



ESF Educational Services Limited

英基教育服務有限公司

Financial Statements
for the year ended 31 August 2020

Report of the Board of Directors

The Board of Directors has pleasure in submitting their annual report together with the audited financial statements for the year ended 31 August 2020.

Principal place of business

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

Principal activities

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

Financial statements

The surplus of the Company for the year ended 31 August 2020 and the Company's financial position as at that date are set out in the financial statements on pages 3 to 41.

Reserves

The Company has transferred the surplus of HK\$19,866,000 (2019: HK\$34,430,000) to reserves. The Company shows other movements in reserves in the statement of changes in reserves.

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

Properties, plant and equipment

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

Directors

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

Belinda Greer (Chairman)

Vivian Cheung Wai Yan

Charles Caldwell

John Stewart

Alan Milliken

Adam Hughes

(resigned on 30 June 2020)

Robert Shorthouse

(resigned on 31 August 2020)

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

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

Indemnity of directors

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

Directors' interests in transactions, arrangements or contracts

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

Auditors

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

By order of the Board



Belinda Greer

Director

Hong Kong, - 7 DEC 2020

Statement of comprehensive income for the year ended 31 August 2020

(Expressed in Hong Kong dollars)

	Note	2020 \$'000	2019 (Note) \$'000
Income	2		
Operating income		685,856	715,459
Non-operating income		33,858	25,809
		<u>719,714</u>	<u>741,268</u>
Expenditure			
<i>Staff expenses</i>			
Salaries and teaching resources		357,916	367,875
Gratuities and MPF contributions		59,682	58,776
Housing allowance		30,820	31,076
Medical expenses		15,719	12,181
Staff education allowance		22,801	20,008
Passage allowance		308	414
	3(a)	<u>487,246</u>	<u>490,330</u>
<i>Other expenses</i>			
Advertisements		1,027	2,132
Audit fee		323	272
Cost of goods sold		739	1,306
Depreciation	3(b), 9	38,280	23,390
Development and operating agreement payment	24(a)	23,131	21,993
Management and administrative expenses	24(a)	23,129	18,930
Office and general expenses	4	52,052	54,375
Rent, rates and building management fee	5	10,474	28,183
Scholarship fund and hardship allowance	14	52,385	49,740
Teaching materials and resources	6	11,062	16,187
		<u>212,602</u>	<u>216,508</u>
Total expenses		<u>699,848</u>	<u>706,838</u>
Surplus and total comprehensive income for the year	3	<u>19,866</u>	<u>34,430</u>

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

(Expressed in Hong Kong dollars)

	2020	2019
	\$'000	(Note) \$'000
Represented by:		
Accumulated fund (deficit)/surplus	(13,992)	8,621
Capital fund surplus	33,858	25,809
	<u>19,866</u>	<u>34,430</u>

Note: The Company 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 25(c).

The notes on pages 9 to 41 form part of these financial statements.

Statement of financial position at 31 August 2020


(Expressed in Hong Kong dollars)


	Note	31 August 2020 \$'000	31 August 2019 (Note) \$'000
Non-current asset			
Properties, plant and equipment	9	238,724	188,345
Current assets	10		
Inventories		1,061	922
Rental and utilities deposits		5,467	5,321
Prepayments	11	10,089	7,759
Amount due from the Foundation	16	-	1,358
Fees and other receivables	11	2,032	2,582
Restricted cash	12	2,877	2,733
Deposits with original maturities over three months		12,700	3,700
Cash and cash equivalents	13	293,842	219,280
		328,068	243,655
Current liabilities	10		
Creditors and accruals		76,133	40,767
Lease liabilities	20	17,219	-
Nomination rights received in advance	19	360	210
Provision for staff gratuities and MPF contributions		26,811	27,938
Scholarship fund	14	22,040	17,469
Hardship allowance	14	7,343	10,869
Fees received in advance	15	67,102	76,316
Debenture	17	9,556	7,098
Deferred income			
- non-refundable building levy	18	6,594	6,150
- nomination rights	19	10,148	8,454
Amount due to the Foundation	16	1,492	-
Loan from the Foundation	16	7,161	7,036
		251,959	198,307
Net current assets		76,109	45,348
Total assets less current liabilities		314,833	233,693

Statement of financial position at 31 August 2020 (continued) (Expressed in Hong Kong dollars)

	Note	31 August 2020 \$'000	31 August 2019 (Note) \$'000
Non-current liabilities			
Lease liabilities	20	23,237	-
Loan from the Foundation	16	29,564	37,005
Debenture	17	54,365	5,530
Deferred income			
- non-refundable building levy	18	41,157	40,899
- nomination rights	19	69,447	69,062
		<u>217,770</u>	<u>156,496</u>
NET ASSETS		<u>97,063</u>	<u>77,197</u>
RESERVES	21		
Capital fund		82,479	68,266
Accumulated fund surplus		<u>14,584</u>	<u>8,931</u>
TOTAL SURPLUS		<u>97,063</u>	<u>77,197</u>

Approved and authorised for issue by the board of directors on - 7 DEC 2020


Belinda Greer
Director


Vivian Cheung Wai Yan
Director

Note: The Company 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 25(c).

The notes on pages 9 to 41 form part of these financial statements.

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

(Expressed in Hong Kong dollars)

	Accumulated fund (deficit)/surplus (Note) \$'000	Capital fund \$'000 (note 21(b))	Total \$'000
At 1 September 2018	(17,383)	60,150	42,767
Surplus and total comprehensive income for the year	8,621	25,809	34,430
Transfers	17,693	(17,693)	-
At 31 August 2019 and 1 September 2019	8,931	68,266	77,197
Surplus and total comprehensive income for the year	(13,992)	33,858	19,866
Transfers	19,645	(19,645)	-
At 31 August 2020	14,584	82,479	97,063

Note: The Company 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 25(c).

The notes on pages 9 to 41 form part of these financial statements.

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

	Note	2020 \$'000	2019 (Note) \$'000
Operating activities			
Net cash generated from operating activities	13(b)	<u>24,701</u>	<u>43,211</u>
Investing activities			
Payments for the purchase of properties, plant and equipment (net of capital creditors)		(8,644)	(20,706)
Proceeds from disposal of properties, plant and equipment		17	-
Increase in restricted cash		(144)	-
(Increase)/decrease in deposits with original maturities over three months		(9,000)	91,223
Interest received		<u>3,164</u>	<u>2,662</u>
Net cash (used in)/generated from investing activities		<u>(14,607)</u>	<u>73,179</u>
Financing activities			
Re-payment of loan from the Foundation		(7,316)	(6,959)
Net proceeds from nomination rights	13(c)	15,850	13,900
Proceeds from non-refundable building levy	13(c)	20,939	20,970
Net proceeds from issuance of debenture	13(c)	51,293	637
Interest expenses paid to the Foundation		(1,108)	(1,465)
Capital element of lease rentals paid	13(c)	(13,715)	-
Interest element of lease rentals paid	13(c)	<u>(1,475)</u>	<u>-</u>
Net cash generated from financing activities		<u>64,468</u>	<u>27,083</u>
Net increase in cash and cash equivalents		74,562	143,473
Cash and cash equivalents at the beginning of the year		<u>219,280</u>	<u>75,807</u>
Cash and cash equivalents at the end of the year	13(a)	<u>293,842</u>	<u>219,280</u>

Note: The Company 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 25(c).

The notes on pages 9 to 41 form part of these financial statements.

Notes to the financial statements

(Expressed in Hong Kong dollars)

1 Background

ESF Educational Services Limited ("the Company") is incorporated in Hong Kong under the Hong Kong Companies Ordinance and is limited by guarantee. In the event that the Company is wound up, each member's guaranteed contribution to the assets of the Company is limited to \$100. The Company had 4 members as at 31 August 2020 (2019: 3 members). The directors of the Company are responsible for the preparation of financial statements.

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

2 Income

Accounting policy

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

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

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

(i) Tuition fees

The Company recognises tuition fees when they are receivable.

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

(ii) Other programme fees

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

2 Income (continued)

(iii) Donations

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

(iv) Application fee income

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

(v) Rental income

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

(vi) Resale income

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

(vii) Interest income

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

(viii) Non-refundable building levy

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

(ix) Nomination rights

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

The Company recognises income from nomination rights in equal instalments over the student's expected school life or at the time when the student leaves the school within the group which consists of The English Schools Foundation and the Company. Amounts received but not yet recognised as revenue are recorded as deferred income – nomination rights.

2 Income (continued)

	2020 \$'000	2019 \$'000
Operating income		
Revenue from contracts with customers within the scope of HKFRS 15		
Recognised at a point in time		
- Application fee income	3,553	3,859
- Examination fees	1,163	1,900
- Resale income	3,520	6,738
- Other income	7,936	2,769
	<u>16,172</u>	<u>15,266</u>
Recognised over time		
- Renaissance College tuition fees	303,403	291,174
- Discovery College tuition fees	220,452	206,227
- Camps and educational visits	5,050	14,037
- Kindergarten tuition fees	129,673	122,727
- Language course fees	10,646	22,997
- Sports course fees	12,129	27,292
- Clubs course fees	159	40
- COVID-19 related relief grant to parents	(26,628)	-
	<u>654,884</u>	<u>684,494</u>
Revenue from other sources		
- Donations	1,255	1,478
- Rental income	4,570	11,559
- Interest income	3,164	2,662
- Government relief grants	911	-
- Transfer from previous years' scholarship fund and hardship allowance surplus	4,900	-
	<u>14,800</u>	<u>15,699</u>
Total operating income	<u>685,856</u>	<u>715,459</u>
Non-operating income		
Revenue from contracts with customers within the scope of HKFRS 15 recognised over time		
Non-refundable building levy	20,237	17,844
Nomination rights	13,621	7,965
Total non-operating income	<u>33,858</u>	<u>25,809</u>

3 Surplus and total comprehensive income for the year

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

	2020 \$'000	2019 \$'000
(a) Staff expenses:		
Contributions to defined contribution retirement scheme	10,170	10,249
Salaries, wages and other benefits	493,355	480,081
Subsidies provided by Government	(16,279)	-
	<u>487,246</u>	<u>490,330</u>

Note: In 2020, the Company 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 Company is required not to make redundancies during the subsidy period and to spend all the funding on paying wages to the employees.

(b) Other items:

Depreciation		
- owned property, plant and equipment	24,684	23,390
- right-of-use assets	13,596	-
Interest on lease liabilities	1,475	-
Impairment losses on fees receivables	2,586	337
Loss on disposal of properties, plant and equipment	58	1,560
Auditor's remuneration	323	272
	<u>43,622</u>	<u>25,559</u>

4 Office and general expenses

	2020 \$'000	2019 \$'000
Building repair and maintenance	14,148	18,244
Insurance	2,526	1,923
Legal expenses	380	373
Minor furniture/equipment written off	1,810	1,481
Printing	656	1,189
Professional fees	2,865	1,148
Postage	288	116
Recruiting	915	940
Stationery	191	247
Training expenses	2,081	3,387
Transportation	497	824
Utilities	6,924	8,443
General office expenses and others	16,188	14,571
Interest expense	2,583	1,489
	<u>52,052</u>	<u>54,375</u>

5 Rent, rates and building management fee

	2020 \$'000	2019 \$'000
Gross rent and rates for the year	16,993	29,799
Less: Recovered or recoverable from the Government	(8,538)	(3,589)
	<hr/> 8,455	<hr/> 26,210
Building management fee	2,019	1,973
	<hr/> 10,474	<hr/> 28,183

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

6 Teaching materials and resources

	2020 \$'000	2019 \$'000
Teaching materials	8,348	12,900
Course expenses	1,566	1,390
Educational visit expenses	33	251
Examination expenses	1,115	1,646
	<hr/> 11,062	<hr/> 16,187

7 Directors' emoluments

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

8 Taxation

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

9 Properties, plant and equipment

Accounting policy

(a) Company owned property, plant and equipment

The Company records properties, plant and equipment other than construction in progress in the statement of financial position at cost less related government grants, accumulated depreciation and impairment losses (see note 25(e)).

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

(b) Leased assets

Policy applicable from 1 September 2019

At inception of a contract, the Company 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 Company 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 Company enters into a lease in respect of a low-value asset, the Company 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 Company's policy relating to owned assets.

9 Properties, plant and equipment (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 Company'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 Company 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.

Policy applicable from 1 September 2019

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

(c) Subsequent measurement

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

- | | |
|---------------------------------------|---|
| - Buildings | 20 - 50 years |
| - Leasehold improvements | Shorter of 10 years/period of the lease |
| - Furniture and equipment | 3 - 10 years |
| - Other properties leased for own use | Over the unexpired term of the lease |

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

The Company adds subsequent expenditure relating to properties, plant and equipment that the Company has already recognised to the carrying amount of the asset provided the Company considers that it is probable that the Company will obtain future economic benefits, in excess of the originally assessed standard of performance of the existing assets, from the expenditure. All other subsequent expenditure is recognised as an expense in the year in which it is incurred.

On the date of the retirement or disposal of properties, plant and equipment, the Company recognises the related gains and losses being the difference between the net disposal proceeds and the carrying amount of the item.

9 Properties, plant and equipment (continued)

Cost:	Buildings \$'000	Leasehold improvements \$'000	Furniture and equipment \$'000	Other properties leased for own use \$'000	Construction in progress \$'000	Total \$'000
At 31 August 2019	481,964	46,863	92,399	-	969	622,195
Impact on initial application of HKFRS 16 (Note)	-	-	1,233	37,211	-	38,444
At 1 September 2019	481,964	46,863	93,632	37,211	969	660,639
Additions	4,015	831	9,553	14,993	20,898	50,290
Transfers	938	-	10,900	-	(11,838)	-
Disposals/adjustments*	-	-	(1,497)	-	-	(1,497)
At 31 August 2020	486,917	47,694	112,588	52,204	10,029	709,432
Government grants:						
At 1 September 2019 and 31 August 2020	(328,751)	-	-	-	-	(328,751)
Depreciation:						
At 1 September 2019	26,308	34,179	44,612	-	-	105,099
Charge for the year	7,570	3,409	14,178	13,123	-	38,280
Written back on disposals/adjustments*	-	-	(1,422)	-	-	(1,422)
At 31 August 2020	33,878	37,588	57,368	13,123	-	141,957
Net book value:						
At 31 August 2020	124,288	10,106	55,220	39,081	10,029	238,724

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

9 Properties, plant and equipment (continued)

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

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

Note: The Company 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 25(c).

9 Properties, plant and equipment (continued)

(d) 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 \$'000	1 September 2019 \$'000
Other properties leased for own use, carried at depreciated cost	(i)	39,081	37,211
Plant and equipment, carried at depreciated cost	(ii)	1,548	1,233
		<u>40,629</u>	<u>38,444</u>

The analysis of expense items in relation to leases recognised in the statement of comprehensive income is as follows:

	2020 \$'000	2019 (Note) \$'000
Depreciation charge of right-of-use assets by class of underlying asset:		
Plant and equipment	473	-
Other properties leased for own use	<u>13,123</u>	<u>-</u>
Interest on lease liabilities (note 3(b))	1,475	-
Expense relating to short-term leases and other leases with remaining lease term ending on or before 31 August 2020	4,115	-
Total minimum lease payments for leases previously classified as operating leases under HKAS 17	-	15,417
Variable lease payments not included in the measurement of lease liabilities	<u>204</u>	<u>1,557</u>

Note: The Company 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. After initial recognition of right-of-use assets at 1 September 2019, the Company 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 25(c).

During the year, additions to right-of-use assets were \$14,993,000. This amount primarily related to the capitalised lease payments payable under new tenancy agreements.

9 Properties, plant and equipment (continued)

Details of total cash outflow for leases, the maturity analysis of lease liabilities are set out in notes 13(d) and 20 respectively.

(i) Other properties leased for own use

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

During the year ended 31 August 2020, the Company leased a number of school premises and offices 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 for the year is summarised below:

	<i>Fixed payments</i> \$'000	<i>Variable payments</i> \$'000	<i>Total payments</i> \$'000
School premises and offices – Hong Kong	10,022	204	10,226

(ii) Other leases

The Company leases office equipment under leases expiring from two to five 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.

10 Current assets and current liabilities

With the exception of restricted cash mentioned in note 12, deposits for the rental of properties and utilities of \$5,467,000 (2019: \$5,321,000), those prepayments, fees and other receivables mentioned in note 11 and creditors and accruals of \$5,445,000 (2019: \$4,734,000), the Company expects all other current assets and liabilities to be recovered or settled within one year from the end of the reporting period.

11 Prepayments, fees and other receivables

Accounting policy

Fees and other receivables are recognised when the Company has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. The Company 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 Company states the receivables at cost less allowance for credit losses.

11 Prepayments, fees and other receivables (continued)

	31 August 2020 \$'000	31 August 2019 \$'000
Fees receivables	3,891	1,304
Less: Allowance for credit losses	(2,972)	(639)
	<hr/>	<hr/>
Loans to staff	919	665
Amount due from the government	1,113	1,472
	-	445
	<hr/>	<hr/>
	2,032	2,582
	<hr/>	<hr/>
Prepayments	10,089	7,759
	<hr/>	<hr/>

The Company expects the amount of the Company's fees receivables and prepayments to be recovered or recognised as expense after more than one year is \$2,627,000 (2019: \$613,000). The Company expects all of the other accounts and other receivables (including amount due from the Foundation) to be recovered or recognised as expense within one year.

Impairment of fees receivables

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

The Company measures loss allowances for fees receivables at an amount equal to lifetime expected credit losses (ECLs), which are calculated using a provision matrix. As the Company'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:

	2020 \$'000	2019 \$'000
At the beginning of the year	639	690
Impairment loss recognised	2,586	337
Uncollectible amounts written off	(253)	(388)
	<hr/>	<hr/>
At the end of the year	2,972	639
	<hr/>	<hr/>

11 Prepayments, fees and other receivables (continued)

At 31 August 2020, the Company's allowance for credit losses in respect of fees receivables amounted to \$2,972,000 (2019: \$639,000). The Company does not hold any collateral over these balances.

12 Restricted cash

A deposit of \$2,877,000 (2019: \$2,733,000) is pledged 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.

13 Cash and cash equivalents

(a) Cash and cash equivalents comprise:

	2020 \$'000	2019 \$'000
Deposits with original maturities less than three months	190,000	126,000
Cash at bank and in hand	103,842	93,280
	<u>293,842</u>	<u>219,280</u>

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

	2020 \$'000	2019 (Note) \$'000
Operating activities		
Surplus and total comprehensive income for the year	19,866	34,430
Adjustments for:		
Interest income	(3,164)	(2,662)
Nomination rights	(13,621)	(7,965)
Non-refundable building levy	(20,237)	(17,844)
Depreciation	38,280	23,390
Interest expenses paid to the Foundation	1,108	1,465
Interest on lease liabilities	1,475	-
Impairment loss on fees receivables	2,586	337
Loss on disposal of properties, plant and equipment	58	1,560
Transfer from previous years' scholarship fund and hardship allowance	(4,900)	-
Operating surplus before changes in working capital	<u>21,451</u>	<u>32,711</u>

13 Cash and cash equivalents (continued)

	2020	2019
	\$'000	(Note) \$'000
Operating surplus before changes in working capital	21,451	32,711
(Increase) in inventories	(139)	(51)
(Increase)/decrease in rental and utilities deposits	(146)	1,571
Increase in prepayments	(2,330)	(587)
(Increase) in fees and other receivables	(2,035)	(319)
(Increase)/decrease in net amount due to the Foundation	2,850	(1,354)
Increase in creditors and accruals excluding capital creditors	9,446	262
(Decrease)/increase in provision for staff gratuities and MPF contributions	(1,127)	609
Increase in scholarship fund	4,571	6,035
Increase/(decrease) in hardship allowance	1,374	(942)
(Decrease)/increase in fees received in advance	(9,214)	5,276
Net cash generated from operating activities	<u>24,701</u>	<u>43,211</u>

Note: The Company 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 Company as a lessee of \$16,974,000 were classified as operating activities in the 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 20) 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 25(c).

(c) **Reconciliation of liabilities arising from financing activities:**

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

13 Cash and cash equivalents (continued)

	Nomination rights received in advance \$'000 (Note 19)	Individual Nomination rights \$'000 (Note 19)	Non- refundable building levy \$'000 (Note 18)	Debenture \$'000 (Note 17)	Lease liabilities \$'000 (Note 20)	Total \$'000
At 1 September 2018	360	71,431	43,923	11,991	-	127,705
Changes from financing cash flows:						
Net proceeds from nomination rights	(150)	14,050	-	-	-	13,900
Proceeds from non-refundable building levy	-	-	20,970	-	-	20,970
Proceeds from debenture	-	-	-	6,349	-	6,349
Refund of debenture	-	-	-	(5,712)	-	(5,712)
Total changes from financing cash flows	(150)	14,050	20,970	637	-	35,507
Other changes:						
Nomination right income (note 2)	-	(7,965)	-	-	-	(7,965)
Non-refundable building levy income (note 2)	-	-	(17,844)	-	-	(17,844)
Total other changes	-	(7,965)	(17,844)	-	-	(25,809)
At 31 August 2019	210	77,516	47,049	12,628	-	137,403
Impact of initial application of HKFRS 16	-	-	-	-	38,444	38,444
At 1 September 2019	210	77,516	47,049	12,628	38,444	175,847
Changes from financing cash flows:						
Net proceeds from nomination rights	150	15,700	-	-	-	15,850
Proceeds from non-refundable building levy	-	-	20,939	-	-	20,939
Proceeds from debenture	-	-	-	57,008	-	57,008
Refund of debenture	-	-	-	(5,715)	-	(5,715)
Capital element of lease rentals paid	-	-	-	-	(13,715)	(13,715)
Interest element of lease rentals paid	-	-	-	-	(1,475)	(1,475)
Total changes from financing cash flows	150	15,700	20,939	51,293	(15,190)	72,892
Other changes:						
Nomination right income (note 2)	-	(13,621)	-	-	-	(13,621)
Non-refundable building levy income (note 2)	-	-	(20,237)	-	-	(20,237)
Increase in lease liabilities from entering new leases during the period	-	-	-	-	15,727	15,727
Interest in lease liabilities (note 3(b))	-	-	-	-	1,475	1,475
Total other changes	-	(13,621)	(20,237)	-	17,202	(16,746)
At 31 August 2020	360	79,595	47,751	63,921	40,456	232,520

13 Cash and cash equivalents (continued)

(d) Total cash outflow for leases

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

	2020 \$'000	2019 \$'000
Within operating cash flows	4,319	16,974
Within financing cash flows	15,190	-
	<u>19,509</u>	<u>16,974</u>

Note:

As explained in the note to note 13(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.

14 Scholarship fund and hardship allowance

Pursuant to the service agreement between the Company and the Government, the Company shall set aside a sum, which shall not be less than 10% of its total school fee income from its Private Independent Schools, to provide scholarships and other financial assistance for deserving students at such schools in each school year. During the year ended 31 August 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 \$30,340,000 (2019: \$29,118,000) and \$22,045,000 (2019: \$20,622,000) respectively.

	2020 \$'000	2019 \$'000
Scholarship fund		
At the beginning of the year	17,469	9,255
Impact of prior year adjustment (Note)	-	2,179
Addition	44,113	41,854
Utilisation	(39,542)	(35,819)
At the end of the year	<u>22,040</u>	<u>17,469</u>
Hardship allowance		
At the beginning of the year	10,869	11,400
Impact of prior year adjustment (Note)	-	411
Addition	8,272	7,886
Utilisation	(6,898)	(8,828)
Transfer	(4,900)	-
At the end of the year	<u>7,343</u>	<u>10,869</u>

Note: The Company's financial year starts on 1 September while its academic year starts in August. Previously, fees relating to education services provided in August were deferred and recognised in September in order to align the Company's academic year with its financial year, and as management considered that the year on year impact of this timing difference was not material. In view of the increasing number of school days in August and in conjunction with the Company's transition to HKFRS 15, the Company has revisited its previous practice and decided to recognise school fees according to the actual month in which the services are provided. The Company has restated the information relating to the year ended 31 August 2018 to reflect this change.

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

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

15 Fees received in advance

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

Movements in fees received in advance were as follows:

	\$'000
Balance at 1 September 2018	71,040
Decrease as a result of recognising revenue during the year that was included in fees received in advance at the beginning of the year	(71,040)
Increase as a result of receipts in advance of service to be rendered as at 31 August 2019	76,316
	<hr/>
Balance at 31 August 2019 and 1 September 2019	76,316
Decrease as a result of recognising revenue during the year that was included in fees received in advance at the beginning of the year	(76,316)
Increase as a result of receipts in advance of service to be rendered as at 31 August 2020	67,102
	<hr/>
Balance at 31 August 2020	<u>67,102</u>

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

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

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

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

17 Debenture

Class A debenture

In September 2019, the Company 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 either the Foundation or the Company.

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 Foundation or the Company.

Class B debenture

In August 2013, the Company introduced a debenture which is payable by parents of children joining the Company's kindergartens in August 2013 and subsequent years. The debenture is \$7,000 (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 of a kindergarten leaves the school with sufficient notice.

Both Class A and Class B debentures are non-transferable, interest-free, non-depreciating and unsecured. Initially the Company recognises the debentures at fair value, thereafter the Company states this at amortised cost unless the effect of discounting would be immaterial, in which case it is stated at cost.

18 Non-refundable building levy

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

The Company charges the 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.

Movements in non-refundable building levy were as follows:

	2020 \$' 000	2019 \$'000
At the beginning of the year	47,049	43,923
Decrease as a result of recognising revenue during the year that was included in deferred income at the beginning of the year	(9,018)	(7,607)
Increase as a result of receipts in advance of service during the year	9,720	10,733
At the end of the year	47,751	47,049
Less: to be recognised within one year	(6,594)	(6,150)
After one year	41,157	40,899

19 Individual nomination rights

Accounting policy

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

The Company recognises revenue from individual nomination rights in equal instalments over the student's expected school life or at the time when the student leaves the school within the group which consists of The English Schools Foundation and the Company. Amounts received but not yet recognised as revenue are recorded as deferred income – nomination rights.

Movements in individual nomination rights were as follows:

	2020 \$'000	2019 \$'000
At the beginning of the year	77,516	71,431
Decrease as a result of recognising revenue during the year that was included in deferred income at the beginning of the period	(13,771)	(7,815)
Increase as a result of receipts in advance of service to be rendered as at the end of the period	15,850	13,900
At the end of the year	79,595	77,516

As at 31 August 2020, the aggregated amount of the transaction price allocated to the remaining performance obligations is treated as deferred income – nomination rights. This amount represents revenue expected to be recognised in the future from contracts entered into by the customers with the Company. The Company will recognise the expected revenue in future when or as the services are provided.

20 Lease liabilities

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

	31 August 2020		1 September 2019 (Note)		31 August 2019 (Note)	
	Present value of the minimum lease payments \$'000	Total minimum lease payments \$'000	Present value of the minimum lease payments \$'000	Total minimum lease payments \$'000	Present value of the minimum lease payments \$'000	Total minimum lease payments \$'000
Within 1 year	17,219	18,539	12,684	14,021	-	-
After 1 year but within 2 years	8,287	9,037	12,214	13,051	-	-
After 2 years but within 5 years	12,550	13,403	11,123	12,360	-	-
After 5 years	2,400	2,475	2,423	2,475	-	-
	23,237	24,915	25,760	27,886	-	-
	40,456	43,454	38,444	41,907	-	-
Less: total future interest expenses		(2,998)		(3,463)		-
Present value of lease liabilities		40,456		38,444		-

Note: The Company 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 25(c).

21 Reserves

(a) Components of the Company's reserves

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

(b) Capital fund

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

21 Reserves (continued)

During the year, the Company transferred \$19,645,000 (2019: \$17,693,000) from capital fund to general reserve. The transfer represented the depreciation charge of capital projects funded by the capital fund.

(c) Capital management

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

22 Financial risk management and fair values of financial instruments

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

(a) Credit risk

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

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

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

(b) Liquidity risk

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

All the financial liabilities, except for loan from the Foundation as disclosed in note 16, were carried at amounts not materially different from their contractual undiscounted cash flows as at 31 August 2020 and 2019 and are repayable within one year or on demand. The contractual undiscounted cash flows for loan from the Foundation repayable within 1 year, between 1 and 5 years, and after 5 years are HK\$8,424,000 (2019: HK\$8,424,000), HK\$33,696,000 (2019: HK\$42,120,000), and HK\$NIL (2019: HK\$NIL), respectively.

(c) Interest rate risk

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

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

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

	2020		2019	
	Effective interest rate %	\$'000	Effective interest rate %	\$'000
Deposits with original maturities over three months	0.49%	12,700	0.45%	3,700
Restricted cash	0.01%	2,877	0.01%	2,733
Cash and cash equivalents	0.16%	293,842	0.98%	219,280
Loan from the Foundation	5.53%	(36,725)	4.64%	(44,041)
Lease Liabilities	3.88%	(40,456)	-	-
		<u>232,238</u>		<u>181,672</u>

(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 Company's surplus and total comprehensive income for the year by approximately \$2,322,000 (2019: \$1,817,000). 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 Company's net interest income that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to those floating rate instruments which expose the Company to cash flow interest rate risk at that date. The Company performs the analysis on the same basis for 2019.

(d) Fair value measurement

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

23 Commitments

- (a) The Company has certain capital commitments relating mainly to the renovation of the schools. Capital commitments outstanding at 31 August 2020 not provided for in these financial statements were as follows:

	2020 \$'000	2019 \$'000
Contracted for	68,841	351
Authorised but not contracted for	<u>5,277</u>	<u>1,500</u>
	<u>74,118</u>	<u>1,851</u>

23 Commitments (continued)

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

	2019 \$'000
Within one year	18,755
Between one and five years	47,837
After five years	8,775
	<hr/>
	75,367

The Company is the lessee in respect of a number of properties held under leases which were previously classified as operating leases under HKAS 17. The Company has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Company adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (see note 25(c)). 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 9, and the details regarding the Company's future lease payments are disclosed in note 20.

24 Material related party transactions

Accounting policy

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

24 Material related party transactions (continued)

- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to the Company's parent.

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

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

	2020 \$'000	2019 \$'000
Fees in respect of management and administration services provided by the Foundation	23,129	18,930
School premises rental expense paid to the Foundation	3,159	10,063
Teaching and support staff salaries charged to the Foundation for extra-curricular programs	148	432
Teaching and support staff salaries charged by the Foundation for operation of kindergartens	2,367	2,307
Fees paid to the Foundation under the Development and Operating Agreement ("DOA")	23,131	21,993
Staff education allowance paid to the Foundation	4,646	3,876
Staff education allowance received from the Foundation	(2,958)	(2,156)
Course fees in respect of staff professional development provided by the Foundation	271	448
Interest expense paid to the Foundation	1,108	1,465

Cumulative fees paid to the Foundation under the DOA up to 31 August 2020 are \$246,274,000 (2019: \$223,143,000).

24 Material related party transactions (continued)

(b) Key management personnel remuneration

Remuneration for key management personnel is as follows:

	2020 \$'000	2019 \$'000
Salaries, allowances and benefits in kind	-	-
Retirement plans contributions	-	-
	<hr/>	<hr/>
	-	-
	<hr/>	<hr/>

There was no key management personnel for the year ended 31 August 2020 (2019: nil).
Total remuneration is included in staff expenses (see note 3(a)).

25 Other significant accounting policies

(a) Statement of compliance

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

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Company. Note 25(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Company for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

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

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

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

25 Other significant accounting policies (continued)

(c) Changes in accounting policies

The HKICPA has issued a new HKFRS, HKFRS 16, *leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Company.

Except for HKFRS 16, *Leases*, none of the developments have had a material effect on how the Company's results and financial position for the current or prior periods have been prepared or presented. The Company has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 28).

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 Company has initially applied HKFRS 16 as from 1 September 2019. The Company 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:

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.

25 Other significant accounting policies (continued)

The Company 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 Company 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 Company 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 Company is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment as disclosed in note 9. For an explanation of how the Company applies lessee accounting, see note 9.

At the date of transition to HKFRS 16 (i.e. 1 September 2019), the Company 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 4.23%.

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

- (i) the Company 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 Company 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 Company relied on the previous assessment for onerous contract provisions as at 31 August 2019 as an alternative to performing an impairment review.

25 Other significant accounting policies (continued)

The following table reconciles the operating lease commitments as disclosed in note 23(b) as at 31 August 2019 to the opening balance for lease liabilities recognised as at 1 September 2019:

	1 September 2019 \$'000
Operating lease commitments at 31 August 2019	75,367
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	(4,115)
- cessation of a lease as at 1 September 2019	(14,400)
- leases of which the lease term commenced after 31 August 2019	(16,178)
Add: leases for equipment contracts of which were not included in operating lease commitments at 31 August 2019	1,233
	41,907
Less: total future interest expenses	(3,463)
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 September 2019	38,444
Total lease liabilities recognised at 1 September 2019	38,444

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.

25 Other significant accounting policies (continued)

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

Line items in the statement of financial position impacted by the adoption of HKFRS 16:	Carrying amount at 31 August 2019 \$'000	Capitalisation of operating lease contracts \$'000	Carrying amount at 1 September 2019 \$'000
Property, plant and equipment	188,345	38,444	226,789
Total non-current assets	188,345	38,444	226,789
Lease liabilities (current)	-	12,684	12,684
Current liabilities	198,307	12,684	210,991
Net current assets	45,348	(12,684)	32,664
Lease liabilities (non-current)	-	25,760	25,760
Total non-current liabilities	156,496	25,760	182,256
Net assets	77,197	-	77,197

25 Other significant accounting policies (continued)

(d) Government grants

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

(e) Impairment of properties, plant and equipment

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

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

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

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

(f) Inventories

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

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

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

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

25 Other significant accounting policies (continued)

(g) Creditors and accruals

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

(h) Employee benefits

- (i) The Company accrues salaries, gratuities, paid annual leave, leave passage and the cost to the Company of non-monetary benefits in the year in which the associated services are rendered by employees of the Company. Where payment or settlement is deferred and the effect would be material, the Company states these amounts at their present values.
- (ii) The Company recognises as expense obligations for contributions to the Mandatory Provident Fund as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance as incurred.

(i) Functional and presentation currency

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

26 Immediate and ultimate controlling entity

At 31 August 2020, the directors consider the immediate parent and ultimate controlling entity of the Company to be The English Schools Foundation, which is incorporated in Hong Kong. The parent of the Company produces consolidated financial statements in accordance with HKFRSs which are available at <https://www.esf.edu.hk/accounts-and-annual-reports/>.

27 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 August 2020

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standards 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 may be relevant to the Company.

*Effective for
accounting periods
beginning on or after*

Amendments to HKAS 1 and HKAS 8, *Definition of material*

1 January 2020

The Company 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.

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

(Incorporated in Hong Kong and limited by guarantee)

Opinion

We have audited the financial statements of ESF Educational Services Limited ("the Company") set out on pages 3 to 41, which comprise the statement of financial position as at 31 August 2020, the statement of comprehensive income, the statement of changes in reserves and the cash flow statement for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 August 2020 and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

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

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

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

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

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

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

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

(Incorporated in Hong Kong and limited by guarantee)

Responsibilities of the directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

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

(Incorporated in Hong Kong and limited by guarantee)

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

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

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

KPMG

Certified Public Accountants

8th Floor, Prince's Building
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07 DEC 2020