ESF Educational Services Limited

英基教育服務有限公司

Financial Statements
for the year ended 31 August 2019

Report of the Board of Directors

The Board of Directors has pleasure in submitting their annual report together with the audited financial statements for the year ended 31 August 2019.

Principal place of business

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

Principal activities

The principal activities of the Company are the operation of five kindergartens and two private independent schools, the provision of English as an Additional Language (EAL) courses and sports activities for young people. The management expertise and administration of the Company are substantially provided by The English Schools Foundation ("the Foundation"). The Company is exempt from taxation pursuant to section 88 of the Hong Kong Inland Revenue Ordinance.

Financial statements

The surplus of the Company for the year ended 31 August 2019 and the Company's financial position as at that date are set out in the financial statements on pages 3 to 36.

Reserves

The Company has transferred the surplus of HK$34,430,000 (2018: HK$32,134,000 (restated – note 26)) to reserves. The Company shows other movements in reserves in the statement of changes in reserves.

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

Properties, plant and equipment

The Company has set out details of movements in properties, plant and equipment in note 9 to the financial statements.

Directors

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

Belinda Greer (Chairman)	
Vivian Cheung Wai Yan	
Charles Caldwell	
John Stewart	
Adam Hughes	(appointed on 6 September 2018)
Robert Shorthouse	(appointed on 6 September 2018)
Alan Milliken	(appointed on 4 June 2019)

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

At no time during the year was the Company, or its holding entity a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of an interest in the Company or any other body corporate.

Indemnity of directors

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

Directors' interests in transactions, arrangements or contracts

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

Auditors

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board 09 DEC 2019

Belinda Greer

Belinda Greer

Director

Hong Kong,

Statement of comprehensive income for the year ended 31 August 2019
(Expressed in Hong Kong dollars)

	Note	*2019* $'000	*2018* $'000 (Restated – note 26)
Income	2		
Operating income		715,459	691,162
Non-operating income		25,809	26,757
		741,268	717,919
Expenditure			
Staff expenses			
Salaries and teaching resources		367,875	358,157
Gratuities and MPF contributions		58,776	57,953
Housing allowance		31,076	31,278
Medical expenses		12,181	12,044
Staff education allowance		20,008	18,494
Passage allowance		414	534
	3(a)	490,330	478,460
Other expenses			
Advertisements		2,132	1,395
Audit fee		272	260
Cost of goods sold		1,306	1,234
Depreciation	3(b), 9	23,390	23,583
Development and operating agreement payment	23(a)	21,993	21,993
Management and administrative expenses	23(a)	18,930	15,401
Office and general expenses	4	54,375	52,008
Rent, rates and building management fee	5	28,183	28,546
Scholarship fund and hardship allowance	14	49,740	47,368
Teaching materials and resources	6	16,187	15,927
		216,508	207,715
Total expenses		706,838	686,175
Surplus and total comprehensive income for the year	3	34,430	31,744

Statement of comprehensive income for the year ended 31 August 2019 (continued)

(Expressed in Hong Kong dollars)

	2019 $'000	2018 $'000 (Restated – note 26)
Represented by:		
Accumulated fund surplus	8,621	4,987
Capital fund surplus	25,809	26,757
	34,430	31,744

The notes on pages 9 to 36 form part of these financial statements.

Statement of financial position at 31 August 2019

(Expressed in Hong Kong dollars)

	Note	31 August 2019 $'000	31 August 2018 $'000 (Restated – note 26)	1 September 2017 $'000 (Restated – note 26)
Non-current asset				
Properties, plant and equipment	9	188,345	198,830	200,990
Current assets	10			
Inventories		922	871	1,031
Rental and utilities deposits		5,321	6,892	5,606
Prepayments	11	7,759	7,172	6,753
Amount due from the Foundation	16	1,358	4	-
Fees and other receivables	11	2,582	2,601	4,140
Restricted cash	12	2,733	2,733	2,608
Deposits with original maturities over three months		3,700	94,923	91,854
Cash and cash equivalents	13	219,280	75,807	67,489
		243,655	191,003	179,481
Current liabilities	10			
Creditors and accruals		40,767	46,747	68,897
Nomination rights received in advance	19	210	360	510
Provision for staff gratuities and MPF contributions		27,938	27,329	25,167
Scholarship fund	14	17,469	11,434	6,995
Hardship allowance	14	10,869	11,811	14,026
Fees received in advance	15	76,316	71,040	72,501
Debenture	17	7,098	6,769	6,629
Deferred income				
- non-refundable building levy	18	6,150	5,458	4,831
- nomination rights	19	8,454	8,315	9,549
Amount due to the Foundation	16	-	-	12,075
Loan from the Foundation	16	7,036	6,800	-
		198,307	196,063	221,180
Net current assets/(liabilities)		45,348	(5,060)	(41,699)
Total assets less current liabilities		233,693	193,770	159,291

Statement of financial position at 31 August 2019 (continued)

(Expressed in Hong Kong dollars)

	Note	*31 August 2019* $'000	*31 August 2018* $'000 (Restated – note 26)	*1 September 2017* $'000 (Restated – note 26)
Non-current liabilities				
Loan from the Foundation	16	37,005	44,200	51,000
Debenture	17	5,530	5,222	5,117
Deferred income				
– non-refundable building levy	18	40,899	38,465	35,120
– nomination rights	19	69,062	63,116	57,031
		156,496	151,003	148,268
NET ASSETS		77,197	42,767	11,023
RESERVES	20			
Capital fund		68,266	60,150	50,400
Accumulated fund surplus/(deficit)		8,931	(17,383)	(39,377)
TOTAL SURPLUS		77,197	42,767	11,023

Approved and authorised for issue by the board of directors on 09 DEC 2019

Belinda Greer
Director

Vivian Cheung Wai Yan
Director

The notes on pages 9 to 36 form part of these financial statements.

Statement of changes in reserves for the year ended 31 August 2019

(Expressed in Hong Kong dollars)

	Accumulated fund (deficit)/surplus $'000	*Capital fund* $'000 (note 20(b))	*Total* $'000
At 1 September 2017			
As previously presented	(64,660)	116,980	52,320
Prior year adjustment (note 26)	25,283	-	25,283
Impact on initial application of HKFRS 15 (note 26)	-	(66,580)	(66,580)
As restated	(39,377)	50,400	11,023
Surplus and total comprehensive income for the year	4,987	26,757	31,744
Transfers	17,007	(17,007)	-
At 31 August 2018 and 1 September 2018	(17,383)	60,150	42,767
Surplus and total comprehensive income for the year	8,621	25,809	34,430
Transfers	17,693	(17,693)	-
At 31 August 2019	8,931	68,266	77,197

The notes on pages 9 to 36 form part of these financial statements.

Cash flow statement
for the year ended 31 August 2019
(Expressed in Hong Kong dollars)

	Note	*2019* $'000	*2018* $'000
Operating activities			
Net cash generated from operating activities	13(b)	43,211	20,176
Investing activities			
Payments for the purchase of properties, plant and equipment (net of capital creditors)		(20,706)	(43,806)
Proceeds from disposal of properties, plant and equipment		-	6
Increase in restricted cash		-	(125)
Decrease/(increase) in deposits with original maturities over three months		91,223	(3,069)
Interest received		2,662	665
Net cash generated from/(used in) investing activities		73,179	(46,329)
Financing activities			
Re-payment of loan to the Foundation		(6,959)	-
Net proceeds from nomination rights	13(c)	13,900	15,150
Proceeds from non-refundable building levy	13(c)	20,970	20,280
Net proceeds from issuance of debenture	13(c)	637	245
Interest expenses paid to the Foundation		(1,465)	(1,204)
Net cash generated from financing activities		27,083	34,471
Net increase in cash and cash equivalents		143,473	8,318
Cash and cash equivalents at the beginning of the year		75,807	67,489
Cash and cash equivalents at the end of the year	13(a)	219,280	75,807

The notes on pages 9 to 36 form part of these financial statements.

Notes to the financial statements
(Expressed in Hong Kong dollars)

1 Background

ESF Educational Services Limited ("the Company") is incorporated in Hong Kong under the Hong Kong Companies Ordinance and is limited by guarantee. In the event that the Company is wound up, each member's guaranteed contribution to the assets of the Company is limited to $100. The Company had 3 members as at 31 August 2019 (2018: 4 members). The directors of the Company are responsible for the preparation of financial statements.

The principal activities of the Company are to operate five kindergartens and two private independent schools, the provision of English as an Additional Language (EAL) courses and sports activities for young people. The management expertise and administration of the Company are substantially provided by The English Schools Foundation.

2 Income

Accounting policy

The Company classifies income as revenue when it arises from the sale of goods, the provision of services or the use by others of the Company's assets under leases in the ordinary course of the Company's business.

The Company recognises revenue when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Company is expected to be entitled, excluding those amounts collected on behalf of third parties.

Further details of the Company's revenue and other income recognition policies are as follows:

(i) Tuition fees

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

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

(ii) Other programme fees

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

2 Income (continued)

(iii) Donations

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

(iv) Registration fees

The Company recognises income from registration fees when a registration service is provided

(v) Rental income

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

(vi) Resale income

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

(vii) Interest income

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

(viii) Non-refundable building levy

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

(ix) Nomination rights

Nomination rights are a means to gain priority on the waiting list and a school place subject to success of interview. The amount received is not refundable after the student accepts a school place offer.

In prior years' financial statements, the Company recognised deposits received in respect of nomination rights as receipts in advance and transferred them to income when offers were made. The Company recognised the remaining balance from the sale of nomination rights when the rights were exercised for the acceptance of school place offers, which is generally on receipt of cash.

As set out notes 24(c) and 26, as a result of the adoption of HKFRS 15, the Company has changed its accounting policy in respect of nomination rights and now recognises revenue in equal instalments over the student's expected school life or at the time when the student leaves the school(s) within the Company. Amounts received but not yet recognised as revenue are recorded as deferred income – nomination rights. This change in policy has been applied retrospectively and comparative figures have been restated in these financial statements.

2 Income (continued)

	2019 $'000	*2018* $'000 (Restated – note 26)
Operating income		
Revenue from contracts with customers within the scope of HKFRS 15		
Recognised at a point in time		
- Examination fees	1,900	1,974
Recognised over time		
- Renaissance College tuition fees	291,174	277,318
- Discovery College tuition fees	206,227	196,359
- Camps and educational visits	14,037	13,372
- Kindergarten tuition fees	122,727	118,403
- Language course fees	22,997	22,174
- Sports course fees	27,292	31,608
- Clubs course fees	40	-
	686,394	659,234
Revenue from other sources		
- Donations	1,478	1,501
- Registration fees	3,859	3,238
- Rental income	11,559	11,308
- Resale income	6,738	7,040
- Interest income	2,662	665
- Transfer from previous years' scholarship fund and hardship allowance surplus	-	2,000
- Other income	2,769	4,202
Total operating income	715,459	691,162
Non-operating income		
Revenue from contracts with customers within the scope of HKFRS 15		
Non-refundable building levy	17,844	16,308
Nomination rights	7,965	10,449
Total non-operating income	25,809	26,757

3 Surplus and total comprehensive income for the year

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

	2019 $'000	2018 $'000
(a) Staff expenses:		
Contributions to defined contribution retirement scheme	10,249	10,121
Salaries, wages and other benefits	480,081	468,339
	490,330	478,460
(b) Other items:		
Depreciation	23,390	23,583
Impairment loss on fees receivables	323	240
Loss on disposal of properties, plant and equipment	1,560	1,696
Auditor's remuneration	272	260
Operating lease charges in respect of properties:		
- minimum lease payments	15,417	14,270
- contingent rentals	1,557	1,643

4 Office and general expenses

	2019 $'000	2018 $'000
Building repair and maintenance	18,244	17,766
Insurance	1,923	2,019
Legal expenses	373	44
Minor furniture/equipment written off	1,481	1,585
Printing	1,189	1,326
Professional fees	1,148	554
Postage	116	108
Recruiting	940	1,109
Stationery	247	278
Training expenses	3,387	3,032
Transportation	824	794
Utilities	8,443	8,696
General office expenses and others	14,571	13,473
Interest expense	1,489	1,224
	54,375	52,008

5 Rent, rates and building management fee

	2019	*2018*
	$'000	$'000
Gross rent and rates for the year	29,799	29,840
Less: Recovered or recoverable from the Government	(3,589)	(3,493)
	26,210	26,347
Building management fee	1,973	2,199
	28,183	28,546

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

6 Teaching materials and resources

	2019	*2018*
	$'000	$'000
Teaching materials	12,900	12,653
Course expenses	1,390	1,151
Educational visit expenses	251	303
Examination expenses	1,646	1,820
	16,187	15,927

7 Directors' emoluments

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

8 Taxation

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

9 Properties, plant and equipment

Accounting policy

The Company records properties, plant and equipment other than construction in progress in the statement of financial position at cost less related government grants, accumulated depreciation and impairment losses (see note 24(e)).

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

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

- Buildings	20 - 50 years
- Leasehold improvements	Shorter of 10 years/period of the lease
- Furniture and equipment	3 - 10 years

Annually the Company reviews the estimated life of the assets and the estimates of residual value. The Company states construction in progress at cost net of related government grants and construction in progress is not subject to any depreciation charge. Where parts of an item of properties, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately.

The Company adds subsequent expenditure relating to properties, plant and equipment that the Company has already recognised to the carrying amount of the asset provided the Company considers that it is probable that the Company will obtain future economic benefits, in excess of the originally assessed standard of performance of the existing assets, from the expenditure. All other subsequent expenditure is recognised as an expense in the year in which it is incurred.
On the date of the retirement or disposal of properties, plant and equipment, the Company recognises the related gains and losses being the difference between the net disposal proceeds and the carrying amount of the item.

9 Properties, plant and equipment (continued)

	Buildings $'000	*Leasehold improvements* $'000	*Furniture and equipment* $'000	*Construction in progress* $'000	*Total* $'000
Cost:					
At 1 September 2018	293,807	49,046	82,595	1,473	426,921
Additions	188,912	302	13,055	1,121	203,390
Transfers	-	-	1,590	(1,590)	-
Disposals/adjustments*	(755)	(2,485)	(4,841)	(35)	(8,116)
At 31 August 2019	481,964	46,863	92,399	969	622,195
Government grants:					
At 1 September 2018	(139,870)	-	-	-	(139,870)
Transfer from Group	(188,881)	-	-	-	(188,881)
At 31 August 2019	(328,751)	-	-	-	(328,751)
Depreciation:					
At 1 September 2018	19,012	32,804	36,405	-	88,221
Charge for the year	7,598	3,860	11,932	-	23,390
Written back on disposals/adjustments*	(302)	(2,485)	(3,725)	-	(6,512)
At 31 August 2019	26,308	34,179	44,612	-	105,099
Net book value:					
At 31 August 2019	126,905	12,684	47,787	969	188,345

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

9 Properties, plant and equipment (continued)

	Buildings $'000	Leasehold improvements $'000	Furniture and equipment $'000	Construction in progress $'000	Total $'000
Cost:					
At 1 September 2017	189,909	47,774	71,912	98,936	408,531
Additions	-	1,272	10,374	11,508	23,154
Transfers	103,898	-	5,043	(108,941)	-
Disposals/adjustments*	-	-	(4,734)	(30)	(4,764)
At 31 August 2018	293,807	49,046	82,595	1,473	426,921
Government grants:					
At 1 September 2017 and 31 August 2018	(139,870)	-	-	-	(139,870)
Depreciation:					
At 1 September 2017	12,575	28,201	26,895	-	67,671
Charge for the year	6,437	4,603	12,543	-	23,583
Written back on disposals/adjustments*	-	-	(3,033)	-	(3,033)
At 31 August 2018	19,012	32,804	36,405	-	88,221
Net book value:					
At 31 August 2018	134,925	16,242	46,190	1,473	198,830

* Adjustments on cost and depreciation of properties, plant and equipment relate to certain properties, plant and equipment 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.

10 Current assets and current liabilities

With the exception of restricted cash mentioned in note 12, deposits for the rental of properties and utilities of $5,321,000 (2018: $6,892,000), those prepayments, fees and other receivables mentioned in note 11 and creditors and accruals of $4,734,000 (2018: $3,746,000), the Company expects all other current assets and liabilities to be recovered or settled within one year from the end of the reporting period.

11 Prepayments, fees and other receivables

Accounting policy

Fees and other receivables are recognised when the Company has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. Where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial, the Company states the receivables at cost less allowance for impairment of credit losses.

Policy applicable from 1 September 2018

The Company measures loss allowances for fees receivables at an amount equal to a lifetime expected credit losses, which are calculated using a provision matrix.

Policy applicable prior to 1 September 2018

Prior to 1 September 2018, an impairment loss was recognised only when there was objective evidence of impairment.

	31 August 2019 $'000	*31 August 2018* $'000
Fees receivables	1,304	1,364
Less:Allowance for credit loss	(639)	(690)
	665	674
Loans to staff	1,472	1,483
Amount due from the government	445	444
	2,582	2,601
Prepayments	7,759	7,172

The Company expects the amount of the Company's fees receivables and prepayments to be recovered or recognised as expense after more than one year is $613,000 (2018: $506,000). The Company expects all of the other accounts and other receivables (including amount due from the Foundation) to be recovered or recognised as expense within one year.

11 Prepayments, fees and other receivables (continued)

Impairment of fees receivables

Fee receivables are due immediately from the date of billing.

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

The movement in the allowance for credit loss during the year was as follows:

	2019 $'000	*2018* $'000
At the beginning of the year	690	572
Impairment loss recognised	337	240
Uncollectible amounts written off	(388)	(122)
At the end of the year	639	690

At 31 August based on the aging of fees receivables and repayment patterns of customers, the Company has determined that the Company's fees receivables are collectively impaired by $639,000 (2018: $690,000). The Company does not hold any collateral over these balances.

12 Restricted cash

A deposit of $2,733,000 (2018: $2,733,000) is pledged to a bank for guarantees issued by that bank in favour of MTR Corporation Limited and Hoo Wah Company Limited under the terms of three separate tenancy agreements.

13 Cash and cash equivalents

(a) Cash and cash equivalents comprise:

	2019 $'000	*2018* $'000
Deposits with original maturities less than three months	126,000	-
Cash at bank and in hand	93,280	75,807
	219,280	75,807

13 Cash and cash equivalents (continued)

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

	2019 $'000	*2018* $'000
Operating activities		
Surplus and total comprehensive income for the year	34,430	31,744
Adjustments for:		
Interest income	(2,662)	(665)
Nomination rights	(7,965)	(10,449)
Non-refundable building levy	(17,844)	(16,308)
Depreciation	23,390	23,583
Interest expenses paid to the Foundation	1,465	1,204
Impairment loss on fees receivables	337	240
Loss on disposal of properties, plant and equipment	1,560	1,696
Transfer from previous years' scholarship fund and hardship allowance	-	(2,000)
Operating surplus before changes in working capital	32,711	29,045
(Increase)/decrease in inventories	(51)	160
Decrease/(increase) in rental and utilities deposits	1,571	(1,286)
Increase in prepayments	(587)	(419)
(Increase)/decrease in fees and other receivables	(319)	1,299
Decrease in net amount due to the Foundation	(1,354)	(12,079)
Increase/(decrease) in creditors and accruals excluding capital creditors	262	(1,469)
Increase in provision for staff gratuities and MPF contributions	609	2,162
Increase in scholarship fund	6,035	4,439
Decrease in hardship allowance	(942)	(215)
Increase/(decrease) in fees received in advance	5,276	(1,461)
Net cash generated from operating activities	43,211	20,176

13 Cash and cash equivalents (continued)

(c) Reconciliation of liabilities arising from financing activities:

The table below details changes in the Company'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.

	Nomination rights received in advance $'000 (Note 19)	*Individual Nomination rights* $'000 (Note 19)	*Non-refundable building levy* $'000 (Note 18)	*Debenture* $'000 (Note 17)	*Total* $'000
At 1 September 2017					
As previously stated	510	-	39,951	11,746	52,207
Impact on initial application of HKFRS 15 (note 26)	-	66,580	-	-	66,580
As restated	510	66,580	39,951	11,746	118,787
Changes from financing cash flows:					
Net proceeds from nomination rights	(150)	15,300	-	-	15,150
Proceeds from non-refundable building levy	-	-	20,280	-	20,280
Proceeds from debenture	-	-	-	6,412	6,412
Refund of debenture	-	-	-	(6,167)	(6,167)
Total changes from financing cash flows	(150)	15,300	20,280	245	35,675
Other changes:					
Nomination right income (note 2)	-	(10,449)	-	-	(10,449)
Non-refundable building levy income (note 2)	-	-	(16,308)	-	(16,308)
Total other changes	(150)	(10,449)	(16,308)	-	(26,757)
At 31 August 2018 and 1 September 2018	360	71,431	43,923	11,991	127,705
Changes from financing cash flows:					
Net proceeds from nomination rights	(150)	14,050	-	-	13,900
Proceeds from non-refundable building levy	-	-	20,970	-	20,970
Proceeds from debenture	-	-	-	6,349	6,349
Refund of debenture	-	-	-	(5,712)	(5,712)
Total changes from financing cash flows	-	14,050	20,970	637	35,507
Other changes:					
Nomination right income (note 2)	-	(7,965)	-	-	(7,965)
Non-refundable building levy income (note 2)	-	-	(17,844)	-	(17,844)
Total other changes	-	(7,965)	(17,844)	-	(25,809)
At 31 August 2019	210	77,516	47,049	12,628	137,403

14 Scholarship fund and hardship allowance

Pursuant to the service agreement between the Company and the Government, the Company shall set aside a sum, which shall not be less than 10% of its total school fee income from its Private Independent Schools, to provide scholarships and other financial assistance for deserving students at such schools in each school year. During the year ended 31 August 2019, Renaissance College and Discovery College have each set aside 10% (2018: 10%) of their respective tuition fees which consists of 8% (2018: 8%) for Renaissance College and 9% (2018: 9%) for Discovery College as scholarship fund and 2% (2018: 2%) for Renaissance College and 1% (2018: 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 $29,118,000 (2018: $27,732,000 (restated – note 26)) and $20,622,000 (2018: $19,636,000 (restated – note 26)) respectively.

	2019	*2018*
	$'000	$'000
Scholarship fund		
At the beginning of the year (as previously stated)	9,255	5,144
Impact of prior year adjustment (note 26)	2,179	1,851
Addition	41,854	39,858
Utilisation	(35,819)	(35,419)
At the end of the year	17,469	11,434
Hardship allowance		
At the beginning of the year (as previously stated)	11,400	13,677
Impact of prior year adjustment (note 26)	411	349
Addition	7,886	7,510
Utilisation	(8,828)	(7,725)
Transfer	-	(2,000)
At the end of the year	10,869	11,811

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

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

15 Fees received in advance

Fees received in advance are contract liabilities in nature under HKFRS 15 and are recognised when non-refundable fee consideration is received before the Company recognises the related revenue (see note 2). In cases where the Company has an unconditional right to receive non-refundable consideration before the Company recognises the related revenue, a corresponding receivable is also recognised.

Movements in fees received in advance were as follows:

	$'000
Balance at 1 September 2017	
As previously stated	99,984
Prior year adjustment (note 26)	(27,483)
As restated	72,501
Decrease as a result of recognising revenue during the year that was included in fees received in advance at the beginning of the period	(72,501)
Increase as a result of receipts in advance of service to be rendered as at 31 August 2018	71,040
Balance at 31 August 2018 and 1 September 2018	71,040
Decrease as a result of recognising revenue during the year that was included in fees received in advance at the beginning of the period	(71,040)
Increase as a result of receipts in advance of service to be rendered as at 31 August 2019	76,316
Balance at 31 August 2019	76,316

All fees receipts in advance and will be recognised as revenue within one year from the end of the reporting period.

16 Amount due from/(to) and loan from the Foundation

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

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

17 Debenture

In August 2013, the Company introduced a debenture which is payable by parents of children joining the Company's kindergartens in August 2013 and subsequent years. The debenture is $7,000 (2018: $7,000) for each child entering one of the kindergartens for the first time from August 2013 onwards.

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

18 Non-refundable building levy

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

The Company charges non-refundable building levy to finance capital expenditures of Renaissance College and Discovery College. In the case of Renaissance College, the levy is charged as a one-time payment upon a student's acceptance of a school place. The levy is set at $50,000 (2018: $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 $7,120 (2018: $6,710) per annum for all students.

Movements in non-refundable building levy were as follows:

	2019 $'million	*2018* $'million
At the beginning of the year	43,923	39,951
Decrease as a result of recognising revenue during the year that was included in deferred income at the beginning of the period	(7,607)	(6,610)
Increase as a result of receipts in advance of service during the year	10,733	10,582
At the end of the year	47,049	43,923
Less: to be recognised within one year	(2,150)	(5,458)
After one year	44,899	38,465

19 Individual nomination rights

Accounting policy

Nomination rights are a means to gain priority on the waiting list and a school place subject to success of interview. The amount received is not refundable after the student accepts a school place offer.

19 Individual nomination rights (continued)

In prior years' financial statements, the Company recognised deposits received in respect of nomination rights as receipts in advance and transferred them to income when offers were made. The Company recognised the remaining balance from the sale of nomination rights when the rights were exercised for the acceptance of school place offers, which is generally on receipt of cash.

As set out notes 24(c) and 26, as a result of the adoption of HKFRS 15, the Company has changed its accounting policy in respect of nomination rights and now recognises revenue in equal instalments over the student's expected school life or at the time when the student leaves the school(s) within the Company. Amounts received but not yet recognised as revenue are recorded as deferred income – nomination rights. This change in policy has been applied retrospectively and comparative figures have been restated in these financial statements.

Movements in individual nomination rights were as follows:

	2019 $'000	*2018* $'000
At the beginning of the year – as previously reported		-
Impact on initial application of HKFRS 15 (note 26)		66,580
At the beginning of the year	71,431	66,580
Decrease as a result of recognising revenue during the year that was included in deferred income at the beginning of the period	(7,815)	(400)
Increase as a result of receipts in advance of service to be rendered as at the end of the period	13,900	5,251
At the end of the year	77,516	71,431

As at 31 August 2019, the aggregated amount of the transaction price allocated to the remaining performance obligations is treated as deferred income – nomination rights. This amount represents revenue expected to be recognised in the future from contracts entered into by the customers with the Company. The Company will recognise the expected revenue in future when or as the services are provided.

20 Reserves

(a) Components of the Company's reserves

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

(b) Capital fund

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

20 Reserves (contined)

During the year, the Company transferred $17,693,000 (2018: $17,007,000) from capital fund to general reserve. The transfer represented the depreciation charge of capital projects funded by the capital fund.

(c) Capital management

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

21 Financial risk management and fair values of financial instruments

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

(a) Credit risk

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

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

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

(b) Liquidity risk

The Company's policy is to regularly monitor liquidity requirements to ensure that the Company maintains sufficient reserves of cash.

All the financial liabilities, except for loan from the Foundation as disclosed in note 16, were carried at amounts not materially different from their contractual undiscounted cash flows as at 31 August 2019 and 2018 and are repayable within one year or on demand. The contractual undiscounted cash flows for loan from the Foundation repayable within 1 year, between 1 and 5 years, and after 5 years are HK$8,424,000 (2018: HK$8,424,000), HK$42,120,000 (2018: HK$42,120,000), and HK$NIL (2018: HK$8,424,000), respectively.

(c) Interest rate risk

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

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

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

	2019 Effective interest rate %	*2019* $'000	*2018* Effective interest rate %	*2018* $'000
Deposits with original maturities over three months	0.45%	3,700	1.40%	94,923
Restricted cash	0.01%	2,733	0.01%	2,733
Cash and cash equivalents	0.98%	219,280	0.01%	75,807
Loan from the Foundation	4.64%	(44,041)	4.21%	(51,000)
		181,672		122,463

(ii) Sensitivity analysis

At 31 August 2019, it is estimated that a general increase/decrease of 100 basis points (2018: 100 basis points) in interest rates, with all other variables held constant, would have increased/decreased the Company's surplus and total comprehensive income for the year by approximately $1,817,000 (2018: $1,225,000). Other components of reserves would not be affected (2018: nil) by the changes in interest rates.

The sensitivity analysis above indicates the annualised impact on the Company's net interest income that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to those floating rate instruments which expose the Company to cash flow interest rate risk at that date. The Company performs the analysis on the same basis for 2018.

(d) Fair value measurement

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

22 Commitments

(a) The Company has certain capital commitments relating mainly to the renovation of the schools. Capital commitments outstanding at 31 August 2019 not provided for in these financial statements were as follows:

	2019 $'000	*2018* $'000
Contracted for	351	2,469
Authorised but not contracted for	1,500	6,745
	1,851	9,214

22 Commitments (continued)

(b) At 31 August 2019, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2019 $'000	*2018* $'000
Within one year	18,755	15,269
Between one and five years	47,837	30,581
After five years	8,775	7,875
	75,367	53,725

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

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

23 Material related party transactions

Accounting policy

(a) A person, or a close member of that person's family, is related to the Company if that person:

(i) has control or joint control over the Company;

(ii) has significant influence over the Company; or

(iii) is a member of the key management personnel of the Company or the Company's parent.

(b) An entity is related to the Company if any of the following conditions applies:

(i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company.

23 Material related party transactions (continued)

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

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

	2019 $'000	*2018* $'000
Fees in respect of management and administration services provided by the Foundation	18,930	15,401
School premises rental expense paid to the Foundation	10,063	11,532
Teaching and support staff salaries charged to the Foundation for extra-curricular programs	432	308
Teaching and support staff salaries charged by the Foundation for operation of kindergartens	2,307	2,106
Fees paid to the Foundation under the Development and Operating Agreement ("DOA")	21,993	21,993
Staff education allowance paid to the Foundation	3,876	2,628
Staff education allowance received from the Foundation	(2,156)	(2,147)
Course fees in respect of staff professional development provided by the Foundation	448	308
Interest expense paid to the Foundation	1,465	1,204

Cumulative fees paid to the Foundation under the DOA up to 31 August 2019 are $223,143,000 (2018: $201,150,000).

23 Material related party transactions (continued)

(b) Key management personnel remuneration

Remuneration for key management personnel is as follows:

	2019 $'000	2018 $'000
Salaries, allowances and benefits in kind	-	1,766
Retirement plans contributions	-	2
	-	1,768

There was no key management personnel for the year ended 31 August 2019 (2018: one). Total remuneration is included in staff expenses (see note 3(a)).

24 Other significant accounting policies

(a) Statement of compliance

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

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Company. Note 24(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Company for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

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

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

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

24 Other significant accounting policies (continued)

Judgements made by the management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are disclosed in note 25.

(c) *Changes in accounting policies*

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Company. Of these, the following developments are relevant to the Company's financial statements:

(i) HKFRS 9, *Financial instruments*

(ii) HKFRS 15, *Revenue from contracts with customers*

The Company has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 29).

(i) HKFRS 9, *Financial instruments*

HKFRS 9 replaces HKAS 39, Financial instruments: recognition and measurement. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items and introduces the expected credit loss model to replace the incurred loss model under HKAS 39.

There is no material impact on the Company's financial statements arising upon the adoption of HKFRS 9.

(ii) HKFRS 15, *Revenue from contracts with customers*

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, Revenue, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, Construction contracts, which specified the accounting for construction contracts.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

Further details of the nature and effect of the changes arising from the adoption of HKFRS 15 on the Company's previous accounting policies are set out below:

a. Timing of revenue recognition

Previously, revenue arising from provision of services was generally recognised over time, whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

24 Other significant accounting policies (continued)

A. When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

B. When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

C. When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15, the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed.

The adoption of HKFRS 15 does not have a significant impact on when the Company recognises revenue relating to tuition fees. However, the timing of revenue recognition of the Company's individual nomination rights has been affected.

In prior years' financial statements, the Company recognised deposits received in respect of individual nomination rights as receipts in advance and transferred them to income when offers were made. The Company recognised the remaining balance from the sale of individual nomination rights when the rights were exercised for the acceptance of school place offers, which is generally on receipt of cash.

As a result of HKFRS 15, the Company has changed its accounting policy in respect of individual nomination rights and now recognises these in equal instalments over the student's expected school life or at the time when the student leaves the school(s) within the Company. Amounts received but not yet recognized as revenue are recorded as deferred income – individual nomination rights. This change in policy has been applied retrospectively and comparative figures have been restated in these financial statements.

b. Presentation of contract assets and liabilities

Under HKFRS 15, a receivable is recognised only if the Company has an unconditional right to consideration. If the Company recognises the related revenue (see note 2) before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays non-refundable consideration, or is contractually required to pay non-refundable consideration and the amount is already due, before the Company recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. The Company presents contract liabilities as fees received in advance and deferred income – individual nomination rights in the statement of financial position. At 1 September 2018 and 31 August 2019, the Company did not have any material contract assets.

24 Other significant accounting policies (continued)

The Company has elected to use the retrospective method upon transition and has applied HKFRS 15 retrospectively to each of the prior reporting periods presented in these consolidated financial statements. Therefore, comparative information has been restated to be reported under HKFRS 15. Refer to note 26 for more details.

(d) Government grants

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

(e) Impairment of properties, plant and equipment

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

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

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

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

(f) Operating lease charges

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

(g) Inventories

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

24 Other significant accounting policies (continued)

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

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

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

(h) Creditors and accruals

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

(i) Employee benefits

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

(ii) The Company recognises as expense obligations for contributions to the Mandatory Provident Fund as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance as incurred.

(j) Functional and presentation currency

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

25 Accounting estimates and judgements

The key source of estimation uncertainty is with respect to the useful lives and impairment of properties, plant and equipment. The Company has significant properties, plant and equipment and is required to estimate the useful lives of these assets in order to ascertain the amount of depreciation charge for each reporting period. The useful lives are estimated at the time of purchase of these assets and each year the Company reviews the appropriateness of the estimated useful lives. The Company's assessment takes into account any unexpected adverse changes in circumstances or events such as declines in projected results and changes in the operating environment. The Company extends or shortens the useful lives and/or makes impairment provisions based on the assessment. At the end of each reporting period, the Company reviews whether there are any indications of impairment and will recognise an impairment loss if the carrying amount of an asset is higher than its recoverable amount. The sources utilised to identify indications of impairment are often subjective in nature and the Company has to use judgement in applying such information to its operations. The Company's interpretation of this information has a direct impact on whether an impairment assessment is performed as at any given period end date. If an indication of impairment is identified, such information is further subjected to an exercise that requires the Company to estimate the recoverable value, which is the greater of the asset's fair value less costs of disposal and its value in use. The Company has to make assumptions to make this assessment, including the utilisation of such assets, the cash flows to be generated, appropriate discount rates, etc. Changes in any of these assumptions could result in a material change in future estimates of the recoverable value of any asset.

26 Comparative figures

The comparative information presented in the Company's financial statements for the year ended 31 August 2018 has been restated to reflect (i) adjustments arising from the transition to HKFRS 15 and (ii) an adjustment in recognising tuition fees at the Company's year end.

(a) Transition to HKFRS 15

As set out in note 24(c)(ii), revenue from individual nomination rights (INR) was previously recognised upon the offer and/or acceptance of school places. Following the adoption of HKFRS 15, such revenue is now recognised over the student's expected school life. As permitted by HKFRS 15, this change in accounting policy has been applied retrospectively.

(b) Time apportionment of tuition fees

The Company's financial year starts on 1 September while its academic year starts in August. Previously, fees relating to education services provided in August were deferred and recognised in September in order to align the Company's academic year with its financial year, and as management considered that the year on year impact of this timing difference was not material.

In view of the increasing number of school days in August and in conjunction with the Company's transition to HKFRS 15, the Company has revisited its previous practice and decided to recognise school fees according to the actual month in which the services are provided. The Company has restated the information relating to the year ended 31 August 2018 to reflect this change.

26 Comparative figures (continued)

(i) Effect on the statement of financial position as at 31 August 2018

	As previously reported $'000	*Impact on initial application of HKFRS 15 – INR* $'000	*Impact on adjustment on tuition fees income* $'000	*As restated* $'000
Non-current assets	198,830	-	-	198,830
Current assets	191,003	-	-	191,003
Scholarship fund	9,255	-	2,179	11,434
Hardship allowance	11,400	-	411	11,811
Fees received in advance	103,190	-	(32,150)	71,040
Deferred income				
- Nomination rights	-	8,315	-	8,315
Other current liabilities	93,463	-	-	93,463
Current liabilities	217,308	8,315	(29,560)	196,063
Total assets less current liabilities	172,525	(8,315)	29,560	193,770
Deferred income				
- Nomination rights	-	63,116	-	63,116
Other non-current liabilities	87,887	-	-	87,887
Non-current liabilities	87,887	63,116	-	151,003
Net assets	84,638	(71,431)	29,560	42,767
Capital fund	131,581	(71,431)	-	60,150
Accumulated fund deficit	(46,943)	-	29,560	(17,383)
Reserves	84,638	(71,431)	29,560	42,767

(ii) Effect on the statement of comprehensive income for the year ended 31 August 2018

	As previously reported $'million	*Impact on initial application of HKFRS 15 – INR* $'million	*Impact on adjustment on tuition fees income* $'million	*As restated* $'million
Operating income	686,495	-	4,667	691,162
Non-operating income	31,608	(4,851)	-	26,757
Total income	718,103	(4,851)	4,667	717,919
Scholarship fund and hardship allowance	46,978	-	390	47,368
Other expenses	638,807	-	-	638,807
Total expenses	685,785	-	390	686,175
Surplus and total comprehensive for the year	32,318	(4,851)	4,277	31,744

27 Immediate and ultimate controlling entity

At 31 August 2019, the directors consider the immediate parent and ultimate controlling entity of the Company to be The English Schools Foundation, which is incorporated in Hong Kong. The parent of the Company produces consolidated financial statements in accordance with HKFRSs which are available at https://www.esf.edu.hk/accounts-and-annual-reports/.

28 Possible impact of amendments to standards, new standards and interpretations to standards issued but not yet effective for the year ended 31 August 2019

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 August 2019 and which have not been adopted in these financial statements. These include the following which may be relevant to the Company.

	Effective for accounting periods beginning on or after
HKFRS 16, *Leases*	1 January 2019

HKFRS 16, *Leases*

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

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

The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of comprehensive income over the period of the lease. As disclosed in note 22(b), at 31 August 2019 the Company's future minimum lease payments under non-cancellable operating leases amount to $75,367,000 (2018: $53,725,000) for properties, the majority of which is payable either between 1 and 5 years after the reporting date or in more than 5 years. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The Company will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

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

KPMG

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

(Incorporated in Hong Kong and limited by guarantee)

Opinion

We have audited the financial statements of ESF Educational Services Limited ("the Company") set out on pages 3 to 36, which comprise the statement of financial position as at 31 August 2019, the statement of comprehensive income, the statement of changes in reserves and the cash flow statement for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 August 2019 and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

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

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

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

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

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

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

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

(Incorporated in Hong Kong and limited by guarantee)

Responsibilities of the directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

KPMG

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

(Incorporated in Hong Kong and limited by guarantee)

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

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
09 DEC 2019