KPMG

The English Schools Foundation

英基學校協會

Consolidated Financial Statements
for the year ended 31 August 2020

Report of the Board of Governors

The Board of Governors ("the Board") has pleasure in submitting its annual report together with the audited consolidated financial statements for the year ended 31 August 2020.

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 10, 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 2020 and the state of the Group's affairs as at that date are set out in the consolidated financial statements on pages 4 to 65.

Transfer to reserves

The Group has transferred the surplus for the year of HK$154.0 million (2019: HK$241.2 million) to reserves.

At 31 August 2020, the Group's reserves amounted to HK$2,282.6 million (2019: HK$2,120.9 million), being the excess of assets over liabilities. The Group sets out details of the reserves in note 26 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, other properties leased for own use, construction in progress and investment properties. At 31 August 2020, the net book value of the fixed assets was HK$1,974.6 million (2019: HK$1,910.7 million) and the depreciation charge for the year then ended was HK$235.7 million (2019: HK$208.7 million); see note 6 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)	
Samuel Houston (Treasurer)	
Alec Tong	
Benny Ng	
Dayna Lim Cheung	
Denise Kee	
George Tibbetts	
Gregory Lo	
Neville Shroff	
Sean Wray	
Shareen Hellen	
Tom Patton	
York Chow	
Andrew Nowak-Solinski	(elected by the School Council Chairmen on 23 March 2020)
Anne Choi	(nominated by the Nominating Committee on 23 March 2020)
Fatema Jangbarwala	(elected by the Committee of Parents on 13 October 2020)
Jodie Coutts	(elected by parents of students of schools of the Foundation, Renaissance College and Discovery College on 9 December 2019)
Mary Schaus	(elected by parents of students of schools of the Foundation, Renaissance College and Discovery College on 16 October 2020)
Neill O'Reilly	(elected by the Committee of Principals on 14 August 2020)
Nick Phillips	(elected by the School Council Chairmen on 9 December 2019)
Peter Bennett	(elected by parents of students of schools of the Foundation, Renaissance College and Discovery College on 9 December 2019)
Pingyang Gao	(elected by parents of students of schools of the Foundation, Renaissance College and Discovery College on 16 October 2020)
Christine Meaney	(resigned on 12 October 2020)
Craig Sanderson	(resigned on 15 October 2020)
Francis Carroll	(retired on 25 November 2019)
Harry Brown	(resigned on 13 August 2020)

Members of the Board (continued)

Kumar Ramanathan	(retired on 27 October 2020)
Marcos Bertamini	(resigned on 15 October 2020)
Mike Hudson	(resigned on 15 October 2020)
Nirmala Rao	(retired on 16 January 2020)
Paul Anderson	(resigned on 12 October 2020)
Virginia Morris	(retired on 31 December 2019)
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 or her 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.

Indemnity of members

A permitted indemnity provision (as defined in section 22 of the English Schools Foundation Ordinance) for the benefit of the members of the Foundation is currently in force and was in force throughout this year.

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,
07 DEC 2020

Statement of comprehensive income for the year ended 31 August 2020

(Expressed in Hong Kong dollars)

	Note	The Group 2020 $'million	The Group 2019 (Note) $'million	The Foundation 2020 $'million	The Foundation 2019 (Note) $'million
Income	2				
Operating income		2,574.0	2,611.2	1,924.9	1,933.4
Non-operating income		102.6	78.8	68.8	53.0
		2,676.6	2,690.0	1,993.7	1,986.4
Expenditure					
Staff expenses					
Basic salaries					
- Professional		1,037.9	1,042.2	769.5	766.4
- Other staff		354.5	358.0	264.9	266.3
Gratuities and allowances		432.1	408.1	318.8	298.2
Accommodation		26.3	28.9	26.3	28.9
Medical expenses		60.0	47.0	44.3	34.8
Passage		1.8	2.2	1.5	1.8
	3(a)	1,912.6	1,886.4	1,425.3	1,396.4
Other expenses					
Depreciation on schools and offices		234.5	208.2	199.8	184.8
Repairs and maintenance		122.0	106.3	106.0	86.5
Other operating expenses	4	167.1	195.9	111.6	125.2
Scholarship fund and hardship allowance	18	86.4	52.0	34.0	2.4
		610.0	562.4	451.4	398.9
Total expenses		2,522.6	2,448.8	1,876.7	1,795.3
Surplus for the year	3	154.0	241.2	117.0	191.1

Statement of comprehensive income for the year ended 31 August 2020 (continued)

(Expressed in Hong Kong dollars)

	Note	*The Group* 2020	2019	*The Foundation* 2020	2019
			(Note)		(Note)
		$'million	$'million	$'million	$'million
Surplus for the year		154.0	241.2	117.0	191.1
Other comprehensive income for the year					
Item that will not be reclassified to surplus or deficit:					
Remeasurement of net defined benefit scheme assets	7(b)(v)	7.7	(3.8)	7.7	(3.8)
Total comprehensive income for the year		161.7	237.4	124.7	187.3
Represented by:					
Operating surplus		59.1	158.6	55.9	134.3
Capital fund surplus		102.6	78.8	68.8	53.0
		161.7	237.4	124.7	187.3

Note: The Group has initially applied HKFRS 16 at 1 September 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 30(b).

The notes on pages 13 to 65 form part of these financial statements.

Statement of financial position as at 31 August 2020

(Expressed in Hong Kong dollars)

	Note	The Group 2020 $'million	The Group 2019 (Note) $'million	The Foundation 2020 $'million	The Foundation 2019 (Note) $'million
Non-current assets					
Fixed assets	6				
- Investment properties		52.6	60.8	52.6	60.8
- Other properties, plant and equipment		1,922.0	1,849.9	1,686.6	1,661.6
		1,974.6	1,910.7	1,739.2	1,722.4
Defined benefit retirement scheme	7	43.3	37.9	43.3	37.9
Loan to subsidiary	10	-	-	29.2	37.0
		2,017.9	1,948.6	1,811.7	1,797.3
Current assets	8				
Non-current assets held for sale	13	0.3	-	0.3	-
Inventories		1.0	0.9	-	-
Rental, utility deposits		13.3	12.9	7.8	7.6
Prepayments		22.4	20.5	12.3	12.7
Loans to staff		5.8	5.4	4.7	3.9
Fees and other receivables	9	34.3	44.5	33.4	43.4
Government grants receivable		26.5	28.2	26.7	28.2
Amount due from subsidiary	10	-	-	1.5	-
Loan to subsidiary	10	-	-	7.5	7.0
Restricted cash	11	2.9	2.7	-	-
Deposits with original maturities over three months		869.3	942.3	856.6	938.6
Cash and cash equivalents	12	736.1	416.9	442.3	197.6
		1,711.9	1,474.3	1,393.1	1,239.0

Statement of financial position as at 31 August 2020 (continued)

(Expressed in Hong Kong dollars)

	Note	The Group 2020	2019 (Note)	The Foundation 2020	2019 (Note)
		$'million	$'million	$'million	$'million
Current liabilities	8				
Fees received in advance	14	138.8	138.8	71.7	62.4
Nomination rights received in advance	24	7.6	7.6	7.2	7.4
Amount due to subsidiary		-	-	-	1.4
Provision to meet staff conditions of service	15	117.2	119.0	90.4	91.1
Accounts payables and accruals	16	328.0	291.6	331.5	313.4
Scholarship fund and hardship allowance	18	78.7	57.2	49.3	28.9
Lease liabilities	19	20.7	0.7	7.0	0.7
Refundable capital levy	20	16.0	17.2	16.0	17.2
Debenture	21	9.6	7.1	-	-
Deferred income					
- Non-refundable building levy	22	6.6	6.2	-	-
- Non-refundable capital levy	23	20.3	18.0	20.3	18.0
- Individual nomination rights	24	30.9	27.9	20.8	19.4
- Corporate nomination rights	25	1.8	1.7	1.8	1.7
		776.2	693.0	616.0	561.6
Net current assets		935.7	781.3	777.1	677.4
Total assets less current liabilities		2,953.6	2,729.9	2,588.8	2,474.7

Statement of financial position as at 31 August 2020 (continued)

(Expressed in Hong Kong dollars)

	Note	The Group 2020 $'million	The Group 2019 (Note) $'million	The Foundation 2020 $'million	The Foundation 2019 (Note) $'million
Non-current liabilities					
Lease liabilities	19	24.7	1.1	1.5	1.1
Refundable capital levy	20	92.1	118.9	92.1	118.9
Debenture	21	54.3	5.5	-	-
Deferred income					
- Non-refundable building levy	22	41.2	40.9	-	-
- Non-refundable capital levy	23	212.3	192.9	212.3	192.9
- Individual nomination rights	24	210.1	211.6	140.7	142.5
- Corporate nomination rights	25	36.3	38.1	36.3	38.1
		671.0	609.0	482.9	493.5
NET ASSETS		2,282.6	2,120.9	2,105.9	1,981.2
RESERVES	26				
General reserve		407.0	370.6	312.8	299.2
Capital fund		91.8	68.3	9.3	-
Building reserve		1,551.9	1,467.9	1,551.9	1,467.9
Schools reserves		231.9	214.1	231.9	214.1
		2,282.6	2,120.9	2,105.9	1,981.2

Note: The Group has initially applied HKFRS 16 at 1 September 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 30(b).

Approved and authorised for issue by the Board of Governors on 07 DEC 2020

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The notes on pages 13 to 65 form part of these financial statements.

Statement of changes in reserves for the year ended 31 August 2020

(Expressed in Hong Kong dollars)

The Group

	General reserve	Capital fund (note 26(a))	Building reserve (note 26(b))	Schools reserves (note 26(c))	Total
	$'million	$'million	$'million	$'million	$'million
At 1 September 2018	315.5	60.2	1,317.0	190.8	1,883.5
Surplus for the year	114.3	78.8	-	48.1	241.2
Transfers	(55.4)	(70.7)	150.9	(24.8)	-
Other comprehensive income	(3.8)	-	-	-	(3.8)
Total comprehensive income	55.1	8.1	150.9	23.3	237.4
At 31 August 2019 and 1 September 2019	370.6	68.3	1,467.9	214.1	2,120.9
Surplus for the year	13.2	102.6	-	38.2	154.0
Transfers	15.5	(79.1)	84.0	(20.4)	-
Other comprehensive income	7.7	-	-	-	7.7
Total comprehensive income	36.4	23.5	84.0	17.8	161.7
At 31 August 2020	407.0	91.8	1,551.9	231.9	2,282.6

Statement of changes in reserves for the year ended 31 August 2020 (continued)

(Expressed in Hong Kong dollars)

The Foundation

	General reserve	*Capital fund* (note 26(a))	*Building reserve* (note 26(b))	*Schools reserves* (note 26(c))	*Total*
	$'million	$'million	$'million	$'million	$'million
At 1 September 2018	286.1	-	1,317.0	190.8	1,793.9
Surplus for the year	90.0	53.0	-	48.1	191.1
Transfers	(73.1)	(53.0)	150.9	(24.8)	-
Other comprehensive income	(3.8)	-	-	-	(3.8)
Total comprehensive income	13.1	-	150.9	23.3	187.3
At 31 August 2019 and 1 September 2019	299.2	-	1,467.9	214.1	1,981.2
Surplus for the year	10.0	68.8	-	38.2	117.0
Transfers	(4.1)	(59.5)	84.0	(20.4)	-
Other comprehensive income	7.7	-	-	-	7.7
Total comprehensive income	13.6	9.3	84.0	17.8	124.7
At 31 August 2020	312.8	9.3	1,551.9	231.9	2,105.9

Note: The Group has initially applied HKFRS 16 at 1 September 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 30(b).

The notes on pages 13 to 65 form part of these financial statements.

Cash flow statement
for the year ended 31 August 2020
(Expressed in Hong Kong dollars)

	Note	*The Group* 2020 $'million	*The Group* 2019 (Note) $'million	*The Foundation* 2020 $'million	*The Foundation* 2019 (Note) $'million
Operating activities					
Net cash generated from operating activities	12(b)	292.1	374.7	270.9	331.4
Investing activities					
Payments for the purchase of fixed assets less capital creditors		(202.3)	(167.4)	(193.7)	(146.5)
Decrease/(increase) in bank deposits with original maturities over three months		73.0	(223.5)	82.0	(314.7)
Increase in deposits pledged with bank		(0.2)	-	-	-
Interest received		31.8	26.0	29.7	24.8
Repayment from subsidiary		-	-	7.3	7.0
Net cash used in investing activities		(97.7)	(364.9)	(74.7)	(429.4)

Cash flow statement for the year ended 31 August 2020 (continued)

(Expressed in Hong Kong dollars)

	Note	*The Group* 2020 $'million	*The Group* 2019 (Note) $'million	*The Foundation* 2020 $'million	*The Foundation* 2019 (Note) $'million
Financing activities					
Decrease in refundable capital levy	12(c)	(28.0)	(29.2)	(28.0)	(29.2)
Proceeds from issue of nomination rights	12(c)	43.6	42.5	27.9	28.4
Proceeds from non-refundable building levy	12(c)	20.9	21.0	-	-
Proceeds from non-refundable capital levy	12(c)	60.3	59.5	60.3	59.5
Proceeds from issuance of debenture	12(c)	51.3	0.6	-	-
Capital element of lease rentals paid	12(c)	(21.4)	(0.8)	(11.1)	(0.8)
Interest element of lease rentals paid	12(c)	(1.9)	(0.2)	(0.6)	(0.2)
Net cash generated from financing activities		124.8	93.4	48.5	57.7
Net increase/(decrease) in cash and cash equivalents		319.2	103.2	244.7	(40.3)
Cash and cash equivalents at the beginning of the year		416.9	313.7	197.6	237.9
Cash and cash equivalents at the end of the year	12(a)	736.1	416.9	442.3	197.6

Note: The Group has initially applied HKFRS 16 at 1 September 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 30(b).

The notes on pages 13 to 65 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 10 to the financial statements.

2 Income

Accounting policy

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

The Group 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 Group is expected to be entitled, excluding those amounts collected on behalf of third parties.

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

(i) Tuition fees

The Group recognises tuition fees when an education service is provided.

The Group classifies tuition fees received in advance 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.

2 Income (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.

2 Income (continued)

	The Group		*The Foundation*	
	2020	*2019*	*2020*	*2019*
	$'million	$'million	$'million	$'million
Operating income				
Revenue from contracts with customers within the scope of HKFRS 15				
Recognised at a point in time				
- Application fee income	12.5	12.5	8.9	8.7
- Miscellaneous income	19.8	18.7	6.7	8.1
	32.3	31.2	15.6	16.8
Recognised over time				
- Tuition fees	2,262.9	2,148.1	1,609.4	1,528.0
- COVID-19 related relief grant to parents	(96.2)	-	(69.6)	-
- Programme income	27.9	64.4	-	-
- Income from subsidiary	-	-	29.4	25.2
	2,194.6	2,212.5	1,569.2	1,553.2
Revenue from other sources				
- Government grants	207.0	221.3	206.1	221.3
- Rental income	95.8	110.6	98.0	109.2
- Donations	7.6	9.6	6.3	8.1
- Interest income	31.8	26.0	29.7	24.8
- Transfer from previous year's scholarship fund and hardship allowance surplus	4.9	-	-	-
	347.1	367.5	340.1	363.4
Total operating income	2,574.0	2,611.2	1,924.9	1,933.4
Non-operating income				
Revenue from contracts with customers within the scope of HKFRS 15 recognised over time				
- Individual nomination rights	42.1	32.5	28.5	24.5
- Corporate nomination rights	1.7	1.8	1.7	1.8
- Non-refundable building levy	20.2	17.8	-	-
- Non-refundable capital levy	38.6	26.7	38.6	26.7
Total non-operating income	102.6	78.8	68.8	53.0

3 Surplus for the year

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

	Note	The Group 2020 $'million	The Group 2019 $'million	The Foundation 2020 $'million	The Foundation 2019 $'million
(a) Staff costs					
Contribution to defined contribution retirement schemes		39.4	38.4	29.2	28.2
Net defined benefit retirement scheme expenses	7(b)(v)	2.3	2.2	2.3	2.2
Retirement costs		41.7	40.6	31.5	30.4
Salaries, wages and other benefits		1,937.7	1,845.8	1,444.3	1,366.0
Subsidies provided by Government (Note)	17	(66.8)	-	(50.5)	-
		1,912.6	1,886.4	1,425.3	1,396.4

Note: In 2020, the Group successfully applied for funding support from the Employment Support Scheme under the Anti-epidemic Fund, set up by the Government. The purpose of the funding is to provide financial support to enterprises to retain their employees who would otherwise be made redundant. Under the terms of the grant, the Group is required not to make redundancies during the subsidy period and to spend all the funding on paying wages to the employees.

	Note	The Group 2020 $'million	The Group 2019 $'million	The Foundation 2020 $'million	The Foundation 2019 $'million
(b) Other items					
Gross rental income from investment properties		(56.9)	(59.9)	(56.9)	(59.9)
Direct rental outgoings in respect of:					
- investment properties under operating leases		29.1	27.0	29.1	27.0
- vacant investment properties		3.2	1.3	3.2	1.3
Depreciation	6				
- owned property, plant and equipment		214.8	208.1	190.1	184.7
- right-of-use assets		20.9	0.6	10.9	0.6
Loss on disposals of fixed assets		1.1	3.6	1.0	2.0

Note: The Group has initially applied HKFRS 16 at 1 September 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 30(b).

4 Other operating expenses

	Note	The Group 2020 $'million	The Group 2019 $'million	The Foundation 2020 $'million	The Foundation 2019 $'million
Audit fees		1.5	1.3	1.2	1.0
Cost of goods sold		0.7	1.3	-	-
Interest on lease liabilities		1.9	0.2	0.6	0.2
Impairment loss of fees and other receivables		9.6	0.6	7.0	0.3
Information technology expenses		22.4	21.1	16.7	15.8
Insurance		7.7	5.3	5.2	3.4
Leased equipment rentals		0.1	-	0.1	-
Legal and professional fees		10.5	7.0	7.3	5.5
Library		2.3	2.3	1.2	1.4
Net government rent and rates	17(b)	1.3	2.4	0.4	1.4
Professional development and training		17.1	20.7	14.7	17.7
Property rentals:					
- minimum lease payments		4.7	25.0	0.5	11.4
- contingent rentals		0.2	1.5	-	-
Property management fee		4.0	3.9	2.0	1.9
Public relations and marketing expenses		6.4	9.6	3.8	6.1
Printing and stationery		4.1	5.4	3.2	4.0
Recruitment expenses		3.6	4.9	2.7	4.0
Teaching resources and materials		25.9	35.2	16.4	20.4
Utilities		20.7	26.9	13.8	18.5
General expenses		22.4	21.3	14.8	12.2
		167.1	195.9	111.6	125.2

5 Taxation

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

6 Fixed assets

Accounting policy

(i) Group owned property, plant and equipment

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.

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.

(ii) Leased assets

(a) As a lessee

Policy applicable from 1 September 2019

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to the statement of comprehensive income in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses following the Group's policy relating to owned assets.

6 Fixed assets (continued)

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in 'other property, plant and equipment' and presents lease liabilities separately in the statement of financial position.

Policy applicable prior to 1 September 2019

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. The Group accounts for impairment losses in accordance with the accounting policy as set out in note 30(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.

(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.

6 Fixed assets (continued)

(b) As a lessor

Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying asset to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised in accordance with note 2(iv).

(iii) Subsequent measurement

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
- Other properties leased for own use	Over the unexpired term of the lease

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.

6 Fixed assets (continued)

(a) The Group

	Buildings and building improvements				Furniture and equipment							
	Foundation's Schools $'million	Renaissance College & Discovery College $'million	Quarters & others $'million	Leasehold improvements $'million	Foundation's Schools $'million	Renaissance College & Discovery College $'million	Quarters and others*** $'million	Other properties leased for own use $'million Note 6(g)	Construction in progress $'million	Sub-total $'million	Investment properties $'million	Total $'million
Cost:												
At 31 August 2019	2,347.3	718.6	86.7	150.5	494.2	109.9	67.9	-	119.5	4,094.6	261.5	4,356.1
Impact on initial application of HKFRS 16 (Note)	-	-	-	-	-	1.2	-	46.5	-	47.7	-	47.7
At 1 September 2019	2,347.3	718.6	86.7	150.5	494.2	109.9	67.9	46.5	119.5	4,142.3	261.5	4,403.8
Additions	51.6	4.0	5.9	0.8	29.2	7.7	7.9	15.1	131.1	253.3	1.5	254.8
Transfers of construction in progress	12.5	1.0	-	-	9.8	0.8	10.1	-	(34.2)	-	-	-
Transfer to asset held for sale	-	-	-	-	-	-	-	-	-	-	(2.0)	(2.0)
Disposals/adjustments*	(5.0)	-	-	-	(13.5)	(1.9)	(1.8)	-	(0.2)	(22.4)	-	(22.4)
At 31 August 2020	2,406.4	723.6	92.6	151.3	519.7	117.7	84.1	61.6	216.2	4,373.2	261.0	4,634.2
Government grants:												
At 1 September 2019 and 31 August 2020	(267.2)	(328.7)	(45.5)	-	-	-	-		-	(641.4)	-	(641.4)
Accumulated depreciation:												
At 1 September 2019	(980.4)	(110.5)	(31.4)	(73.7)	(288.2)	(69.3)	(49.8)	-	-	(1,603.3)	(200.7)	(1,804.0)
Charge for the year**	(94.1)	(12.0)	(1.0)	(26.9)	(54.1)	(12.1)	(6.9)	(19.2)	-	(226.3)	(9.4)	(235.7)
Transfer to asset held for sale	-	-	-	-	-	-	-	-	-	-	1.7	1.7
Write-back on disposals	3.0	-	-	-	13.5	1.8	1.5	-	-	19.8	-	19.8
At 31 August 2020	(1,071.5)	(122.5)	(32.4)	(100.6)	(328.8)	(79.6)	(55.2)	(19.2)	-	(1,809.8)	(208.4)	(2,018.2)
Net book value:												
At 31 August 2020	1,067.7	272.4	14.7	50.7	190.9	38.1	28.9	42.4	216.2	1,922.0	52.6	1,974.6

6 Fixed assets (continued)

	Buildings and building improvements				*Furniture and equipment*						
	Foundation's Schools $'million	*Renaissance College & Discovery College* $'million	*Quarters & others* $'million	*Leasehold improvements* $'million	*Foundation's Schools* $'million	*Renaissance College & Discovery College* $'million	*Quarters and others**** $'million	*Construction in progress* $'million	*Sub-total* $'million	*Investment properties* $'million	*Total* $'million
Cost:											
At 1 September 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
Additions	47.0	-	3.9	3.2	22.2	11.7	6.4	67.5	161.9	-	161.9
Transfers of construction in progress	33.4	-	0.5	-	1.5	1.6	0.5	(43.6)	(6.1)	6.1	-
Disposals/adjustments*	(6.2)	(0.8)	-	(12.3)	(11.4)	(8.2)	(2.7)	-	(41.6)	-	(41.6)
At 31 August 2019	2,347.3	718.6	86.7	150.5	494.2	109.9	67.9	119.5	4,094.6	261.5	4,356.1
Government grants:											
At 1 September 2018	(239.0)	(328.7)	(45.5)	-	-	-	-	-	(613.2)	-	(613.2)
Additions	(28.2)	-	-	-	-	-	-	-	(28.2)	-	(28.2)
At 31 August 2019	(267.2)	(328.7)	(45.5)	-	-	-	-	-	(641.4)	-	(641.4)
Accumulated depreciation:											
At 1 September 2018	(894.2)	(98.8)	(30.8)	(54.6)	(246.5)	(66.4)	(46.4)	-	(1,437.7)	(191.1)	(1,628.8)
Charge for the year**	(91.5)	(12.0)	(0.6)	(27.0)	(52.0)	(10.0)	(6.0)	-	(199.1)	(9.6)	(208.7)
Write-back on disposals	5.3	0.3	-	7.9	10.3	7.1	2.6	-	33.5	-	33.5
At 31 August 2019	(980.4)	(110.5)	(31.4)	(73.7)	(288.2)	(69.3)	(49.8)	-	(1,603.3)	(200.7)	(1,804.0)
Net book value:											
At 31 August 2019	1,099.7	279.4	9.8	76.8	206.0	40.6	18.1	119.5	1,849.9	60.8	1,910.7

* 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 2020 was $1.2 million (2019: $0.5 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.

Note: The Group has initially applied HKFRS 16 at 1 September 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 30(b).

6 Fixed assets (continued)

(b) The Foundation

	Buildings and building improvements				*Furniture and equipment*							
	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	*Other properties leased for own use* $'million Note 6(g)	*Construction in progress* $'million	*Sub-total* $'million	*Investment properties* $'million	*Total* $'million
Cost:												
At 31 August 2019	2,347.3	236.7	86.7	103.7	494.2	35.7	49.8	-	118.4	3,472.5	261.5	3,734.0
Impact on initial application of HKFRS 16 (Note)	-	-	-	-	-	-	-	16.2	-	16.2	-	16.2
At 1 September 2019	2,347.3	236.7	86.7	103.7	494.2	35.7	49.8	16.2	118.4	3,488.7	261.5	3,750.2
Additions	51.6	-	5.9	-	29.2	-	6.0	0.1	110.2	203.0	1.5	204.5
Transfers of construction in progress	12.5	-	-	-	9.8	-	-	-	(22.3)	-	-	-
Transfer to asset held for sale	-	-	-	-	-	-	-	-	-	-	(2.0)	(2.0)
Disposals/adjustments*	(5.0)	-	-	-	(13.5)	(0.6)	(1.5)	-	(0.2)	(20.8)	-	(20.8)
At 31 August 2020	2,406.4	236.7	92.6	103.7	519.7	35.1	54.3	16.3	206.1	3,670.9	261.0	3,931.9
Government grants:												
At 1 September 2019 and 31 August 2020	(267.2)	-	(45.5)	-	-	-	-	-	-	(312.7)	-	(312.7)
Accumulated depreciation:												
At 1 September 2019	(980.4)	(84.1)	(31.4)	(39.6)	(288.2)	(35.5)	(39.0)	-	-	(1,498.2)	(200.7)	(1,698.9)
Charge for the year**	(94.1)	(4.4)	(1.0)	(23.5)	(54.1)	(0.1)	(4.7)	(9.7)	-	(191.6)	(9.4)	(201.0)
Transfer to asset held for sale	-	-	-	-	-	-	-	-	-	-	1.7	1.7
Write-back on disposals	3.0	-	-	-	13.5	0.6	1.1	-	-	18.2	-	18.2
At 31 August 2020	(1,071.5)	(88.5)	(32.4)	(63.1)	(328.8)	(35.0)	(42.6)	(9.7)	-	(1,671.6)	(208.4)	(1,880.0)
Net book value:												
At 31 August 2020	1,067.7	148.2	14.7	40.6	190.9	0.1	11.7	6.6	206.1	1,686.6	52.6	1,739.2

6 Fixed assets (continued)

	Buildings and building improvements				Furniture and equipment						
	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	Sub-total $'million	Investment properties $'million	Total $'million
Cost:											
At 1 September 2018	2,273.1	425.6	82.3	110.6	481.9	39.9	46.1	94.0	3,553.5	255.4	3,803.9
Additions	47.0	-	3.9	2.9	22.2	-	5.0	66.4	147.4	-	147.4
Transfers of construction in progress	33.4	-	0.5	-	1.5	-	0.5	(42.0)	(6.1)	6.1	-
Transfer to subsidiary	-	(188.9)	-	-	-	-	-	-	(188.9)	-	(188.9)
Disposals/adjustments*	(6.2)	-	-	(9.8)	(11.4)	(4.2)	(1.8)	-	(33.4)	-	(33.4)
At 31 August 2019	2,347.3	236.7	86.7	103.7	494.2	35.7	49.8	118.4	3,472.5	261.5	3,734.0
Government grants:											
At 1 September 2018	(239.0)	(188.9)	(45.5)	-	-	-	-	-	(473.4)	-	(473.4)
Additions	(28.2)	-	-	-	-	-	-	-	(28.2)	-	(28.2)
Transfer to subsidiary	-	188.9	-	-	-	-	-	-	188.9	-	188.9
At 31 August 2019	(267.2)	-	(45.5)	-	-	-	-	-	(312.7)	-	(312.7)
Accumulated depreciation:											
At 1 September 2018	(894.2)	(79.7)	(30.8)	(21.9)	(246.5)	(39.6)	(36.7)	-	(1,349.4)	(191.1)	(1,540.5)
Charge for the year**	(91.5)	(4.4)	(0.6)	(23.1)	(52.0)	(0.1)	(4.0)	-	(175.7)	(9.6)	(185.3)
Write-back on disposals	5.3	-	-	5.4	10.3	4.2	1.7	-	26.9	-	26.9
At 31 August 2019	(980.4)	(84.1)	(31.4)	(39.6)	(288.2)	(35.5)	(39.0)	-	(1,498.2)	(200.7)	(1,698.9)
Net book value:											
At 31 August 2019	1,099.7	152.6	9.8	64.1	206.0	0.2	10.8	118.4	1,661.6	60.8	1,722.4

* 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 2020 was $1.2 million (2019: $0.5 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.

Note: The Group has initially applied HKFRS 16 at 1 September 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 30(b).

6 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 201 (2019: 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 114 (2019: 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 2020 at $3,167.9 million (2019: $3,476.2 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 2 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:

	The Group and the Foundation	
	2020	*2019*
	$'million	$'million
Within 1 year	42.5	48.2
After 1 year but within 2 years	19.5	17.2
	62.0	65.4

6 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 investment properties with net book value of $5.6 million at 31 August 2020 (2019: 12 residential investment properties with net book value of $6.3 million). The market value of the 12 residential investment properties as at 31 August 2020 based on external valuations was $158 million (2019: $164 million).

(g) Right-of-use assets

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	Notes	*31 August 2020* $'million	*1 September 2019* $'million
Ownership interests in leasehold land and buildings held for own use, carried at depreciated cost in Hong Kong, with remaining lease term of:	(i)		
- between 10 and 50 years		-	-
Other properties leased for own use, carried at depreciated cost	(ii)	42.4	46.5
Plant and equipment, carried at depreciated cost	(iii)	4.2	3.3
		46.6	49.8
Ownership interests in leasehold investment property, carried at depreciated cost, with remaining lease term of:			
- 50 years or more		-	-
- between 10 and 50 years		6.9	7.1
		6.9	7.1
		53.5	56.9

6 Fixed assets (continued)

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2020	*2019* (Note)
	$'million	$'million
Depreciation charge of right-of-use assets by class of underlying asset:		
Ownership interests in leasehold land and buildings	-	-
Other properties leased for own use	19.2	-
Plant and equipment	1.5	0.6
Ownership interests in leasehold investment property	0.2	0.2
	20.9	0.8
Interest on lease liabilities (note 4)	1.9	0.2
Expense relating to short-term leases and other leases with remaining lease term ending on or before 31 August 2020	4.8	-
Total minimum lease payments for leases previously classified as operating leases under HKAS 17	-	25.0
Variable lease payments not included in the measurement of lease liabilities	0.2	1.5

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 September 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. The depreciated carrying amount of the finance lease assets which were previously included in property, plant and equipment is also identified as a right-of-use asset. After initial recognition of right-of-use assets at 1 September 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See note 30(b).

During the year, additions to right-of-use assets were $17.3 million. This amount primarily related to the capitalised lease payments payable under new tenancy agreements.

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in notes 12(d) and19 respectively.

6 Fixed assets (continued)

(i) Ownership interests in leasehold land and buildings held for own use

The Group holds several Hong Kong residential buildings for own use. The Group is the registered owner of these property interests, including the whole or part of undivided share in the underlying land. Lump sum payments were made upfront to acquire these property interests from their previous registered owners, and there are no ongoing payments to be made under the terms of the land lease, other than payments based on rateable values set by the relevant government authorities. These payments vary from time to time and are payable to the relevant government authorities.

(ii) Other properties leased for own use

The Group has obtained the right to use other properties as its school premises and offices through tenancy agreements. The leases typically run for an initial period of three to ten years.

Some leases include an option to renew the lease for an additional period after the end of the contract term. Where practicable, the Group seeks to include such extension options exercisable by the Group to provide operational flexibility. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. If the Group is not reasonably certain to exercise the extension options, the future lease payments during the extension periods are not included in the measurement of lease liabilities.

During the year ended 31 August 2020, the Group leased a number of school premises which contain variable lease payment terms that are based on income generated from the schools and minimum annual lease payment terms that are fixed. The amount of fixed and variable lease payments is summarised below:

	Fixed payments $' million	*Variable payments* $' million	*Total payments* $'million
School premises – Hong Kong	10.0	0.2	10.2

(iii) Other leases

The Group leases office equipment under leases expiring from two to seven years. Some leases include an option to renew the lease when all terms are renegotiated, while some include an option to purchase the leased equipment at the end of the lease term at a price deemed to be a bargain purchase option. None of the leases includes variable lease payments.

7 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 an 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 costs and the 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 relating 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 the 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.

7 Retirement schemes (continued)

(b) Defined benefit retirement scheme

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

	The Group and the Foundation	
	2020	*2019*
	$'million	$'million
Present value of defined benefit obligations	(53.6)	(59.6)
Fair value of scheme assets	96.9	97.5
	43.3	37.9

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 2021.

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

	The Group and the Foundation			
	TA Section		*NT Section*	
	2020	*2019*	*2020*	*2019*
	$'million	$'million	$'million	$'million
Equities	13.9	13.4	29.0	31.1
Fixed income securities	17.2	15.7	35.9	36.4
Cash	0.3	0.3	0.6	0.6
Total	31.4	29.4	65.5	68.1

7 Retirement schemes (continued)

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

	The Group and the Foundation	
	2020	*2019*
	$'million	$'million
At the beginning of the year	(59.6)	(62.7)
Remeasurements:		
- Actuarial gain arising from changes in experience	2.6	1.0
- Actuarial loss arising from changes in financial assumptions	(0.6)	(3.6)
	2.0	(2.6)
Current service cost	(2.3)	(2.5)
Interest cost	(0.7)	(1.4)
Less: actual benefits paid and payable	7.0	9.6
At the end of the year	(53.6)	(59.6)

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

	The Group and the Foundation	
	2020	*2019*
	$'million	$'million
At the beginning of the year	97.5	106.6
Interest income	1.2	2.3
Return/(loss) on scheme assets excluding interest income	5.7	(1.2)
Less: actual benefits paid and payable	(7.0)	(9.6)
Less: administrative expenses paid from scheme assets	(0.5)	(0.6)
At the end of the year	96.9	97.5

7 Retirement schemes (continued)

(v) (Income)/expense recognised in the statement of comprehensive income is as follows:

	The Group and the Foundation	
	2020	*2019*
	$'million	$'million
Current service cost	2.3	2.5
Net interest on net defined benefit asset	(0.5)	(0.9)
Administrative expenses paid from scheme assets	0.5	0.6
Total amounts recognised in income and expenditure	2.3	2.2
Actuarial (gain)/loss	(2.0)	2.6
(Return)/loss on scheme assets excluding interest income	(5.7)	1.2
Total amounts recognised in other comprehensive income	(7.7)	3.8
Total defined benefit (income)/cost	(5.4)	6.0

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:

	The Group and the Foundation			
	TA Section		*NT Section*	
	2020	*2019*	*2020*	*2019*
Discount rate	0.2%	1.5%	0.4%	1.1%
Future salary increases	2.5%	3.0%	3.0%	3.5%

The below analysis shows how the defined benefit obligation as at 31 August 2020 and 2019 would have increased/(decreased) as a result of a 0.10% change in the significant actuarial assumptions:

	2020			
	The Group and the Foundation			
	TA Section		*NT Section*	
	Increase of 0.10% $'million	*Decrease of 0.10%* $'million	*Increase of 0.10%* $'million	*Decrease of 0.10%* $'million
Discount rate	*	*	(0.3)	0.3
Future salary increases	*	*	0.3	(0.3)

7 Retirement schemes (continued)

	2019			
	The Group and the Foundation			
	TA Section		*NT Section*	
	Increase of 0.10% $'million	*Decrease of 0.10%* $'million	*Increase of 0.10%* $'million	*Decrease of 0.10%* $'million
Discount rate	*	*	(0.4)	0.4
Future salary increases	*	*	0.3	(0.3)

* 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.

8 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 $13.3 million (2019: $12.9 million) and $7.8 million (2019: $7.6 million) respectively, the Group's other accruals of $5.4 million (2019: $4.7 million) and the Group's and the Foundation's deferred income (included in accounts payables and accruals) of $20.3 million (2019: $25.2 million) and $96.7 million (2019: $85.6 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 the reporting period.

9 Fees and other receivables

Accounting policy

A receivable is recognised when the Group 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. The Group states these receivables at amortised cost using the effective interest method, less allowance for credit losses. 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 credit losses.

	The Group		*The Foundation*	
	2020 $'million	*2019* $'million	*2020* $'million	*2019* $'million
Fees receivables	44.9	41.4	41.1	40.1
Other receivables	-	5.0	-	4.6
Less: Allowance for credit losses	(10.6)	(1.9)	(7.7)	(1.3)
	34.3	44.5	33.4	43.4

9 Fees and other receivables (continued)

Impairment of fees receivables

Fees receivables are due immediately from the date of billing. The Group and the Foundation recognises an impairment gain or loss for fees and other receivables with a corresponding adjustment to their carrying amount through a loss allowance account, unless the Group and the Foundation are satisfied that there is no realistic prospect of recovery, in which case the impairment loss is written off against the gross carrying amount of receivables directly.

The Group and the Foundation measure loss allowances for fees receivables at an amount equal to lifetime expected credit losses ("ECLs"), which are calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the group's different customer bases. Any change in the ECLs amount is recognised as an impairment gain or loss in profit or loss.

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

	The Group		*The Foundation*	
	2020	*2019*	*2020*	*2019*
	$'million	$'million	$'million	$'million
At the beginning of the year	1.9	2.0	1.3	1.3
Impairment loss recognised	9.6	0.6	7.0	0.3
Uncollectible amounts written off	(0.9)	(0.7)	(0.6)	(0.3)
At the end of the year	10.6	1.9	7.7	1.3

At 31 August 2020, the Group and the Foundation's allowance for credit losses in respect of fees receivables amounted to $10.6 million and $7.7 million respectively. The Group and the Foundation do not hold any collateral over these balances.

10 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.

10 Subsidiary (continued)

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 2019 to 31 August 2025. Expected credit loss was assessed as insignificant at 31 August 2020 and 2019.

Amount due from subsidiary at 31 August 2020 is unsecured, interest-free and has no fixed terms of repayment.

11 Restricted cash

The Group pledged a deposit of $2.9 million (2019: $2.7 million) to a bank for guarantees issued by that bank in favour of MTR Corporation Limited, Hoo Wah Company Limited and Wellion Limited under the terms of three separate tenancy agreements.

12 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:*

	The Group		*The Foundation*	
	2020 $'million	*2019* $'million	*2020* $'million	*2019* $'million
Deposits with original maturities less than three months	527.1	210.1	337.1	84.1
Cash at bank and in hand	209.0	206.8	105.2	113.5
	736.1	416.9	442.3	197.6

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 0.33% (2019: 0.91%) and 0.45% (2019: 0.84%) respectively.

12 Cash and cash equivalents (continued)

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

	The Group		*The Foundation*	
	2020	*2019*	*2020*	*2019*
	$'million	$'million (Note)	$'million	$'million (Note)
Operating activities				
Surplus for the year	154.0	241.2	117.0	191.1
Adjustments for:				
Interest income	(31.8)	(26.0)	(29.7)	(24.8)
Nomination rights	(43.8)	(34.3)	(30.2)	(26.3)
Non-refundable building/capital levy	(58.8)	(44.5)	(38.6)	(26.7)
Interest on lease liabilities	1.9	0.2	0.6	0.2
Loss on disposals of fixed assets	1.1	3.6	1.0	2.0
Depreciation	235.7	208.7	201.0	185.3
Expense recognised under defined benefit retirement schemes	2.3	2.2	2.3	2.2
Transfer from previous years' scholarship fund and hardship allowance	(4.9)	-	-	-
	255.7	351.1	223.4	303.0
Changes in working capital:				
Increase in inventories	(0.1)	-	-	-
(Increase)/decrease in rental and utility deposits	(0.4)	1.6	(0.2)	-
(Increase)/decrease in prepayments	(1.9)	(3.5)	0.4	(2.9)
Increase in loans to staff	(0.4)	(0.8)	(0.8)	(0.8)
Decrease in fees and other receivables	10.2	1.3	10.0	1.3
Decrease in government grant receivable	1.7	-	1.5	-
Increase in fees received in advance	-	10.0	9.3	4.7
Increase in net amount due (from)/ to subsidiary	-	-	(2.9)	1.4
(Decrease)/increase in provision to meet staff conditions of service	(1.8)	5.6	(0.7)	5.0
Increase in accounts payables and accruals excluding capital creditors	2.8	5.6	10.5	20.9
Increase/(decrease) in scholarship fund and hardship allowance	26.3	3.8	20.4	(1.2)
Net cash generated from operating activities	292.1	374.7	270.9	331.4

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 September 2019 to recognise right-of-use assets and lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Previously, cash payments under operating leases made by the Group as a lessee of $26.5 million were classified as operating activities in the consolidated cash flow statement. Under HKFRS 16, except for short-term lease payments, payments for leases of low value assets and variable lease payments not included in the measurement of lease liabilities, all other rentals paid on leases are now split into capital element and interest element (see note 12(c)) and classified as financing cash outflows. Under the modified retrospective approach, the comparative information is not restated. Further details on the impact of the transition to HKFRS 16 are set out in note 30(b).

12 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

	Refundable capital levy $'million (Note 20)	*Nomination rights received in advance* $'million (Note 24)	*Individual nomination rights* $'million (Note 24)	*Corporate nomination rights* $'million (Note 25)	*Non-refundable building levy* $'million (Note 22)	*Non-refundable capital levy* $'million (Note 23)	*Debenture* $'million (Note 21)	*Lease liabilities* $'million (Note 19)	*Total* $'million
At 1 September 2018	165.3	6.9	230.2	41.6	43.9	178.1	12.0	2.0	680.0
Changes from financing cash flows:									
Decrease in refundable capital levy	(29.2)	-	-	-	-	-	-	-	(29.2)
Proceeds from issue of nomination rights	-	0.7	41.8	-	-	-	-	-	42.5
Proceeds from non-refundable building levy	-	-	-	-	21.0	-	-	-	21.0
Proceeds from non-refundable capital levy	-	-	-	-	-	59.5	-	-	59.5
Proceeds from issuance of debenture	-	-	-	-	-	-	0.6	-	0.6
Capital element of finance lease rentals paid	-	-	-	-	-	-	-	(0.8)	(0.8)
Interest element of finance lease rentals paid	-	-	-	-	-	-	-	(0.2)	(0.2)
Total changes from financing cash flows	(29.2)	0.7	41.8	-	21.0	59.5	0.6	(1.0)	93.4
Other changes:									
Individual nomination rights income	-	-	(32.5)	-	-	-	-	-	(32.5)
Amortisation of corporate nomination rights	-	-	-	(1.8)	-	-	-	-	(1.8)
Non-refundable building levy income	-	-	-	-	(17.8)	-	-	-	(17.8)
Non-refundable capital levy income	-	-	-	-	-	(26.7)	-	-	(26.7)
New finance leases	-	-	-	-	-	-	-	0.6	0.6
Finance charges on obligations under finance leases (note 4)	-	-	-	-	-	-	-	0.2	0.2
Total other changes	-	-	(32.5)	(1.8)	(17.8)	(26.7)	-	0.8	(78.0)
At 31 August 2019	136.1	7.6	239.5	39.8	47.1	210.9	12.6	1.8	695.4

12 Cash and cash equivalents (continued)

The Group

	Refundable capital levy $'million (Note 20)	*Nomination rights received in advance* $'million (Note 24)	*Individual nomination rights* $'million (Note 24)	*Corporate nomination rights* $'million (Note 25)	*Non-refundable building levy* $'million (Note 22)	*Non-refundable capital levy* $'million (Note 23)	*Debenture* $'million (Note 21)	*Lease liabilities* $'million (Note 19)	*Total* $'million
At 31 August 2019	136.1	7.6	239.5	39.8	47.1	210.9	12.6	1.8	695.4
Impact of adoption of HKFRS 16	-	-	-	-	-	-	-	47.7	47.7
At 1 September 2019	136.1	7.6	239.5	39.8	47.1	210.9	12.6	49.5	743.1
Changes from financing cash flows:									
Decrease in refundable capital levy	(28.0)	-	-	-	-	-	-	-	(28.0)
Proceeds from issue of nomination rights	-	-	43.6	-	-	-	-	-	43.6
Proceeds from non-refundable building levy	-	-	-	-	20.9	-	-	-	20.9
Proceeds from non-refundable capital levy	-	-	-	-	-	60.3	-	-	60.3
Proceeds from issuance of debenture	-	-	-	-	-	-	51.3	-	51.3
Capital element of lease rentals paid	-	-	-	-	-	-	-	(21.4)	(21.4)
Interest element of lease rentals paid	-	-	-	-	-	-	-	(1.9)	(1.9)
Total changes from financing cash flows	(28.0)	-	43.6	-	20.9	60.3	51.3	(23.3)	124.8
Other changes:									
Individual nomination rights income	-	-	(42.1)	-	-	-	-	-	(42.1)
Amortisation of corporate nomination rights	-	-	-	(1.7)	-	-	-	-	(1.7)
Non-refundable building levy income	-	-	-	-	(20.2)	-	-	-	(20.2)
Non-refundable capital levy income	-	-	-	-	-	(38.6)	-	-	(38.6)
Increase in lease liabilities from entering new lease during the year	-	-	-	-	-	-	-	17.3	17.3
Interest on lease liabilities (note 4)	-	-	-	-	-	-	-	1.9	1.9
Total other changes	-	-	(42.1)	(1.7)	(20.2)	(38.6)	-	19.2	(83.4)
At 31 August 2020	108.1	7.6	241.0	38.1	47.8	232.6	63.9	45.4	784.5

The Group is the lessee in respect of a number of equipment and properties held under leases which were previously classified as operating leases under HKAS 17. The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 September 2019 to recognise lease liabilities relating to these leases (see note 30(b)). From 1 September 2019 onwards, future lease payments are recognised as lease liabilities in the statement of financial position in accordance with the policies set out in note 6, and the details regarding the Group's future lease payments are disclosed in note 19.

12 Cash and cash equivalents (continued)

The Foundation

	Refundable capital levy $'million (Note 20)	*Nomination rights received in advance* $'million (Note 24)	*Individual nomination rights* $'million (Note 24)	*Corporate nomination rights* $'million (Note 25)	*Non-refundable capital levy* $'million (Note 23)	*Lease liabilities* $'million (Note 19)	*Total* $'million
At 1 September 2018	165.3	6.6	158.8	41.6	178.1	2.0	552.4
Changes from financing cash flows:							
Decrease in refundable capital levy	(29.2)	-	-	-	-	-	(29.2)
Proceeds from issue of nomination rights	-	0.8	27.6	-	-	-	28.4
Proceeds from non-refundable capital levy	-	-	-	-	59.5	-	59.5
Capital element of finance lease rentals paid	-	-	-	-	-	(0.8)	(0.8)
Interest element of finance lease rentals paid	-	-	-	-	-	(0.2)	(0.2)
Total changes from financing cash flows	(29.2)	0.8	27.6	-	59.5	(1.0)	57.7
Other changes:							
Individual nomination rights income	-	-	(24.5)	-	-	-	(24.5)
Amortisation of corporate nomination rights	-	-	-	(1.8)	-	-	(1.8)
Non-refundable capital levy income	-	-	-	-	(26.7)	-	(26.7)
New finance leases	-	-	-	-	-	0.6	0.6
Finance charges on obligations under finance leases (note 4)	-	-	-	-	-	0.2	0.2
Total other changes	-	-	(24.5)	(1.8)	(26.7)	0.8	(52.2)
At 31 August 2019	136.1	7.4	161.9	39.8	210.9	1.8	557.9

12 Cash and cash equivalents (continued)

The Foundation

	Refundable capital levy $'million (Note 20)	*Nomination rights received in advance* $'million (Note 24)	*Individual nomination rights* $'million (Note 24)	*Corporate nomination rights* $'million (Note 25)	*Non-refundable capital levy* $'million (Note 23)	*Lease liabilities* $'million (Note 19)	*Total* $'million
At 31 August 2019	136.1	7.4	161.9	39.8	210.9	1.8	557.9
Impact of adoption of HKFRS 16	-	-	-	-	-	16.2	16.2
At 1 September 2019	136.1	7.4	161.9	39.8	210.9	18.0	574.1
Changes from financing cash flows:							
Decrease in refundable capital levy	(28.0)	-	-	-	-	-	(28.0)
Proceeds from issue of nomination rights	-	(0.2)	28.1	-	-	-	27.9
Proceeds from non-refundable capital levy	-	-	-	-	60.3	-	60.3
Capital element of lease rentals paid	-	-	-	-	-	(11.1)	(11.1)
Interest element of lease rentals paid	-	-	-	-	-	(0.6)	(0.6)
Total changes from financing cash flows	(28.0)	(0.2)	28.1	-	60.3	(11.7)	48.5
Other changes:							
Individual nomination rights income	-	-	(28.5)	-	-	-	(28.5)
Amortisation of corporate nomination rights	-	-	-	(1.7)	-	-	(1.7)
Non-refundable capital levy income	-	-	-	-	(38.6)	-	(38.6)
Increase in lease liabilities from entering new lease during the year	-	-	-	-	-	1.6	1.6
Interest on lease liabilities (note 4)	-	-	-	-	-	0.6	0.6
Total other changes	-	-	(28.5)	(1.7)	(38.6)	2.2	(66.6)
At 31 August 2020	108.1	7.2	161.5	38.1	232.6	8.5	556.0

The Foundation is the lessee in respect of a number of equipment and properties held under leases which were previously classified as operating leases under HKAS 17. The Foundation has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Foundation adjusted the opening balances at 1 September 2019 to recognise lease liabilities relating to these leases (see note 30(b)). From 1 September 2019 onwards, future lease payments are recognised as lease liabilities in the statement of financial position in accordance with the policies set out in note 6, and the details regarding the Foundation's future lease payments are disclosed in note 19.

12 Cash and cash equivalents (continued)

(d) Total cash outflow for leases

Amounts included in the cash flow statement for leases comprise the following:

	2020 $'million	*2019* $'million
Within operating cash flows	5.0	26.5
Within financing cash flows	23.3	1.0
	28.3	27.5

Note: As explained in the note to note 12(b), the adoption of HKFRS 16 introduces a change in classification of cash flows of certain rentals paid on leases. The comparative amounts have not been restated.

13 Non-current assets held for sale

Non-current assets are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. The non-current assets are stated at the lower of carrying amount and fair value less costs of disposal.

During the year, the Group entered into a provisional agreement for the sale of a property. Accordingly, the property is transferred from investment properties to non-current assets held for sale. The transaction was completed on 18 November 2020.

14 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 Group recognises the related revenue (see note 2). In cases where the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue, a corresponding receivable is also recognised.

Movements in fees received in advance were as follows:

	The Group $'million	*The Foundation* $'million
Balance at 1 September 2018	128.8	57.7
Decrease as a result of recognising revenue during the year in respect of fees received in advance at the beginning of the year	(117.7)	(46.7)
Increase as a result of receipts in advance of service as at the year end date	127.7	51.4
Balance at 31 August 2019 and 1 September 2019	138.8	62.4
Decrease as a result of recognising revenue during the year in respect of fees received in advance at the beginning of the year	(123.5)	(47.2)
Increase as a result of receipts in advance of service as at the year end date	123.5	56.5
Balance at 31 August 2020	138.8	71.7

All fees received in advance are expected to be recognised as revenue within one year from the end of the reporting period.

15 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:

	The Group		*The Foundation*	
	2020	*2019*	*2020*	*2019*
	$'million	$'million	$'million	$'million
At the beginning of the year	119.0	113.4	91.1	86.1
Provision for the year	293.9	281.1	220.3	209.4
Payments made during the year	(295.7)	(275.5)	(221.0)	(204.4)
At the end of the year	117.2	119.0	90.4	91.1

16 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.

	The Group		*The Foundation*	
	2020	*2019*	*2020*	*2019*
	$'million	$'million	$'million	$'million
Accounts payable	50.3	36.6	38.6	29.3
Other accruals	86.0	48.3	48.5	35.6
Accruals for major repairs	90.4	93.1	90.4	93.1
Deferred income	58.5	79.9	112.4	123.0
Retention money	15.2	11.3	15.2	11.3
Deposits received	13.9	14.1	13.7	13.9
Other payables	13.7	8.3	12.7	7.2
	328.0	291.6	331.5	313.4

17 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:

		The Group		*The Foundation*	
	Note	*2020*	*2019*	*2020*	*2019*
		$'million	$'million	$'million	$'million
Basic/relief grants	17(a)	207.0	221.3	206.1	221.3
Hardship allowance	18	5.5	5.9	5.5	5.9
Refund of rent and rates	17(b)	22.5	18.1	13.9	14.5
Subsidies under the Employment Support Scheme	3(a)	66.8	-	50.5	-
		301.8	245.3	276.0	241.7

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 the 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 5 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 affects children entering Year 1 of the Foundation's schools in August 2016 and thereafter.

(a) Basic/relief 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 in the basic grant resulting from the subvention phase-out amounted to $66.5 million as at 31 August 2020 (2019: $49.8 million).

During the year, the Group and the Foundation received relief grants of $2.4 million (2019: nil) and $1.5 million (2019: nil), respectively from Government because of COVID-19.

17 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	The Group 2020 $'million	The Group 2019 $'million	The Foundation 2020 $'million	The Foundation 2019 $'million
Gross rent and rates for the year		23.8	20.5	14.3	15.9
Less: Recovered or recoverable from the Government		(22.5)	(18.1)	(13.9)	(14.5)
	4	1.3	2.4	0.4	1.4

18 Scholarship fund and hardship allowance

(a) The Group

	Scholarship fund $'million	Hardship allowance $'million	Total $'million
At 1 September 2018	11.5	41.9	53.4
Received from the Government	-	5.9	5.9
Provision for the year	41.8	10.2	52.0
Utilisation	(35.8)	(18.3)	(54.1)
At 31 August 2019 and 1 September 2019	17.5	39.7	57.2
Received from the Government	-	5.5	5.5
Provision for the year	44.1	42.3	86.4
Utilisation	(39.5)	(26.0)	(65.5)
Transfer to operating income (note 2)	-	(4.9)	(4.9)
At 31 August 2020	22.1	56.6	78.7

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.

18 Scholarship fund and hardship allowance (continued)

(b) The Foundation

	Hardship Allowance 2020 $'million	2019 $'million
At the beginning of the year	28.9	30.1
Received from the Government	5.5	5.9
Provision for the year	34.0	2.4
	68.4	38.4
Utilisation	(19.1)	(9.5)
At the end of the year	49.3	28.9

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 17, 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-subvented students as hardship allowance to support families who experience financial hardship due to a sudden and unexpected change in circumstances. During the year, the Foundation set aside additional provision of $30.0 million (2019: nil) to support families with financial hardship because of COVID-19.

(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 2020, Renaissance College and Discovery College have each set aside 10% (2019: 10%) of their respective tuition fees which consists of 8% (2019: 8%) for Renaissance College and 9% (2019: 9%) for Discovery College as scholarship fund and 2% (2019: 2%) for Renaissance College and 1% (2019: 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 $30.3 million (2019: $29.1 million) and $22.1 million (2019: $20.5 million) respectively.

19 Lease liabilities

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current and previous reporting periods and at the date of transition to HKFRS 16:

The Group

	31 August 2020			*1 September 2019*			*31 August 2019*		
	Present value of the minimum lease payments $'million	*Interest expense relating to future periods* $'million	*Total minimum lease payments* $'million	*Present value of the minimum lease payments* $'million	*Interest expense relating to future periods* $'million	*Total minimum lease payments* $'million	*Present value of the minimum lease payments* $'million	*Interest expense relating to future periods* $'million	*Total minimum lease payments* $'million
Within one year	20.7	1.4	22.1	20.1	1.5	21.6	0.7	0.1	0.8
Between one and two years	9.0	0.9	9.9	15.3	0.9	16.2	0.5	0.1	0.6
Between two and five years	13.3	1.0	14.3	11.7	1.4	13.1	0.6	0.2	0.8
Over five years	2.4	0.1	2.5	2.4	0.1	2.5	-	-	-
	24.7	2.0	26.7	29.4	2.4	31.8	1.1	0.3	1.4
	45.4	3.4	48.8	49.5	3.9	53.4	1.8	0.4	2.2

The Foundation

	31 August 2020			*1 September 2019*			*31 August 2019*		
	Present value of the minimum lease payments $'million	*Interest expense relating to future periods* $'million	*Total minimum lease payments* $'million	*Present value of the minimum lease payments* $'million	*Interest expense relating to future periods* $'million	*Total minimum lease payments* $'million	*Present value of the minimum lease payments* $'million	*Interest expense relating to future periods* $'million	*Total minimum lease payments* $'million
Within one year	7.0	0.2	7.2	10.8	0.4	11.2	0.7	0.1	0.8
Between one and two years	0.7	0.1	0.8	6.6	0.2	6.8	0.5	0.1	0.6
Between two and five years	0.8	0.1	0.9	0.6	0.2	0.8	0.6	0.2	0.8
	1.5	0.2	1.7	7.2	0.4	7.6	1.1	0.3	1.4
	8.5	0.4	8.9	18.0	0.8	18.8	1.8	0.4	2.2

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 September 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. These liabilities have been aggregated with the brought forward balances relating to leases previously classified as finance leases. Comparative information as at 31 August 2019 has not been restated and relates solely to leases previously classified as finance leases. Further details on the impact of the transition to HKFRS 16 are set out in note 30(b).

20 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 23), 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.

21 Debenture

Class A debenture

In September 2019, the Group introduced the Class A debenture as a means to gain priority interview at a kindergarten. Purchase of the debenture is optional and is payable at the time of application to the kindergarten. The debenture has a nominal value of $500,000. When a student holding the debenture graduates from the kindergarten and gains a Year 1 place of a Foundation school, Renaissance College or Discovery College, the debenture will be converted into an Individual Nomination Right under the Group.

Class A debenture is repayable in full if a child is not successful at the kindergarten interview, withdraws from the kindergarten before graduation from K2, or does not subsequently takes up a kindergarten or Year 1 place under the Group.

Class B 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 (2019: $7,000) for each child entering one of the kindergartens for the first time from August 2013 onwards. This debenture has been renamed "Class B debenture" with effect from September 2019.

A Class A debenture holder whose child is successful at the interview and subsequently takes up a kindergarten place does not need to purchase a Class B debenture.

Class B debenture is repayable when the student leaves the school with sufficient notice.

Both Class A and Class B debentures are non-transferable, interest-free, non-depreciating and unsecured. Initially the Group recognises the debentures 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.

22 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 (2019: $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 $7,530 (2019: $7,120) per annum for all students.

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

Movements in non-refundable building levy were as follows:

	The Group 2020 $'million	*2019* $'million
At the beginning of the year	47.1	43.9
Decrease as a result of recognising revenue during the year that was included in deferred income at the beginning of the year	(9.0)	(7.7)
Increase as a result of receipts in advance of service during the year	9.7	10.9
At the end of the year	47.8	47.1
Less: to be recognised within one year	(6.6)	(6.2)
After one year	41.2	40.9

23 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 (2019: $38,000) for Year 1 entrants with pro-rated amounts set for Year 2 to Year 13 new entrants.

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

Movements in non-refundable capital levy were as follows:

	The Group and the Foundation	
	2020 $'million	*2019* $'million
At the beginning of the year	210.9	178.1
Decrease as a result of recognising revenue during the year that was included in deferred income at the beginning of the year	(35.8)	(25.7)
Increase as a result of receipts in advance of service during the year	57.5	58.5
At the end of the year	232.6	210.9
Less: to be recognised within one year	(20.3)	(18.0)
After one year	212.3	192.9

24 Individual nomination rights

Individual 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.

The Group recognises deposits received in respect of individual nomination rights as receipts in advance and 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 Group. Amounts received but not yet recognised as revenue are recorded as deferred income – individual nomination rights. Movements in individual nomination rights were as follows:

	The Group		*The Foundation*	
	2020	*2019*	*2020*	*2019*
	$'million	$'million	$'million	$'million
At the beginning of the year	239.5	230.2	161.9	158.8
Decrease as a result of recognising revenue during the year that was included in deferred income at the beginning of the year	(38.3)	(29.3)	(24.5)	(21.5)
Increase as a result of receipts in advance of service to be rendered as at the end of the year	39.8	38.6	24.1	24.6
At the end of the year	241.0	239.5	161.5	161.9
Less: to be recognised within one year	(30.9)	(27.9)	(20.8)	(19.4)
After one year	210.1	211.6	140.7	142.5

25 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 the amount to income for 20 years from the time when the holder of the CNR notifies the Group of the first nominee under the terms and conditions of the corporate nomination rights scheme.

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:

	The Group and the Foundation	
	2020	*2019*
	$'million	$'million
At the beginning of the year	39.8	41.6
Less: Amortisation to statement of comprehensive income	(1.7)	(1.8)
At the end of the year	38.1	39.8
Less: Within one year or on demand	(1.8)	(1.7)
After one year	36.3	38.1

26 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 has introduced individual and corporate nomination rights schemes and a 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.

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

During the year, the Group and the Foundation transferred $79.1 million (2019: $70.7 million) and $59.5 million (2019: $53.0 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 $84.0 million (2019: $150.9 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 $754.2 million (2019: $622.9 million).

(c) *Schools reserves*

The Group's reserves include the accumulated surplus of individual schools of the Foundation which amounted to $231.9 million as at 31 August 2020 (2019: $214.1 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 2020, the respective School Councils have authorised or contracted for capital commitments of $61.6million (2019: $50.3 million). The respective School Councils also reserve certain sums for major upgrades at schools.

During the year, $20.4 million (2019: $24.8 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.

26 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 tuition fee, 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.

27 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 fees 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.

27 Financial risk management and fair values (continued)

(c) Interest rate risk

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

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

	The Group				*The Foundation*			
	2020		*2019*		*2020*		*2019*	
	Effective interest rate %	$'million	*Effective interest rate* %	$'million	*Effective interest rate* %	$'million	*Effective interest rate* %	$'million
Loan to subsidiary	-	-	-	-	5.53%	36.7	4.64%	44.0
Lease liabilities	3.68%	(45.4)	4.60%	(1.8)	2.74%	(8.5)	4.60%	(1.8)
Deposits with original maturities greater than three months	1.19%	869.3	2.21%	942.3	1.20%	856.6	2.22%	938.6
Restricted cash	0.01%	2.9	0.01%	2.7	-	-	-	-
Cash and cash equivalents	0.33%	736.1	0.91%	416.9	0.45%	442.3	0.84%	197.6
		1,562.9		1,360.1		1,327.1		1,178.4

27 Financial risk management and fair values (continued)

(ii) Sensitivity analysis

At 31 August 2020, it is estimated that a general increase/decrease of 100 basis points (2019: 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 $15.6 million (2019: $13.6 million). Other components of reserves would not be affected (2019: 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 2019.

(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.

28 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 2020 not provided for in these financial statements were as follows:

	The Group		*The Foundation*	
	2020	*2019*	*2020*	*2019*
	$'million	$'million	$'million	$'million
Contracted for	912.5	949.5	843.5	949.2
Authorised but not contracted for	316.8	299.5	311.7	298.0
	1,229.3	1,249.0	1,155.2	1,247.2

28 Commitments (continued)

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

	The Group *2019* $'million	*The Foundation* *2019* $'million
Leased properties		
Within one year	25.6	10.5
Between one and five years	39.9	6.6
Over five years	5.2	-
	70.7	17.1

	The Group *2019* $'million	*The Foundation* *2019* $'million
Leased equipment		
Within one year	0.7	0.7
Between one and five years	-	-
	0.7	0.7

The Group is the lessee in respect of a number of equipment and properties held under leases which were previously classified as operating leases under HKAS 17. The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 September 2019 to recognise lease liabilities relating to these leases (see note 30(b)). From 1 September 2019 onwards, future lease payments are recognised as lease liabilities in the statement of financial position in accordance with the policies set out in note 6, and the details regarding the Group's future lease payments are disclosed in note 19.

29 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.

29 Material related party transactions (continued)

(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.

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, Director of Strategic Performance and Quality Assurance, Director of Communications, 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:

	2020 $'million	*2019* $'million
Salaries, allowances and benefits in kind	27.0	23.7
Retirement costs	0.2	0.2
	27.2	23.9

30 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 2020 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.

(b) Changes in accounting policies

The HKICPA has issued a new HKFRS and amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, Leases, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 32).

HKFRS 16, *Leases*

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, Determining whether an arrangement contains a lease, HK(SIC) 15, *Operating leases – incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low-value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied HKFRS 16 as from 1 September 2019. The Group has elected to use the modified retrospective approach to measure the right-of-use assets at an amount equal to the amount recognised for the remaining lease liabilities at 1 September 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

30 Other significant accounting policies (continued)

a. New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 September 2019. For contracts entered into before 1 September 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

b. Lessee accounting and transitional impact

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment as disclosed in note 6. For an explanation of how the Group applies lessee accounting, see note 6.

At the date of transition to HKFRS 16 (i.e. 1 September 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 September 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 3.23%.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

(i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 August 2020;

(ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and

(iii) when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 August 2019 as an alternative to performing an impairment review.

30 Other significant accounting policies (continued)

The following table reconciles the operating lease commitments as disclosed in note 28(b) as at 31 August 2019 to the opening balance for lease liabilities recognised as at 1 September 2019:

	The Group *1 September 2019* $'million	*The Foundation* *1 September 2019* $'million
Operating lease commitments at 31 August 2019	71.4	17.8
Less: commitments relating to leases exempt from capitalisation:		
- short-term leases and other leases with remaining lease term ending on or before 31 August 2020	(4.8)	(0.7)
- leases of which the lease term commenced after 31 August 2019	(16.2)	-
Add: leases for equipment contracts which were not included in operating lease commitments at 31 August 2019	1.2	-
	51.6	17.1
Less: total future interest expenses	(3.9)	(0.9)
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 September 2019	47.7	16.2
Add: finance lease liabilities recognised as at 31 August 2019	1.8	1.8
Total lease liabilities recognised at 1 September 2019	49.5	18.0

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 August 2019.

So far as the impact of the adoption of HKFRS 16 on leases previously classified as finance leases is concerned, the Group is not required to make any adjustments at the date of initial application of HKFRS 16, other than changing the captions for the balances. Accordingly, instead of "obligations under finance leases", these amounts are included within "lease liabilities", and the depreciated carrying amount of the corresponding leased assets is identified as right-of-use assets. There is no impact on the opening balance of equity.

30 Other significant accounting policies (continued)

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's statement of financial position:

	Carrying amount at 31 August 2019 $'million	*Capitalisation of operating lease contracts* $'million	*Carrying amount at 1 September 2019* $'million
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:			
Other properties, plant and equipment	1,849.9	47.7	1,897.6
Total non-current assets	1,948.6	47.7	1,996.3
Lease liabilities (current)	0.7	19.4	20.1
Total Current liabilities	693.0	19.4	712.4
Net current assets	781.3	(19.4)	761.9
Lease liabilities (non-current)	1.1	28.3	29.4
Total non-current liabilities	609.0	28.3	637.3
Net assets	2,120.9	-	2,120.9

30 Other significant accounting policies (continued)

The following table summarises the impacts of the adoption of HKFRS 16 on the Foundation's statement of financial position:

	Carrying amount at 31 August 2019 $'million	*Capitalisation of operating lease contracts* $'million	*Carrying amount at 1 September 2019* $'million
Line items in the statement of financial position impacted by the adoption of HKFRS 16:			
Other properties, plant and equipment	1,661.6	16.2	1,677.8
Total non-current assets	1,797.3	16.2	1,813.5
Lease liabilities (current)	0.7	10.1	10.8
Total Current liabilities	561.6	10.1	571.7
Net current assets	677.4	(10.1)	667.3
Lease liabilities (non-current)	1.1	6.1	7.2
Total non-current liabilities	493.5	6.1	499.6
Net assets	1,981.2	-	1,981.2

(c) *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 31, the Group discusses the significant judgements the Group made in applying HKFRSs on the financial statements and major sources of estimation uncertainty.

30 Other significant accounting policies (continued)

(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.

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) *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 comprises 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.

(f) *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.

30 Other significant accounting policies (continued)

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.

(g) 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.

31 Accounting estimates and judgements

Notes 7 and 27 contain 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:

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 the reporting period.

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

Up to the date of approval of these financial statements, the HKICPA has issued a number of amendments and a new standard HKFRS 17, *Insurance Contracts*, which are not yet effective for the year ended 31 August 2020 and which have not been adopted in these financial statements. These include the following which is relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3, *Definition of a business*	1 January 2020
Amendments to HKAS 1 and HKAS 8, *Definition of material*	1 January 2020

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the financial statements.

KPMG

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 65, which comprise the consolidated and Foundation statements of financial position as at 31 August 2020, 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 consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group and the Foundation as at 31 August 2020 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. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. 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 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 consolidated 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 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.

KPMG

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 Audit Committee 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.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

KPMG

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07 DEC 2020