39,782                            | 52,266                             | 159,883         |

## 10 Current assets and current liabilities

With the exception of deposits for the rental of properties and utilities of \$5,606,000 (2016: \$5,303,000) 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.

|  | 2017<br>\$'000 | 2016<br>\$'000 |
|--|----------------|----------------|
| Fees receivables                                 | 1,364          | 2,399          |
| Less: Allowance for impairment of doubtful debts | (572)          | (582)          |
|  | <hr/> 792      | <hr/> 1,817    |
| Loans to staff                                   | 2,140          | 1,670          |
| Amount due from the government                   | 1,208          | 1,427          |
|  | <hr/> 4,140    | <hr/> 4,914    |
| Prepayments                                      | <hr/> 6,753    | <hr/> 7,485    |

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 \$650,000 (2016: \$942,000). 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:

|                                   | 2017<br>\$'000 | 2016<br>\$'000 |
|-----------------------------------|----------------|----------------|
| At the beginning of the year      | 582            | 372            |
| Impairment loss recognised        | 192            | 294            |
| Uncollectible amounts written off | (202)          | (84)           |
|                                   | <hr/>          | <hr/>          |
| At the end of the year            | 572            | 582            |
|                                   | <hr/>          | <hr/>          |

At 31 August 2017 and 2016, 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 \$572,000 (2016: \$582,000). The Company does not hold any collateral over these balances.

## 12 Restricted cash

A deposit of \$2,608,000 (2016: \$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:*

|  | 2017<br>\$'000 | 2016<br>\$'000 |
|--|----------------|----------------|
| Deposits with original maturities less than three months | -              | 52,000         |
| Cash at bank and in hand                                 | 67,489         | 39,156         |
|  | <hr/>          | <hr/>          |
|  | 67,489         | 91,156         |
|  | <hr/>          | <hr/>          |

**13 Cash and cash equivalents (continued)**

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

|   | 2017<br>\$'000 | 2016<br>\$'000  |
|---|----------------|-----------------|
| <b>Operating activities</b>   |                |                 |
| Surplus and total comprehensive income for the year                   | 33,152         | 8,382           |
| Adjustments for:  |                |                 |
| Interest income   | (503)          | (401)           |
| Nomination rights   | (19,950)       | (16,550)        |
| Non-refundable building levy  | (14,889)       | (12,925)        |
| Depreciation  | 19,828         | 14,432          |
| Impairment loss on fees receivables                                   | 192            | 294             |
| Loss on disposal of properties, plant and equipment                   | 50             | 99              |
| Transfer from previous years' scholarship fund and hardship allowance | (4,870)        | (6,700)         |
| <b>Operating surplus/(deficit) before changes in working capital</b>  | <b>13,010</b>  | <b>(13,369)</b> |
| Increase in inventories   | (26)           | (182)           |
| Increase in rental and utilities deposits                             | (303)          | (1,033)         |
| Decrease / (increase) in prepayments                                  | 732            | (265)           |
| Decrease in fees and other receivables                                | 582            | 7,080           |
| Increase in net amount due to the Foundation                          | 9,761          | 4,715           |
| Increase in creditors and accruals excluding capital creditors        | 5,114          | 1,965           |
| Increase in provision for staff gratuities and MPF contributions      | 875            | 2,072           |
| Increase in scholarship fund  | 3,245          | 1,007           |
| (Decrease) / increase in hardship allowance                           | (248)          | 1,160           |
| Increase in fees received in advance                                  | 6,968          | 14,756          |
| <b>Net cash generated from operating activities</b>                   | <b>39,710</b>  | <b>17,906</b>   |

## 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 2017, Renaissance College and Discovery College have each set aside 10% (2016: 10%) of their respective tuition fees which consists of 8% (2016: 8%) for Renaissance College and 9% (2016: 9%) for Discovery College as scholarship fund and 2% (2016: 2%) for Renaissance College and 1% (2016: 1%) 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 \$25,822,000 (2016: \$24,019,000) and \$17,780,000 (2016: \$15,912,000) respectively.

|                              | 2017<br>\$'000 | 2016<br>\$'000 |
|------------------------------|----------------|----------------|
| <b>Scholarship fund</b>      |                |                |
| At the beginning of the year | 1,899          | 892            |
| Addition                     | 36,660         | 33,536         |
| Utilisation                  | (33,415)       | (32,529)       |
|                              | <u>5,144</u>   | <u>1,899</u>   |
| At the end of the year       | <u>5,144</u>   | <u>1,899</u>   |
| <b>Hardship allowance</b>    |                |                |
| At the beginning of the year | 18,795         | 24,335         |
| Addition                     | 6,942          | 6,395          |
| Utilisation                  | (7,190)        | (5,235)        |
| Transfer                     | (4,870)        | (6,700)        |
|                              | <u>13,677</u>  | <u>18,795</u>  |
| At the end of the year       | <u>13,677</u>  | <u>18,795</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 to and loan from the Foundation**

Amount due 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 to 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 (2016: \$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 (2016: \$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 \$6,290 (2016: \$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

|                                   | <i>2017</i>    | <i>2016</i>   |
|-----------------------------------|----------------|---------------|
|                                   | \$'000         | \$'000        |
| At the beginning of the year      | 94,692         | 86,197        |
| Income recognised during the year | 34,839         | 29,475        |
| Transfer to general reserve       | (12,551)       | (20,980)      |
|                                   | <hr/>          | <hr/>         |
| At the end of the year            | <u>116,980</u> | <u>94,692</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 \$12,551,000 (2016: \$20,980,000) 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.



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

### **(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 2017 and 2016 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 (2016: HK\$nil), HK\$39,433,000 (2016: HK\$17,133,000), and HK\$15,773,000 (2016: 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:

|   | 2017                 |                | 2016                 |               |
|---|----------------------|----------------|----------------------|---------------|
|   | <i>Effective</i>     |                | <i>Effective</i>     |               |
|   | <i>interest rate</i> |                | <i>interest rate</i> |               |
|   | %                    | \$'000         | %                    | \$'000        |
| Deposits with original maturities over three months | 0.37%                | 91,854         | 0.36%                | 13,085        |
| Restricted cash                                     | 0.01%                | 2,608          | 0.01%                | 2,337         |
| Cash and cash equivalents                           | 0.01%                | 67,489         | 0.06%                | 91,156        |
| Loan from the Foundation                            | 1.76%                | (51,000)       | 1.56%                | (27,500)      |
|   |                      | <u>110,951</u> |                      | <u>79,078</u> |

### (ii) Sensitivity analysis

At 31 August 2017, it is estimated that a general increase/decrease of 100 basis points (2016: 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 \$1,110,000 (2016: \$791,000). Other components of reserves would not be affected (2016: 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 2016.

### (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 2017 not provided for in these financial statements were as follows:

|                                   | <i>2017</i><br>\$'000 | <i>2016</i><br>\$'000 |
|-----------------------------------|-----------------------|-----------------------|
| Contracted for                    | 13,635                | 53,779                |
| Authorised but not contracted for | 122                   | 1,752                 |
|                                   | <u>13,757</u>         | <u>55,531</u>         |

- (b) At 31 August 2017, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

|                            | <i>2017</i><br>\$'000 | <i>2016</i><br>\$'000 |
|----------------------------|-----------------------|-----------------------|
| Within one year            | 12,781                | 13,044                |
| Between one and five years | 21,990                | 18,237                |
| After five years           | 11,096                | 14,236                |
|                            | <u>45,867</u>         | <u>45,517</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 follows:

|  | <i>2017</i><br>\$'000 | <i>2016</i><br>\$'000 |
|--|-----------------------|-----------------------|
| Fees in respect of management and administration services provided by the Foundation               | 11,650                | 11,106                |
| School premises rental expense paid to the Foundation on the same terms as available for outsiders | 13,211                | 13,589                |
| Teaching and support staff salaries charged to the Foundation for extra-curricular programs        | 514                   | 345                   |
| Teaching and support staff salaries charged by the Foundation for operation of kindergartens       | 1,433                 | 1,581                 |
| Fees paid to the Foundation under the Development and Operating Agreement ("DOA")                  | 21,993                | 21,713                |
| Staff education allowance paid to the Foundation   | 1,784                 | 1,535                 |
| Staff education allowance received from the Foundation   | (1,850)               | (1,888)               |
| Course fees in respect of staff professional development provided by the Foundation                | 537                   | 402                   |
| Interest expense paid to the Foundation  | <u>530</u>            | <u>36</u>             |

Cumulative fees paid to the Foundation under the DOA up to 31 August 2017 are \$179,157,000 (2016: \$157,164,000).

## **22 Material related party transactions (continued)**

### **(b) Key management personnel remuneration**

Remuneration for key management personnel is as follows:

|   | <i>2017</i>  | <i>2016</i>  |
|---|--------------|--------------|
|   | \$'000       | \$'000       |
| Salaries, allowances and benefits in kind | 2,419        | 2,340        |
| Retirement plans contributions            | 18           | 18           |
|   | <u>2,437</u> | <u>2,358</u> |

There was only one key management personnel for the year ended 31 August 2017 (2016: 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 2017, 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 2017**

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 2017 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*

|   |                |
|---|----------------|
| Amendments to HKAS 7, Statement of cash flows: Disclosure initiative                          | 1 January 2017 |
| Amendments to HKAS 12, Income taxes: Recognition of deferred tax assets for unrealised losses | 1 January 2017 |
| 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 the Company has identified some aspects of the new standards which may have a significant impact on the financial statements. Further details of the expected impacts are discussed below. As the Company has not completed its assessment, further impacts may be identified in due course and will be taken into consideration when determining whether to adopt any of these new requirements before their effective date and which transitional approach to take, where there are alternative approaches allowed under the new standards. The Company does not intend to early adopt any of these amendments or new standards.

**26 Possible impact of amendments to standards, new standards and interpretations to standards issued but not yet effective for the year ended 31 August 2017 (continued)**

**HKFRS 16, Leases**

Currently the Company classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Company enters into some leases as the lessor and others as the lessee.

Once HKFRS 16 is adopted, the Company will no longer distinguish between finance leases and operating leases when it is the lessee under the lease. Instead, subject to practical expedients, the Company will be required to account for all leases of more than 12 months in a similar way to current finance lease accounting.

The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in note 21(b), at 31 August 2017 the Company's future minimum lease payments under non-cancellable operating leases amount to \$45,867,000 for properties, the majority of which is payable either between 1 and 5 years after the reporting date or in more than 5 years. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The Company will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

HKFRS 16 is not expected to impact significantly on the way that the Company accounts for its rights and obligations under a lease when it is the lessor under the lease.

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

*(Incorporated in Hong Kong and limited by guarantee)*

### **Opinion**

We have audited the financial statements of ESF Educational Services Limited ("the Company") set out on pages 4 to 35, which comprise the statements of financial position of as at 31 August 2017, the statement of comprehensive income, the statement of changes in reserves and the cash flow statement for the year then ended and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 August 2017 and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

### **Basis for opinion**

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Information other than the financial statements and auditor's report thereon**

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Independent auditor's report to the members of ESF Educational Services Limited (continued)

*(Incorporated in Hong Kong and limited by guarantee)*

### **Responsibilities of the directors for the financial statements**

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

## Independent auditor's report to the members of ESF Educational Services Limited (continued)

*(Incorporated in Hong Kong and limited by guarantee)*

### **Auditor's responsibilities for the audit of the financial statements (continued)**

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Certified Public Accountants

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04 DEC 2017