



The English Schools Foundation

英基學校協會

Consolidated Financial Statements
for the year ended 31 August 2018

Report of the Board of Governors

The Board of Governors ("the Board") have pleasure in submitting their annual report together with the audited consolidated financial statements for the year ended 31 August 2018.

Principal place of business

The English Schools Foundation ("the Foundation") is a subvented organisation incorporated in Hong Kong under The English Schools Foundation Ordinance and has its office and principal place of business at 25/F, 1063 King's Road, Quarry Bay, Hong Kong.

Principal activity

The principal activity of the Foundation and its subsidiary ("the Group") is to own, manage, administer and operate schools to provide a modern liberal education through the medium of English language. In note 9, the Group sets out the principal activities and other particulars of the Foundation's subsidiary. The Foundation and its subsidiary are exempt from taxation pursuant to section 88 of the Hong Kong Inland Revenue Ordinance.

Financial statements

The surplus of the Group for the year ended 31 August 2018 and the state of the Group's affairs as at that date are set out in the consolidated financial statements on pages 4 to 55.

Transfer to reserves

The Group has transferred the surplus for the year of HK\$214.1 million (2017: HK\$213.4 million) to reserves.

At 31 August 2018, the Group's reserves amounted to HK\$2,004.9 million (2017: HK\$1,782.5 million), being the excess of assets over liabilities. The Group sets out details of the reserves in note 23 and the statement of changes in reserves.

Under the terms of The English Schools Foundation Ordinance, no dividend or bonus whatsoever can be paid and no gift or division of money or any property whatsoever can be made by or on behalf of the Foundation to any of the officers or employees of the Foundation, any of the members of the Board or any of the students of the schools of the Foundation except by way of prize, reward or special grant or in the case of an employee of the Foundation, by way of a dividend or bonus payable under a contract of employment.

Fixed assets

Fixed assets include buildings and building improvements, leasehold improvements, furniture and equipment of the Group's schools, offices and investment properties. At 31 August 2018, the net book value of the fixed assets was HK\$1,993.8 million (2017: HK\$1,841.3 million) and the depreciation charge for the year then ended was HK\$190.0 million (2017: HK\$166.5 million); see note 5 to the financial statements for details of movements in fixed assets.

Members of the Board

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

Abraham Shek (Chairman)	
Paul Varty (Vice-chairman)	(elected by members of the Board on 3 December 2018)
Samuel Houston (Treasurer)	
Alec Tong	
Christine Meaney	
Dayna Lim Cheung	
Francis Carroll	
Harry Brown	
Kumar Ramanathan	
Nirmala Rao	
Shareen Hellen	
Virginia Morris	
Benny Ng	(nominated by the Nominating Committee on 11 October 2017)
Bob Priest	(elected by the Committee of Support Staff on 28 November 2016 and resigned on 10 June 2018)
Connie Liu	(retired on 25 November 2016 and elected by parents of students of schools of the Foundation, Renaissance College and Discovery College on 27 September 2017)
Craig Sanderson	(elected by parents of students of schools of the Foundation, Renaissance College and Discovery College on 27 September 2017)
Denise Kee	(nominated by the Nominating Committee on 16 May 2018)
George Tibbetts	(elected by the Committee of Support Staff on 23 March 2018)
Gregory Lo	(elected by the Committee of School Council Chairmen on 28 September 2017)
Neville Shroff	(nominated by the Nominating Committee on 16 May 2018)
Marcos Bertamini	(elected by parents of students of schools of the Foundation, Renaissance College and Discovery College on 27 September 2017)
Mike Hudson	(elected by the Committee of School Council Chairmen on 28 September 2017)

Members of the Board (continued)

Paul Anderson	(elected by the Committee of Teaching Staff on 20 September 2017)
Sean Wray	(elected by the Committee of Teaching Staff on 19 September 2018)
Tom Patton	(elected by parents of students of schools of the Foundation, Renaissance College and Discovery College on 5 October 2018)
York Chow	(nominated by the Nominating Committee on 11 October 2017)
Alexander Chan	(retired on 27 October 2017)
Amanda Barton	(resigned on 30 August 2018)
Andrew Greene	(resigned on 30 September 2017)
Dannis Au	(resigned on 10 October 2018)
Judy Woo	(retired on 12 September 2018)
P M Kam	(retired on 27 October 2017)
Pauline Ng (Vice-chairman)	(retired on 20 November 2018)
Ronald Abbott	(retired on 23 September 2017)
Scarlett Mattoli	(retired on 23 September 2017)
Schumann Tang	(retired on 23 September 2017)
Belinda Greer	(Chief Executive Officer, ex officio)

The term of office of a member, other than an ex officio member, shall be 3 years. A member is eligible for re-nomination or re-election at the expiry of his term as a member, but a person shall not serve as a member consecutively for more than 2 terms.

At no time during the year was the Group a party to any arrangement to enable the members of the Board to acquire benefits by means of the acquisition of interest in the Group or any other body corporate.

Auditors

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Foundation has been proposed.

By order of the Board



Chairman

Hong Kong, 03 DEC 2018

Statement of comprehensive income for the year ended 31 August 2018

(Expressed in Hong Kong dollars)

	Note	The Group		The Foundation	
		2018	2017	2018	2017
		\$'million	\$'million	\$'million	\$'million
Income					
<i>Operating income</i>					
Government grants	14	237.9	254.5	237.9	254.5
Tuition fees		2,015.0	1,870.7	1,427.6	1,320.9
Programme income		69.1	72.3	-	-
Application fee income		12.8	13.3	9.6	9.7
Rental income		99.1	100.6	99.3	102.4
Donations		10.3	10.5	8.8	9.0
Interest income		10.5	7.1	11.0	7.1
Income from subsidiary					
– From Development and Operating Agreement		-	-	6.3	6.3
– Management and administrative income		-	-	15.4	11.7
Transfer from previous years' scholarship fund and hardship allowance surplus	15(a)	2.0	4.9	-	-
Miscellaneous income		14.0	20.1	3.4	5.0
		<u>2,470.7</u>	<u>2,354.0</u>	<u>1,819.3</u>	<u>1,726.6</u>
<i>Non-operating income</i>					
Individual nomination rights		54.1	62.9	38.8	42.9
Amortisation of corporate nomination rights		1.3	0.7	1.3	0.7
Non-refundable building levy		16.3	14.9	-	-
Non-refundable capital levy		23.2	17.2	23.2	17.2
		<u>94.9</u>	<u>95.7</u>	<u>63.3</u>	<u>60.8</u>
Total income		<u>2,565.6</u>	<u>2,449.7</u>	<u>1,882.6</u>	<u>1,787.4</u>

Statement of comprehensive income for the year ended 31 August 2018 (continued)

(Expressed in Hong Kong dollars)

	Note	The Group 2018 \$'million	2017 \$'million	The Foundation 2018 \$'million	2017 \$'million
Expenditure					
<i>Staff expenses</i>					
Basic salaries					
– Professional		1,015.4	988.4	743.7	722.9
– Other staff		336.7	316.3	250.6	235.5
Gratuities and allowances		397.3	382.1	289.6	278.9
Accommodation		33.4	33.4	33.4	33.4
Medical expenses		47.8	44.9	35.8	34.1
Passage		2.4	2.5	1.9	1.8
	2(a)	1,833.0	1,767.6	1,355.0	1,306.6
<i>Other expenses</i>					
Depreciation on schools and offices		179.0	155.9	155.4	136.1
Repairs and maintenance		106.2	94.7	86.8	72.5
Other operating expenses	3	184.7	173.7	117.7	106.9
Scholarship fund and hardship allowance	15	48.6	44.4	1.6	0.8
		518.5	468.7	361.5	316.3
Total expenses		2,351.5	2,236.3	1,716.5	1,622.9
Surplus for the year	2	214.1	213.4	166.1	164.5

Statement of comprehensive income for the year ended 31 August 2018 (continued)

(Expressed in Hong Kong dollars)

	Note	The Group 2018 \$'million	2017 \$'million	The Foundation 2018 \$'million	2017 \$'million
Surplus for the year		214.1	213.4	166.1	164.5
Other comprehensive income for the year					
<i>Item that will not be reclassified to surplus or deficit:</i>					
Remeasurement of net defined benefit scheme assets	6(b)(v)	8.3	11.9	8.3	11.9
Total comprehensive income for the year		<u>222.4</u>	<u>225.3</u>	<u>174.4</u>	<u>176.4</u>
Represented by:					
Operating surplus		127.5	129.6	111.1	115.6
Capital fund surplus		<u>94.9</u>	<u>95.7</u>	<u>63.3</u>	<u>60.8</u>
		<u>222.4</u>	<u>225.3</u>	<u>174.4</u>	<u>176.4</u>

The notes on pages 14 to 55 form part of these financial statements.

Statement of financial position as at 31 August 2018

(Expressed in Hong Kong dollars)

	Note	The Group 2018 \$'million	2017 \$'million	The Foundation 2018 \$'million	2017 \$'million
Non-current assets					
Fixed assets	5				
– Investment properties		64.3	62.7	64.3	62.7
– Other properties, plant and equipment		1,929.5	1,778.6	1,730.7	1,577.6
		<u>1,993.8</u>	<u>1,841.3</u>	<u>1,795.0</u>	<u>1,640.3</u>
Defined benefit retirement scheme	6	43.9	38.5	43.9	38.5
Loan to subsidiary	9	-	-	44.2	51.0
		<u>2,037.7</u>	<u>1,879.8</u>	<u>1,883.1</u>	<u>1,729.8</u>
Current assets	7				
Inventories		0.9	1.0	-	-
Rental, utility deposits		14.5	12.8	7.6	7.2
Prepayments		17.0	17.0	9.8	10.2
Loans to staff		4.6	5.8	3.1	3.7
Fees and other receivables	8	2.4	4.0	1.3	2.0
Amount due from subsidiary	9	-	-	-	12.1
Loan to subsidiary	9	-	-	6.8	-
Restricted cash	10	2.7	2.6	-	-
Deposits with original maturities over three months		718.8	649.0	623.9	557.1
Cash and cash equivalents	11	313.7	239.8	237.9	172.3
		<u>1,074.6</u>	<u>932.0</u>	<u>890.4</u>	<u>764.6</u>

Statement of financial position as at 31 August 2018 (continued)

(Expressed in Hong Kong dollars)

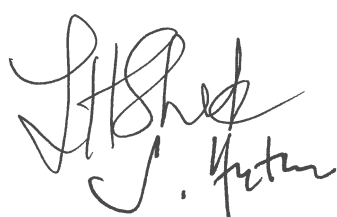
	Note	The Group 2018 \$'million	2017 \$'million	The Foundation 2018 \$'million	2017 \$'million
Current liabilities	7				
Fees received in advance		196.8	175.8	93.6	75.8
Nomination rights received in advance	21	6.9	5.4	6.6	4.9
Provision to meet staff conditions of service	12	113.4	109.3	86.1	84.2
Accounts payables and accruals	13	296.6	273.2	296.7	235.3
Scholarship fund and hardship allowance	15	50.8	50.2	30.1	31.4
Obligations under finance leases	16	0.7	0.5	0.7	0.5
Refundable capital levy	17	18.1	19.1	18.1	19.1
Debenture	18	6.8	6.6	-	-
Deferred income					
– Non-refundable building levy	19	5.4	4.8	-	-
– Non-refundable capital levy	20	14.7	11.1	14.7	11.1
Corporate nomination rights	22	1.8	0.8	1.8	0.8
		<u>712.0</u>	<u>656.8</u>	<u>548.4</u>	<u>463.1</u>
Net current assets		<u>362.6</u>	<u>275.2</u>	<u>342.0</u>	<u>301.5</u>
Total assets less current liabilities		<u>2,400.3</u>	<u>2,155.0</u>	<u>2,225.1</u>	<u>2,031.3</u>

Statement of financial position as at 31 August 2018 (continued)

(Expressed in Hong Kong dollars)

	Note	The Group 2018 \$'million	2017 \$'million	The Foundation 2018 \$'million	2017 \$'million
Non-current liabilities					
Obligations under finance leases	16	1.3	1.0	1.3	1.0
Refundable capital levy	17	147.2	178.9	147.2	178.9
Debenture	18	5.2	5.1	-	-
Deferred income					
– Non-refundable building levy	19	38.5	35.1	-	-
– Non-refundable capital levy	20	163.4	130.3	163.4	130.3
Corporate nomination rights	22	39.8	22.1	39.8	22.1
		<u>395.4</u>	<u>372.5</u>	<u>351.7</u>	<u>332.3</u>
NET ASSETS		<u>2,004.9</u>	<u>1,782.5</u>	<u>1,873.4</u>	<u>1,699.0</u>
RESERVES	23				
General reserve		286.0	236.9	286.1	270.4
Capital fund		254.3	231.0	122.7	114.0
Building reserve		1,273.8	1,146.0	1,273.8	1,146.0
Schools reserves		190.8	168.6	190.8	168.6
		<u>2,004.9</u>	<u>1,782.5</u>	<u>1,873.4</u>	<u>1,699.0</u>

Approved and authorised for issue by the Board of Governors on 03 DEC 2018



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The notes on pages 14 to 55 form part of these financial statements.

Statement of changes in reserves for the year ended 31 August 2018

(Expressed in Hong Kong dollars)

The Group

	General reserve \$'million	Capital fund (note 23(a)) \$'million	Building reserve (note 23(b)) \$'million	Schools reserves (note 23(c)) \$'million	Total \$'million
At 1 September 2016	1,213.2	183.4	-	160.6	1,557.2
Surplus for the year	78.9	95.7	-	38.8	213.4
Transfers	(1,067.1)	(48.1)	1,146.0	(30.8)	-
Other comprehensive income	11.9	-	-	-	11.9
Total comprehensive income	(976.3)	47.6	1,146.0	8.0	225.3
At 31 August 2017 and 1 September 2017	236.9	231.0	1,146.0	168.6	1,782.5
Surplus for the year	69.9	94.9	-	49.3	214.1
Transfers	(29.1)	(71.6)	127.8	(27.1)	-
Other comprehensive income	8.3	-	-	-	8.3
Total comprehensive income	49.1	23.3	127.8	22.2	222.4
At 31 August 2018	286.0	254.3	1,273.8	190.8	2,004.9

Statement of changes in reserves for the year ended 31 August 2018 (continued)

(Expressed in Hong Kong dollars)

The Foundation

	General reserve \$'million	Capital fund (note 23(a)) \$'million	Building reserve (note 23(b)) \$'million	Schools reserves (note 23(c)) \$'million	Total \$'million
At 1 September 2016	1,273.3	88.7	-	160.6	1,522.6
Surplus for the year	64.9	60.8	-	38.8	164.5
Transfers	(1,079.7)	(35.5)	1,146.0	(30.8)	-
Other comprehensive income	11.9	-	-	-	11.9
Total comprehensive income	(1,002.9)	25.3	1,146.0	8.0	176.4
At 31 August 2017 and 1 September 2017	270.4	114.0	1,146.0	168.6	1,699.0
Surplus for the year	53.5	63.3	-	49.3	166.1
Transfers	(46.1)	(54.6)	127.8	(27.1)	-
Other comprehensive income	8.3	-	-	-	8.3
Total comprehensive income	15.7	8.7	127.8	22.2	174.4
At 31 August 2018	286.1	122.7	1,273.8	190.8	1,873.4

The notes on pages 14 to 55 form part of these financial statements.

Cash flow statement for the year ended 31 August 2018

(Expressed in Hong Kong dollars)

	Note	The Group 2018 \$'million	2017 \$'million	The Foundation 2018 \$'million	2017 \$'million
Operating activities					
Net cash generated from operating activities	11(b)	352.7	323.5	332.7	283.1
Investing activities					
Payments for the purchase of fixed assets less capital creditors		(341.9)	(255.6)	(298.1)	(207.3)
Increase in bank deposits with original maturities over three months		(69.8)	(195.6)	(66.8)	(116.8)
Increase in deposits pledged with bank		(0.1)	(0.3)	-	-
Interest received		10.5	7.1	11.0	7.1
Loan to subsidiary		-	-	-	(23.5)
Net cash used in investing activities		(401.3)	(444.4)	(353.9)	(340.5)

Cash flow statement for the year ended 31 August 2018 (continued)

(Expressed in Hong Kong dollars)

	Note	The Group		The Foundation	
		2018	2017	2018	2017
		\$'million	\$'million	\$'million	\$'million
Financing activities					
Decrease in refundable capital levy	11(c)	(32.7)	(18.9)	(32.7)	(18.9)
Proceeds from issue of nomination rights	11(c)	75.6	63.1	60.5	43.2
Proceeds from non-refundable building levy	11(c)	20.3	19.5	-	-
Proceeds from non-refundable capital levy	11(c)	59.9	59.4	59.9	59.4
Proceeds from issuance of debenture	11(c)	0.3	0.5	-	-
Capital element of finance lease rentals paid	11(c)	(0.7)	(0.5)	(0.7)	(0.5)
Interest element of finance lease rentals paid	11(c)	(0.2)	(0.1)	(0.2)	(0.1)
Net cash generated from financing activities		<u>122.5</u>	<u>123.0</u>	<u>86.8</u>	<u>83.1</u>
Net increase in cash and cash equivalents		73.9	2.1	65.6	25.7
Cash and cash equivalents at the beginning of the year		<u>239.8</u>	<u>237.7</u>	<u>172.3</u>	<u>146.6</u>
Cash and cash equivalents at the end of the year	11(a)	<u>313.7</u>	<u>239.8</u>	<u>237.9</u>	<u>172.3</u>

The notes on pages 14 to 55 form part of these financial statements.

Notes to the financial statements

(Expressed in Hong Kong dollars)

1 Background

The English Schools Foundation ("the Foundation") is incorporated in Hong Kong under The English Schools Foundation Ordinance. The Foundation has a wholly owned subsidiary, ESF Educational Services Limited ("ESL") (together referred to as "the Group"). The Board of Governors of the Foundation ("the Board") is responsible for the preparation of consolidated financial statements.

The principal activity of the Group is to own, manage, administer and operate schools to provide a modern liberal education through the medium of English language. The principal activities and other particulars of the Foundation's subsidiary are set out in note 9 to the financial statements.

2 Surplus for the year

Surplus for the year is arrived at after charging/(crediting):

	Note	The Group 2018 \$'million	2017 \$'million	The Foundation 2018 \$'million	2017 \$'million
(a) Staff costs					
Contribution to defined contribution retirement schemes		37.3	37.4	27.2	27.2
Net defined benefit retirement scheme expenses	6(b)(v)	2.9	3.4	2.9	3.4
Retirement costs		40.2	40.8	30.1	30.6
Salaries, wages and other benefits		1,792.8	1,726.8	1,324.9	1,276.0
		<u>1,833.0</u>	<u>1,767.6</u>	<u>1,355.0</u>	<u>1,306.6</u>

2 Surplus for the year (continued)

	Note	The Group		The Foundation	
		2018	2017	2018	2017
		\$'million	\$'million	\$'million	\$'million
(b) Other items					
Gross rental income from investment properties		(52.2)	(52.1)	(52.2)	(52.1)
Direct rental outgoings in respect of:					
– investment properties under operating leases		25.7	24.6	25.7	24.6
– vacant investment properties		2.0	2.3	2.0	2.3
Depreciation	5	190.0	166.5	166.4	146.7
Loss on disposals of fixed assets		5.3	1.8	3.6	1.7
Operating lease charges:					
– equipment rentals	3	0.1	0.1	0.1	0.1
– property rentals	3	24.8	23.5	10.8	10.0

3 Other operating expenses

	Note	The Group		The Foundation	
		2018	2017	2018	2017
		\$'million	\$'million	\$'million	\$'million
Audit fees		1.2	1.1	0.9	0.8
Cost of goods sold		1.2	1.4	-	-
Finance lease interest expenses		0.2	0.1	0.2	0.1
Impairment loss of fees and other receivables		0.8	0.6	0.6	0.4
Information technology expenses		18.4	18.3	13.7	13.8
Insurance		5.8	7.0	3.8	4.8
Leased equipment rentals	2(b)	0.1	0.1	0.1	0.1
Legal and professional fees		8.7	2.4	8.1	1.0
Library		2.3	2.3	1.4	1.4
Net government rent and rates	14(b)	2.6	1.9	1.7	0.8
Professional development and training		15.5	12.6	12.8	10.4
Property rentals:	2(b)				
– minimum lease payments		23.2	21.9	10.8	10.0
– contingent rentals		1.6	1.6	-	-
Property management fee		4.0	4.0	1.8	1.8
Public relations and marketing expenses		8.3	6.3	5.8	4.1
Printing and stationery		6.2	7.3	4.6	5.3
Recruitment expenses		3.9	5.5	2.8	4.3
Teaching resources and materials		34.8	34.1	20.0	18.8
Utilities		27.6	27.8	18.9	19.5
General expenses		18.3	17.4	9.7	9.5
		<u>184.7</u>	<u>173.7</u>	<u>117.7</u>	<u>106.9</u>

4 Taxation

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

5 Fixed assets

Accounting policy

The Group records fixed assets other than construction in progress in the statement of financial position at cost less related government grants, accumulated depreciation and impairment losses.

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 27(e)) to earn rental income and/or for capital appreciation. Rental income from investment properties is accounted for as described in note 27(c).

The Group records construction in progress at cost less related government grants and impairment losses, and transfers it to other categories of fixed assets when substantially all the activities necessary to prepare the assets for their intended use are completed.

The Group charges depreciation that is designed to write off the cost of fixed assets, less related government grants and their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

– Buildings/investment properties	20 - 50 years
– Building improvements	10 - 20 years
– Leasehold improvements	Shorter of the lease term or useful life of 20 – 50 years
– Computer equipment	3 - 5 years
– Furniture and other equipment	5 - 10 years

Annually the Group reviews the estimated life of the assets and the estimates of residual value. The Group states construction in progress at cost and it is not subject to any depreciation charge. Where parts of an item of fixed assets 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 Group adds subsequent expenditure relating to fixed assets that the Group has already recognised to the carrying amount of the asset provided the Group considers that it is probable that the Group will obtain future economic benefits, in excess of the originally assessed standard of performance of the existing asset, from the expenditure. All other subsequent expenditure is recognised as an expense in the year in which it is incurred.

On the date of the retirement or disposal of an item of fixed assets, the Group recognises the related gains and losses being the difference between the net disposal proceeds and the carrying amount of the item.

5 Fixed assets (continued)

(a) The Group

	Buildings and building improvements				Furniture and equipment				Sub-total \$ million	Investment properties \$ million	Total \$ million
	Foundation's Schools \$ million	Renaissance College & xDiscovery College \$ million	Quarters & others \$ million	Leasehold improvements \$ million	Foundation's Schools \$ million	Discovery College \$ million	Quarters and others*** \$ million	Construction in progress \$ million			
Cost:											
At 1 September 2017	2,192.0	622.8	81.5	47.6	435.0	97.5	60.8	232.7	3,769.9	245.4	4,015.3
Additions	65.4	-	0.8	2.6	32.7	9.6	3.4	233.8	348.3	-	348.3
Transfers of construction in progress	105.9	96.6	-	109.4	42.8	5.0	1.0	(370.9)	(10.2)	10.2	-
Disposals/adjustments*	(90.2)	-	-	-	(28.6)	(7.3)	(1.5)	-	(127.6)	(0.2)	(127.8)
At 31 August 2018	2,273.1	719.4	82.3	159.6	481.9	104.8	63.7	95.6	3,980.4	255.4	4,235.8
Government grants:											
At 1 September 2017	(246.3)	(328.7)	(45.5)	-	-	-	-	-	(620.5)	-	(620.5)
Write-back on disposals	7.3	-	-	-	-	-	-	-	7.3	-	7.3
At 31 August 2018	(239.0)	(328.7)	(45.5)	-	-	-	-	-	(613.2)	-	(613.2)
Accumulated depreciation:											
At 1 September 2017	(891.3)	(89.0)	(30.4)	(34.0)	(222.4)	(61.5)	(42.2)	-	(1,370.8)	(182.7)	(1,553.5)
Charge for the year**	(84.1)	(9.8)	(0.4)	(20.6)	(50.5)	(10.6)	(5.5)	-	(181.5)	(8.5)	(190.0)
Write-back on disposals	81.2	-	-	-	26.4	5.7	1.3	-	114.6	0.1	114.7
At 31 August 2018	(894.2)	(98.8)	(30.8)	(54.6)	(246.5)	(66.4)	(46.4)	-	(1,437.7)	(191.1)	(1,628.8)
Net book value:											
At 31 August 2018	1,139.9	291.9	6.0	105.0	235.4	38.4	17.3	95.6	1,929.5	64.3	1,993.8

5 Fixed assets (continued)

	Buildings and building improvements			Furniture and equipment				Sub-total \$'million	Investment properties \$'million	Total \$'million
	Foundation's Schools \$'million	Renaissance College & Discovery College \$'million	Quarters & others \$'million	Leasehold improvements \$'million	Foundation's Schools \$'million	Discovery College \$'million	Quarters and others*** \$'million	Construction in progress \$'million		
Cost:										
At 1 September 2016	2,127.8	623.1	81.3	49.0	415.2	86.9	57.4	110.4	3,551.1	3,796.5
Additions	49.4	-	0.2	0.4	27.4	13.3	4.3	148.6	243.6	243.6
Transfers of construction in progress	17.5	-	-	-	8.7	0.1	-	(26.3)	-	-
Disposals/adjustments*	(2.7)	(0.3)	-	(1.8)	(16.3)	(2.8)	(0.9)	-	(24.8)	(24.8)
At 31 August 2017	2,192.0	622.8	81.5	47.6	435.0	97.5	60.8	232.7	3,769.9	4,015.3
Government grants:										
At 1 September 2016										
and 31 August 2017	(246.3)	(328.7)	(45.5)	-	-	-	-	-	(620.5)	(620.5)
Accumulated depreciation:										
At 1 September 2016	(809.6)	(80.7)	(30.0)	(28.4)	(191.6)	(54.9)	(38.0)	-	(1,233.2)	(1,407.8)
Charge for the year**	(83.6)	(8.3)	(0.4)	(5.6)	(46.1)	(9.3)	(5.1)	-	(158.4)	(166.5)
Write-back on disposals	1.9	-	-	-	15.3	2.7	0.9	-	20.8	20.8
At 31 August 2017	(891.3)	(89.0)	(30.4)	(34.0)	(222.4)	(61.5)	(42.2)	-	(1,370.8)	(1,553.5)
Net book value:										
At 31 August 2017	1,054.4	205.1	5.6	13.6	212.6	36.0	18.6	232.7	1,778.6	1,841.3

* 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.

** Depreciation charge of quarters of the Group for the year ended 31 August 2018 was \$11.0 million (2017: \$10.6 million). The amount is included in "Accommodation" in the statement of comprehensive income. Remaining charges represent depreciation on schools and offices and are shown separately in the statement of comprehensive income.

***The cost and related accumulated depreciation of the furniture and equipment of the Group's kindergartens are included in "Quarters and others" under "Furniture and Equipment" category.

5 Fixed assets (continued)

(b) The Foundation

	Buildings and building improvements				Furniture and equipment				Sub-total \$'million	Investment properties \$'million	Total \$'million
	Foundation's Schools \$'million	Renaissance College and Discovery College \$'million	Quarters and others \$'million	Leasehold improvements \$'million	Foundation's Schools \$'million	Renaissance College and Discovery College \$'million	Quarters and others \$'million	Construction in progress \$'million			
Cost:											
At 1 September 2017	2,192.0	425.6	81.5	7.0	435.0	43.0	43.6	133.7	3,361.4	245.4	3,606.8
Additions	65.4	-	0.8	1.3	32.7	-	2.6	222.3	325.1	-	325.1
Transfers of construction in progress	105.9	-	-	102.3	42.8	-	0.8	(262.0)	(10.2)	10.2	-
Disposals/adjustments*	(90.2)	-	-	-	(28.6)	(3.1)	(0.9)	-	(122.8)	(0.2)	(123.0)
At 31 August 2018	2,273.1	425.6	82.3	110.6	481.9	39.9	46.1	94.0	3,553.5	255.4	3,808.9
Government grants:											
At 1 September 2017	(246.3)	(188.9)	(45.5)	-	-	-	-	-	(480.7)	-	(480.7)
Write-back on disposals	7.3	-	-	-	-	-	-	-	7.3	-	7.3
At 31 August 2018	(239.0)	(188.9)	(45.5)	-	-	-	-	-	(473.4)	-	(473.4)
Accumulated depreciation:											
At 1 September 2017	(891.3)	(75.2)	(30.4)	(7.0)	(222.4)	(42.5)	(34.3)	-	(1,303.1)	(182.7)	(1,485.8)
Charge for the year**	(84.1)	(4.5)	(0.4)	(14.9)	(50.5)	(0.2)	(3.3)	-	(157.9)	(8.5)	(166.4)
Write-back on disposals	81.2	-	-	-	26.4	3.1	0.9	-	111.6	0.1	111.7
At 31 August 2018	(894.2)	(79.7)	(30.8)	(21.9)	(246.5)	(39.6)	(36.7)	-	(1,349.4)	(191.1)	(1,540.5)
Net book value:											
At 31 August 2018	1,139.9	157.0	6.0	88.7	235.4	0.3	9.4	94.0	1,730.7	64.3	1,795.0

5 Fixed assets (continued)

	Buildings and building improvements			Furniture and equipment				Sub-total \$'million	Investment properties \$'million	Total \$'million
	Foundation's Schools \$'million	Renaissance College and Discovery College \$'million	Quarters and others \$'million	Leasehold improvements \$'million	Foundation's Schools \$'million	Discovery College \$'million	Quarters and others \$'million			
Cost:										
At 1 September 2016	2,127.8	425.9	81.3	7.0	415.2	45.2	42.1	3,202.6	245.4	3,448.0
Additions	49.4	-	0.2	-	27.4	-	2.0	180.8	-	180.8
Transfers of construction in progress	17.5	-	-	-	8.7	-	-	-	-	-
Disposals/adjustments*	(2.7)	(0.3)	-	-	(16.3)	(2.2)	(0.5)	(22.0)	-	(22.0)
At 31 August 2017	2,192.0	425.6	81.5	7.0	435.0	43.0	43.6	3,361.4	245.4	3,606.8
Government grants:										
At 1 September 2016 and 31 August 2017	(246.3)	(188.9)	(45.5)	-	-	-	-	(480.7)	-	(480.7)
Accumulated depreciation:										
At 1 September 2016	(809.6)	(70.7)	(30.0)	(7.0)	(191.6)	(43.9)	(31.6)	(1,184.4)	(174.6)	(1,359.0)
Charge for the year**	(83.6)	(4.5)	(0.4)	-	(46.1)	(0.8)	(3.2)	(138.6)	(8.1)	(146.7)
Write-back on disposals	1.9	-	-	-	15.3	2.2	0.5	19.9	-	19.9
At 31 August 2017	(891.3)	(75.2)	(30.4)	(7.0)	(222.4)	(42.5)	(34.3)	(1,303.1)	(182.7)	(1,485.8)
Net book value:										
At 31 August 2017	1,054.4	161.5	5.6	-	212.6	0.5	9.3	1,577.6	62.7	1,640.3

* 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.

** Depreciation charge of quarters of the Foundation for the year ended 31 August 2018 was \$11.0 million (2017: \$10.6 million). The amount is included in "Accommodation" in the statement of comprehensive income. Remaining charges represent depreciation on schools and offices and are shown separately in the statement of comprehensive income.

5 Fixed assets (continued)

- (c) The Group's schools are built on sites provided by the Government (either free of premium or nominal premium) on education leases which impose certain restrictions on use. All the leases run until 2047 or later, except for Renaissance College and Discovery College, which are on temporary leases renewable until the lease is terminated by the Government.

(d) ***Residential/ investment properties***

The Group owns 202 (2017: 202) housing units which are used as staff quarters or leased to third parties.

The Board has reviewed the residential property portfolio. Non-assignment clauses contained in the Conditions of Grants for the 87 units of Braemar Heights prevent their sale on the open market. The majority of the 115 remaining property units are leased to third parties and hence the Group classified the carrying value of buildings and building improvements of these units as investment properties. An independent firm of surveyors, Colliers International (Hong Kong) Limited, valued the investment properties owned by the Group as at 31 August 2018 at \$3,338.1 million (2017: \$3,148.6 million).

(e) ***Investment properties leased out under operating leases***

The Group leases out investment properties under operating leases. The leases typically run for an initial period of 1 to 3 years, with an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes contingent rentals.

All properties held under operating leases that would otherwise meet the definition of investment property are classified as investment property.

The Group's receivables for total future minimum lease payments under non-cancellable operating leases at the reporting date are as follows:

	<i>The Group and the Foundation</i>	
	2018	2017
	\$'million	\$'million
Within 1 year	45.3	43.2
After 1 year but within 5 years	19.4	17.6
	<u>64.7</u>	<u>60.8</u>

5 Fixed assets (continued)

(f) *Mortgage of investment properties for uncommitted banking facilities*

The banking facilities of the Group granted by The Hong Kong and Shanghai Banking Corporation Limited are secured by mortgages over 12 residential properties with net book value of \$3.8 million at 31 August 2018 (2017: 12 residential properties with net book value of \$4.7 million). The market value of the 12 residential properties as at 31 August 2018 based on external valuations was \$150 million (2017: \$137 million).

(g) *Equipment held under finance leases*

The Group has acquired office equipment under finance leases with terms ranging from two to five years. At the end of the lease term the Group has options to purchase the equipment at a price deemed to be a bargain purchase option.

The net book value of equipment held under finance leases as at 31 August 2018 was \$2.3 million (2017: \$1.5 million) and the depreciation charge for the year ended 31 August 2018 was \$0.6 million (2017: \$0.6 million).

(h) *Review of the estimated useful lives of property, plant and equipment*

During a review in the year ended 31 August 2017 of the Group's depreciation policies, based on the latest development of Island School decanting timetable, the Group revised the estimated remaining useful lives of non-movable assets of Island School to 16 months with effect from 1 September 2016. Management considered that the revised estimated useful lives better reflect the estimated periods during which such assets would remain in service and be utilised by the Group.

The adoption of the new estimated useful lives had no effect on prior years. The effect on the year ended 31 August 2017 was to decrease the depreciation charge by \$3.1 million and increase the carrying value of the assets as at 31 August 2017 by the same amount.

In the year ended 31 August 2018, management did not propose any change in the estimated useful lives of property, plant and equipment.

6 Retirement schemes

Accounting policy

- (i) The Group recognises as expense obligations for contributions to defined contribution retirement schemes, including contributions payable under the Hong Kong Mandatory Provident Fund Schemes Ordinance, as they are incurred.
- (ii) The Group calculates the Group's net obligation in respect of defined benefit retirement schemes separately for each scheme/section by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years; the Group discounts that benefit to determine the present value, and the fair value of any scheme assets is deducted. A qualified actuary performs the calculation using the projected unit credit method. When the calculation results in a benefit to the Group, the Group recognises asset limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

The Group recognises service cost and net interest expense/(income) on the net defined benefit liability/(asset) in the statement of comprehensive income. The Group measures current service cost as the increase in the present value of the defined benefit obligation resulting from employee service in the current period. When the benefits of a plan are changed, or when a plan is curtailed, the Group recognises the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, as an expense in the statement of comprehensive income at the earlier of when the plan amendment or curtailment occurs and when related restructuring costs or termination benefits are recognised. The Group determines net interest expense/(income) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the year to the net defined benefit liability/(asset). The discount rate is the yield at the end of reporting period on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations.

The Group recognises remeasurements arising from defined benefit retirement plans in other comprehensive income. Remeasurements comprise actuarial gains and losses, the return on plan assets (excluding amounts included in net interest on the net defined benefit liability/(asset)) and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability/(asset)).

(a) During the year, the Group operated a defined benefit employee retirement scheme for staff:

The Non-Teaching Staff Superannuation Scheme includes two sections, the Non-Teaching Staff Section (the "NT" Section) and the Terminal Award Section (the "TA" Section). Eligible staff of the NT Section and the TA Section are non-teaching staff employed before 19 January 2000 under the conditions of service applicable before that date and teaching and senior staff employed before 1 September 1988, respectively. Assets and liabilities attributable to one benefit section shall be kept separate and distinct from assets and liabilities attributable to any other benefit section.

During the year ended 31 August 2017, the Senior Staff and Teaching Staff Elective Provident Fund, a defined contribution retirement scheme, was dissolved. Members of the scheme were transferred to the mandatory provident fund schemes with no change in benefits.

6 Retirement schemes (continued)

(b) Defined benefit retirement scheme

- (i) The amount recognised in the statement of financial position is as follows:

	<i>The Group and the Foundation</i>	
	2018 \$'million	2017 \$'million
Present value of defined benefit obligations	(62.7)	(66.3)
Fair value of scheme assets	106.6	104.8
	<u>43.9</u>	<u>38.5</u>

The Group expects that a portion of the above defined benefit retirement schemes assets will be recovered within one year. However, it is not practicable to segregate this amount from the amounts recoverable in later periods, as future contributions will relate to future services rendered and future changes in actuarial assumptions and market conditions. Accordingly, the Group has recorded the assets as non-current assets.

The Group does not expect to make any contribution to the schemes in the year ending 31 August 2019.

- (ii) Assets for the TA Section and the NT Section are managed separately and consist of the following:

	<i>The Group and the Foundation</i>			
	<i>TA Section</i>		<i>NT Section</i>	
	2018 \$'million	2017 \$'million	2018 \$'million	2017 \$'million
Equities	16.2	16.1	41.3	47.0
Fixed income securities	13.2	11.4	33.9	20.6
Cash	0.6	2.8	1.4	6.9
Total	<u>30.0</u>	<u>30.3</u>	<u>76.6</u>	<u>74.5</u>

6 Retirement schemes (continued)

(iii) Movements in the present value of defined benefit obligations were as follows:

	<i>The Group and the Foundation</i>	
	2018	2017
	\$'million	\$'million
At the beginning of the year	(66.3)	(71.7)
Remeasurements:		
– Actuarial (loss)/gain arising from changes in experience	(0.8)	0.8
– Actuarial gain arising from changes in financial assumptions	3.6	1.8
	2.8	2.6
Current service cost	(2.7)	(3.1)
Interest cost	(0.8)	(0.6)
Less: actual benefits paid and payable	4.3	6.5
At the end of the year	(62.7)	(66.3)

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

	<i>The Group and the Foundation</i>	
	2018	2017
	\$'million	\$'million
At the beginning of the year	104.8	101.7
Interest income	1.2	0.8
Return on scheme assets excluding interest income	5.5	9.3
Less: actual benefits paid and payable	(4.3)	(6.5)
Less: administrative expenses paid from scheme assets	(0.6)	(0.5)
At the end of the year	106.6	104.8

6 Retirement schemes (continued)

- (v) Expense recognised in the statement of comprehensive income is as follows:

	<i>The Group and the Foundation</i>	
	2018	2017
	\$'million	\$'million
Current service cost	2.7	3.1
Net interest on net defined benefit asset	(0.4)	(0.2)
Administrative expenses paid from scheme assets	0.6	0.5
	<hr/>	<hr/>
Total amounts recognised in income and expenditure	2.9	3.4
	<hr/>	<hr/>
Actuarial gain	(2.8)	(2.6)
Return on scheme assets excluding interest income	(5.5)	(9.3)
	<hr/>	<hr/>
Total amounts recognised in other comprehensive income	(8.3)	(11.9)
	<hr/>	<hr/>
Total defined benefit income	(5.4)	(8.5)
	<hr/>	<hr/>

The Group includes the current service cost, net interest on net defined benefit asset and administrative expenses paid from scheme assets under gratuities and allowances in the statement of comprehensive income.

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

	<i>The Group and the Foundation</i>			
	<i>TA Section</i>		<i>NT Section</i>	
	2018	2017	2018	2017
Discount rate	2.1%	0.9%	2.2%	1.3%
Future salary increases	4.0%	3.5%	3.5%	3.5%

6 Retirement schemes (continued)

The below analysis shows how the defined benefit obligation as at 31 August 2018 and 2017 would have increased/(decreased) as a result of 0.25% change in the significant actuarial assumptions:

<i>2018</i>				
<i>The Group and the Foundation</i>				
	<i>TA Section</i>		<i>NT Section</i>	
	<i>Increase in 0.25% \$'million</i>	<i>Decrease in 0.25% \$'million</i>	<i>Increase in 0.25% \$'million</i>	<i>Decrease in 0.25% \$'million</i>
Discount rate	*	*	(0.9)	0.9
Future salary increases	*	*	0.9	(0.9)

<i>2017</i>				
<i>The Group and the Foundation</i>				
	<i>TA Section</i>		<i>NT Section</i>	
	<i>Increase in 0.25% \$'million</i>	<i>Decrease in 0.25% \$'million</i>	<i>Increase in 0.25% \$'million</i>	<i>Decrease in 0.25% \$'million</i>
Discount rate	*	*	(1.1)	1.1
Future salary increases	*	*	1.0	(1.0)

* Less than \$0.1 million

The above sensitivity analysis is based on the assumption that changes in actuarial assumptions are not correlated and therefore it does not take into account the correlations between the actuarial assumptions.

7 Current assets and current liabilities

With the exception of the Group's and the Foundation's deposits given for the rental of properties and utilities of \$14.5 million (2017: \$12.8 million) and \$7.6 million (2017: \$7.2 million) respectively, the Group's other receivables and prepayments of \$0.5 million (2017: \$0.7 million), the Group's other accruals of \$3.7 million (2017: \$2.7 million) and the Group's and the Foundation's deferred income (included in accounts payables and accruals) of \$30.7 million (2017: \$35.6 million) and \$74.8 million (2017: \$63.6 million) respectively, the Group expects all other current assets and liabilities to be recovered, settled or recognised as income or expense within one year from the end of reporting period.

8 Fees and other receivables

Accounting policy

Initially the Group recognises fees and other receivables at fair value, thereafter the Group states these at amortised cost using the effective interest method, less allowance for impairment of doubtful debts. Where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial, the Group states the receivables at cost less allowance for impairment of doubtful debts.

The Group calculates the allowance for impairment of doubtful debts as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted where the effect of discounting is material.

	<i>The Group</i>		<i>The Foundation</i>	
	2018	2017	2018	2017
	\$'million	\$'million	\$'million	\$'million
Fees receivables	3.0	2.7	1.6	1.3
Other receivables	1.4	2.9	1.0	1.7
Less: Allowance for impairment of doubtful debts	(2.0)	(1.6)	(1.3)	(1.0)
	<u>2.4</u>	<u>4.0</u>	<u>1.3</u>	<u>2.0</u>

Impairment of fees receivables

Fees receivables are due immediately from the date of billing. The Group and the Foundation record impairment losses in respect of fees and other receivables using an allowance account, unless the Group and the Foundation are satisfied that recovery of the amount is remote, in which case the impairment loss is written off against debtors directly.

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

	<i>The Group</i>		<i>The Foundation</i>	
	2018	2017	2018	2017
	\$'million	\$'million	\$'million	\$'million
At the beginning of the year	1.6	2.3	1.0	1.6
Impairment loss recognised	0.8	0.6	0.6	0.4
Uncollectible amounts written off	(0.4)	(1.3)	(0.3)	(1.0)
At the end of the year	<u>2.0</u>	<u>1.6</u>	<u>1.3</u>	<u>1.0</u>

8 Fees and other receivables (continued)

At 31 August 2018, no debtors of the Group and the Foundation were individually determined to be impaired. Based on ageing of fees receivables and repayment patterns of customers the Group and the Foundation have determined that the Group's and the Foundation's fees receivables collectively to be impaired by \$2.0 million (2017: \$1.6 million) and \$1.3 million (2017: \$1.0 million) respectively. The Group and the Foundation do not hold any collateral over these balances.

9 Subsidiary

Accounting policy

A subsidiary is an entity controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

The Group consolidates a subsidiary in the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements.

ESL, a company incorporated in Hong Kong and limited by guarantee, is a controlled subsidiary of the Group. Its activities are the operation of kindergartens and private independent schools, the provision of English as an Additional Language (EAL) courses and sports activities for young people. The management expertise and administration of ESL are substantially provided by the Foundation.

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

Amount due from subsidiary at 31 August 2017, was unsecured, interest-free and repaid during 2018.

10 Restricted cash

The Group pledged a deposit of \$2.7 million (2017: \$2.6 million) 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.

11 Cash and cash equivalents

Accounting policy

Cash and cash equivalents comprise cash at bank and on hand and demand deposits with banks and other financial institutions, having been within three months of maturity at acquisition.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(a) *Cash and cash equivalents comprise:*

	<i>The Group</i>		<i>The Foundation</i>	
	2018	2017	2018	2017
	\$'million	\$'million	\$'million	\$'million
Deposits with original maturities less than three months	122.5	66.0	122.5	66.0
Cash at bank and in hand	191.2	173.8	115.4	106.3
	<u>313.7</u>	<u>239.8</u>	<u>237.9</u>	<u>172.3</u>

The effective interest rates per annum relating to cash and cash equivalents of the Group and the Foundation at the end of reporting period are 0.66% (2017: 0.09%) and 0.87% (2017: 0.12%) respectively.

11 Cash and cash equivalents (continued)

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

	<i>The Group</i>		<i>The Foundation</i>	
	2018	2017	2018	2017
	\$'million	\$'million	\$'million	\$'million
Operating activities				
Surplus for the year	214.1	213.4	166.1	164.5
Adjustments for:				
Interest income	(10.5)	(7.1)	(11.0)	(7.1)
Nomination rights	(55.4)	(63.6)	(40.1)	(43.6)
Non-refundable building/capital levy	(39.5)	(32.1)	(23.2)	(17.2)
Finance lease interest expenses	0.2	0.1	0.2	0.1
Loss on disposals of fixed assets	5.3	1.8	3.6	1.7
Depreciation	190.0	166.5	166.4	146.7
Expense recognised under defined benefit retirement schemes	2.9	3.4	2.9	3.4
Transfer from previous years' scholarship fund and hardship allowance	(2.0)	(4.9)	-	-
	305.1	277.5	264.9	248.5
Changes in working capital:				
Decrease in inventories	0.1	-	-	-
Increase in rental and utility deposits	(1.7)	(0.5)	(0.4)	(0.2)
Decrease/(increase) in prepayments	-	0.1	0.4	(0.6)
Decrease/(increase) in loans to staff	1.2	(0.1)	0.6	0.3
Decrease in fees and other receivables	1.6	6.1	0.7	4.9
Increase in fees received in advance	21.0	16.4	17.8	9.4
Decrease/(increase) in net amount due from subsidiary	-	-	12.1	(9.8)
Increase in provision to meet staff conditions of service	4.1	11.6	1.9	10.8
Increase in accounts payables and accruals excluding capital creditors	18.8	9.9	36.0	20.3
Increase/(decrease) in scholarship fund and hardship allowance	2.5	2.5	(1.3)	(0.5)
Net cash generated from operating activities	352.7	323.5	332.7	283.1

11 Cash and cash equivalents (continued)

(c) Reconciliation of liabilities arising from financing activities:

The table below details changes in the Group's and Foundation's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the cash flow statement as cash flows from financing activities.

The Group

	At 1 September 2017	Refundable capital levy \$'million (Note 17)	Nomination rights received in advance \$'million (Note 21)	Corporate nomination rights \$'million (Note 22)	Non-refundable building levy \$'million (Note 19)	Non-refundable capital levy \$'million (Note 20)	Debenture \$'million (Note 18)	Obligations under finance leases \$'million (Note 16)	Total \$'million
		198.0	5.4	22.9	39.9	141.4	11.7	1.5	420.8
Changes from financing cash flows:									
Decrease in refundable capital levy	(32.7)		-	-	-	-	-	-	(32.7)
Proceeds from issue of nomination rights	-	55.6	20.0	-	-	-	-	-	75.6
Proceeds from non-refundable building levy	-	-	-	-	20.3	-	-	-	20.3
Proceeds from non-refundable capital levy	-	-	-	-	-	59.9	-	-	59.9
Proceeds from issuance of debenture	-	-	-	-	-	-	0.3	-	0.3
Capital element of finance lease rentals paid	-	-	-	-	-	-	-	(0.7)	(0.7)
Interest element of finance lease rentals paid	-	-	-	-	-	-	-	(0.2)	(0.2)
Total changes from financing cash flows	(32.7)	55.6	20.0	20.3	59.9	0.3	(0.9)		122.5
Other changes:									
Individual nomination rights income	-	(54.1)	-	-	-	-	-	-	(54.1)
Amortisation of corporate nomination rights	-	-	(1.3)	-	-	-	-	-	(1.3)
Non-refundable building levy income	-	-	-	(16.3)	-	-	-	-	(16.3)
Non-refundable capital levy income	-	-	-	-	-	(23.2)	-	-	(23.2)
New finance leases	-	-	-	-	-	-	-	1.2	1.2
Finance charges on obligations under finance leases (note 3)	-	-	-	-	-	-	-	0.2	0.2
Total other changes	-	(54.1)	(1.3)	(16.3)	(23.2)	1.4			(93.5)
At 31 August 2018	165.3	6.9	41.6	43.9	178.1	12.0	2.0		449.8

11 Cash and cash equivalents (continued)

The Foundation

	Refundable capital levy \$'million (Note 17)	Nomination rights received in advance \$'million (Note 21)	Corporate nomination rights \$'million (Note 22)	Non-refundable capital levy \$'million (Note 20)	Obligations under finance leases \$'million (Note 16)	Total \$'million
At 1 September 2017	198.0	4.9	22.9	141.4	1.5	368.7
Changes from financing cash flows:						
Decrease in refundable capital levy	(32.7)	-	-	-	-	(32.7)
Proceeds from issue of nomination rights	-	40.5	20.0	-	-	60.5
Proceeds from non-refundable capital levy	-	-	-	59.9	-	59.9
Capital element of finance lease rentals paid	-	-	-	-	(0.7)	(0.7)
Interest element of finance lease rentals paid	-	-	-	-	(0.2)	(0.2)
Total changes from financing cash flows	(32.7)	40.5	20.0	59.9	(0.9)	86.8
Other changes:						
Individual nomination rights income	-	(38.8)	-	-	-	(38.8)
Amortisation of corporate nomination rights	-	-	(1.3)	-	-	(1.3)
Non-refundable capital levy income	-	-	-	(23.2)	-	(23.2)
New finance leases	-	-	-	-	1.2	1.2
Finance charges on obligations under finance leases (note 3)	-	-	-	-	0.2	0.2
Total other changes	-	(38.8)	(1.3)	(23.2)	1.4	(61.9)
At 31 August 2018	165.3	6.6	41.6	178.1	2.0	393.6

12 Provision to meet staff conditions of service

Accounting policy

The Group accrues salaries, gratuities, paid annual leave, leave passage and the cost to the Group of non-monetary benefits in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, the Group states these amounts at their present values.

Movements in the provision to meet staff conditions of service were as follows:

	<i>The Group</i>		<i>The Foundation</i>	
	2018	2017	2018	2017
	\$'million	\$'million	\$'million	\$'million
At the beginning of the year	109.3	97.7	84.2	73.4
Provision for the year	273.0	262.9	201.5	194.9
Payments made during the year	(268.9)	(251.3)	(199.6)	(184.1)
At the end of the year	<u>113.4</u>	<u>109.3</u>	<u>86.1</u>	<u>84.2</u>

13 Accounts payables and accruals

Accounting policy

Initially the Group recognises accounts and other payables at fair value, subsequently the Group states these at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

	<i>The Group</i>		<i>The Foundation</i>	
	2018	2017	2018	2017
	\$'million	\$'million	\$'million	\$'million
Accounts payable	22.6	39.5	12.6	16.4
Other accruals	50.6	44.7	38.9	30.2
Accruals for major repairs	102.6	67.5	102.6	67.5
Deferred income	84.7	86.7	112.1	96.7
Retention money	13.3	15.8	8.7	6.8
Deposits received	13.3	12.3	13.2	12.1
Other payables	9.5	6.7	8.6	5.6
	<u>296.6</u>	<u>273.2</u>	<u>296.7</u>	<u>235.3</u>

14 Government grants

Accounting policy

The Group recognises government grants when there is reasonable assurance that the Group will comply with the conditions attached to them and that the grants will be received. The Group recognises grants relating to expenditure on a systematic basis in the same year in which the related expenditure is incurred. The Group deducts grants provided to the Group relating to fixed assets from the cost of acquisition in arriving at the carrying amount of the related asset.

The Government provides basic grants and hardship allowance to the Foundation. The total grants received by the Group and the Foundation were as follows:

	Note	<i>The Group</i>		<i>The Foundation</i>	
		2018	2017	2018	2017
		\$'million	\$'million	\$'million	\$'million
Basic grants	14(a)	237.9	254.5	237.9	254.5
Hardship allowance	15	6.2	6.5	6.2	6.5
Refund of rent and rates	14(b)	16.4	16.5	12.9	13.1
		<u>260.5</u>	<u>277.5</u>	<u>257.0</u>	<u>274.1</u>

The subvention review was concluded in July 2013. Excluding subvention of \$28.3 million for students with special education needs in the Foundation's mainstream schools and the Jockey Club Sarah Roe School, the basic grants and hardship allowance (collectively the "Subvention") are phasing out in 13 years starting from the 2016/17 school year until 2028/29 school year. The phase out amount in each year will vary and range from approximately \$17 million to \$22 million according to the Subvention provided to each year group of the Foundation's mainstream schools. All existing students of the Foundation except Year 1 to Year 3 will continue to benefit from the Subvention, frozen at its current level, until they either graduate from the schools in Year 13 or leave the system. The phasing out of the Subvention will affect children entering Year 1 of the Foundation's schools in August 2016 and thereafter.

(a) Basic grants

The Government's basic recurrent grant is a grant per class calculated to be equivalent to the grant allowed for each class provided to other schools in the public-aided education sector in 1999/2000. Since 1999/2000, the basic recurrent grant has been reduced by 12.372% in various stages through to 31 March 2007. The cumulative deduction on basic grant resulting from the subvention phase-out amounted \$33.2 million as at 31 August 2018 (2017: \$16.6 million).

14 Government grants (continued)

(b) Refund of rent and rates

The Group and the Foundation also receive from the Government a reimbursement of rent and rates actually paid for school premises. The charge for rent and rates, which is included in other operating expenses, was arrived at as follows:

	Note	<i>The Group</i>		<i>The Foundation</i>	
		2018	2017	2018	2017
		\$'million	\$'million	\$'million	\$'million
Gross rent and rates for the year		19.0	18.4	14.6	13.9
Less: Recovered or recoverable from the Government		(16.4)	(16.5)	(12.9)	(13.1)
	3	<u>2.6</u>	<u>1.9</u>	<u>1.7</u>	<u>0.8</u>

15 Scholarship fund and hardship allowance

(a) The Group

	Scholarship fund \$'million	Hardship allowance \$'million	Total \$'million
At 1 September 2016	1.9	50.7	52.6
Received from the Government	-	6.5	6.5
Provision for the year	36.6	7.8	44.4
Utilisation	(33.4)	(15.0)	(48.4)
Transfer	-	(4.9)	(4.9)
At 31 August 2017 and 1 September 2017	5.1	45.1	50.2
Received from the Government	-	6.2	6.2
Provision for the year	39.6	9.0	48.6
Utilisation	(35.4)	(16.8)	(52.2)
Transfer	-	(2.0)	(2.0)
At 31 August 2018	<u>9.3</u>	<u>41.5</u>	<u>50.8</u>

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

The Group transfers previous years' hardship allowance surplus to the statement of comprehensive income to fund part of the expenses.

15 Scholarship fund and hardship allowance (continued)

(b) The Foundation

	<i>Hardship Allowance</i>	
	2018	2017
	\$'million	\$'million
At the beginning of the year	31.4	31.9
Received from the Government	6.2	6.5
Provision for the year	1.6	0.8
	<hr/> 39.2	<hr/> 39.2
Utilisation	<hr/> (9.1)	<hr/> (7.8)
At the end of the year	<hr/> <hr/> 30.1	<hr/> <hr/> 31.4

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

- (c) Besides the basic grants detailed in note 14, the Government also provides an allowance for the relief of hardship based upon a percentage of the recurrent grant per class to the Foundation. In addition, starting from 1 September 2016, the Foundation sets aside 0.8% of tuition fees of non-subsidised students as hardship allowance to support families who experience financial hardship due to a sudden and unexpected change in circumstances.
- (d) Pursuant to the service agreement between ESL and the Government, ESL shall set aside a sum, which shall not be less than 10% of its total school fee income from its Private Independent Schools, to provide scholarships and other financial assistance for deserving students at such schools in each school year. During the year ended 31 August 2018, Renaissance College and Discovery College have each set aside 10% (2017: 10%) of their respective tuition fees which consists of 8% (2017: 8%) for Renaissance College and 9% (2017: 9%) for Discovery College as scholarship fund and 2% (2017: 2%) for Renaissance College and 1% (2017: 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 \$29.5 million (2017: \$25.8 million) and \$19.5 million (2017: \$17.9 million) respectively.

16 Obligations under finance leases

At 31 August 2018, the Group and the Foundation had obligations under finance leases repayable as follows:

	The Group and the Foundation					
	2018			2017		
	<i>Present value of the minimum lease payments</i>	<i>Interest expense relating to future periods</i>	<i>Total minimum lease payments</i>	<i>Present value of the minimum lease payments</i>	<i>Interest expense relating to future periods</i>	<i>Total minimum lease payments</i>
	\$'million	\$'million	\$'million	\$'million	\$'million	\$'million
Within one year	0.7	0.2	0.9	0.5	0.1	0.6
Between one and two years	0.5	0.1	0.6	0.4	0.1	0.5
Between two and five years	0.8	0.2	1.0	0.6	0.1	0.7
	1.3	0.3	1.6	1.0	0.2	1.2
	2.0	0.5	2.5	1.5	0.3	1.8

17 Refundable capital levy

Refundable capital levy was introduced and payable by the parents of children joining the Foundation's school system from August 2011 to June 2015. After the introduction of non-refundable capital levy (see note 20), the refundable capital levy is only applicable to children that join Year 7 from another school of the Foundation if their parents did not pay refundable capital levy or non-refundable capital levy for them before. The levy is \$25,000 per child. Certain concessions are granted to families with more than two children studying at ESF schools and teachers who are also parents of students studying at ESF schools.

Refundable capital levy is repayable by the Group when the student leaves the school. The refundable capital levy is non-transferable, interest-free, non-depreciating and unsecured. Initially the Group recognises the refundable capital levy at fair value, subsequently the Group states this at amortised cost unless the effect of discounting would be immaterial, in which case it is stated at cost.

18 Debenture

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

The debenture is repayable when the student leaves the school with sufficient notice. The debenture is non-transferable, interest-free, non-depreciating and unsecured. Initially the Group recognises the debenture at fair value, thereafter the Group states this at amortised cost unless the effect of discounting would be immaterial, in which case it is stated at cost.

19 Non-refundable building levy

The Group 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 (2017: \$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 \$6,710 (2017: \$6,290) per annum for all students.

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

20 Non-refundable capital levy

The Group charges non-refundable capital levy to finance capital expenditures of various capital projects of the ESF schools. The levy is charged as a one-time payment upon a student's acceptance of a school place. The levy is set at \$38,000 (2017: \$38,000) for Year 1 entrants with pro-rated amounts set for Year 2 to Year 13 new entrants.

The Group recognise non-refundable capital levy over the number of years individual students are expected to remain at the school.

21 Individual nomination rights

Accounting policy

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

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

22 Corporate nomination rights

Accounting policy

The corporate nomination rights ("CNR") scheme entitles the holder of the CNR (the "Holder") to identify one nominee in relation to any CNR at any time according to the terms and conditions of the CNR. The CNR is non-transferrable, interest-free, depreciating and unsecured.

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

Each CNR is redeemable at the date 20 years following the first nomination date for that CNR at zero value. The Holder may redeem a CNR at any date following 10 years after the first nomination date for that CNR. The redeemable amount is the remaining value of that CNR at the date of redemption. Initially the Group recognises the CNR at fair value, subsequently the Group states this at the applicable redemption value unless the effect of discounting would be immaterial, in which case it is stated at cost with accumulated amortisation.

Movements in the corporate nomination rights were as follows:

	<i>The Group and the Foundation</i>	
	<i>2018</i>	<i>2017</i>
	<i>\$'million</i>	<i>\$'million</i>
At the beginning of the year	22.9	23.6
Issued	20.0	-
Less: Amortisation to statement of comprehensive income	(1.3)	(0.7)
At the end of the year	41.6	22.9
Less: Within one year or on demand	(1.8)	(0.8)
After one year	39.8	22.1

23 Reserves

The reserves of the Group and the Foundation represent the excess of assets over liabilities; the opening and closing balances and the movements during the year are set out in the statement of changes in reserves.

(a) Capital fund

The Foundation introduced individual and corporate nomination rights schemes and non-refundable capital levy. The income from these is designated solely to finance redevelopment projects of the Foundation and hence is included in the capital fund. During the year, payments were made against King George V School and Island School redevelopment projects. Renaissance College and Discovery College of the Group introduced non-refundable building levy and nomination rights. The income is designated solely to finance capital expenditure and hence is included in the capital fund.

During the year, the Group and the Foundation transferred \$71.6 million (2017: \$48.1 million) and \$54.6 million (2017: \$35.5 million), respectively, from capital fund to general reserve. The transfer represented the depreciation charge of capital projects funded by the capital fund.

(b) Building reserve

The reserves of the Group and the Foundation represent the excess of assets over liabilities and fixed assets are one of the major components. As part of the continuous improvement programme, the Group's reserves were reviewed. In addition to the capital fund, building reserve was created to set aside the sum spent or reserved for the expansion, maintaining or replacing buildings in order to facilitate financial management and understanding of the financial position.

During the year, the Group and the Foundation transferred \$127.8 million (2017: \$1,146.0 million) from general reserve to building reserve to reflect the sum spent or reserved. The available fund for future expansion, maintaining or replacing buildings is \$384.9 million (2017: \$290.4 million).

(c) Schools reserves

The Group's reserves include the accumulated surplus of individual schools of the Foundation which amounted to \$190.8 million as at 31 August 2018 (2017: \$168.6 million). These reserves have been designated to finance operating and capital activities at individual schools at the discretion of the respective School Councils. From their reserves as at 31 August 2018, the respective School Councils have authorised or contracted for capital commitments of \$64.2 million (2017: \$25.7 million). The respective School Councils also reserve certain sums for major upgrades at schools.

During the year, \$27.1 million (2017: \$30.8 million) was transferred from schools reserves to general reserve. The transfer represented various schools capital expenditure during the year which was funded by the schools reserves.

23 Reserves (continued)

(d) Capital management

The Group is a non-profit making organisation whose principal activity is the operation of schools to provide education through the medium of English language. The Group is not subject to any externally imposed capital requirements; its activities are mainly funded by tuitions fees, government subventions, donations, and investment income.

In the absence of any capital the Group's reserves are maintained at a level necessary to meet the Group's short and long-term objectives taking account the importance of safeguarding the Group's ability to continue as a going concern.

24 Financial risk management and fair values

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

(a) Credit risk

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

The Group's bank deposits and cash and cash equivalents are placed with major financial institutions.

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

(b) Liquidity risk

The Group's policy is to regularly monitor liquidity requirements to ensure that the Group maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The earliest settlement dates of the Foundation's and the Group's financial liabilities at the end of the reporting period are all within one year/on demand or undated and the contractual amounts of the financial liabilities are all equal to their carrying amounts.

(c) Interest rate risk

The Group's exposure to changes in interest rates relates primarily to bank deposits, cash at bank and obligations under finance leases. The Foundation's exposure to changes in interest rates relates primarily to bank deposits, cash at bank, obligations under finance leases and loan to subsidiary. The interest rate profile of the Group and the Foundation is set out in (i) below.

24 Financial risk management and fair values (continued)

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

	The Group			The Foundation		
	2018	2017	2018	2017		
	Effective interest rate %	Effective interest rate %	Effective interest rate %	Effective interest rate %	\$'million	\$'million
Loan to subsidiary	-	-	4.21%	1.76%	51.0	51.0
Finance lease liabilities	4.80%	4.02%	4.80%	4.02%	(2.0)	(1.5)
Deposits with original maturities greater than three months	2.24%	0.84%	2.37%	0.91%	623.9	557.1
Restricted cash	0.01%	0.01%	-	-	-	-
Cash and cash equivalents	0.66%	0.09%	0.87%	0.12%	237.9	172.3
					910.8	778.9

24 Financial risk management and fair values (continued)

(ii) Sensitivity analysis

At 31 August 2018, it is estimated that a general increase/decrease of 100 basis points (2017: 100 basis points) in interest rates, with all other variables held constant, would have increased/decreased the Group's surplus for the year by approximately \$10.3 million (2017: \$8.9 million). Other components of reserves would not be affected (2017: nil) by the changes in interest rates.

The sensitivity analysis above indicates the annualised impact on the Group's surplus that would arise assuming that the change in interest rates had occurred at the end of reporting period and had been applied to those floating rate instruments which expose the Group to cash flow interest rate risk at that date. The analysis has been performed on the same basis for 2017.

(d) Currency risk

The Group operates in Hong Kong and has limited exposure to currency risk which arises from foreign currency purchases and receipts/payments for school activities jointly organised with overseas institutions.

(e) Fair value measurement

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

25 Commitments

- (a) The Group and the Foundation have certain capital commitments relating mainly to the renovation of the schools and major upgrades of information technology systems. Capital commitments outstanding at 31 August 2018 not provided for in these financial statements were as follows:

	<i>The Group</i>		<i>The Foundation</i>	
	2018	2017	2018	2017
	\$'million	\$'million	\$'million	\$'million
Contracted for	58.8	280.7	56.3	267.0
Authorised but not contracted for	1,227.9	136.4	1,221.2	136.3
	<u>1,286.7</u>	<u>417.1</u>	<u>1,277.5</u>	<u>403.3</u>

25 Commitments (continued)

- (b) At 31 August 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	<i>The Group</i>		<i>The Foundation</i>	
	2018	2017	2018	2017
	\$'million	\$'million	\$'million	\$'million
Leased properties				
Within one year	23.3	16.4	10.5	6.1
Between one and five years	46.6	18.4	17.1	-
Over five years	7.9	11.1	-	-
	<u>77.8</u>	<u>45.9</u>	<u>27.6</u>	<u>6.1</u>

	<i>The Group</i>		<i>The Foundation</i>	
	2018	2017	2018	2017
	\$'million	\$'million	\$'million	\$'million
Leased equipment				
Within one year	0.7	0.8	0.7	0.8
Between one and five years	0.7	1.4	0.7	1.4
	<u>1.4</u>	<u>2.2</u>	<u>1.4</u>	<u>2.2</u>

The Group leases a number of properties under operating leases. The leases run for an initial period of three to ten years, with some having an option to renew upon expiry when all terms will be renegotiated. Contingent rental payable are based on a pre-determined percentage of the monthly gross turnover on the condition that it is higher than the minimum fixed rentals under the operating lease agreements.

The Group leases certain equipment under operating leases. The leases typically run for an initial period of two to five years, with the option to return, renew or buy the equipment upon expiry when all terms are renegotiated. None of the leases includes contingent rentals.

26 Material related party transactions

Accounting policy

- (a) A person, or a close member of that person's family, is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or the Group's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
 - (i) The entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Foundation or the Group.

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.

26 Material related party transactions (continued)

Board of Governors and key management personnel remuneration

Key management personnel consist of the following:

- (i) Full time paid employees who are also members of the Board of Governors, namely, representatives of the Committee of Principals, the Committee of Teachers, the Committee of Support Staff and the Chief Executive Officer who is an ex-officio member of the Board of Governors; and
- (ii) Director of Education, Chief Operating Officer of ESL, Director of Facilities, Chief Financial Officer and Director of Human Resources.

The members of the Board of Governors other than those mentioned in note (i) did not receive any remuneration during the current and previous years.

Remuneration for key management personnel is as follows:

	2018 \$'million	2017 \$'million
Salaries, allowances and benefits in kind	22.1	21.5
Retirement costs	0.2	0.2
	<u>22.3</u>	<u>21.7</u>

27 Other significant accounting policies

Apart from the accounting policies presented within the corresponding notes to the financial statements, the other significant accounting policies applied in the preparation of these consolidated financial statements are set out below:

(a) Statement of compliance

The consolidated financial statements for the year ended 31 August 2018 comprise the Foundation and its subsidiary.

The Board has prepared the consolidated financial statements to comply with the requirements under The English Schools Foundation Ordinance and The English Schools Foundation (General) Regulation and in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and accounting principles generally accepted in Hong Kong.

27 Other significant accounting policies (continued)

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group and the Foundation. None of these impact on the accounting policies of the Group and the Foundation. However, additional disclosure has been included in note 11(c) to satisfy the new disclosure requirements introduced by the amendments to HKAS 7, *Statement of cash flows: Disclosure initiative*, which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The Group has not applied any new standard or interpretation that is not yet effective for the current reporting year (see note 29).

(b) *Basis of preparation of the financial statements*

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

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

The Group reviews the estimates and underlying assumptions on an ongoing basis. The Group recognises revisions to accounting estimates in the year the Group revises the estimate if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

In note 28, the Group discusses the significant judgements the Group made in applying HKFRSs on the financial statements and major sources of estimation uncertainty.

(c) *Income recognition*

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

(i) Tuition fees

For an academic year which ends within the financial year, the Group recognises tuition fees when an education service is provided.

The Group classifies tuition fees received in respect of the following academic year as fees received in advance and the Group carries these in the statement of financial position as liabilities at the end of the financial year.

27 Other significant accounting policies (continued)

(ii) Programme income

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

(iii) Application fee income

The Group recognises application fee income when a registration service is provided.

(iv) Rental income

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

(v) Donations

The Group recognises donations when the Group becomes entitled to the donations and it is probable that they will be received. The Group recognises donations relating to expenditure on a systematic basis in the same year in which the related expenditure is incurred. The Group recognises donations that compensate for the cost of an asset as deferred income that is recognised as income on a straight-line basis over the useful life of the related asset.

(vi) Interest income

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

(vii) Resale income

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

(d) **Impairment of assets**

The Group uses internal and external sources of information at the end of each reporting period to identify indications that fixed assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the Group estimates the asset's recoverable amount and recognises an impairment loss if the carrying amount of an asset exceeds its recoverable amount.

27 Other significant accounting policies (continued)

The recoverable amount of an asset is the greater of its fair value less cost of disposal (if measurable) or value in use (if determinable). In assessing value in use, the Group discounts the estimated future cash flows to their present value using a discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the Group determines the recoverable amount for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

The Group reverses an impairment loss if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. The Group credits reversals of impairment losses as income in the year in which the reversals are recognised.

(e) **Leased assets**

Under HKFRSs an arrangement, comprising a transaction or a series of transactions, is or contains a lease if the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. The Group determines whether the Group is a party to a lease based on the substance of the arrangement regardless of whether the arrangement takes the legal form of a lease.

The Group classifies assets held under leases which transfer substantially all the risks and rewards of ownership as being held under finance leases. The Group classifies other leases as operating leases.

(i) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the Group includes the amounts representing the fair value of the leased assets, or, if lower, the present value of the minimum lease payments of such assets in fixed assets and the corresponding liabilities, net of finance charges, as obligations under finance leases.

The Group charges depreciation at rates which write off the cost of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 5. The Group accounts for impairment losses in accordance with the accounting policy as set out in note 27(d).

The Group charges as an expense the finance charges implicit in the lease payments over the period of the lease so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each reporting year.

27 Other significant accounting policies (continued)

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, the Group expenses payments made under the leases in equal instalments over the reporting years covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. The Group recognises lease incentives received as an integral part of the aggregate net lease payments made.

(f) Inventories

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

The Group calculates cost using the first-in-first-out method and comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the Group's estimate of selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the Group recognises the carrying amount of those inventories as an expense in the year in which the related income is recognised. The Group recognises the amount of any write-down of inventories to net realisable value and all losses of inventories as an expense in the year the write-down or loss occurs and the amount of any reversal of any write-down of inventories as a reduction in the amount of inventories recognised as an expense in the year in which the reversal occurs.

(g) Provisions and contingent liabilities

The Group recognises provisions for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the Group can make a reliable estimate. Where the time value of money is material, the Group states provisions at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the Group discloses the obligation as a contingent liability, unless the probability of outflow of economic benefits is remote. Unless the probability of outflow of economic benefits is remote, the Group also discloses as contingent liabilities possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events.

27 Other significant accounting policies (continued)

(h) Functional and presentation currency

These financial statements are presented in Hong Kong dollars, which is the Group's and the Foundation's functional and presentation currency. All financial information presented in Hong Kong dollars has been rounded to \$0.1 million unless stated otherwise.

28 Accounting estimates and judgements

Note 6 contains information about the assumptions and their risk factors relating to defined benefit retirement scheme obligations and financial instruments respectively. Other key sources of estimation uncertainty are as follows:

(a) Useful lives and impairment of fixed assets

The Group has significant fixed assets and is required to estimate the useful lives of these assets in order to ascertain the amount of depreciation charge for each reporting period. The useful lives are estimated at the time of purchase of these assets and each year the Group assesses the appropriateness of the estimated useful lives. The assessment takes into account any unexpected adverse changes in circumstances or events such as declines in projected results and changes in the operating environment. The Group extends or shortens the useful lives and/or makes impairment provisions based on the assessment.

At the end of each reporting period, the Group reviews whether there are any indications of impairment and will recognise an impairment loss if the carrying amount of an asset is higher than its recoverable amount. The sources utilised to identify indications of impairment are often subjective in nature and the Group has to use judgement in applying such information to its operations. The Group's interpretation of this information has a direct impact on whether an impairment assessment is performed as at any given end of reporting period. If an indication of impairment is identified, such information is further subjected to an exercise that requires the Group to estimate the recoverable amount of the asset, which is the greater of its fair value less costs of disposal and its value in use.

The Group is required to make assumptions to make this assessment, including the utilisation of such assets, the cash flows to be generated, appropriate discount rates, etc. Changes in any of these assumptions could result in a material change in future estimates of the recoverable amount of any asset.

(b) Accruals for development project costs and major repairs

The Group undertakes capital projects and various repairs and maintenance work. Invoices from the contractors are often received some time after the work is performed. Accordingly the Group has to review the status of each of the projects and to make certain estimates on the stage of completion of the projects. Actual costs may be higher or lower than estimated at the end of reporting period.

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

Up to the date 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 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

*Effective for
accounting periods
beginning on or after*

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 Group is in the process of finalising its assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group 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 Group has not completed its assessment, further impacts may be identified in due course and will be taken into consideration when determining which transitional approach to take, where there are alternative approaches allowed under the new standards. The Group does not intend to early adopt any of these amendments or new standards.

HKFRS 9, Financial instruments

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, *Financial instruments: Recognition and measurement*. HKFRS 9 introduces new requirements for classification and measurement of financial assets, including the measurement of impairment for financial assets and hedge accounting. On the other hand, HKFRS 9 incorporates without substantive changes the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification and measurement of financial liabilities. Expected impact of the new requirements on the Group's financial statements are as follows:

Impairment

The new impairment model in HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure either a 12-month expected credit loss or a lifetime expected credit loss, depending on the asset and the facts and circumstances. Based on the assessment completed to date, the impact is not expected to be significant.

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

HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18, *Revenue*, which covers revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specifies the accounting for revenue from construction contracts.

HKFRS 16, Leases

As disclosed in note 27(e), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

Once HKFRS 16 is adopted, the Group will no longer distinguish between finance leases and operating leases when it is the lessee under the lease. Instead, subject to practical expedients, the Group 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 25(b), at 31 August 2018 the Group's future minimum lease payments under non-cancellable operating leases amount to \$77.8 million and \$1.4 million for properties and equipment respectively, 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 Group 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 Group 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 The English Schools Foundation

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

Opinion

We have audited the consolidated financial statements of The English Schools Foundation (the "Foundation") and its subsidiary (together the "Group") set out on pages 4 to 55, which comprise the consolidated and Foundation statements of financial position as at 31 August 2018, the consolidated and Foundation statements of comprehensive income, the consolidated and Foundation statements of changes in reserves and the consolidated and Foundation cash flow statements for the year then ended and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the consolidated financial statements give a true and fair view of the Group and of the Foundation as at 31 August 2018 and of their financial performance and 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").

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. We are independent of the Group 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 consolidated financial statements and auditor's report thereon

The Board of Governors of the Foundation is responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated 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 consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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 The English Schools Foundation (continued)

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

Responsibilities of the Board of Governors for the consolidated financial statements

The Board of Governors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA, and for such internal control as the Board of Governors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Governors is responsible for assessing the Group'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 Board of Governors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 our agreed terms of engagement 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 HKSAAs 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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.
- 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 Group's internal control.

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the governors.
- Conclude on the appropriateness of the Board of Governors' 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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Governors 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.

KPMG

Certified Public Accountants

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03 DEC 2018